

Annex III

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Speech by WCO Director Mr Gaozhang Zhu, World Customs Organization, Director, Compliance and Facilitation Directorate

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Before joining the WCO on 1 January 2011 as the Director of Compliance and Facilitation, Gaozhang Zhu occupied the post of Director General of the Department of International Cooperation at China Customs. From 1996 to 2000, he was the Customs Counsellor at the Permanent Mission of China to the European Union in Brussels with responsibility for all Customs issues related to the WCO and the European Communities including the Commission. Gaozhang holds a Master of Public Administration degree (Qinghua University, China), a Bachelor degree (Beijing Foreign Trade College, China), a Post Graduate Diploma (Qinghua University, China) and was a visiting scholar at Cambridge University in the UK from 1991 to 1992.



International Customs Facilitation and Compliance

Honorable President Mr Stanley Lim,
Honorable Director General, Mr Marco Sorgetti.

Distinguished guests, dear ladies and gentlemen, please allow me to start by thanking FIATA for inviting me to speak about Customs Facilitation and Compliance at this FIATA World Congress in the beautiful city of Angels. Thank you for the kind invitation to heaven!

Although you are all familiar with Customs, whether you like it or not, I would like to take the opportunity anyway to introduce the World Customs Organization (WCO) to you.

The WCO is an international organization comprising 179 Governments from all parts of the globe that exists to provide a cooperation forum for the exchange of ideas and thereby a means to identify best practices in Customs procedures and to promulgate them as widely as possible. The forum of ideas includes our partners in other parts of Government and throughout the trading and transport industries.

As I said, the WCO exists to improve the way Customs administrations throughout the world perform their multi-faceted role of trade facilitation and enforcement. The WCO was created to set international standards in supply chain management with a strong focus on the facilitation of legitimate trade. From that beginning 60 years ago with a mere 6 Members, the organization has grown today to encompass a global body that collectively processes more than 98% of global trade. The organization incorporates and highly values the direct involvement of the private sector in the work of our technical committees. In that way, industry is able to join in the debate on strategic issues and influence the outcome.

Studies performed by the World Bank, the Organization for Economic Co-operation and Development (OECD) such as the Doing Business reports, the Logistic Performance Index and OECD papers point towards the important impact that border procedures have in international trade. According to a recent OECD Study on the cost impact of trade facilitation measures, the policy areas that seem to have the greatest impact on trade volumes and costs in OECD countries are advance rulings, information availability, formalities and procedures, and inter-agency cooperation. Improving all these can lead to a reduction in trade costs of around 10%.

You will hear me talk a lot about cooperation today and some very intelligent people have shared their wisdom about cooperation with us in the past. Allow me to quote Albert Einstein:

"Every kind of peaceful cooperation among men is primarily based on mutual trust and only secondarily on institutions such as courts of justice and police."

FIATA members are known as the "Architects of Transport" and since transport in a globalised world very often means cross border trade, FIATA members and Customs are destined, or condemned if you will, to

cooperate with each other on a regular basis. Together they can be instrumental in further improving cross border formalities and procedures, on the basis of mutual trust.

This realization of a common destiny has led FIATA and the World Customs Organization to conclude a Memorandum of Understanding which was reviewed a few years ago. The new MoU was signed on 25 June 2010 between Secretary-General Mikuriya of the WCO and President Delen of FIATA. The memorandum makes a number of clear and highly relevant points with respect to the joint interests of Customs and freight forwarders and I would like to mention a few of them to you now – I think you will agree that they point towards a recognition of the importance of an appropriate balance between supply chain controls and the smooth movement of goods – in other words, the memorandum serves as a perfectly logical and relevant backdrop to the theme of my address to you today.

Firstly, the memorandum makes reference to a number of key WCO instruments as the global standards that underpin better supply chain management for all parties. There is mention of the revised Kyoto Convention – the document that prescribes best practice in Customs procedures and that was the leading instrument to introduce the critically important concept of risk management to Customs, dating right back to its initial ratification in 1973 as the Kyoto Convention. The revised version came into force in 2006. By now, more than 80 countries in the world have acceded to the Revised Kyoto Convention.

Another important instrument that is mentioned is the WCO Data Model. The WCO worked with the G7 on this instrument since its inception in 1996 and took over the ownership from the G7 in January 2002. Since then we have developed it to a point where we have the only global standard of its kind for the exchange of border regulatory information between the regulatory authorities and industry. Note that it caters for exchanges beyond those only involving Customs, but also the other agencies active at the border such as agriculture and quarantine. As such, it is a necessary precursor to the adoption of single window systems – something that is currently gaining much traction as a means to improve both efficiency and effectiveness in border management at a whole-of-Government level. The data model also provides a standard for the Customs to Customs exchange of information – the so-called “Globally Networked Customs” concept that is the first building block of “Customs in the 21st Century” and is seen by many WCO Members, as well as many in the private sector, as another way that modern information management can contribute to a more collaborative and effective way to manage the difficult tasks we all face in trying to locate those few transactions of high risk in amongst the huge trusted majority. Through the real time sharing of information across international borders, Customs administrations have the means to mitigate risks for those trusted parties and transactions based on trusted relationships with their peers and related flows of information. This is an exciting and emerging initiative within the WCO and one that promises to provide some real focus and dynamism to the whole C21 strategy.

The memorandum also refers to the revised Arusha Declaration as another vitally important ingredient in the challenges for better supply chain management for Customs and international trade logistics suppliers. You don't need me to remind you that without integrity and trust within a Customs administration, all the trade facilitation instruments added together will still prove ineffective. Trust and transparency are of critical importance and we cannot overstate the challenge posed by institutional corruption at any or all levels of Customs, nor, for that matter, elsewhere in the private sector or within Government.

That brings me next to perhaps the most relevant instrument of all when discussing the security and facilitation of trade – the SAFE Framework. This instrument has its origins in the aftermath of “9/11” and represents the collective global Customs response to the threats to trade posed by international terrorism. It is based on two distinct pillars – one of collaboration between Customs administrations, the other on partnership between Customs and the private sector. Each is pivotal and equally important.

SAFE incorporates the means to enable the seamless movement of legitimate cargoes through Customs adopting a holistic supply chain approach and having a new focus on controls at export rather than the old 100% import control mentality. As I mentioned, SAFE incorporates concepts such as greater partnership arrangements with trade such as the Authorized Economic Operator concept for low-risk companies. It is fundamentally linked to a risk management philosophy including the early release of

goods based on advance electronic information and the inspection of goods at origin at the request of the importing country. Around 160 countries have indicated a preparedness to incorporate the provisions of SAFE into national legislation and practices, making it the most widely adopted instrument of all.

I mentioned that it was the global Customs response to 9/11 – and we all know that more than a decade has passed since that awful day. Of course nothing lasts forever and the SAFE Framework is no different. In recognition of the fast pace of global events, the WCO and its partners have finalized the review of the SAFE Framework in 2012. I am sure many of you have participated in that process, or have at least heard of it. The review included the AEO Mutual Recognition Guidelines, the incorporation of Trade Recovery guidelines, a definition of high risk cargo and the wider use of the Unique Consignment Reference number, an instrument that has not captured much attention since it was first formally recommended at 2005, but another whose time might have come - not only due to the SAFE Review, but also in GNC where it has been recognized that some formal numeric means to link transactions when exchanging data cross border amongst several parties is needed.

As said, the review includes a definition of high risk cargo. You will all recall events at the end of 2010 involving ink toner and ink cartridges containing PETN explosive transiting through Europe and destined for synagogues in Chicago. Whilst not transformational in the manner of 9/11, it certainly exposed major faults in the overall approach to security in both Government agencies and industry. As a result, WCO has been deeply engaged with ICAO, IATA and UPU in order to work towards a holistic and effective response to the threats exposed by this air cargo security incident. This is further recognition of the critical role of Customs within supply chain security and border management more broadly. Whilst not the only matter within that collaborative effort, an agreed definition of high risk cargo is seen by all parties as a major challenge – and it is similarly significant to appreciate that all parties note that the advance cargo data obtained from forwarders and elsewhere by customs will form an integral part of the combined and coordinated risk management program for the international air cargo supply chain.

Now let me turn to another important development that greatly influences trade: the current economic situation. Some say that the Global Financial Crisis of 2008 did not really end and that today's troubles are a continuation of that systemic failure in aspects of financial management. Alternatively many economists point to the so-called less developed world (eg: the BRICS nations) and suggest that today's difficulties are restricted to the developed Western economies in the main and cannot be seen as an ongoing global malaise. Whichever way one looks at it, there is at least some trouble on the economic horizon and, as is always the case, such trouble inevitably translates into a negative impact on trade.

What is less understood is the economic impact of Customs on trade and hence, in economic competitiveness, development and prosperity. An appreciation of the macro economic impact of Customs was a feature of the 1990's and continues today. Many studies have noted the empirical link between a poorly performing Customs administration and an overall poor trade performance. This, in turn, usually leads to poor economic performance across the board. Modernizing Customs has proven to have an energizing impact throughout the border and beyond and has created a more positive environment for foreign direct investment.

Modernized Customs procedures can significantly reduce transaction costs for businesses, while at the same time improving revenue management, and better managing security and other societal risks such as narcotics, firearms and the entire range of prohibited and restricted goods. Modern, business-friendly procedures will attract more investment and create a better overall business environment. This has a real multiplier effect throughout the supply chain and Customs administrations can exert a positive impact if appropriate methodologies are adopted.

The simplification of regulatory procedures is essential, especially streamlining the formalities for the collection, presentation, communication, and processing of the information required for the movement of goods, conveyances and people across borders.

Before looking at some very specific examples of work underway within the WCO aimed at mitigating the impact of economic downturns, I would like to make a quick mention of the theme for the WCO in 2012

which is “Borders Divide; Customs Connects.” When I come to think of it, perhaps we should have called “Borders Divide; Customs and Freight Forwarders Connect”. The harmonization of regulatory procedures is impossible to achieve without collaboration and greater connectivity. Connectivity is a vitally important aspect of the current strategic thinking within the WCO that manifests itself in many ways – it is fundamental to the SAFE framework, to “Customs in the 21st Century” which is our existing strategic blueprint and, in fact, to the Customs Cooperation Convention itself which is, after all, built upon the notion of cooperation amongst the world’s Customs administrations. Global supply chains are becoming ever more complex and demanding just in time delivery. Without collaboration by Government agencies, including Customs, at either end – and at points in between also – the regulators will not keep up with those commercial demands and thus, there shall be a corresponding downwards pressure on efficiency.

Now I shall turn to some brief coverage of initiatives within the WCO that have specific relevance to economic issues.

The Revenue package

More than 70% of WCO Members are part of their respective national revenue ministries. This reflects the historical ties of Customs to tax collection – something that goes back to at least Roman days when our predecessors levied charges on the cross border movement of salt. On that basis, revenue collection remains a staple and core business activity for many WCO Members and thus the WCO has developed a Revenue Package aimed at maximizing collection in an efficient and timely manner. This is, in part, to help those national Customs administrations to face trade recovery challenges by taking advantages of opportunities to tackle poor administrative (or even corrupt) practices. The Council passed a Resolution in 2009 from which the WCO has developed the Revenue Package. This was in response to Members’ concerns regarding falling revenue returns in the light of the global financial crisis and declining duty rates.

The Revenue Package provides details of all tools and instruments relevant to revenue collection and has proven valuable in guiding Customs to apply regulatory controls without impeding legitimate businesses unnecessarily. They are available to all WCO Member Customs administrations and to the private sector. The package includes formal instruments and Conventions, guidance notes and training material such as the Revised Kyoto Convention and information on valuation.

The WCO Economic Competitiveness Package (ECP)

As mentioned briefly earlier, the WCO’s Revised Kyoto Convention (RKC) is the core international convention for modernizing a Customs administration. It outlines the principles of simplification and harmonization of Customs procedures and provides technical guidance on how to achieve these goals.

There are more than 80 Contracting Parties to the RKC, covering more than 80 % of world trade. While this is an impressive achievement, the WCO continues to encourage Members to accede by highlighting the benefits of accession. The process of RKC accession spurs a Customs administration to modernize, and thus helps clear a path towards economic competitiveness.

Having this in mind, the WCO is now launching the WCO Economic Competitiveness Package (ECP) that has three core goals for strengthening Customs’ contribution to economic competitiveness:

- 1) elaboration and communication of the WCO instruments and tools to stakeholders;
- 2) more WCO Members acceding to the RKC; and
- 3) more WCO Members implementing the WCO instruments and tools.

The ECP has a clear strategy for achieving these three goals. Firstly it will provide a consolidated list of WCO instruments and tools relevant to economic competitiveness and practical guides on how to implement the greatly anticipated future WTO Agreement on Trade Facilitation while supporting regional integration – all the time remaining compatible with the draft texts of the WTO negotiation on trade facilitation. Secondly it will list the various tools and activities that are aimed at encouraging more Members to accede to the RKC. Finally, an action plan with expanded capacity building programmes will be developed by the end of 2012, which will assist WCO Members to implement those various instruments and tools.

The WCO Economic Competitiveness Package will assist Customs administrations with their broad border management responsibilities. Pursuit and achievement of the ECP will foster better conditions to implement a future WTO Agreement on Trade Facilitation and support regional integration. Clearly its principal aim is to improve border operations and to support legitimate trade including the vitally important and often-overlooked SME sector. It is also aimed at augmenting informal trade sector compliance, increasing international trade volumes and contributing to economic competitiveness.

Coordinated Border management

Earlier I mentioned the Logistic Performance Index (LPI). The LPI has started to distinguish between the performance of Customs and other Governmental Agencies with roles in cross border trade. There is some good news and some bad news. The good news is that due to the emphasis on modernizing Customs around the globe, Customs in general receives positive reviews. The bad news is that other border inspection agencies may not have kept pace with the developments in Customs.

Several international organizations with an interest in international trade, such as the World Bank, The World Trade Organization and the Organization for Economic Co-operation and Development have started to realize that the cooperation between Customs and other border inspection agencies is a major trade facilitation tool. In fact, in the discussions about the WTO Trade Facilitation Agreement, cooperation between border agencies features prominently.

In 2009, the WCO held an Inter Agency Forum, bringing together Customs, other border inspection agencies and trade to discuss the collaboration between them. Coordinated Border Management is one of the building blocks for Customs in the 21st Century and the SAFE 2012 review that I referred to earlier also includes Coordinated Border Management. It is safe to say that within the WCO and its Members, Coordinated Border Management (CBM) has become a vital strategic issue.

Moving back to the WCO-FIATA MoU, the document makes specific mention of the need for closer collaboration and partnership between the parties to achieve mutual benefits, including a balance between security and facilitation. It adds that both sides should work together towards the wider promulgation of relevant standards, procedures and guidelines. It also suggests that FIATA should attend all relevant WCO Technical Committees and I note with satisfaction that the international freight forwarding industry is well represented at meetings including the SAFE Working Group and the ad hoc Working Group into Globally Networked Customs. This shows that there is more than lip service being paid to the spirit of this MoU by your industry and I thank you all for that.

In conclusion, I hope you will see that facilitation and compliance form the backbone of the work done by Customs administrations everywhere, not just at the WCO. They are in tandem the two-headed challenge that must be met every day by every field officer as well as by Directors-General and all other stakeholders, in both the public and private sectors, in the international movement of goods and services. It is a complex task that requires a complex response and I hope I have indicated that the WCO is trying to put in place a mosaic of instruments, standards and practices – in collaboration with many partners, including freight forwarders – as the practical means to address the challenge.

Before I conclude, I would like to bore you with one more quote. This one is perhaps not as well known as Albert Einstein's. It is from Epicurus, an ancient Greek philosopher who lived from 341 BC to 270 BC. He said:

“It is not so much our friend's help that helps us as the confidence of their help.”

We can never say our job is done, but working with trusted colleagues such as the international freight forwarding community, I have every confidence that we shall enjoy much future success.

I thank you for your attention.
