

Chapter 1 : Customs Service

Simplification of customs administration: hearings before the Committee on Ways and Means, House of Representatives, Eighty-second Congress, first session, on H.R. , a bill to amend certain provisions of the Tariff Act of and related laws, and for other purposes.

Ebrill and others ; IMF staff estimates. In this respect, the importance of customs has actually been increased by the remarkable spread of the value-added tax VAT , even though this has in many cases been adopted as a conscious adjunct to trade liberalization. This means that VAT needs to be charged on all imports, whether for final consumption or use as inputs. Much of this revenue will be credited or refunded further down the production chain; but the key point is that it is at the border that governments typically first get their hands on much of their VAT revenues. On the export side too the presence of the VAT lends added importance to customs administration; one of the most attractive and common forms of VAT fraud is to falsely claim that commodities have been exported, so enabling a dishonest trader not merely to escape tax but to qualify for a refund. Guarding against abuse while promptly relieving tax on genuine exports is one of the most severe challenges in implementing a VAT, and requires considerable effort from customs both directly and in cooperation with the inland VAT administration. So central is the role of customs in relation to the VAT that Hong Kong, so committed to free trade that it currently has no customs administration, has been advised to consider creating one if it decides to adopt a VAT. Our concern in this book, as noted earlier, is with the latter aspect: We shall rarely speak of smuggling, however, which is too imprecise for most of our purposes. Undervaluation of imports, for instance, is a form of smuggling, even though it does not involve the physical concealment often associated with the term. So long as tariffs are levied, or domestic taxes differ across countries, there will be potential money to be made from smuggling. In many developed countries, in which revenue from trade taxes is relatively low, the main revenue risks from smuggling relate to the evasion of domestic taxes, especially excise taxes on such readily transported items as cigarettes. The role of customs in enforcing domestic taxation, stressed above, is thus largely one of dealing with the risk of smuggling. In many developing countries, on the other hand, the continuing importance of trade taxes creates a significant risk of smuggling--in the broader sense of Webster--to avoid those taxes. Much of this book is concerned with mitigating these revenue risks. Dealing with Smuggling Reduce incentives. The impact of increasing tax rates on smuggling should be considered carefully, especially for excisable goods. Problems occur often when countries raise rates far above the rates in neighboring countries, thereby increasing both the incentive and opportunity for smuggling. In the early s, for example, extensive smuggling of cigarettes from the United States into Canada rendered the relatively high excise rates levied by the latter unsustainable. The European Union, for example, has adopted minimum excise rates binding on all member states. Identify highest risk areas. Customs administrations should carefully assess the major threats to the revenue. For example, security in the port area--to prevent the disappearance of full container loads of highly taxed goods--may be much more important than the threat posed by fishing boats landing small quantities of goods along the shoreline. Similarly, and especially in developing countries, undervaluation, tariff misclassification, and exemption fraud are very often a much more significant threat to the revenue than, for example, individuals bringing small quantities of goods through uncontrolled paths along the land border. Developing and analyzing information is key to countering the various threats from smuggling which will vary from country to country, depending, for instance, on relative tax and tariff rates and geography. Threats posed from the disappearance of containers from the port can be countered by tightening the reporting of goods and manifest controls. Close cooperation and intelligence sharing with the tax department can uncover major areas of smuggling. Enlisting the help of the trade community can often result in the identification of illicit goods and traders, since honest traders have no interest in their success. As discussed at length later, post-release verification and audits can be implemented to address undervaluation and other fraud that cause significant revenue losses. Implementation of programs such as preshipment inspection PSI may have a positive impact on addressing issues of undervaluation and tariff misclassification; however, they are not effective in detecting goods that are never

reported to the customs administration. There may also be some scope for such devices as the use of tax stamps or other product marking to identify goods on which proper tax has been paid--but these are vulnerable to counterfeiting. The customs administration alone is unlikely to be able to counter the threat from clandestine introduction of goods into a country. Formal memoranda of understanding should be developed among these agencies to define their respective roles in countering smuggling. The proliferation of regional trading arrangements One of the most important developments in trade policy in recent years has been the spread of regional trading agreements, whether in the form of free trade areas--members levying no charges on trade between themselves but perhaps differing in the tariff they apply to third countries, as with the North American Free Trade Agreement NAFTA --or customs unions--free-trade areas with the added feature of a common external tariff as with the European Union EU. The World Trade Organization WTO reports that by there were 76 such arrangements, over half of them created in the s; and one estimate is that these covered around two-thirds of world trade Kilikelly, What is clear, however, is that it poses significant challenges for customs administrations. Indeed, a recent survey by the World Customs Organization WCO, finds this to be one of the three main pressures for modernization. Some degree of complexity is inherent in the need to apply different tariff rates to commodities imported from different countries. But the most fundamental of the challenges resulting from the proliferation of preferential arrangements is not the multiple rate structure itself, but the need to apply rules of origin so as to ensure that these rates are applied appropriately. Such rules are needed to ensure that preferential tariff rates apply only to commodities substantially created within partner countries: These rules add considerable complexity to the task of customs administration: All these difficulties are especially great when a country belongs to a number of regional agreements, as has become commonplace in Africa. Moreover, a central implication of establishing free trade among a subset of countries is the need to ensure proper control of imports from third countries. This then becomes a crucial pressure point for customs administrations. Indeed, through this route the quality of customs administration in each participating country will be to a large extent determined by the quality of the weakest among them. This is especially so when--as in the EU, and aspired to elsewhere--border controls between members are removed. Thus a key concern in negotiations with potential accession countries to the EU, for example, is establishing adequacy of customs controls. Moreover, some degree of harmonization of administrative procedures such as the adoption of the Single Administrative Document for customs processing in the EU and intensified cooperation between customs authorities in the control, for instance, of goods in transit across more than one member of the agreement is likely to be needed to avoid distortions of and impediments to trade into and among the participating countries. New ways of doing business Customs officers have traditionally not had a good public image. At best, they have been seen as physically intrusive, form-laden bureaucrats working in drab offices and fetid warehouses; at worst, as an expensively corrupt obstacle to business. Recent years have seen significant change, however, in the expectations placed on customs administrators. The two other key forces for modernization identified in the WCO survey referred to above relate precisely to these: Further expectations have been created, in some parts of the world at least, by the renewed emphasis on the security role of customs controls. The Internet The staggering advances in information technology over the last decade or so have created huge challenges for customs administrations, but even greater opportunities. Private enterprises now heavily reliant on the new technologies expect customs administration to adapt accordingly. Domestic tax administrations in many countries are indeed moving toward paperless operations--and not only in the most developed countries. Thus there is considerable pressure on customs administrations to use these technologies to further facilitate trade flows, and considerable potential advantages to them from doing so. Making full use of these opportunities, however, means a shift of customs control mechanisms away from a tradition heavily reliant on physical inspection and toward greater use of selective audit based on accounting records. Concern is often expressed that the Internet will facilitate tax evasion, leading to erosion of revenues both directly and by inducing jurisdictions to engage in tax competition to preserve their tax bases. But these threats appear to be significantly less serious in relation to customs than they are, in particular, in relation to domestic indirect taxation and even these may have been overstated. For the key tax problems relate to the delivery of digitized commodities over the Internet and, ultimately perhaps, to services more generally and to

the direct tax assessment of multinational enterprises. But the role of customs administrations in these areas is already very limited. To the extent that a transaction conducted over the Internet gives rise to a movement of physical commodities, that movement will in principle be subject to all the same procedures and controls as apply to transactions completed by traditional means. The principal effect of the Internet through its impact on commercial transactions is thus likely to be quantitative rather than qualitative, with the increased ease of international transacting giving a further boost to trade flows, especially in the form of small shipments, which are disproportionately burdensome to monitor. Nor are the opportunities ones that only developed countries can realize. Developing countries have long proved perfectly capable of dealing, for instance, with the technological requirements of the airline industry. There is no inherent reason why they should not perform similarly well in modernizing the management and use of information for customs administration. Governance issues The private sector, and private citizens more generally, have also come to expect more of government officials in terms of the probity of their behavior. And customs, to be blunt, is often recognized to be one of the most corrupt agencies of government. The money to be made by colluding in the evasion of tariffs and domestic taxes dwarfs the salary of most customs officers: Reforming the incentive structures within the customs administration is a great challenge in many developing countries, and one that is central to addressing governance problems in the public sector more widely. Security concerns The perception of a heightened terrorist threat since September 11, has led to a renewed emphasis, especially in the United States, on the physical inspection of cargoes--one of the immediate consequences of the attack was a huge and costly increase in delays at U. Those delays pointed to the clear potential for tension between security concerns on the one hand and trade facilitation on the other. Indeed to a large extent, a renewed focus on physical inspection runs counter to the clear trend in recent years in the opposite direction on which we elaborate below , toward reduced physical controls and increased stress on post-release controls. In the months since the attacks, the United States has developed a new approach to customs control that is intended to heighten protection against terrorist attacks--key concerns including the shipment of weapons of mass destruction in container ships the "nuke in the box" and massive disruption to key ports--without increasing, and perhaps even reducing, costs to traders. At the time of writing, implementation of CSI is just beginning, and there remain many issues to address. Not the least of these is the risk of trade diversion, with ports not in the scheme disadvantaged. Goods might be transshipped, for example, from Jakarta, which is not yet in the scheme, to Singapore, which is. A container bound from Rotterdam to Charleston, for instance, would undergo security checks in Rotterdam with the involvement of U. Customs officials posted there and normally be subject to no further controls other than to check that seals have not been tampered with on entry into the United States. The process would involve the use of security criteria together with radiation and other technology to identify high-risk containers for inspection, and the development of "smart" secure containers to facilitate entry. The intention is to extend the scheme more widely, both in terms of ports covered and to air freight. Key Elements It has become fashionable to refer to the work of customs administration, and its improvement, as an aspect of "trade facilitation. Customs administration is inescapably an impediment to trade. The point of modernization is to reduce these impediments--manifested in the costs of both administration incurred by government and compliance incurred by business--to the minimum consistent with the policy objectives that the customs administration is called on to implement, ensuring that the rules of the trade game are enforced with minimum further disruption. These impediments are potentially very costly. Even within the EU, the cost of internal border controls was put at percent of the value of internal trade Cecchini, Catinat, and Jacquemin, --and that was a context in which no trade taxes were actually being levied. There are thus very significant economic costs involved in inefficient customs operations. Especially in many developing countries, ameliorating them in the face of the many challenges described in the previous section calls for wholesale modernization of customs administration. Subsequent chapters discuss in detail what is needed. The remainder of this one provides an overview of the key features. The whole process of assessing and collecting trade taxes is built around extensive physical inspection of shipments at points of entry. This task is overburdened and complicated by outmoded legislation--in many cases mandating percent inspection--and by trade tax policies that involve extensive rate differentiation and pervasive exemptions, so adding to the difficulties of monitoring

trade flows. Some use is made of information technology to process and record shipments, but little creative effort is made to use that technology to simplify the compliance burden on the private sector or to ease the inspection effort. Organizational procedures inhibit full information exchange and cooperation with other branches of the tax administration. Corruption is widespread in the customs administration, almost institutionalized and taken for granted as a normal feature of business activity. In some cases, customs administration has been largely taken out of the hands of domestic officials and handed over to private inspection companies--arrangements that have not proved entirely corruption-free and have in any event left in doubt the future of the domestic customs administration. Relations between the private sector and the customs administration are adversarial; on both sides, morale is low and--sometimes with good reason--suspicion is high. The modernization of customs administration requires fundamental changes in both the environment within which the customs administration works and the way in which it undertakes its activities.

Chapter 2 : Simplification of Customs procedures for shipping

Simplification of Customs Administration [electronic resource]: hearings before the United States House Committee on Ways and Means, Eighty-Second Congress, first session, on Aug. , , Sept. 13, 14, ,

Customs Territory Article The specified prohibited goods and the goods subject to heavy duties and other goods determined by the Minister through a decision published in the Official Gazette shall all be subject to the provisions of the customs territory even if they were outside the customs territory. The goods subject to the provisions of the customs territory must, upon their transfer inside it, be accompanied by a transport document provided by the Department in accordance with the conditions determined by the Director. The possession of those goods is prohibited, and they are also forbidden to exist in any store other than the places approved by the Director. The ordinary needs which can be possessed within the customs territory area for consumption shall be determined by the Director. The transfer of the goods subject to the provisions of the customs territory or their possession or circulation in an unorganized manner inside the customs territory shall be considered as import and export in the form of smuggling in as far as such goods are subject to the territory provisions in connection of import and export unless an evidence proves otherwise. Chapter Two Investigation of Smuggling Article The Departments Officials, for the purpose of enforcing this Law and combating smuggling, shall have the right to inspect goods and means of transportation and search people in accordance with the provisions of this Law and other Laws in force. The drivers of transport vehicles must obey the orders of the customs officials and officers who have the right to use all the necessary means to stop the transportation means when their drivers disobey their orders. If the person to be searched is a female, the search should be performed by a female. In the presence of sufficient indications on the existence of smuggled articles, the authorized customs officials and public security men shall have the right to search any house or store or any other place. Residence houses shall not be searched except in the presence of the "mukhtar" or two witnesses and with the approval of the public prosecutor. Authorized customs officers shall not be brought to justice for crimes emanating from their jobs except after the approval of a committee to be formed as follows: Two judges to be appointed by the Judiciary Council from amongst civil judges. One of them, whose degree is not less than special, shall be the chairman of the committee. A representative of the Department appointed by the Minister.. The committee shall issue its decisions unanimously or by majority. Its decision will be final. In the event of refraining from submitting the documents, or when the documents are not available or when there is suspicion about the presence of smuggled or prohibited goods of the kinds prescribed in Article 2 of this Law, the customs officials shall have the right to take all the necessary measures, including the use of force to seize the goods and bring the ship to the nearest customs harbor. It is permitted to carry out investigation about smuggling and customs contraventions, as well as seizure of goods as follows: In the land and sea customs limits. In the customs zone and in harbors and airports and generally in all areas subject to customs control, including public and private warehouses. Outside the land and sea customs limits when pursuing and chasing them continuously after being seen within the limit in a situation indicating intent on smuggling. As for the goods subject to duties other than the specified prohibited goods and the prohibited goods and the goods which are subject to heavy duties, investigation about them, seizing them and verifying customs contraventions concerning them outside the areas set out in paragraph A of this Article shall be stipulated by the availability to customs officials of evidence on smuggling, provided that this shall be put down in a preliminary report and customs officials shall not be questioned about any seizure carried out according to the provisions of this Article when a contravention is not confirmed except in the case of grave mistake C. The specified prohibited goods, the prohibited goods, or the goods subject to heavy duties and other goods determined by the decision of the Director prescribed in Article 2 of this Law and whose owners and transporter cannot present the necessary proofs determined by the Director shall be considered as being smuggled unless otherwise is proved. These parties should keep these records, bills and documents for a period of three years. The authorized officials of the Department may arrest anyone without warrant in case of an attested offense. The early twenties of the last century have witnessed the establishment of Trans-Jordan

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Emirate. Thus, there was a need to establish a governmental agency to control the movement of goods and commodities imported into the Emirate, as well as goods transiting through its territories due to the location of the Emirate at the heart of the Arab World, as well as its strategic importance at both the regional and international levels, Therefore, the first Customs administration â€” More.

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