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Risk Management Under Self-Certification

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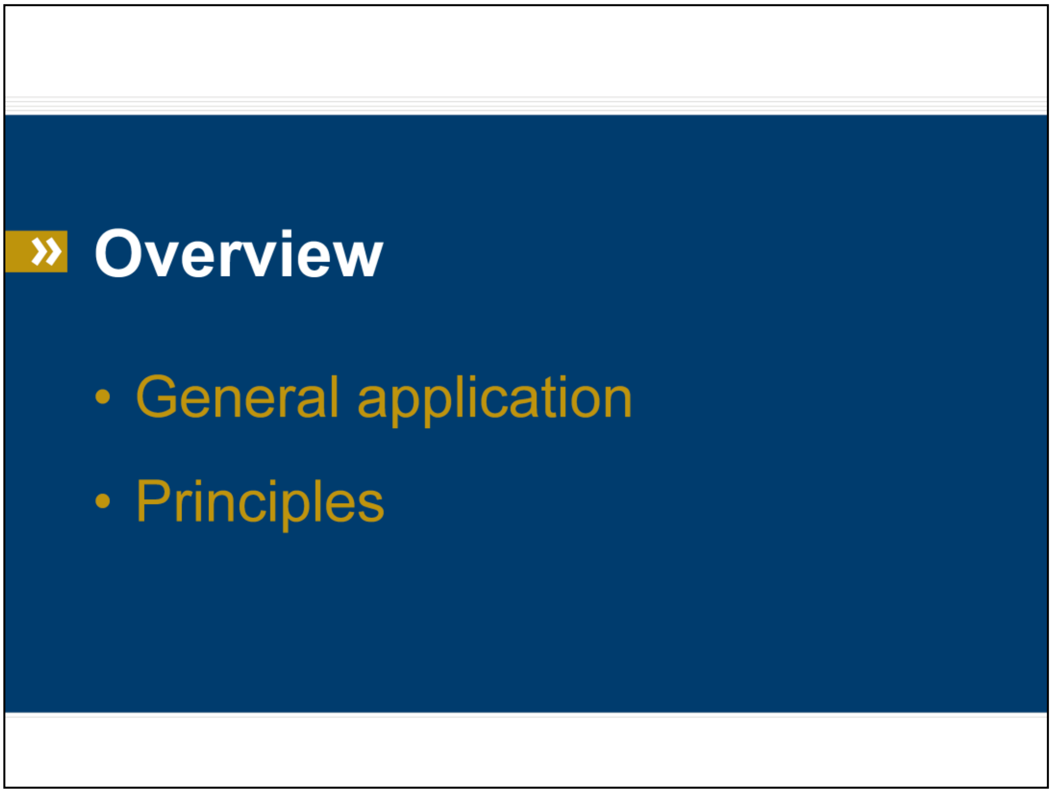
You will already be familiar with the principles of risk management – so I will not go into this in too much depth.

Rather, I will highlight some areas for refocus under a self-certification approach to preference.



By way of an overview, I will briefly cover the general application of risk management to modern Customs activity and the principles under which it operates.

SECTION: OVERVIEW

Benefits of Risk Management

- » Better resource allocation
- » Increased revenue
- » Improved legislative compliance
- » Reduced release times
- » Lower transaction costs
- » Improved cooperation with business
- » Improved reputation and professionalism
- » More intelligent approach

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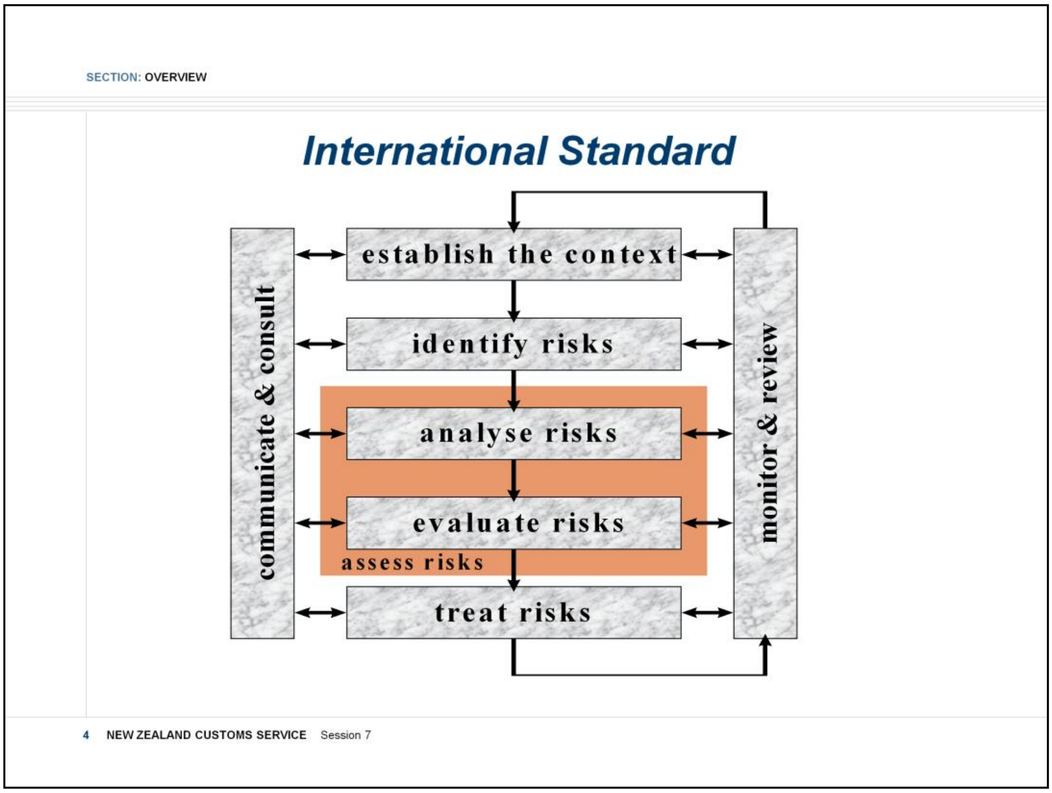
The benefits of a comprehensive risk management programmes is that it affects the whole organisation.

Its application affects organisational structure through allowing better resource allocation.

This leads to increased / improved revenue gathering and improved legislative compliance.

From the traders perspective, risk management also reduced release times for clearing goods thereby lowering transaction costs and getting the goods into the market (and the economy) quicker.

Together, all these improvements enhance the reputation of the border administration and the economy generally.



I expect you will be familiar with this diagram.

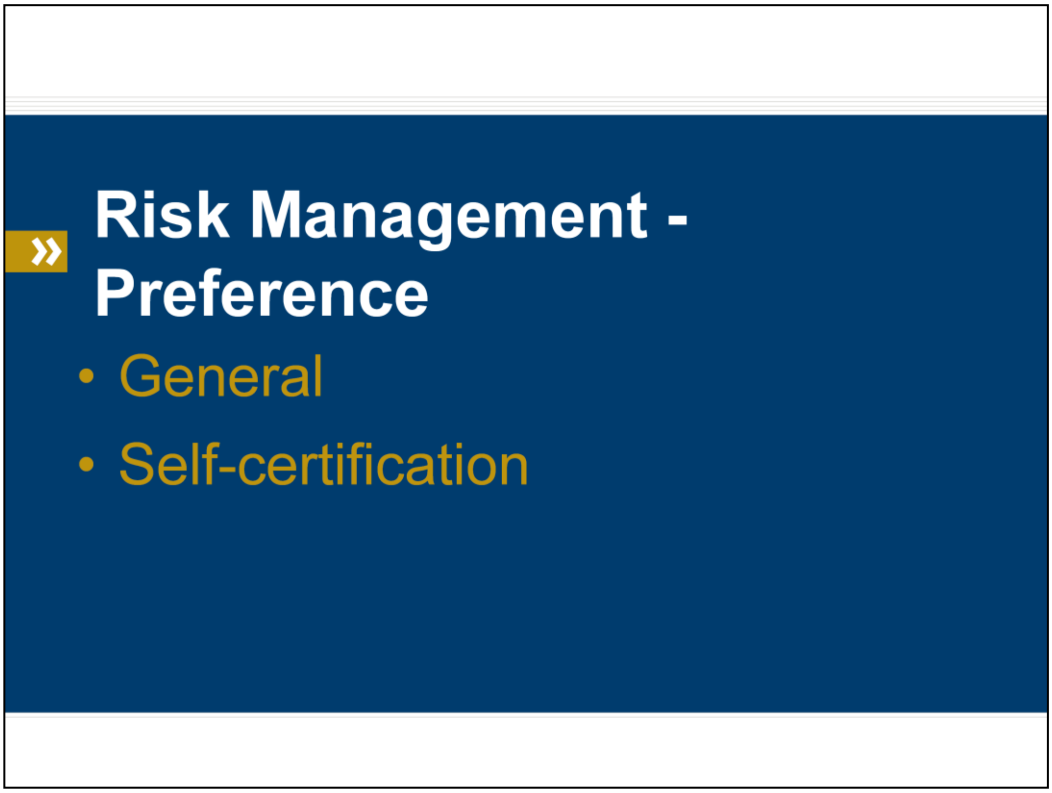
This standard sets the foundation for managing risk.

Firstly, you need to establish the context – within the ‘big picture’ (the strategic and organisational contexts).

Then you need to identify the risk – what can happen and how it can happen.

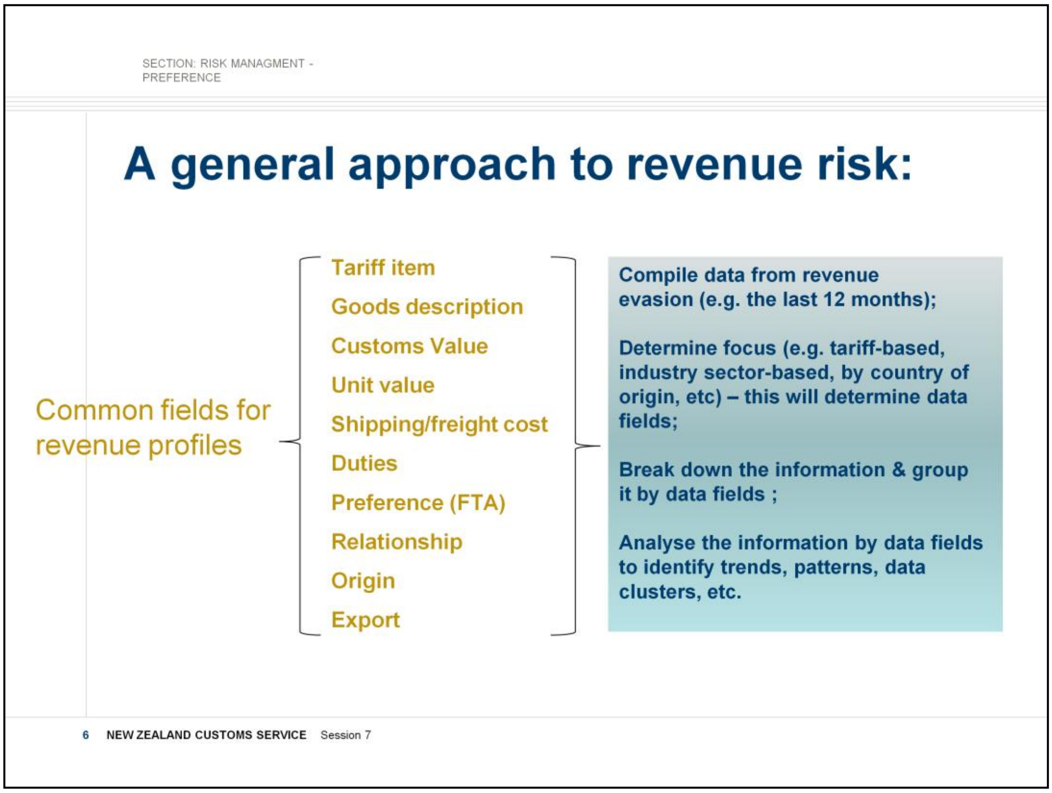
Analysing the risk encompasses looking at what existing controls you have and determining the likelihood and consequences to estimate the level of risk.

After evaluating the risk, you then determine how to treat that risk of non-compliance.



Managing the risk of preference abuse covers two aspects:

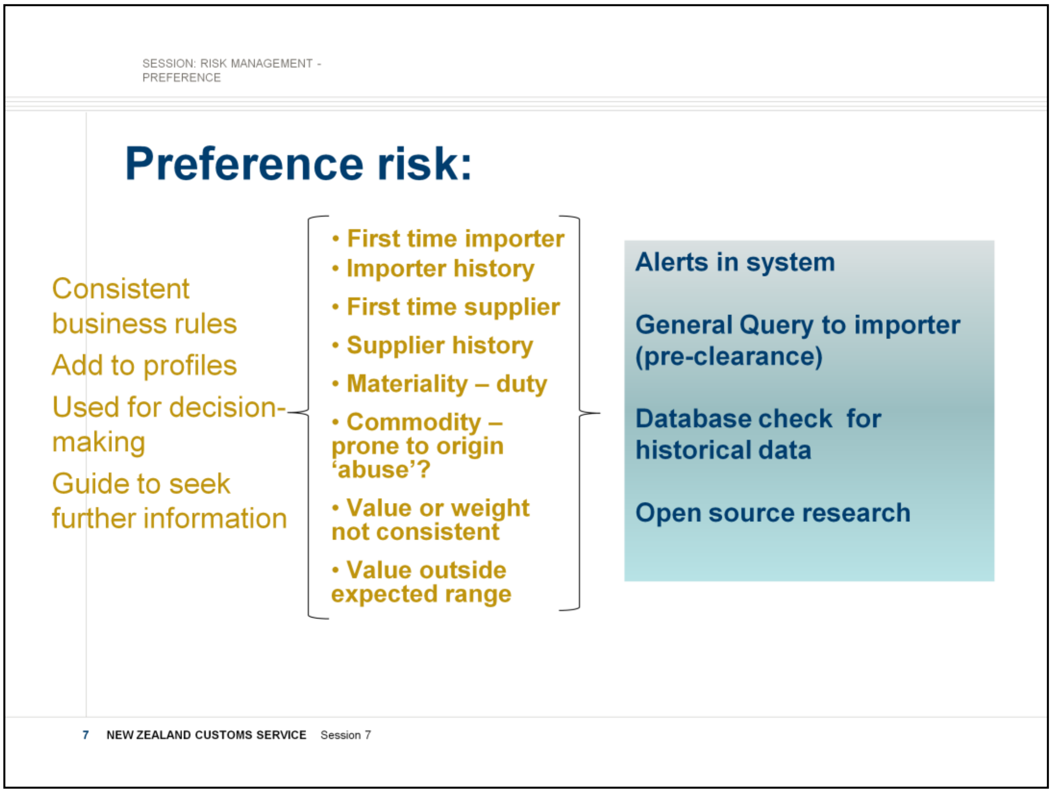
- managing revenue risk and
- dealing specifically with preference abuse.



Common fields of the import entry related to revenue abuse will already be familiar to you.

These risks to revenue evasion occur across the trade spectrum and cover aspects such as valuation abuse, tariff miss-classification and the avoidance of non-tariff measures.

Elements such the tariff item, unit values and the relationship between the supplier and importer are familiar areas for targeting revenue evasion.



Similarly, managing the risk of preference abuse by traders should already be covered within your systems.

The risk of preference abuse exists regardless of what certification model applies.

Key elements for risk-assessing preference abuse include:

- Detecting first time traders (who may be less likely to understand the RoO or more likely to try it on)
- Identifying tariff lines more susceptible to preference abuse (manufactured goods, wide margins of preference, etc)
- Profiling known abusers of preference (importers and suppliers).

In shifting from third-party to self-certification of preference qualification, some refocusing of risk management approaches may be considered.

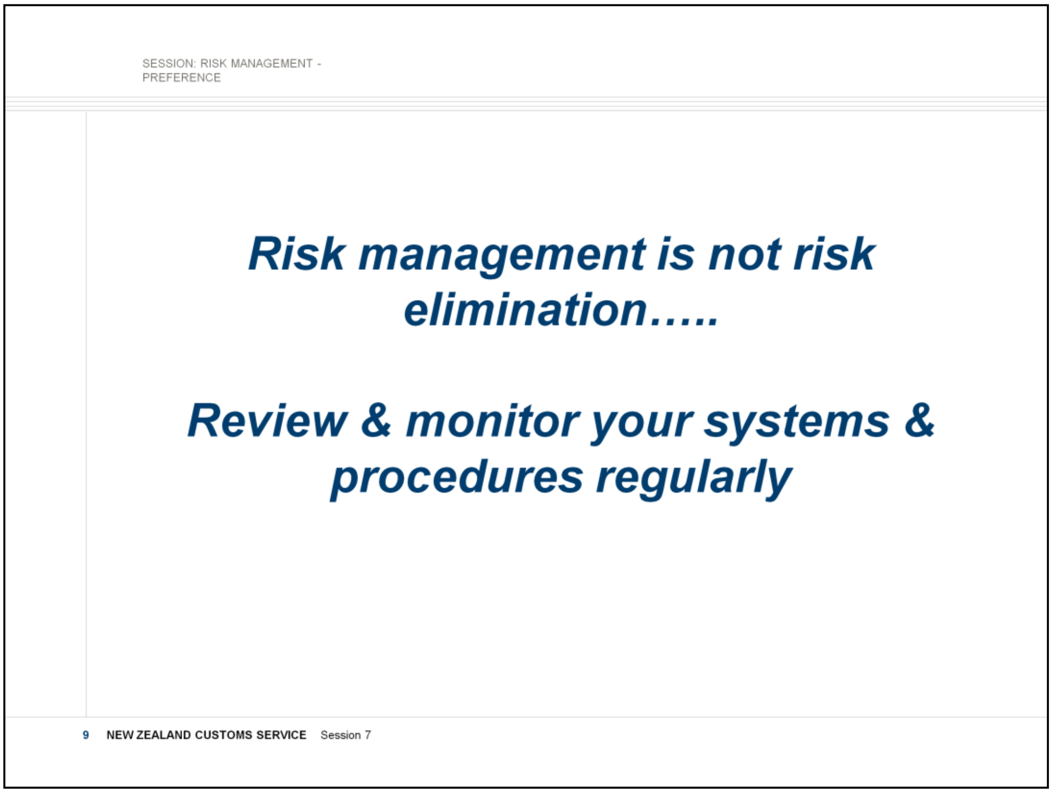
Intelligence based profiling – particularly of suppliers known to have miss-declared origin – could be enhanced. Such a supplier may sell to multiple clients, so possible relationships could be searched for.

Promoting incentives for compliance and strengthening disciplines for non-compliance may be another possible approach to compensate for removing the ‘comfort’ provided by third-party certification.

Emphasising faster processing / clearance times and the reduced prospect of physically inspecting goods can encourage voluntary compliance (the ‘carrot’).

On the other side, you look at increased penalties /disincentives for non-compliance (the ‘stick’ – you have been caught out on this shipment (preference denied); we will now look at preference claimed on previous shipments (and claim back); all future shipments will have preference denied – until we are satisfied the goods meet the RoO.

You could also consider instituting an ‘industry complaints’ system to get local ‘protected / assisted’ industry to inform intelligence through reporting unfair competition from imports.



In conclusion, remember – risk management is not risk elimination.

You need to regularly review and monitor your systems and procedures to keep them aligned with changing trade practices.