

SECURITY AND TRADE FACILITATION-THE EVIDENCE FROM MACEDONIA¹

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Abstract

Customs authorities have a unique roll to facilitate and expedite trade on one hand, and on the other hand to fulfill its obligations in terms of safety and protection of cross-border movement of goods. In light of the increasing terrorist threats and migrant crises, the state requires of its Customs authority economic and physical protection, but the other participants in international trade require uniformity, predictability, transparency and efficiency of the customs procedure. In this complex constellation, the role of the Customs is to provide facilitation of international trade by accelerating and simplifying customs procedures, while identifying those who pose a security threat at the same time.

This paper analyzes linkages between security and trade facilitation, and the main question about finding a balance between facilitation and enforcement. The solution is best found in the applying of the risk management approach in every day work of the Customs administrations. Statistical data's will be used to present the implementation of the risk management by Customs administration of the Republic of Macedonia.

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Key words: Customs, Customs Administration, Customs administration of the Republic of Macedonia, trade facilitation, security, risk management.

INTRODUCTION

World's economy is driven by the liberalization, acceleration and simplification of the international trade in goods and services. Countries around the world are affected in different way by that process. It generates changes in traditional trade in order to facilitate and accelerate the movement of goods and services. But on the other hand lately there have been a significant number of risks of safety in the field of trade. Customs authorities around the world conduct and supervise cross-border movement of consignments. They have a unique role to provide security to the international movement of goods and services, contribute to socio-economic development and to facilitate international trade.

Facilitation of the international trade concerns all the steps that lead to acceleration and simplification to the flow of the international trade. World Trade Organization (WTO) defines trade facilitation as “the simplification and harmonization of international trade procedures” concerning “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade” (WTO, 1999).

Security is a state of being free of danger or threat. Security means safety, as well as the measures taken to be safe or protected.

The Geneva Centre for the Democratic Control of Armed Forces published a paper that classified trade security threats into five groups:

- “Normal” criminal acts
- Technical violations (e.g., irregular papers)
- Transnational organized crime (e.g., smuggling of deferent goods; illegal trade of weapons, narcotics, dangerous materials and other commodities)
- Threats in terms of safety of its citizens (terrorism);
- Threats to the customs integrity – corruption (Marenin, Otwin, 2010).

The European Commission in 2007 published a paper that defines security of the European Union's external borders “as the capacity of these borders to constitute a barrier, or at least a reliable filter, for its member States against threats to:

1. The effectiveness of checks and surveillance;
2. Compliance with EU or national regulations;
3. The level of internal security in the common area of freedom of movement;

4. Law and order of the national security of EU member States, except with regard to the military defense of the EU's external borders against aggression in cases in which one or more third countries openly commit aggression or claim responsibility for it." (EC, 2007, pp. 6-8).

Supplementary to the Security Amendment to the Customs Code of the European Union, the Customs Security Program of the EU covers "pre-arrival and pre-departure information of the shipment, trade facilitation and risk assessment of its external borders" (SITPRO, 2008b, p. 17). Such activities are taken to increase safety by developing customs control measures and enlarging the influence of the control measures taken by different authorities. They include:

- Trade facilitation: risk management approach which identify traders by using the method of "unique identification numbers" (SITPRO, 2008b, p. 17).
- Improvement to the New Computerized Transit System: "an instrument for Customs to acquire information for risk analysis on transit shipments. In addition, a development in the Anti- Fraud Transit Information System (ATIS) enables the system to forward copies of transit movements, including those of sensitive goods, to OLAF (the European Anti-Fraud Office)" (SITPRO, 2008b, p. 17).
- The Customs Risk Management System (CRMS): it is a wide spread customs tool which provides transfer of information in terms of security for identifying suspicious consignments for taking customs control measures. Using this tool the European Commission declares all information regarding security threats of the European Union.

TRADE FACILITATION AND SECURITY

Trade facilitation is a complex process that pursues to provide a clear, persistent and certain trade environment for cross-border movement of goods based on simple and harmonized customs clearance procedures and practices, rules and regulations in the field of international trade. Trade facilitation is a fundamental arrangement for customs authorities. The facilitation of trade through simplification and acceleration of the customs procedure brings benefits to both the Macedonian economy and the economies of the trading partners.

Customs authority has a leading role at all levels of facilitation of the international trade, especially in these major points:

First customs authority has to help to determine the policy space,

Second customs authority has to help design the framework and rules of implementation of the policy, and then

Customs authority has a leading role in bringing into place the instruments and processes at operational level.

Trade facilitation can be defined as “the simplification and harmonization of international trade procedures including import and export procedures” (WTO, 1999). Trade procedures in this context imply to: "the activities (practices and formalities) involved in collecting, presenting, communicating and processing the data required for movement of goods in international trade" (WTO, 1999).

Trade transactions are complex with a complex and extensive rules and regulations. Trade transactions are conducted by a extensive spectrum of control rules and customs procedures. Accordingly, trade facilitation activities are crucial for the acceleration and simplification of customs clearance procedures and minimization of transaction costs.

Macedonia is a small landlocked country with no sea ports. The country’s economy is highly dependent on trading with other countries. Macedonian Government has been implementing policies of trade facilitation by acceleration and simplification of customs procedures. The Customs Administration of Republic of Macedonia pursued activities for facilitation and simplification of customs procedures, thus assisting the facilitation of the overall economic activities in the country. To this end, in March 2011 the Customs Administration established a Committee on the Simplification and Facilitation of Customs Procedures. The Committee analyses regulations, internationally accepted standards and agreements and their practical application, as well as the organizational arrangements for implementation of import, export and transit procedures and proposes measures to facilitate and enhance trade and transport. The Committee monitors the implementation of the national legislation and internal acts of the Customs Administration, enhances to cooperation with the Advisory Council and proposes measures for facilitation and simplification of customs procedures. The work of the Committee is regulated by Rules of Procedure, establishing the manner of work, the rights and duties of the Committee’s coordinator and members, as well as the execution of expert and administrative matters.

Nowadays, in many countries around the world (especially undeveloped countries), Customs Administrations practice a 100% mandatory physical and documentary inspection of the consignments, causing delays at customs checkpoints by extension of the customs clearance time. Such 100% physical inspection of the consignments (using the red channel) creates climate for corruption to the customs officers to quicken the customs clearance procedure, destroying the fundamentals of the customs integrity. Customs Capability Reports by

the Global Express Association published in 2009 stated that “only 37 out of 114 administrations surveyed applied a risk-based selectivity approach, 18 examined 100% of all shipments, and the remaining countries selected shipments for inspection randomly or at the sole discretion of the inspection officer” (USAID, 2008).

The purpose of all Customs controls is to ensure that the cross-movement of cargos, means of transport and persons follow within the customs laws, regulations and procedures. Customs administrations are expected to facilitate the movement of legitimate cargos and passengers while applying controls to detect Customs fraud and security threats. To achieve these major tasks it is necessary to find a balance between facilitation and enforcement. The solution is best found in the development of Customs controls that are based on risk assessment, profiling and selectivity.

Risk management is successfully applied in the private sector as a way that creates opportunities to improve business results. But, risk management approach can also help the public sector to determine areas of risks, and can support management in making the best decisions according to that information's. In this process it is very important to achieve a balance between costs and benefits, by defining what constitutes an acceptable or unacceptable level of risk.

The legal basis for application of risk management by Customs is provided in the Standards of Chapter 6 of the General Annex of the revised Kyoto Convention.

The application of risk management in every day work of the Customs administration helps customs in effective collection of the revenue, protection of the society and facilitation of the trade.

Pre-clearance, clearance and post-clearance audit are the three levels of Customs controls in importing procedures. These customs controls are focused on the identification of high risk consignments. Risk identification is very important at this process. This is achieved by identifying risks that are a serious threat to Customs activities. Customs control measures should be regularly reassessed and thereby to detect their vulnerabilities, determining why weaknesses exist and establishing risk indicators which may increase or decrease the degree of risk. Risk indicators may relate to a particular tariff code, country of origin, value, etc.

Organizational “risk” introduces potential events and activities that may stop an organization from achieving its goals. Customs risks introduce the possibility for non-compliance with customs laws as well as the possible defeat to international trade facilitation. Customs authority needs to implement determined management methods. These methods involve the “identification, analysis, evaluation, and

reduction of the risks that may compromise the achievement of the long term goals". (UNCTAD, 2005)

"Basic risk management has always been fundamental to customs operations, and has guided the formulation of anti-smuggling policies; the functioning of border controls to verify the movements of goods and passengers; as well as the establishment of documentary controls and physical inspection procedures" (UNCTAD, 2005).

Customs authority needs to classify the risks given by the nature of its operations and analyze its operational customs procedures. They have to determine the points that present an opportunity for violation of procedures and are likely to impact the declared goals. Customs authority needs to implement a risk plan that describes the likely liabilities and breaches of the customs procedures and resolve how its procedures may need to be organized towards ensuring better achievement of its goals. The WCO, according to Standard 6.3 of the Revised Kyoto Convention, defines Risk Management "as the systematic application of management procedures and practices providing Customs with the necessary information to address movements or consignments which present a risk" (WCO, 1999). This spotlight is essential since the indispensable assignment of the Customs authority is to supervise the movement of goods cross borderlines and arrange conformity with national regulations. When approved as a management system it provides the Customs authority not only to accomplish its key obligations, but also to coordinate its limited resources and use them to enhance its overall performance.

Macedonian Customs as a modern service plays an important role in the security system of its country. It is a constituent part of the system for detection and prevention of illegal trade and unfair competition, impediment of trade in prohibited goods and financing terrorism, safeguarding the environment and cultural heritage. With changes of the Law of Criminal Procedure in the Republic of Macedonia in 2004, the Customs administration has been given new jurisdictions in the fight with customs crime and the crime complemented to it. Except the authorizations which Ministry of internal affairs is having, in the pre-investigative procedure and in the investigation, it is prescribed with the law that the authorized persons from Customs administration of Republic of Macedonia are having the same authorizations in the cases when they work on disclosing of criminal acts and their perpetrators and for gathering evidence necessary for criminal prosecution or the perpetrators of the criminal acts: production and releasing in trade of a harmful medicine products; production and releasing in trade of a harmful alimentary and other products; unauthorized production and releasing

in trade of a narcotic drugs, psychotropic substances and precursors ; unauthorized acquiring and disposal of nuclear materials; importing dangerous substances in the country exporting abroad goods which are under temporary protection or the culture heritage or natural rarity; money laundering and other profits from criminal activities; smuggling; custom fraud; concealment of goods subject of smuggling and custom fraud; hidden tax; unauthorized possession of weapon and explosive substances; human trafficking; criminal acts under Articles 59 and 60 of the Criminal Law for excise tax and other criminal acts regarding import, export and transit of goods across the border line.(Vasileska,L., Miloshoska, D., 2012).

Implementation of the risk management approach in the CARM started in 2002 with application of the selectivity control method in some Customs offices (CARM, 2006), for today to be general policy in all Customs offices in the CARM. The Macedonian Customs Administration uses “red”, “yellow”, “blue”, and ‘green’ channels for customs control. The use of the red channel results in a mandatory physical and documentary inspection of the goods; the yellow channel requires documentary control only; the blue channel requires control at a later stage-post clearance control, and the green channel results in immediate release of the goods with no control.

Table 1, Table 2 and Table 3 show statistical results of this selectivity system for the period from 2010 to 2012. The Macedonian Customs administration operates four clearance channels and approximately 40 per cent of the total imports and 40 per cent of total exports are selected for the green channel, and only 17 per cent of the total imports and 10 per cent of the total exports are selected for the red channel for the period 2010-2012. This indicates efficiency and productivity in customs practices and leads to gain of time and resources for export and import entities. The data show that Customs Administration of Republic of Macedonia applies risk management approach. In addition, the tables below show the recognition to which trade facilitation measures and activities have been able to reduce import and export customs clearance time in Republic of Macedonia. From the data that are submitted it can be concluded that for a larger number of declarations it took less time for their processing. It talks about the strong commitment of Customs Administration of Republic of Macedonia for taking all actions that contribute towards international trade facilitation. Reduction in customs clearance time results to important accumulation for companies. The International Monetary Fund made this assessment: “Each additional day that product is delayed prior to being shipped reduces trade by more than one per cent. Put another way, each additional day is equivalent to a country distancing itself

from its trading partners by one per cent, or about 85 km,”(Djankov, S., Freund, C., and Pham, C.S. 2006).

Customs Administrations that adopted risk management approach and the application of risk-based selectivity (red/yellow/blue/green channel) in every day work can designate they're capability to the high-risk operations while increasing the efficiency of the clearance procedures for low-risk consignments. As a result of the application of risk-based selectivity in every day work of Macedonian customs in 2012 year the number of goods inspection of the import procedures is reduced for 34% compared 2010 year. From the other side, the number of document inspection of the import procedures has increased for 20% (Customs Administration of the Republic of Macedonia, 2012). Customs Administration can determine shipments in which further inspection in the form of physical and documentary inspection of the consignment is necessary by analyzing trading countries. Selectivity based on a risk management approach acts more adequately in an computerized customs environment. In that case risk based selectivity can be practiced regularly to all imports and exports operations. Computer based selectivity is fast and exact in comparing a given set of data. Using of the information technology can expedite safekeeping on existing risk profiles up to date against the latest clearance operations and examination results.

While taking actions to facilitate trade Customs Administration needs to find the balance between acceleration and simplification of the customs procedure and security. The WCO SAFE Framework (Framework of Standards to Secure and Facilitate Global Trade) is an integrated approach for balancing trade security threats and trade facilitation by acceleration and simplification of customs procedure. The SAFE Framework establishes “forth principles and standards on advance cargo information, risk management, equipment for non-intrusive inspection (NII), the Authorized Economic Operator (AEO) concept, and on integrating supply chain management into a single coherent instrument”(WCO, 2006).

The predominant objectives and standards of the SAFE Framework are:

- “• Establishing standards that provide supply chain security and facilitation at a global level in order to promote certainty and predictability;
- Facilitating integrated supply chain management for all modes of transport;
- Enhancing Customs' role and functions and strengthening its ability to meet the challenges and make the most of the opportunities of the twenty first century;
- Strengthening co-operation between Customs administrations to improve their ability to detect high risk consignments;
- Strengthening co-operation between Customs and business;

- Promoting the seamless movement of goods through secure international trade supply chains” (WCO, 2006).

CONCLUSION

Today, Customs Administrations around the world are faced with variety of challenges. Still, the prime obligation is the collection of revenues and the protection of society. But, today international movement of goods requires environment for fast and simple trade procedures while being exposed to a different threats concerning safety. The traditional customs control methods based on random selection criteria are no longer in use. Today it is necessary to adopt an approach of “intelligent controls” where the risks have been assessed. It is necessary to deploy appropriate resources to meet the new challenges.

Macedonian Customs as a modern service plays an important role in the security system of its country. It is a constituent part of the system for detection and prevention of illegal trade and unfair competition, impediment of trade in prohibited goods and financing terrorism, safeguarding the environment and cultural heritage.

There are positive trends of trade facilitation managed by the Customs Administration of the Republic of Macedonia. Customs Administration of the Republic of Macedonia applies customs risk management approach while conducting customs operations. Extensive actions and measures resulted to higher customs efficiency, reduction of customs clearance time to imports and exports which positively influenced to economic competitiveness. But still Macedonian customs face challenge to balance border security threats and trade facilitation. Customs and other border security and management agencies should work along together in fulfillment of its security roll.

Table 1: Customs statistics 2012 in the Republic of Macedonia

Channel	Import declaration		Export declaration		Total 2012	
	Number	Average dd:hh:mm	Number	Average dd:hh:mm	Number	Average dd:hh:mm
Green	140,237	00:00:36	85,998	00:00:08	226,235	00:00:26

Blue	47,453	00:00:35	39,401	00:00:31	86,854	00:00:33
Yellow	125,085	00:01:41	52,895	00:01:03	177,980	00:01:29
Red	61,665	00:03:26	16,982	00:00:36	78,647	00:02:50
Total	374,44000:01:26		195,276	00:00:30	569,716	00:01:06

Source: Customs statistics, www.customs.gov.mk

Table 2: Customs statistics 2011 in the Republic of Macedonia

Channel	Import declaration		Export declaration		Total 2011	
	Number	Average dd:hh:mm	Number	Average dd:hh:mm	Number	Average dd:hh:mm
Green	146,737	00:00:31	92,310	00:00:07	239,047	00:00:22
Blue	71,645	00:00:32	40,337	00:00:33	111,982	00:00:32
Yellow	88,120	00:02:16	53,564	00:00:59	141,684	00:01:47
Red	57,975	00:03:47	19,693	00:00:39	77,668	00:03:00
Total	364,477	00:01:28	205,904	00:00:29	570,381	00:01:06

Source: Customs statistics, www.customs.gov.mk

Table 3: Customs statistics 2010 in the Republic of Macedonia

Channel	Import declaration		Export declaration		Total 2010	
	Number	Average dd:hh:mm	Number	Average dd:hh:mm	Number	Average dd:hh:mm
Green	143,232	00:00:26	94,945	00:00:05	238,177	00:00:18
Blue	35,943	00:00:24	38,122	00:00:38	74,065	00:00:31
Yellow	88,581	00:01:31	46,389	00:00:53	134,970	00:01:18
Red	78,988	00:04:58	20,978	00:00:37	99,966	00:04:03
Total	346,744	00:01:45	200,43400:00:29		547,178	00:01:16

Source: Customs statistics, www.customs.gov.m

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