

# 4

## Simplifying Procedures and Improving Control Prior to Release of Goods

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A central element in reforming customs administration is the streamlining of basic procedures, with the aim of enhancing revenue and quickening customs clearance operations. This chapter considers the three main areas of the customs process prior to release of goods from the point of entry that typically require attention: the control of manifests, the assessment and verification of duties due, and procedures for the payment and collection of those amounts.

### A. Control of Manifests

The cargo manifest is the prime document for control of imported goods. It provides sufficient information to permit identification of the goods, the names of the consignee and consignor, and certain other information (such as weight and container number). The manifest may be a specific customs form or the commercial forms (bill of lading, airway bill) that meet the information needs of the customs administration. In many customs administrations, this information is available electronically from the carriers or transportation agents.

Correct use of the manifest is essential to ensure that all imported goods are brought under customs control and presented to customs for clearance formalities and payment of duties and taxes when applicable. Customs procedures to capture and process data from cargo manifests are generally weak in most countries. Even in developed countries, the reconciliation process to match information on customs declarations with data from manifests is an area where improvements are only quite recent. For example, U.S. Customs reviewed its control procedures in the mid-1980s, and automated systems for processing manifests were not introduced until 1989 for air cargo and late 1991 for sea cargo. It is important to realize that strengthening the capacity for customs to control information from cargo manifests means reducing the possibilities of fraud and leakage, thereby consolidating the import tax base and increasing revenue.

There are three main reasons for the difficulties related to processing cargo manifests:

- the exchange of information for cargo shipments between carriers and customs authorities is usually not properly organized;
- the responsibilities between customs and port/airport authorities for tallying unloaded goods are unclear; and
- the matching and writing-off process of data on manifests with customs declarations is not done in a timely manner or even, in some countries, not done at all.

Two series of operations are essential to ensure adequate treatment of manifests: first, the manifest should be adjusted, as necessary, at the time of the unloading of incoming goods (the tallying process); second, all the details of the manifest (consignments) should be cleared or written off by a customs declaration within a statutory period of time.<sup>73</sup>

A number of procedural steps are necessary to secure these controls, in particular to ensure that the writing-off process is carried out in a timely manner. Moreover, it is important that customs regulations assign responsibility and provide for penalties for transportation companies if there are excesses or shortages of cargo. The same rules should apply to port/airport authorities (or transit shed operators) when unloaded goods are missing. In addition to penalties, duties and taxes should be paid for any missing goods unless operators can satisfy customs that the goods were not shipped or were lost prior to arrival in the country.

Once responsibility has been determined and control procedures have been established, computer applications for the processing of data from cargo manifests should be developed. They should provide, in particular, for automated reconciliation of manifested goods with the goods shown on the declarations, and for rapid information retrieval to allow the investigation of discrepancies and excesses. For the computer system to work correctly, carriers must assign a unique identifier to each manifest and to each consignment. The WCO is working toward providing recommendations and guidelines on a Unique Consignment Reference (UCR) number that could be used for this purpose. See Box 4.1. Advanced techniques for dispatching information should also be introduced, including the use of interface systems between port authorities and

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<sup>73</sup>The statutory limit varies from one country to another and should be in the range of 15 to 45 days. The customs declaration assigns the goods a status or a destination (import for consumption, bonded warehousing, transit, reexportation, or temporary admission).

**Box 4.1. The UCR mechanism**

The Unique Consignment Reference (UCR) number is a reference number to be used by customs authorities (of exporting and importing countries) as a generic mechanism to facilitate legitimate trade. A UCR number binds together (using a maximum of 35 alphanumeric characters) all the information about a chain trade transaction (information would include calendar, country of export, company ID, and transport references), from the initial order and consignment of goods by a supplier, to the movement of those goods and arrival at the border, through to their final delivery to the importer. Because of its tracking capability, the use of the UCR number will also facilitate bilateral and multilateral cross-border customs audits.

The WCO has been working on the UCR concept and technical issues related to its use for several years within ad hoc committees, including customs representatives of its member countries and representatives of international associations of freight forwarders, carriers, and the transportation industry. It is to produce a recommendation and guidelines on the structure, requirements, and use of the UCR number. For example, use of the UCR number will require an automated environment using e-commerce technologies as well as international standards for electronic messages—such as UN/EDIFACT or XML (eXtensible Mark-up Language)—for import and export cargo and goods declarations (on which, see Chapter 9).

customs, or, where conditions and infrastructures permit, the connection of customs systems to networks that will allow the processing of information from manifests before cargo arrival.

## **B. Assessment and Verification Procedures**

Assessment and verification procedures (by which is meant customs operations and controls performed during the clearance process, prior to release of the goods from the port of entry) include such activities as the tariff classification of goods, customs duties and tax computation, the application of other legislation, and the subsequent examination of documents and goods. These procedures usually start with the self-declaration by the importer/exporter or customs agent (broker). Many administrations impose complex and time-consuming control procedures for customs clearance of imports. Many customs administrations in developing countries have not yet organized selective controls. The tariff classification and valuation of goods, which are essential to verify the accuracy of the assessment process, are in some cases left to the individual initiative of customs officers. Not enough effort and resources are devoted to the collection of relevant information from importers, to the establishment and maintenance of a reference data base on values of imported goods, and to training in these areas. A lack of efficiency in classification and valuation methods and controls leads to considerable losses of revenue and to a distortion in tariff protection levels.

The simplification and rationalization of customs controls during clearance should aim at avoiding excessive processing steps for declarations, defining the responsibilities of customs clearance officers, reducing opportunities for collusion with traders, and curtailing delays in customs clearance operations. To that end, the principle of self-declaration should be the norm, and penalties should be in place to help ensure that good-quality information is presented to customs. The profession of customs agents/brokers should, ideally, be organized and supervised by the customs administration through an accreditation system of licenses to ensure quality service to the trade community and to facilitate clearance formalities.

Cargo examination should be selective, based on such criteria as patterns of trade, origin of goods, importer's and customs broker's performance, discrepancies between declarations and supporting documents, value of consignment, and incentive for misclassification. The selection process for the physical examination of goods should be based on an information system using a methodology to determine risks and the possible types of fraud (as discussed further in Chapter 5). Cargo selectivity criteria should be developed using both local information (from customs regional offices), and national priorities (from headquarters) to create an automated system for the assessment of risk. It should also be used to develop the audit criteria for customs. In addition, random and surprise checks should be carried out. As a general guideline, the physical examination of consignments and goods should not exceed the rate of 20 percent of the total number of customs declarations. Guidelines should also be developed for the type of examination to be conducted, for example, cursory (counting the number of packages and verifying marks and numbers), selected goods examination (say, one in ten packages), or intensive (inspection of all goods). Access to customs inspectors' offices should be strictly limited, so as to ensure that these staff can work without interruption and reduce opportunities for traders or brokers to influence the verification process.

### C. Payment and Collection Procedures

The payment of customs duties and taxes by importers (or the provision of adequate assurance that they will be paid) is a precondition for the release of imported goods. As long as this condition is not met, the goods should remain under customs control. This is in accordance with the principle by which the goods serve as a guarantee for payment of duties and taxes. Provisional advanced payment should be authorized to allow the quick release of perishable goods that justify urgent delivery. However, as a general rule, deferred payment schemes for import duties and taxes should be permitted only for registered importers who have a good record with customs and who have posted security with them and have a taxpayer identification number.

In many developing countries, customs does not secure payment before release and traders are given too easy an access to deferred payment mechanisms without adequate guarantee and documentation. To evade payment of import duties and taxes, traders often make extensive use of temporary relief systems, such as warehousing, temporary admission, and transit. With these systems, some traders expect (often with good reason) that customs will lose track of the goods and payment obligations. Arrears in customs duty and tax payments should not exist, but often do—and they are then an indication of how serious customs control problems have become.

An approach to collection that has proven successful in many countries, and that is recommended, is to have banks perform the cashier function in large offices. Customs, of course, should retain responsibility for the supervision of the collection system and for ensuring that the monies collected by the banks are deposited in the government accounts. Where the banks are authorized to collect customs revenue, the number of banks (and branches) should be restricted. A proliferation of banks may create difficulties in ensuring that correct duties have actually been paid, in identifying the accuracy of bank receipts presented to customs, and in reconciling remittances to the central bank and/or the treasury.

#### **D. Paperless Processing of Imports**

Many ports still suffer from chronic delays in the reception and clearance of cargo because the interfaces between carriers, traders, agents, customs, and port authorities are clogged by import procedures relying mainly on the processing of paper. The application of information technology to support customs operations “as an alternative to paper-based documentary requirements” is a standard stated in the revised Kyoto Convention.<sup>74</sup>

Working in a paperless environment can bring significant benefits to both traders and customs administrations. When customs administrations manage imported goods based on automated manifest data, all the imported goods will be accounted for and cleared; in a manual system it is difficult to know whether the cargo is missing, and whether, if so, that is intentional or not. Modern customs administrations that have introduced self-assessment and operate in a fully automated environment also use a green, orange, and red channel system for declarations processing; this significantly reduces paperwork and improves the release time of consignments. Such a system requires the development of risk-based criteria for control and automated selectivity systems (as discussed in

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<sup>74</sup>See Chapter VII of the General Annex. The Customs Cooperation Council recommendation of June 26, 1990 concerns the use of the UN/EDIFACT rules for electronic messages between customs and other trade users.

<b>Box 4.2. Paperless Processing of Imports</b>	
Principal Steps	Main Benefits
<b><i>Cargo agent and importer/broker activities prior to presentation to customs</i></b>	
<ul style="list-style-type: none"> <li>• Shipping agent transmits the manifest via EDIFACT or other electronic protocol into the customs computer system.</li> <li>• Broker receives and verifies required documentation and inputs import declaration information into the computer system. Broker pays duty and taxes electronically. A message notifies that the declaration has been paid.</li> <li>• The computer system automatically designates the channel (red, orange, or green). The declaration is printed in the broker's office.</li> </ul>	<p>No paper manifest.</p> <p>Declaration prepared in advance from electronic messages. Electronic messages for payment.</p> <p>Automatic selection of goods for verification or documentary control.</p>
<b><i>Customs operations</i></b>	
<ul style="list-style-type: none"> <li>• For green channel declarations, the release of the goods is done automatically and the broker proceeds directly to the warehouse.</li> <li>• For orange channel declarations, the system notifies the broker of the requirements and the broker certifies through the system that the required licenses and so on are available. The system releases the goods automatically and the broker proceeds directly to the warehouse.</li> <li>• Broker keeps on file all of the required supporting documentation (such as invoice, delivery order, bill of lading, and certificate of origin).</li> <li>• Red channel goods are taken by the warehouse operator to the inspection area where they are physically inspected for classification, origin and valuation. Results are input in the system. Certain goods may be scanned for enforcement purposes. Inspection results are recorded and release is authorized if no discrepancies are found.</li> </ul>	<p>Goods released without face-to-face contact.</p> <p>Broker fully responsible for orange channel declaration subject to audit by customs.</p> <p>Customs does not retain paper documentation.</p> <p>Certain red channel goods are scanned rather than physically inspected.</p>
<b><i>Release at the gate</i></b>	
<ul style="list-style-type: none"> <li>• Terminal operator verifies release of the goods and inputs notification of exit from the terminal into the system. On a random basis, release officer at the gate verifies that the shipment is as described on the declaration.</li> </ul>	<p>Electronic notifications for exit. Terminal operator responsible for exit control.</p>
<b><i>Post-release review</i></b>	
<ul style="list-style-type: none"> <li>• Certain declarations are selected with the assistance of the computer system (using risk-based criteria) for in-depth valuation, tariff classification, origin, and exemption review. Broker is requested to provide the declaration package.</li> </ul>	<p>Increased use of post-release verification and audit for valuation, tariff classification, and origin.</p>

Chapter 5). Moreover, data generated by automated systems can also be analyzed to address structural problems that delay import clearance processing.

Box 4.2 outlines paperless processing systems that are used in customs in a number of countries. A prerequisite for the use of EDI and information-sharing systems is that the customs legislation code allow for the use of electronic signature and the elimination of paper forms.

## **E. Conclusion**

The trend in international trade is toward the elimination of barriers and an increase in speed and flexibility of services among international trade partners. The simplification of customs procedures should be placed high on the agenda of a customs modernization program. Such reforms will save time, reduce costs, and speed up the movement of goods. At the same time, simplified systems and processes will have a rapid impact on the effectiveness of revenue collection and the transparency of customs clearance operations. Moreover, computerization cannot be successfully implemented without first undertaking a thorough review of customs procedures aiming at the elimination of unnecessary processing steps, the simplification of and/or elimination of forms, and the streamlining of the document processing flow.

Documentary and physical verification before the release of goods is not effective for certain types of controls. In-depth controls related to valuation, origin, incentives schemes, and exemptions are better suited to post-release examination of documents and, when necessary, to audits and investigations on the premises of importers, exporters, or customs agents. Such post-release controls are examined in the next chapter.