

Policy Department External Policies

THE ROLE OF CONTROLS IN EUROPEAN CUSTOMS AND EXPORT AND IMPORT PROCEDURES

CONSIDERATIONS FOR CUSTOMS GOVERNANCE

INTERNATIONAL TRADE



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BRIEFING PAPER

**The role of controls in European customs and export and
import procedures - considerations for customs governance**

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Author: **Juha Hinsta**, Director
Cross-border Research Association, Lausanne,
Switzerland

Responsible Official: **Levente Császi**
Directorate-General for External Policies of the Union
Policy Department
BD4 06M 55
rue Wiertz
B-1047 Brussels
E-mail: levente.csaszi@europarl.europa.eu

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CHAPTER 1. Introduction

C1.1 Growing global trade – risky business for consumers, companies and states?

The volumes in global sourcing and international supply chains have been growing at fast speed during the past few decades, driven by consumer demands in developed countries; more efficient global transportation systems; decrease in international trade transaction costs, via improvements in IT-systems; and improving infrastructure and manufacturing capabilities in developing countries; amongst other factors. At the same time, these distance- and time-wise longer, less transparent, more difficult to control supply chains are driving concerns about citizens, companies and states becoming exposed to more hazards and risks, as they would with less-global approaches. The goal of this briefing paper is to analyze how customs and other cross-border controls are organized today from EU point of view, and how could they be improved in the future.

C1.2 Control and oversight paradigm shifts already happening

To provide an overview of the paradigm shift during the past few years in cross-border supply chain controls, we present two figures below. Figure 1 below, by the RAND Corporation, illustrates that next to the traditional logistics and transaction layers, an oversight layer has been added to control several physical and data management aspects of international supply chains.

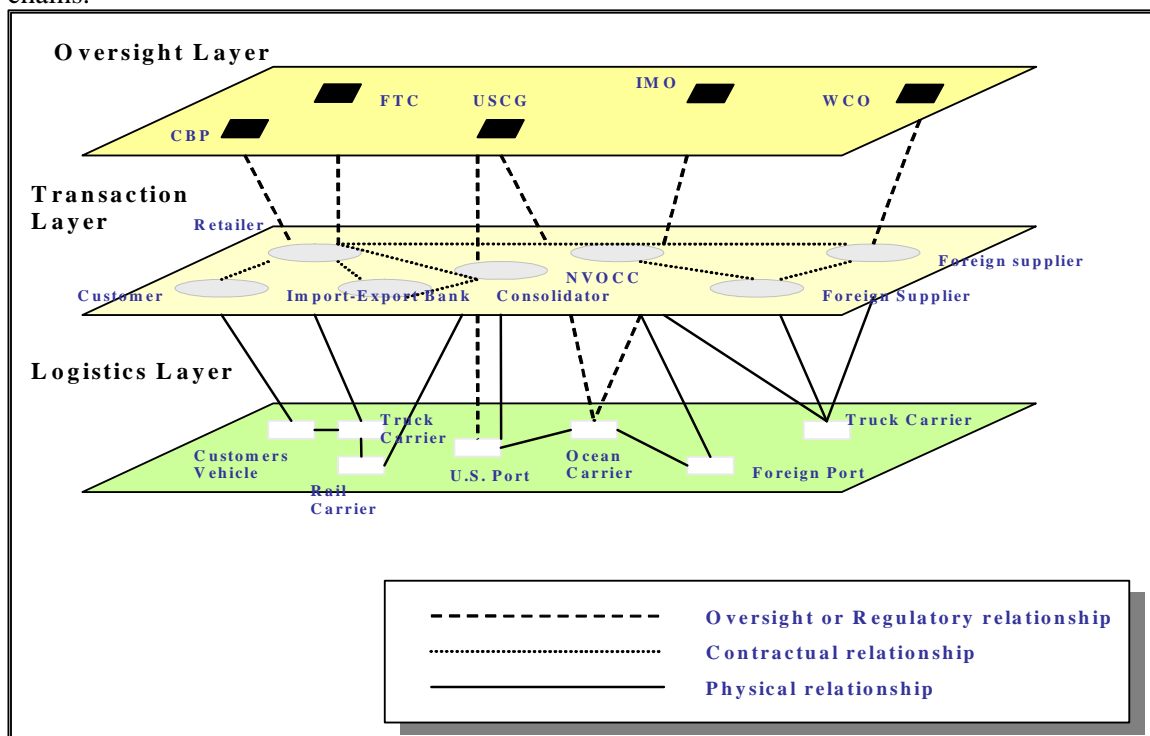


Figure 1. Introduction of oversight regulatory layer in international supply chains (by RAND)

Figure 2 below, by CBRA and Cotecna, illustrates how the traditional customs import controls have been expanded via various steps towards an end-to-end control scheme (with a specific maritime and US import focus).

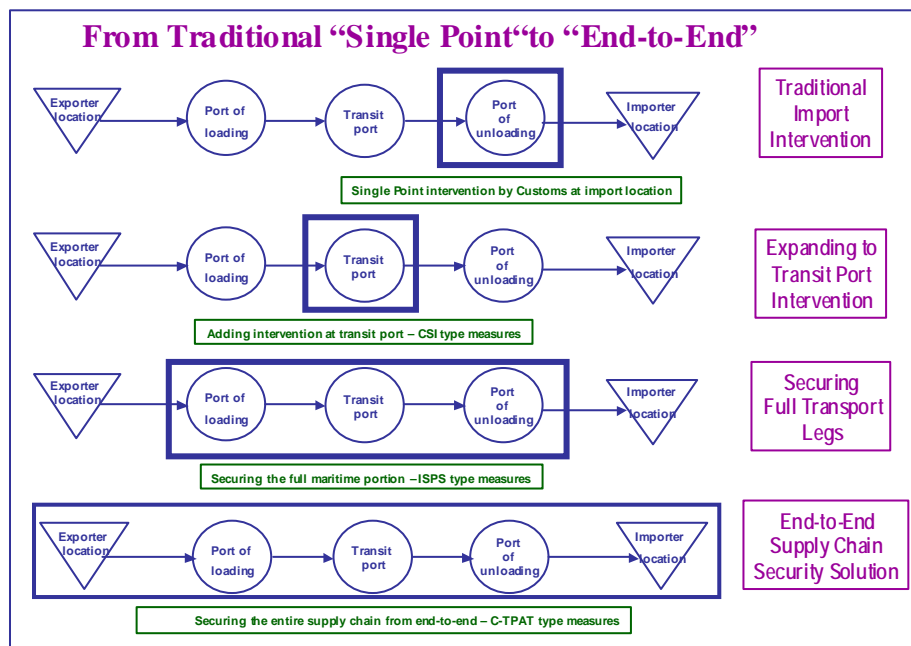


Figure 2. From single-point supply chain controls to end-to-end controls (by CBRA and Cotecna)

C1.3 To prevent versus to fix – the underlying optimization problem for policy makers

How to define a balance between cross-border supply chain controls: investing to prevent any problems from happening vs. being ready to fix the damages? In the first extreme one invests all the resources to prevent the issues, for example using some kind of “100% control scheme” (which many people would argue would never work really 100%). Other extreme is that no protective controls are put in place, but the funds are spent in fixing the damages, as they come. This is somewhat analogical to insurance policy choices: one can choose to be protective by buying all available insurances to protect against accident, illness and other recover costs; or one can choose not to buy any insurance, but just to pay the damages, as they come.

Now, in real life of cross-border supply chain controls, things are naturally not black and white, not the extremes, but the policies and practices fall somewhere in the middle ground. To formalize this, we present the “prevent vs. fix” optimization diagram, as Figure 3 below, which works both for policy makers and control agencies, who design and execute the rules; as well as for traders and logistics companies, who have to operate within those rules and comply with them.

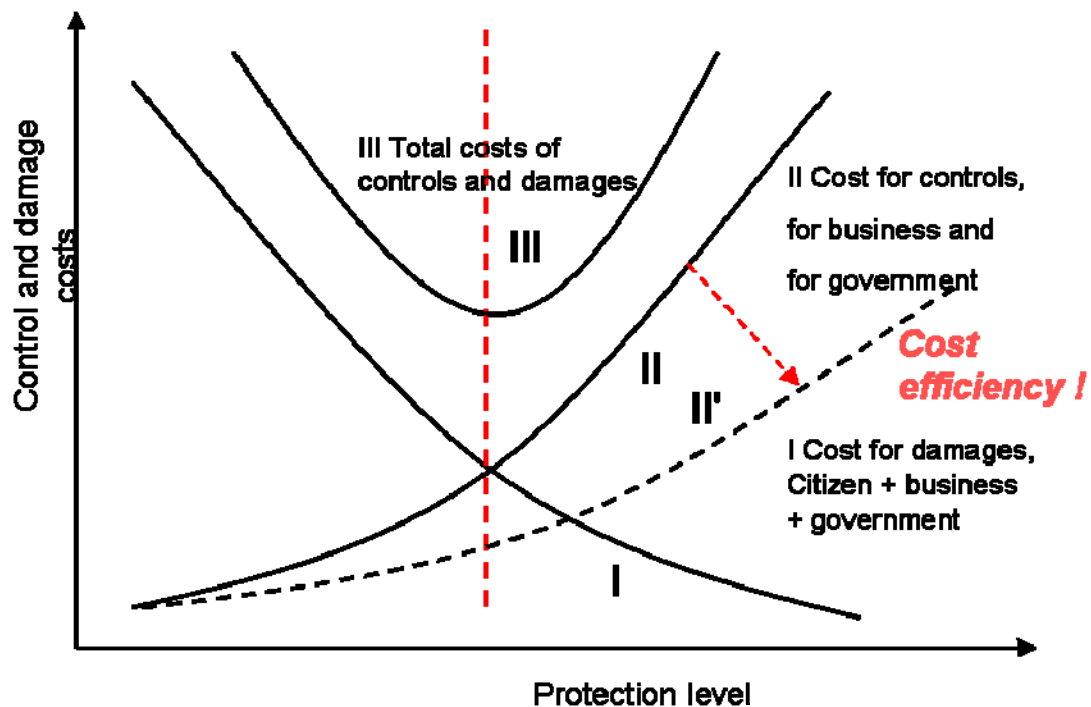


Figure 3. Optimizing the total costs of controls and damages (by CBRA)

C1.4 Defining CBSC-controls for the purpose of this paper

In the original study mandate the topic of the paper was “Customs controls”, which has the following definition by DG TAXUD: “Acts performed by the customs authorities of the Member States with a view to ensuring that the customs rules and other applicable trade provisions are observed, such as examining goods, documents or accounts, or carrying out inquiries”.

(Source: http://ec.europa.eu/taxation_customs/common/glossary/customs/index_en.htm#C)

However, several references were made in the study mandate to other government agency control schemes, and how they fit together with customs controls. Thus, the authors took the privilege to introduce the term of cross-border supply chain controls (CBSC-controls), to be used (and expanded) in the remaining part of the paper:

Cross-border supply chain controls (CBSC-controls):

- covering all international, border crossing trade, import and export transactions, and the actors behind;
- can be carried on shipment level; on company level; based on physical inspections; document inspection;
- and including all authorities which carry any type of controls on any type of products.

C1.5 Study steps and methodology

In practical terms, the authors had only four weeks to carry this study, and to write this paper. Thus, some aspects of a standard academic research project had to be skipped, especially concerning exhaustive theory search and analysis. In simple terms, the authors followed this six-step approach:

- Mandate paper taken as starting point
- Carrying literature search
- Followed by over 20 expert interviews (trade, logistics, academia)

- Identifying state of play
- Creating a conceptual model for CBSC-controls
- Conclusions and recommendations

C1.6 Out-of-scope

During the study process, several interesting aspects of cross-border supply chain controls popped up; some of them such nature, that either due to lack of time, data and/or priority, had to be left out of scope for this paper, as topics for future studies. The out-of-scope items include the following: cross-border people / passenger movements; trade in services; cross-border postal regulations; specifics of transit procedures; specifics on 3rd country control schemes (including 100% container scanning laid out by the US); functioning of customs and other test laboratories; specifics of chemical-biological-radiation-nuclear-explosive (CBRNE) detection; denied party lists / black lists; several fraud and prohibited goods aspects (e.g. VAT-carousel, excise fraud, narcotics, endangered species, conflict diamonds etc.).

CHAPTER 2. State of play with CBSC-controls in the EU

In this chapter, we explain the current situation concerning cross-border supply chain controls in the EU, starting from policy and multi-agency aspects; moving to customs operations, reforms and variations between the member states; and finally looking at intellectual property, 3rd party services and technologies in the field. We pay special attention to customs administration changing role from revenue collection and local industry protection to a broader agenda of Economic and fiscal; Trade management; Social protection; and Compliance management roles (*Source: WCO & INCU, Customs Professional Standards, 2008*).

C2.1 EU policies behind cross-border supply chain (CBSC) controls

As indicated previously, several EU policies set requirements for cross-border supply chain controls, in order to protect European citizens, businesses and states themselves against risks and hazards related to global sourcing and international supply chains. In Table 1 below, we present a set of eight EU policy issues with related CBSC-controls, and key actors. The table does not intend to be comprehensive, but the goal is to illustrate a set of relevant EU policy areas in connection to CBSC-controls.

Table 1. EU policy areas and sample control schemes for cross-border supply chains

Specific policy issue	Policy areas; sample areas for CBSC-controls; and key actors
International trade; trade agreements	Policy area: External relations and foreign affairs Sample controls: Preferential agreements; Country-of-origin; Quotas; Anti-dumping Key actor: DG External Trade plays the key role on European level
Customs tariffs	Policy area: Economy, finance and tax Sample controls: Product classification; Duty rates Key actor: DG TAXUD plays the key role on European level
Fight against fraud	Policy area: Economy, finance and tax Sample controls: Fight against any type of duty, excise and VAT fraud Key actor: OLAF is the leading European agency on this topic
Food safety	Policy area 1: Agriculture, fisheries and food Policy area 2: Environment, consumers and health Sample controls: Food safety, animal health, animal welfare and plant health Key actor: DG Health and Consumer Protection plays the key European role
Environment	Policy area: Environment, consumers and health Sample controls: Wood (for pallets etc.), waste (export), civil protection (traffic accidents). Key actor: DG Environment plays the key role on European level
Chemicals	Policy area: Environment, consumers and health Sample controls: Risks of existing chemical substances; and classification, packaging and labeling of dangerous substances Key actor: The European Chemicals Agency is the lead European agency Other notes: REACH is the main regulation on this field
Maritime security	Policy area: Transport and travel Sample controls: Security audits for ports and ships (less on actual consignments) Key actor: DG TREN plays the key role on European level Other notes: ISPS-code and European Directive 65/2005/EC
Border and supply chain	Policy area: Justice and citizens rights Sample controls: Fight against terrorism and other types of international crime

security	Key actor: DG JLS and DG TAXUD play key roles on European level Other notes 1: EU AEO is a key instrument to improve supply chain security Other notes 2: FRONTEX is the coordinating EU agency for border guards
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Note: the issues and policy areas in this table are picked mainly from EU web-site:

http://ec.europa.eu/policies/index_en.htm

C2.2 Multi-agency responsibilities in cross-border supply chain (CBSC) controls

In order to meet the vast amount of detailed policy goals, and to ensure the fulfillment of the rules and regulations, multiple governmental agencies on member state level are in charge for organizing and executing CBSC-controls regarding the respective product ranges. A sample list of agencies involved on national level is derived from a SITPRO-report, representing the situation in one member state, i.e. the UK: HMRC (revenue and customs); Port health authorities; Civil aviation authority; Health and safety executive; Border and immigration agency; HM Treasury; Maritime coastguard agency; Plant health inspectorate; Police; The traffic commissioner; Vehicle operators agency; US Customs (export controls at UK ports); and US Food and drug administration (for the authorization of food exports). The number of agencies involved, and their ropes do vary per member state; but this list should provide a reasonable sample of the multitude of agencies involved.

In some cases, trade and logistics communities may face extra delays and other costs, due to lack of common definitions, coordination, and communication between these various agencies. Requirements for “almost same” data elements, but still with some differences, is probably the most common complaint by the business community, when dealing with more than one agency. In Table 2 we present three samples of such “non-synchronization” between customs and another agencies. However, quantifying the savings potential for multi-agency synchronization (all trade cases x volumes per case x savings potential per case) is very complex, and has to our knowledge not been done yet.

Table 2. Samples of “non-synchronization incidents” between customs and other agencies.

Issue	Samples of non-synchronization between customs and another agency
Definition of “consignment”	Veterinary: Consignment can be (i) one container, or (ii) five containers in one ship, or (iii) five containers in five ships. Comment: These different definitions make it difficult to coordinate container controls.
Definition of “authorized” actor	Customs: “Authorized economic operator” Aviation: “Authorized shipper / consignor” Comment: requirements vary between two certificates, and no automatic recognition in place (even though the real differences might be minor)
Timing of physical inspection	Customs: intervention at the border Product safety: inland controls, close to the “markets” Comment: e.g. counterfeit inspections not coordinated, even though the agencies have an overlap in their interests (counterfeit products which might harm the consumers)

C2.3 On-going customs reforms in the EU

If we look at few years back to the Community Customs Code modernization consultation rounds, the following goals were indicated in public: “The main reasons for simplifying customs legislation are: reducing costs to business by easier access to the rules and a more uniform application of them, creating a level playing field for economic operators throughout the EU, increasing legal certainty for citizens (better regulation), and allowing traders fully to

benefit from the possibilities offered by IT procedures in the Single Market.” (Source: http://ec.europa.eu/taxation_customs/common/consultations/customs/article_1507_en.htm)
 It is not that clear whether these goals are being achieved in reality; some experts would argue that it is not the case; instead some complexities seem to be adding up as the reforms progress.

In Table 3 below we take a closer look on three on-going customs initiatives, which can have impacts on trade and logistics companies; most likely, not on strategic level (sourcing decisions, trade flows etc.), but possibly on organizational and operational levels.

Table 3. Sample set of EU customs reforms, with possible implications on trade

Customs reform	Expectations / possible implications on trade
EU Authorized Economic Operator (started 1.1.2008)	The main goal of EU AEO is to encourage companies to review and possibly upgrade overall security management processes and practices in their supply chains, by promising lower control rates; the initial adoption has been slow, one reason being that companies don't foresee gaining tangible benefits to cover their efforts for the certification.
Pre-departure and pre-arrival data sets (starts 1.7.2009)	This will be a mandatory measure to help the targeting / risk management process carried by customs administrations; EU AEO certified companies will have a reduced data set; it remains to be seen how well the authorities can exploit this data for better profiling and targeting; another open question is whether trade and logistics can exchange this data exactly same way with all the 27 member states.
Single European Authorization (planned 2012 onwards)	This together with centralized clearance is possibly the most welcomed customs reform, at least by multinationals operating in several member states. This could lead into real organizational changes on the way companies managing their whole trade compliance matters in the EU. The skeptics question the planned schedule, and the full functioning of this scheme, assuming that the VAT-systems are not on this same roadmap.

Finally, lot of expectations are set for creating a common EU-wide framework for customs risk management, for better profiling and targeting purposes (source: http://ec.europa.eu/taxation_customs/customs/customs_controls/risk_management/implementation/index_en.htm) – but again, trade has concerns that EU will end up having 27 different systems, with different criteria, interfaces etc.

C2.4 Differences between customs administrations in EU27

Geographical, cultural, historical, political, procedural, resource, and attitude-for-change variations - and sometimes competition-for-trade – between the member states lead naturally into practical differences from trade perspective when dealing with customs and other CBSC-control agencies in their respective countries. Couple of basic differences is presented in Table 4 below.

Table 4. Some basic differences with customs administrations in EU27

Parameter	Variation
Geographical	In geographical terms, the two main issues are: (i) handful of EU countries are landlocked, i.e. no own sea ports; and (ii) several EU countries, especially new member states, have an external land-border with 3 rd countries.
Current resources	There is a lot of variation in terms of number of customs officers per trade volume; man-power reduction rates; IT-systems and functionalities, and how trade can access the systems; Available budgets to develop the organizations, etc.

Future / reform attitudes	The attitudes towards future challenges, reforms etc. vary remarkably between the member states; some countries have taken change as the key driver, proving the necessary means and resources for that; and some not.
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Concerning the 10+2 new members states (joining the EU since 2004), there are two main components raising specific CBSC-control concerns:

- 1) Customs and other control agencies in these member states themselves – how ready are they to adopt EU regulations and practices
- 2) Customs and other control agencies in the neighboring countries – how well are they following their national legislations and international agreements.

In the following table we give illustrative samples on some specific historical events / issues with the new members states; once should note that they are not purely CBSC-control specific, and that most, if not all, of them have been corrected since; thus they are presented just to illustrate past differences in interpretation of rules, in level of technologies in use etc.

Table 5. Cross-border anecdotes in four new member states

Country	Anecdote / case description
Poland – border with Byelorussia	About communication between customs agencies in two sides of the border: still in 2003, flag alphabets were in use, due to lack of other communication methods (this situation was corrected when Poland joined EU)
Czech	About customs clearance of minor quantity of textile products: in one case it turned out to be impossible to clear five t-shirts, which were sent as business gifts by a global software company to their distributor (no follow-up on this one).
Hungary – border with Romania	About definition of “customs moves inland”, after Romania joined the EU: at the initial stage, the Hungarian customs moved 5 meters behind the border, to carry “inland” inspections there (after Romanian media complaints, this changed to 100 meters distance).
Romania	About using a 3 rd party company as importer-of-record for a major industrial goods company: in 2007 the Romanian customs didn’t accept this arrangement, but the goods had to be routed through another country.

C2.5 Counterfeiting and piracy as growing concerns

In the light of recent statistics, intellectual property violations are a growing concern in the EU, as well as in the whole world (*could be 5-10% of value of world trade, source: Wikipedia quoting OECD, and WCO*). In the Table 6 below, we present some counterfeiting characteristics and complexities, using four popular product types as samples. One critical parameter when designing countermeasures is the potential impact of a counterfeit product: is it “only” economical damage, or can it also have health or life threatening impacts.

Table 6. Sample set of counterfeit concerns (not specific to EU)

Type of counterfeit	Description of sample concerns
Sport shoes	Can come from the same 3 rd party supplier, who makes also the “legal goods”. Difficult, sometimes impossible to recognize by customs; even the brand company. Leads to revenue loss for the brand company, and possibly duty and/or VAT losses to the state. (no obvious harm for the consumers, if same product quality).
Cigarettes	Comes from illegal overseas factories (also lot of EU counterfeit production). The tobacco companies have created expert teams to help customs to recognize counterfeit products (using advanced tracking systems, amongst others). Causes revenue losses to companies, and duty/excise/VAT losses to states.

	May lead to additional health risks, subject to product quality and ingredients.
Pharmaceuticals	Several forms of intellectual property violations take place world wide. Causes revenue and possibly reputation losses, even law suits, for the companies. States can face increasing health care (“damage fixing”) costs, plus tax losses. Can be dangerous for consumers, if (i) the patient depends on the product, but the counterfeit product has “no ingredients”; or (ii) if the counterfeit product contains harmful ingredients for the specific patient.
Machine parts	Spare parts for different machines, automobiles etc. Can cause industrial, traffic etc. accidents, due to poor product quality.

Based on the study interviews, these are several hurdles preventing the efficient fight against counterfeiting, regarding customs – trade collaboration and underlying legislation, costs, liabilities etc. (it appears that few countries including France have a more forward looking legislation in place).

C2.6 The role of 3rd party service and technology companies

A large number of service and technology companies are currently approaching customs and other government agencies, as well as logistics and manufacturing companies, offering services, tools and solutions to make CBSC-controls as efficient (fast, cheap, less intrusive etc.) as possible. These companies have various backgrounds in shipment inspection, security management, audit and certification, defense and military, information technology and few other areas. In Table 7 below we describe briefly five types

Table 7. Sample set of CBSC-control 3rd party services and technologies (not specific to EU)

Type of service / product	Brief description of the service / product
Shipment inspection services	Traditional PSI (pre-shipment inspection) companies see the opportunity to support customs administrations and companies by inspecting shipments, containers etc. at one or more points of time during a shipment lifecycle.
Certification and audit services	Traditional certification and auditing companies are approaching companies and customs administrations with an offer to provide EU AEO certification services and to carry pre-audits and audits.
Container security devices	Engineering, defense and IT giants, as well as start-ups, are marketing a wide set of technologies to help tracking the integrity of sea containers; these container security devices (CSDs) can include locking, wireless comms, satellite tracking, radiation detection as well as several other components.
IT-platforms for “secure trade lanes”	Both the IT-giants as well as start-ups are developing trade and logistics data management platforms, which can function as the main data exchange channel between the business and the various government agencies.
Risk management applications	To support efficient risk management processes, including setting up consistent risk profiling criteria, few companies are offering customs (and possibly other government agencies) IT-tools for this purpose.

C2.7 Summary on state of play

As the international trade volumes keep growing, product ranges keep widening, and transportation distances keep lengthening, it is fairly obvious that consumers, companies and states face more and sometimes new risks regarding their well-being, was it to their health, reputation, or economical situation. To mitigate some of these growing risks, multiple governmental policy makers and executing agencies, have been introducing new legislations,

with potentially new compliance requirements and related cross-border supply chain controls, along end-to-end supply chains.

These growing sets of rules with the controls can in principle increase the real or perceived security, consumer safety, environmental protection and other issues in the EU – but they naturally come with price tags, which are not that well understood today. Some of these costs the businesses, and the citizens, should consider as cost of doing business, while some of the controls might be non-value adding, i.e. even when the cause for the cost would be cut out, the real security, safety and other aspects would not weaken; in some cases they could even improve.

One can summarize at this point that when exploring cross-border supply chain (CBSC) – controls in the EU, we are dealing with an enormous monster, being difficult to frame, due to so many parameters and variations surrounding the topic. However, based on the study interviews and state of play analysis, we aim next to build a conceptual model capturing – hopefully – the most essential parameters of CBSC-controls, to support future policy discussions in a more tangible way.

CHAPTER 3. Conceptual model for CBSC-controls in EU

In this chapter, we develop a Conceptual model for cross-border supply chain controls in EU. The main goal of the model is to help the readers to understand the various options and schemes existing within the broad frame of CBSC-controls – for example, in case of policy makers, the model could act as a checklist when doing a qualitative analysis how a potential future control related regulation would fit in the “grand scheme of controls”. The parameters for this model have been derived during the study process, from literature, expert interviews, and a priori knowledge by the CBRA-team. Finally, the model has been tested and validated by a sub-group of the same experts who participated in the interviews. The reader should be aware that the individual diagrams do not aim to be all inclusive, instead they aim to be just broad enough to illustrate each point; also the full conceptual model is subject for future modifications and improvements.

C3.1 Actual EU concerns – what do we have to protect with CBSC-controls

First one has to identify the actual concerns leading to a certain degree, was it “high” or “low” of cross-border supply chain controls – in other words, if there were no such concerns, no controls would be needed. These “actual EU concerns” can include any from food safety concerns which might temporarily damage the health of a small group of individuals; to major terrorism attack which can cause long term damages to the EU economy in the order of magnitude of tens of billions of euros. In Figure 4 we present a set of actual concerns with citizens, corporations and the state (national or EU), with their typical attributes relating to health, costs, economy, legal situation and few other relevant aspects. The attributes with citizens and state are quite self-explaining; for companies one can note that being connected with cross-border supply chain crimes, even as an innocent victim of counterfeit, smuggling, or in the worst case terrorism, can cause severe damages to company’s brand and lead to long-term losses in sales revenues.

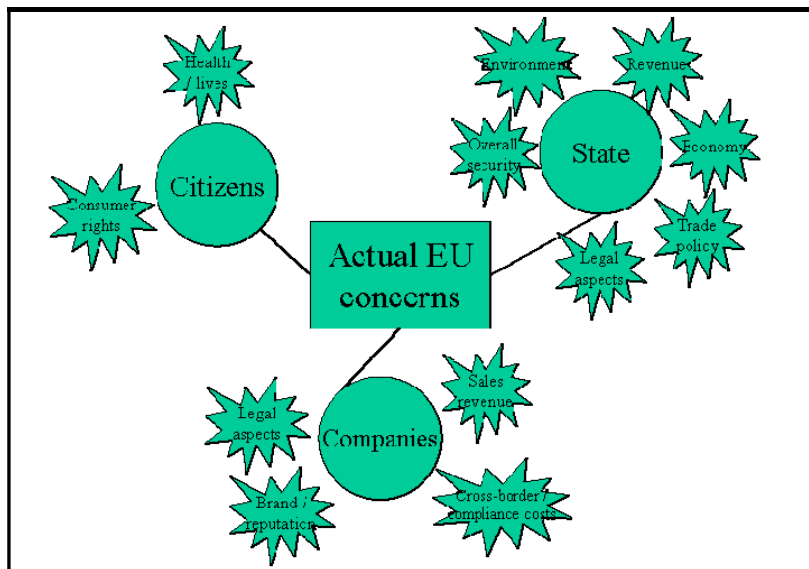


Figure 4. Actual EU-concerns

C3.2 Sensitive commodities requiring high cross-border attention

Next we look at the commodities and products which for one reason or another are under one or more control schemes today, was it due to various international trade agreements; export subsidies; duty, tax and excise collection; dangerous materials; dual use goods; intellectual

property rights protection; amongst others. Figure 5 below aims to illustrate the numerous commodities, which require special attention in cross-border flow of goods, was it either entering and/or exiting the EU, with typical reasons for controls attached to commodities. As with other sub-diagrams in this Chapter 3, we don't aim to be all-inclusive; instead, our goal is to express the various parameters in broad enough terms, to illustrate each building block required for the holistic CBSC-controls model.

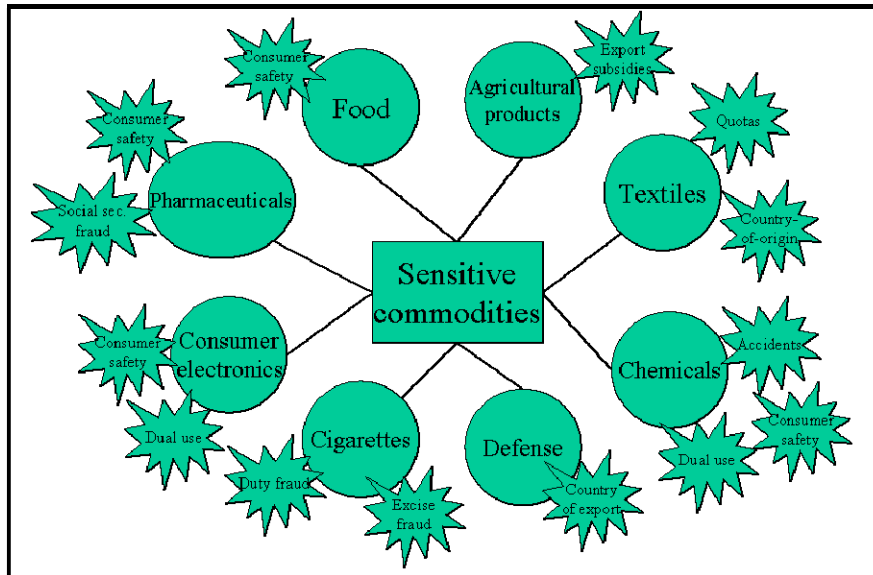


Figure 5. Samples of sensitive cross-border commodities

C3.3 Bad intentions and motivations behind the incidents

One key reason - if not the most important one – behind the need to control cross-border supply chains, lies in the “bad intentions” of one or more individuals somehow attached to the international supply chains. The most common motivation is naturally the human desire to make money on any means imaginable, whether it is saving production costs by using cheaper paint for toys or food ingredients for pet food; or smuggling illegal narcotic products to markets with wealthy consumers. Here the former acts may lead to sickness of children playing with the toys, and to poisoning of pets; the latter one may lead to deaths of individual narcotics users, as well as to major economic damage for the state having to take care of the treatment programs, prison terms etc. Besides these dark, often criminal acts, also non-criminal major or minor negligence as well as accidental errors are included in Figure 6 below.

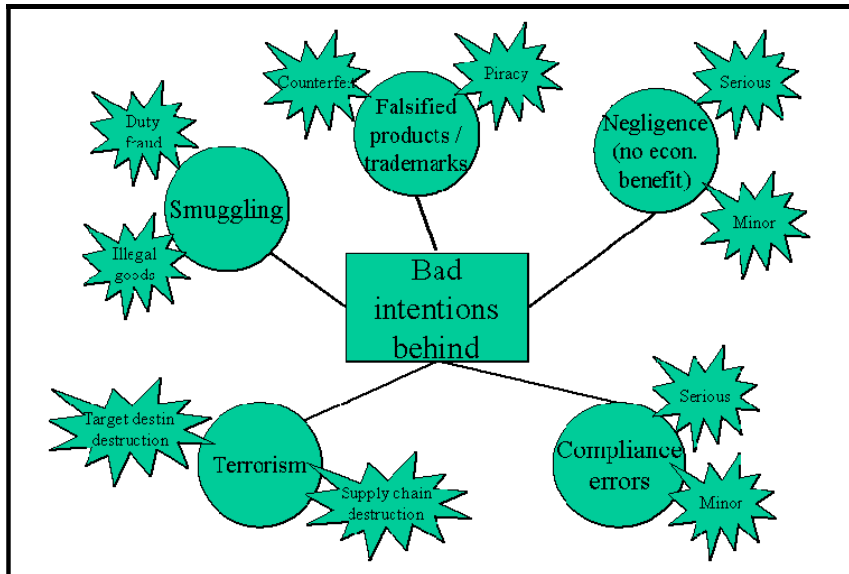


Figure 6. Bad intentions and motivations behind the incidents

C3.4 Primary CBSC-control triggers

Next our goal is to illustrate which bodies triggers cross-border supply chain controls in the EU, anything from a policy level triggers to European and national campaigns (e.g. campaign on shoes, verifying the country-of-origin etc.); from a third country intelligence tip, and company / supply chain internal tips to the instinct of an individual customs officer at the border post; and finally the usage of advanced risk management methods and systems, with pre-set risk criteria, profiling and algorithms. These control triggers are laid out in Figure 7 below.

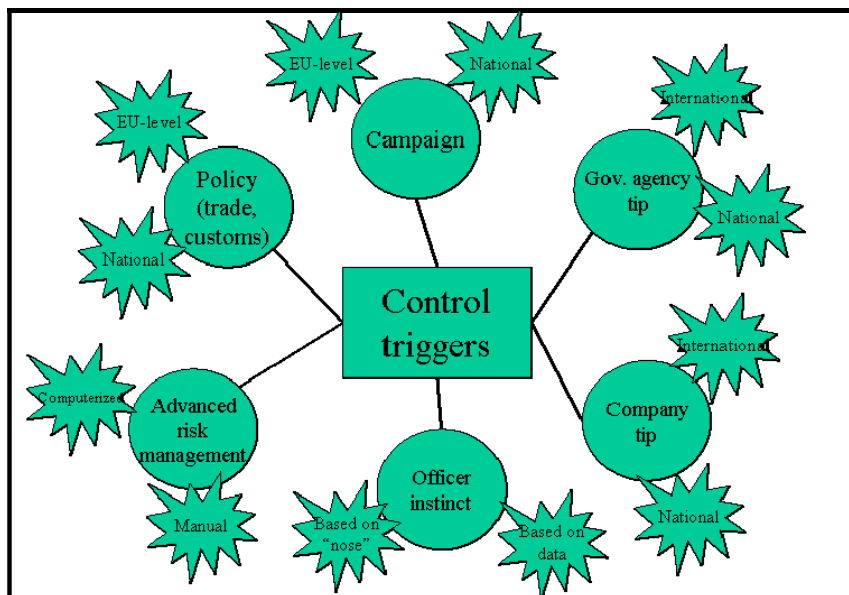


Figure 7. Primary control triggers

C3.5 CBSC-control actors, international level

There are many ways how “controls” can be organized in modern day supply chains, as already indicated few times before in this briefing paper. The controls carried by customs can be organized in the source country, at the sea port of import, or in an inland warehouse, to name few obvious samples. At the same time, it is more and more common that the various supply chain actors, including exporters and importers, prepare a combination of process and audit based measures to protect their supply chains – including certifying themselves as authorized economic operators, such as EU AEO. In addition, 3rd party inspection companies can play a major or minor role here, either paid by the authorities and/or by the companies. These various options for cross-border control actors are presented in Figure 8 below.

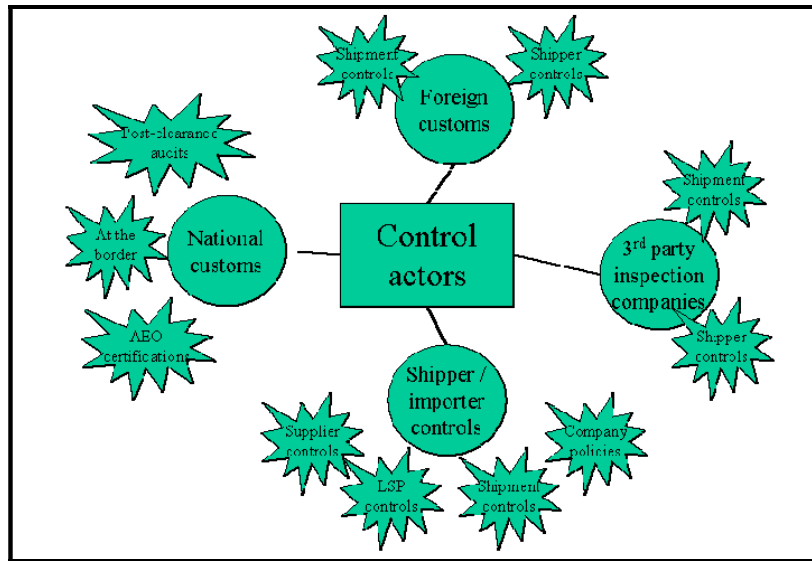


Figure 8. Cross-border control actors

C3.6 CBSC-control actors, national level

To expand the governmental participation from the previous sub-chapter, we present next in Figure 9 the variety of governmental actors having responsibilities in the broad picture of cross-border supply chain controls, as this point has been made clear already in the previous parts of this briefing paper.

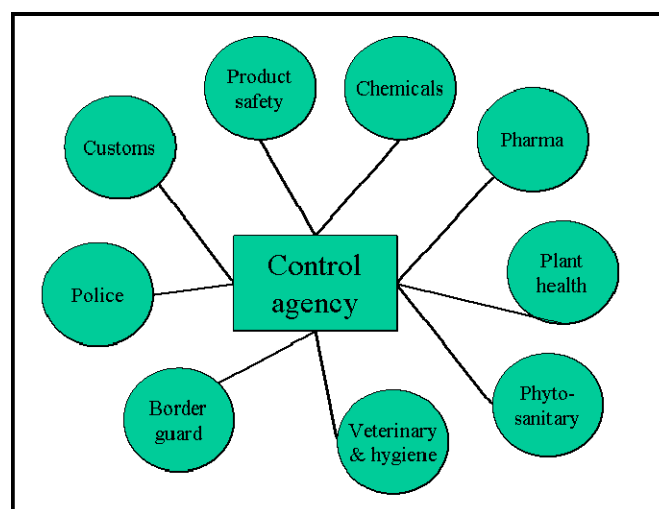


Figure 9. Cross-border control agencies on national level

C3.7 CBSC-control timing

Another parameter we see of relevance when creating a holistic model for cross-border supply chain controls is the timing of the controls, with some obvious connections to the two previous sub-chapters on cross-border control actors and agencies. When we look from individual shipment point of view, these “extended controls” can happen one or more times, between the time the goods are at the shipping dock of the supplier factory outside the EU, and until they have arrived to their final destination inside the EU (and in some cases, even after that). Controls on the company processes and on company accounts can be naturally done without the direct connection to individual shipments, both up-front (e.g. EU AEO certification, which typically covers the full legal entity) and afterwards (e.g. pre-clearance audit, which can cover all import clearances from the past month). These aspects are brought together in Figure 10 below.

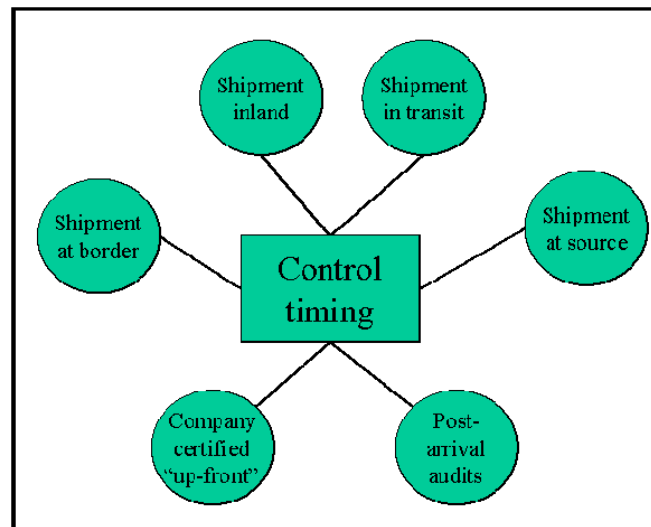


Figure 10. Cross-border control timing

C3.8 CBSC-control type and degree

There are multiple options how one can carry controls in cross-border supply chains, including shipment level controls as well as supply chain actor / company level controls. The shipment level controls included visual checks, seal controls, x-ray scanning and data / document checks. The company level controls consist of supplier verifications, company certifications, and customs audits, amongst others. In practice, the controls can consist of two or more somewhat redundant activities. A basic set of control type and degree parameters are presented in Figure 11 below.

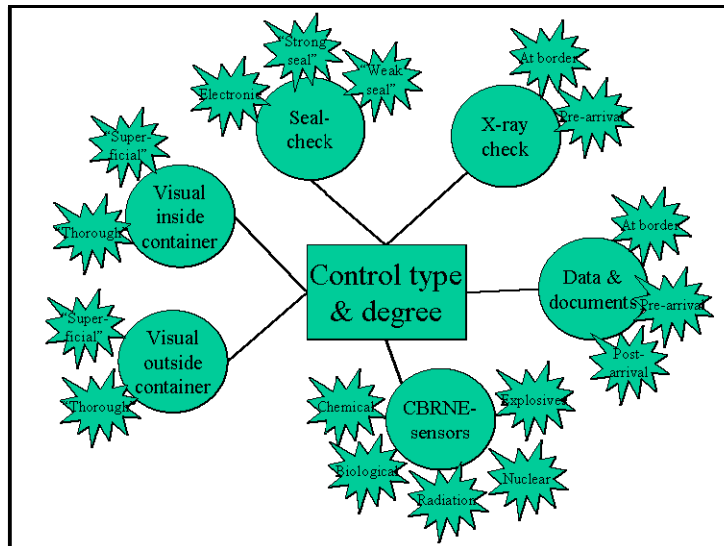


Figure 11. Cross-border control type & degree

C3.9 CBSC-control cost implications

The final piece for the conceptual model of cross-border supply chain controls is the control implications, i.e. how are the state, companies and citizens impacted in case of “too little”, “too many” or “optimum level” of controls.

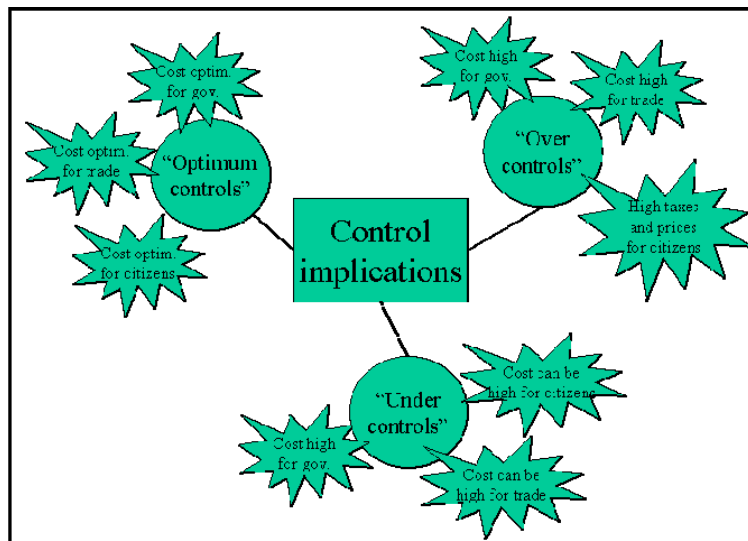


Figure 12. Cross-border control implications

C3.10 Illustrative sample for cross-border supply chain controls into EU

Here we bring together all the eight sub-components presented in the previous sub-chapters, and start integrating them towards a one, holistic CBSC-control model. We use an overly simplified case of “toy imports from China to Budapest” with made-up data to illustrate the model here (see Figure 13 below):

- The main concern in the EU is the health of citizens, in this case small children
- The issues with toys include small parts which can cause suffocation and lead paint which can cause serious skin irritation

- The bad intention behind can be negligence (regarding the small parts) and cost savings (regarding the paint selection).
- The controls can be triggered by an EU campaign targeting toys from China, as well as by risk profiling and targeting system identifying an unknown shipper in the supply chain
- There are two sets of controls in this sample: one at the source in China, organized and paid by the EU-importer / toy distributor; the samples for the second controls are selected by the customs at the port of Rotterdam
- Besides customs, the product safety agency in Budapest participates in the detailed testing
- The controls are carried before the goods were shipped, and at the time they arrived at the port
- The control types include documents checks (material certification, customs declaration etc.), as well as lab testing (paint ingredients, shaking of toys etc.)
- The implications are some supply chain costs for the importer; some control and inspection costs for the government; and possibly several children saved from health problems.

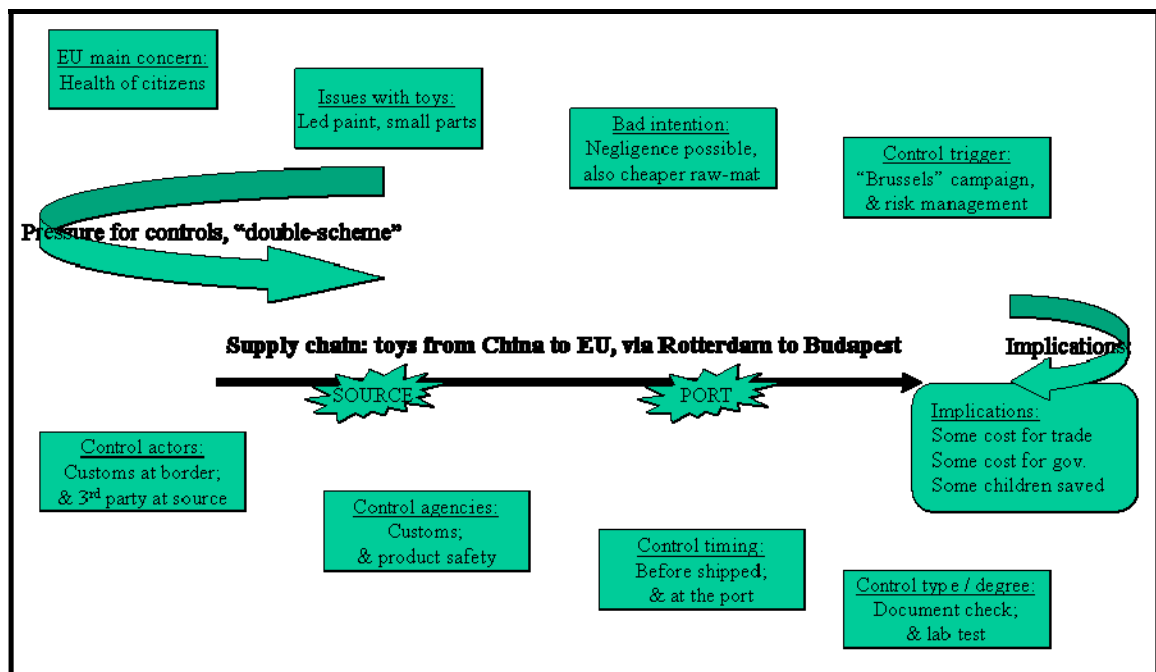


Figure 13. Illustrative sample of cross-border supply chain controls

CHAPTER 4. Conclusions and recommendations

Cross-border supply chain (CBSC) –controls, is to be a controversial topic, with several vested interests and concerns, touching the well-being and/or performance of individual citizens, companies, individual states as well as the EU as a whole. How to define and execute the right balance between controls and free flow of goods, when one can never be certain on how many “bad things” are attached to these goods, and more specifically which individual shipments are the dangerous and/or illegal ones – defining the optimum percentage of controls and targeting them in the best way remains still partially art and science, leaving at the end of the day room for human “gut feeling”.

The goal of this paper has been to provide an objective, 360 degree overview of various decision making and execution related parameters regarding CBSC-controls in the EU, covering both imports and exports, to support better understanding of the phenomena in hand. In this last chapter we present the main conclusions of this study, followed by a set of immediate, medium and long-term recommendations, targeted for the European policy makers.

C4.1 Conclusions

First, it is evident that the risks and hazards facing consumers / citizens, companies and states, related to global sourcing and international supply chains are growing, due to increasing international trade volumes, product complexities, cost pressures, and counterfeit, smuggling and other criminal activities, amongst other. The actual external threats combined with the regulatory countermeasure compliance, sometimes considered as “draconian” by the trade, together create a growing need for various types of controls in cross-border supply chains (CBSC-controls).

Second, it is also evident that numerous different EU policies set the ground for the CBSC-controls, and multiple DGs from the European Commission contribute to preparation of the directives and regulations for the member states to follow. And, multiple national governmental agencies are involved in the execution of the controls, from customs, chemical safety, phytosanitary, animal and plant health, transportation and police agencies, amongst others, leading sometimes into non-coordinated control activities, thus causing unnecessary costs for trade and logistics.

Third, in this study we did not find any evidence of major (or life threatening) gaps in today’s CBSC-control policies and operations in the EU – naturally the main topics of taxes, product safety and consumer protection, counterfeit, environment protection and security are included in the control agenda, some in more visible way and some less. Whether these controls are today on “optimum” level, or “too few” or “too many” controls take place, is not possible to conclude in this study.

Fourth, regarding the uniformity and harmonization of CBSC-control related regulations and systems in the 27 EU member states, it has become very clear that the member states are not implementing these in a fully harmonized way, but due to various reasons, some more justifiable and some less, implementations typically end up having variations to which the trade and logistics actors have to adjust, and carry these avoidable costs, which evidently become passed on to the consumers. As the matter of fact, this non-harmonized approach and the related costs appear to be much bigger concern for businesses than the cost of actual controls.

Fifth, specific issues with the governments of the trading partner countries of EU, whether direct geographical neighbors, or overseas countries in east or west, are naturally behind many of the CBSC-control challenges in the EU-soils. Issues vary from paying too low attention to counterfeit factories, and closing eyes in front of corrupt agencies and officers, all the way to setting up overly expensive (export) rules and regulations, sometimes technical trade barriers on purpose. Improving these international issues, agreements and practices remains a major challenge for the policy makers.

Sixth, we can conclude that the concept of CBSC-controls is much broader than one might first realize: the first image of having a customs officer opening containers at the sea ports is certainly still valid, but it represents only a minor part of modern day CBSC-controls. Instead, multiple actors can be involved, including 3rd party inspectors, and trade and logistics themselves with self-controls etc.; controls can focus on shipment / container level, or on supply chain actors or network level etc.; controls can be based on visual or data analysis, on electronic seals and other devices etc.; the timing of controls can vary from year or more before the actual shipment to few months after the shipment has arrived in the EU; to name several of the CBSC-control parameters.

Seventh, several promising administrative and technical concepts and emerging solutions have been discussed since years, if not decades, to improve the efficiency of CBSC-controls in the EU as well as other parts of the world. Collaboration concepts such as single window filing and integrated border management would certainly be welcomed by the trade and logistics communities; concepts which could materialize in EU states and even EU wide, in very long term (10 years or more). Technologies to secure and track containers; to manage trade and logistics data; to sense illegal substances etc. are on their way, and are likely to provide support for the execution level of CBSC-controls, more and more in the future.

And last but not least, this study has shown that the overall level of understanding the configuration and implications of CBSC-controls both on national and on EU-level, is somewhat limited; this is due to lack of in-depth studies, modeling and objective measurement of the current situation, as well as scenario building for future alternatives.

C4.2 Recommendations

As the last point for this briefing paper, we present few key recommendations for European policy makers, regarding the broad picture of cross-border supply chain (CBSC) controls. These recommendations are grouped in three time-spans: immediate actions, medium-term and long-term focus points and activities.

Immediate actions consist of following:

Ensure that the EU member states will implement the on-going customs and possible other CBSC-control related reforms, new regulations and information systems in a 100% harmonized way. Try not to accept any artificial deviations (“we have always done this way”) unless it really adds value to the European economy and/or protects EU citizens in a better way, in respect to member state specific risks. Focus especially on reducing intentions to protect interests of small groups of traditional service or technology providers in the member states, as one does not need “intra-EU technical trade barriers”. This appears to be the biggest single concern of the trade and logistics community; much higher at the moment than the actual controls themselves.

Drive tangible benefits for highly compliant traders and logistics companies, with excellent compliance histories, high security and safety standards, and tight corporate social responsibility policies. The momentum is there, corporate CEOs are curious how to become ever more responsible – but if they don’t see the benefits, they will focus soon on other

things. But do not give up controls totally even if the most trusted traders; one day an advanced criminal group might manage to penetrate into and exploit a “trusted supply chain” for their bad intentions – the CBSC-controls must block such low likelihood but potentially high impact event.

Ensure that trade and logistics communities have enough time to prepare for future changes regarding CBSC-control schemes: have long enough, transparent, consultation periods, as well as time for system changes. Do not allow the administrations to exceed their planned schedules, at the cost of the business community.

Medium-term actions (3-18 months) consist of following:

Initiate a major research program on CBSC-controls in-depth studies, modeling and objective measurement of the current situation, as well as scenario building for future alternatives for configuring, executing and tracking CBSC-controls in the EU. In particular, this CBSC-control research program should focus on following points:

- Statistics on all controls in the EU; what are they targeting, and how are they done; outcome of the controls, including success rates and seizures; what would be the cost of the damages which these controls managed to prevent; are there any major gaps today, regarding certain transport modes, border crossing points, commodities etc.
- Analysis on which commodities are subject to more than one CBSC-control event / agency; is there extra / avoidable cost for trade and/or government today, and how much: could collaboration, communication and coordination be improved, and how; what would be the cost-benefit etc.
- Scenario, optimization and simulation modeling to assess how various future policies regarding CBSC-controls could work in practice, and what would be their cost – benefit implications for EU citizens, companies, member states and the EU as a whole.

The outcomes of this research program can be exploited in various training and educational forums, targeting all actors from politicians to cross-border agencies; from trade and logistics to graduate level students, all around Europe, and even in trading partners of the EU.

Long-term actions (12-48 months), consider following:

As we all know, no silver bullets exist regarding CBSC-controls in the EU; maybe the following action list is the closest one can get to it, looking at the long-term perspective:

- Transforming all EU customs from traditional “customs authority” mentality to modern day “customs services” attitude.
- Single European Authorization, and true centralized customs clearance, which covers all indirect tax aspects.
- Efficient and harmonized cross-border supply chain (CBSC) risk management processes, criteria and systems.
- More efficient legislative means to fight against counterfeit, both outside and inside the EU
- Open minded attitudes towards 3rd party services and technologies to support various types of CBSC-controls.

And finally, explore the option of establishing a new EU agency focusing on CBSC-controls and compliance. Study carefully the pros and cons, the costs and benefits of such an agency; what would be the roles and responsibilities, and how would it fit in with the existing set of administrations and agencies.