BORDER CONTROLS IN INTERNATIONAL TRADE

SIMPLER, CHEAPER, BETTER

A paper by EUROPRO setting out its views on the reduction of compliance costs attributable to the design and operation of border controls on movements of goods in international trade

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BORDER CONTROLS: SIMPLER, CHEAPER, BETTER

BACKGROUND

THIS PAPER

This paper says how we in EUROPRO believe that border controls on international trade in goods could be made simpler, cheaper and better.

'Simpler' means easier for both border agencies and business to operate, with more straightforward and transparent procedures. 'Cheaper' means reductions in the cost to business of complying with or operating the controls. 'Better' means more efficient and effective.

We outline basic principles and policy approaches that, if adopted widely, could lead to real reductions in the cost and complexity of international trade in goods.

Much is changing in this area, not least in the European Union, where the customs landscape is facing a dramatic transformation. However, policy makers and business leaders alike tend to concentrate on the short term, for understandable reasons. But any large project needs a sense of direction, and EUROPRO believes that without a compelling and consistent long term vision, shorter term activities risk losing their way. This paper accordingly describes a long term view that will help keep our shorter term projects on track.

WHO WE ARE

EUROPRO is a European association of national organisations concerned with making international trade processes simpler. Our members are diverse. Some are government funded, while others are in the private sector and independent of government. Our current membership is shown in Annex 2.

The common theme that unites us is the belief that international trade is made unnecessarily complicated by the requirements of national, international and supranational bodies that regulate controls on goods when international frontiers are crossed. Typically these are customs controls, but EUROPRO's concerns extend to the requirements of other control agencies active at international frontiers, since they tend to play a growing role in complicating trade procedures and increasing the consequent costs on the trading community.

We take no sides, other than that of efficiency and effectiveness in the conduct and control of international trade. We are neither pro nor anti government. Indeed, we believe that high quality border controls are in the interest of everyone, since they help to guarantee safe and fair trade, the economic well-being of businesses and the welfare of individual citizens.

Our independent voice does not advocate solutions designed to benefit only particular sectors of trade and industry - on the contrary we look for improvements that spread the gains from better trade procedures across the wide spectrum of stakeholders in the global trading machine.

A little more detail on our approach to simplifying trade is set out in Annex 1 - 'EUROPRO's main areas of concern'.

INTERNATIONAL TRADE - THE STAKES

International trade is big business. WTO figures show the value of world imports in 2009 as approaching $12.7 trillion (and that was after a drop of 12% from the previous year).

There is little firm evidence of the direct cost of border formalities as a proportion of trade value. However, studies suggest[1] that it can be at least 2 per cent for customs controls alone (and this is in an EU context where customs processes are among the most facilitative). Cecchini appeared to conclude that adding indirect costs (including opportunity costs) might treble this figure. If so, this would indicate that the global annual cost of complying with customs requirements could be over three quarters of a trillion dollars.

Adding the plethora of other border requirements - referred to elsewhere in this paper - could multiply that figure by, say, a factor of two or more. OECD studies[2] suggest that the saving from a one per cent reduction in compliance costs could be as much as $40 billion worldwide[3].

It would take more detailed research to achieve any more precision than this, and there are obvious differences in the numbers quoted in these studies. But whichever way one looks at them, they suggest that any inadequacy in the design or operation of border controls is very expensive indeed.

TRADE FACILITATION

WHAT IT'S ABOUT

The words are familiar. But there is more to them than meets the eye. And they now have some political importance, in that the Doha Round included separate negotiations in this domain for the first time. Yet its political profile around the world remains modest.

The term itself - "trade facilitation" - contributes to the difficulties of understanding the issues. It suggests that the regulatory burdens on international trade can be smoothed away by mitigating measures. For many this in turn implies that a balance must be struck between regulatory controls and trade facilitation, as though more of one necessarily leads to less of the other. EUROPRO rejects this simplistic idea. In our view, trade facilitation is about better and cheaper regulation, which then delivers benefits in the form both of more effective controls and lower costs for traders. It is a question of doing things right rather than compensating for things that are wrong.

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[1] eg Cecchini 1998; Verwaal and Donkers 2001

[2] Overcoming Border Bottlenecks: The Costs And Benefits Of Trade Facilitation – ISBN 978-92-64-05694-7 © OECD 2009

[3] This would put total compliance cost at around $4 trillion; it is hard to believe that the compliance costs could be this high - one third of the total value of world imports

There is a multiplicity of old and new challenges when goods cross international frontiers. They include

- terrorism
- global crime
- revenue and financial fraud
- counterfeiting
- intellectual property theft
- threats to human, animal and plant health
- environmental protection
- legal and illegal immigration
- the increasing globalisation of social measures and values (for example, to stamp out child labour).

The control agencies that wrestle with these challenges can be forgiven for seeing simpler trade as a luxury to be indulged in when times are easy but as something to be sacrificed on the altar of tougher controls when times are hard. This is wrong: simpler trade is not an option. It is a necessity if the international trading machinery is to work as well as it can and if trading companies - especially those in Europe where other costs are high - are to remain competitive.

Auditors talk about the "three Es": Efficiency, Effectiveness and Economy. Something that is efficient works with the minimum of wasted effort. Something that is effective achieves the goals that were set for it. Something that is economical ensures that the lowest possible level of resources is used. Making things better is not just a matter of picking one or more of these qualities at random. Doing so will almost certainly lead to the wrong result. An efficient control may not do what it is meant to do. An effective control may cost too much. An economical control may fail for lack of resources. The trick is to combine these factors intelligently to get the best possible result.

Seen in this light, trade facilitation becomes a search for what the jargon calls a "win-win" solution: better controls with lower costs for business, for example, or new ways of organising trade components to deliver benefits to all in an international supply chain. We prefer to look for common ground between the interests of border agencies and those of traders on whom the costs and burdens of control fall. This should make it possible to take a broader look at international borders and add up the costs and benefits to all stakeholders before making changes. Keeping an artificial distinction between public and private sector costs distorts the picture and steers decision takers towards worse rather than better solutions. EUROPRO believes that only a genuinely collaborative effort to find improved ways of managing trade will give us the right results.

The consequences of getting it wrong

It is beyond the scope of this document to examine in detail the way in which the cost burden of badly designed controls is shared out. But clearly businesses face both up-front and continuing costs. These take various forms. Examples include

- the effects of delays at the border (leading to more expensive transport, larger than necessary inventory stocks, increased labour and other costs, etc)
- the impact of inefficient regulatory requirements (requiring investment in systems to produce data that would otherwise not be needed, whether at the time when it is requested, or at all)

- doing things twice, or more (repeating the same operation to satisfy uncoordinated requests for information, for example)
- logistical inefficiency (for instance, choosing longer or more complex routes for goods, data and money in the supply chain in order to avoid a notorious blockage caused by high compliance costs).

Companies that spend money in this way can recoup it by raising their prices. In this case their customers share the cost and demand in the market is reduced. They can absorb it, reducing dividends to shareholders, profits, or a combination; the consequence is reduced economic activity and investment.

Some might appear to gain from supply chain inadequacies, or at least be in a position to charge for additional or extended services. But ultimately intermediaries offering supply chain services (brokerage, warehousing, transport, financial products, for instance) should benefit more from the increased activity that an efficient supply chain would generate. Maintaining inefficiencies because a few gain from them is of little comfort to the majority who lose.

Governments do not benefit from poorly designed or implemented controls. If they impose unnecessary costs on business, the chances are that both the controls themselves and those who have to comply with them fail to work at the highest possible level of efficiency and effectiveness. This virtually guarantees that the legitimate expectations we all have of protection from the many threats described above cannot be fully met.

It is possible that some benefits accrue in the public service from bad control systems, in the form of welfare gains by individual members of staff or even whole administrative cadres, whether through a lack of integrity or the opportunity to make their official duties fit their lifestyle rather than the contrary. It would be hard to claim, though, that such gains were in the public interest.

Removing unnecessary costs from international supply chains should yield a variety of benefits:

- lower costs of production
- better global allocation of resources (through the removal of impediments to locating activity where it is most efficient, effective and economical to do so)
- increased world trading activity and a correspondingly positive contribution to prosperity on an international scale.

Given that the greatest inefficiencies are likely to be found in countries with lower than average national incomes, simpler international trade may offer opportunities to boost economic activity in the poorest nations. It is thus no accident that the leading foreign aid agencies are paying increasing attention to streamlining border control processes.

Finally, our very tentative sketch of the magnitude of trade flows and of the consequential costs of bad border controls suggests that this is not a trivial issue. Indeed, we are inclined to think that when researchers explore the detailed costs of non-facilitated trade - as we hope they will - their findings will show that poorly organised trade could easily dwarf in economic important some of the more traditional areas of international concern (tariff negotiations or issues of agricultural support come to mind).

The influence of globalisation

Globalisation needs careful handling when it comes to simplifying trade procedures. It usually refers to the merging of individual markets into a global whole, in which corporations seek efficiencies not just by selling in a wide range of markets but also by sourcing and investing on a world-wide scale. However, it is possible to extend the term to encompass other factors. Crime, for example, does not respect national boundaries, and the agility of large crime syndicates to change their operations to match weaknesses in control is legendary. Control agencies too are beginning to respond to globalisation by working together across frontiers and looking at threats as international phenomena rather than just national problems to be solved locally.

It is increasingly common to discuss trade mechanisms by reference to international or global supply chains. This does not imply that international trade consists invariably of coherent, organised and closed groups of companies and agencies working together seamlessly to drive up efficiency and drive down costs. On the contrary, reality tends to be messy and open-ended. Nevertheless, the supply chain is a convenient concept for talking about improvements in trade arrangements.

This is because international trade transactions are rooted in at least two countries. One person's import must have been someone else's export. And goods that move internationally will pass through several, or even many, parties' hands before the transaction is completed. Since trade in goods is generally managed through information about the goods rather than directly through interaction with the goods themselves, the rational organisation of data throughout a supply chain becomes a key to success in making trade systems work better.

So remedies for inadequacies in the organisation and control of international trade are expected, more and more, to address problems on a global scale. It is not enough to resolve the odd local issue - advocates of change have to ensure that they understand and can tackle challenges arising across the whole range of economies, from super-rich and highly sophisticated to emerging and developing countries where public and private sectors are often struggling to cope with the demands of business in the 21st century. This point is driven home when one considers the case of supply chains that take goods from the rising economic stars (countries like China and India) and market them in fully developed, western economies. The nature and performance of border controls and processes differ very significantly between the start and finish of a supply chain movement, yet failings anywhere along the chain drive up costs for all involved.

Although EUROPRO's members are European, and our focus is therefore to a significant degree on European matters, we recognise the need to think globally. The strategies considered in this document can be applied not just in Europe but also beyond its borders in a range of widely different circumstances.

MAKING THINGS BETTER

Simpler trade - basic principles

EUROPRO has identified a number of principles that should underlie moves to streamline or simplify the border processes that generate costs in international trade.

TRUSTED TRADERS

While threats multiply, border agencies' resources are constrained - either growing less slowly than the workload or actually reducing in some cases. The classic response is to be selective, by concentrating effort on trade flows and transactions that pose the greatest risk (risk being defined in relation to the responsibilities of the agencies concerned and the priorities assigned to their various categories of activity).

Assessing and managing risk is a complex matter that requires considerable technical skill and the availability of good quality data in substantial quantities[4]. Not all administrations are equally successful in managing risk, and either pay lip service to it or revert to more or less random interventions, following individual officers' hunches or just picking consignments by chance for a closer examination. The alternative - subjecting all consignments to equally burdensome inspections - is no longer a realistic option in any but the smallest and least sophisticated economies.

Many factors contribute to the degree of risk represented by individual transactions or broader trade flows. They include the nature of the goods, their countries of origin, transit and destination, the identity of people and organisations involved in their movement, associated movements of money and the way in which they are transported. But at the heart of any movement along an international supply chain are the people and businesses that enter into contracts based on that movement - manufacturers, exporters, importers, carriers and a range of intermediaries (customs agents and forwarders, banks, insurance companies, etc). It is convenient to refer to this diverse group as "traders" in the supply chain.

Much of the risk associated with particular goods movements is thus bound up with the inherent "riskiness" of the traders involved. This is especially true of exporters and importers, the traditional traders with whom customs and other border agencies have dealt for decades or centuries. But the role of carriers is increasingly seen as a significant factor in assessing the risks attaching to a consignment, and their responsibility - whether they welcome it or not - is consequently growing in importance.

However the key players are identified, the result is a group of traders to which border agencies assign a particular level of risk. EUROPRO's view is that agencies should place considerable emphasis on the development of a group of trusted traders, offering the lowest possible level of risk to goods moving under their control or responsibility. We use the term "development" deliberately, since companies generally need encouragement in order to make the extra effort often required in order to win a particularly high level of trust from administrations.

This encouragement may take the form of training and mentoring, but at a more basic level is often wrapped up in a package of benefits and advantages for trusted traders. This is an important part of the Authorised Economic Operator (AEO) concept advocated by the World Customs Organisation (WCO) and implemented increasingly around the world (as, for example, in the United States' C-TPAT scheme and the European Union's rules on AEO).

Hard economic realities intervene, however, when businesses conclude, rightly or wrongly, that the benefits of a trusted traders scheme are outweighed by the costs of achieving and maintaining the required level of trust. Administrations

[4] Because agencies are less and less able to deal directly with the reality of international trade transactions, they increasingly use data as a proxy for that reality, and their conclusions are then very much conditioned by the quality of the information they have

need to be sure that the balance of advantage is seen by the private sector as a real incentive to raise its game. Conversely, they should be wary of schemes imposed by law without corresponding advantages, since the essence of trust is that it is two-way - companies enrolled in a scheme need motivation if they are to meet the highest expectations placed upon them.

Once this trusted population is identified, border agencies can devise approaches to control that minimise their interventions in the trade conducted by these trusted traders, thereby reducing the corresponding compliance costs. There are signs in a number of countries that this way of managing border controls is beginning to bear fruit, at least in the customs domain, but it is harder to conclude that there have so far been any revolutionary changes in the way in which controls operate or in the costs associated with those controls.

A corollary of the trusted trader approach to control is that traders who cannot meet the requirements for the various schemes are, by implication, not trusted. This leads (or should lead) to tougher controls on goods movements for which they are responsible, in order to manage the risks that a relative (or absolute) lack of trustworthiness carries.

It might be argued that this unfair. Indeed, there was an age when administrations were at pains to apply procedures in the same way to all. But the world has moved on and the nature of the threats with which border agencies now have to deal makes so-called "fairness" a luxury we cannot afford. And it can be claimed too that it is hardly "fair" to subject traders with a good compliance record to all the cost and hassle of unnecessary border controls. However, smaller businesses pose particular problems in this regard, which we discuss later in this paper.

INTER-AGENCY COOPERATION

We have already pointed out the complexity of modern border controls, involving a large number of separate agencies. Experience shows that these agencies seldom work together to streamline controls and maximise the value they gain from information about international trade transactions.

The picture is rather one of duplication of effort and complicated processes that needlessly increase the cost to traders of complying with border agencies' requirements. It is not unknown for praiseworthy simplification initiatives from one agency to be rendered valueless by other agencies sticking to complex or outmoded practices. And new threats tend - in the developed world at least - to call forth new bodies with new powers to intervene in international trade, adding to the layers of bureaucracy and multiplying costs.

The principle should be coordination, cooperation and collaboration. Agencies can be persuaded to share data rather than require it to be re-submitted. They can agree on common risk profiles and a joint approach to the management of relations with traders. Inspections can be delegated from one organisation to another. But this is the exception rather than the rule. Big ideas like the "single windows" that increasingly channel data from traders to the organisations that need to use it are fine, and their spread is to be applauded. But anyone who has been involved in setting up such an arrangement can confirm the difficulty of persuading agencies to work together, or surrender what they regard as hard-won independence. Turf battles are sadly all too common.

Single window technology is undoubtedly useful in reducing the bureaucracy from which traders suffer. But EUROPRO considers it little more than an intermediate step along the path towards genuine innovation in the way in which trade flows are managed and controlled. It would be a mistake to believe that introducing single windows somehow solves all the compliance cost problems that beset international trade at the beginning of the 21st century.

There is a trend at present towards the outright merger of agencies. The United States' Customs and Border Protection organisation is one example, and the United Kingdom's Border Agency is another. This is perhaps better than simple cooperation between separate bodies, at least in the longer term, but policy makers appear at times to underestimate the disruption and frictional cost of amalgamating organisations with distinct histories, cultures and traditions.

The human element in such ventures is, as always, both their greatest strength and - for a time anyway - a major obstacle to achieving all the efficiencies expected. EUROPRO has no policy view on such mergers, beyond believing that governments should carefully weigh up evidence and experience of such changes before committing themselves to something that, if circumstances turn against them, can impose no less a burden on cross-border trade than the arrangements that preceded it.

Despite these warnings, EUROPRO suggests that improvements in the ways in which border agencies work together can bring quick and lasting benefits to traders, whilst at the same time raising the quality of border controls by increasing the value of data and its exploitation in the wider interests of border control.

Information technology (IT)

It is perhaps unfashionable to place the use of IT anywhere but at the top of the list of things to do. We accept that great strides have been made since the 1960s in using IT to simplify and improve the quality of border controls. And we recognise that many countries can still reap huge rewards by using IT more widely or more cleverly. But it is fair to inject a note of scepticism into any discussion of IT as a vehicle for the reform of border controls.

To explain this, EUROPRO separates the components of an IT installation - the hardware, software, middleware, telecommunications and data management, for instance - from the business processes that are incorporated into the new system. We firmly believe that the latter are more important than the former.

Yet experience shows that many IT systems deliver less than promised, or cost more than expected, or take longer to build and settle down than envisaged, precisely because their initial purpose gets lost in the process of designing and building something new. What is this initial purpose? It is to use the latest technology to transform the way in which the administration obtains and uses information in order to take decisions about international trade flows, individual transactions or individual traders (or groups of traders).

Note the use of the word "transform". We do not believe that it is sufficient to take a paper process, or an old IT routine based on a paper process, and tweak it by adding the latest processors and other gadgets. A new IT system should represent an opportunity to rethink the control procedures that are needed to manage international trade. Too often the owners of the business processes involved relinquish control to the IT departments or contractors responsible for the IT components that will be installed. Perhaps more countries are now learning to base their new systems on a fundamental re-examination of the ways in which border controls work. But genuine innovation flowing from this approach is still hard to find.

We understand the pressures that agencies have to work under. Politicians and stakeholders always want the process of change to move quickly, and the pressure to spend money that may not be available in a few years time is a constant encouragement on governments to push ahead with safe change rather than genuinely new initiatives (which of course are also riskier, both financially and politically). Despite all this, EUROPRO believes that innovative thinking should precede the introduction of new IT systems, and should be given all the time required to come up with genuinely simpler and more effective approaches to the business of controlling cross-border trade.

PUBLIC/PRIVATE PARTNERSHIPS

Government agencies often talk about partnership with the private sector. However, 'partnership' is a vague word. For many people the essence of partnership is sharing. Partners share risks and rewards, obligations and responsibilities. There is an element of equality between partners, though in both business and private relationships some partners can be more active and dominant than others.

Transferring the term to the world of border controls raises an immediate difficulty: how can a partnership work between a control agency endowed with often draconian powers carrying the full force of law, and a business or individual that the agency is required by law to monitor and control? In such circumstances sharing becomes difficult, in that the perceptions of risk, reward, obligation and responsibility are very different on the two sides.

Government bodies are ultimately accountable to ministers, electors and other stakeholders, depending on the political system in force. Risks may therefore be both tangible - revenue loss, harm to individuals or businesses, for example - and intangible (political embarrassment, reputational damage, and so on).

Companies may fear damage to their reputation, but cannot be expected to worry unduly about the loss of government revenue or harm to society in general. Reward for public agencies is perhaps best described as the satisfaction of meeting stakeholders' expectations and generally doing a good job. For companies, reward is measured in hard cash, with shareholders and directors (and employees) looking anxiously at profit and loss statements or dividend declarations. Obligations and responsibilities are quite different on the two sides, since the role of one partner is to ensure that the law is obeyed and that of the other is to do the obeying. Stakeholders also vary significantly in the nature and extent of their expectations.

So we need a more precise word than 'partnership'. EUROPRO identifies a series of levels at which public and private organisations can work together successfully.

At the least ambitious level, governments 'consult' when changes are under consideration. They have been doing this for decades, and results are mixed. Best practice is when governments explain what they propose to do, give time both for stakeholders to react and for some considered response to be given (even, sometimes, amounting to changes in the proposed changes to meet legitimate concern on stakeholders' part). Less helpful are those public bodies that simply tick the consultation box so that they can move on and do what they initially proposed. In our experience most consultations occupy the middle ground between these extremes.

A step beyond consultation lies 'dialogue'. Genuine dialogue implies a continuing process, whereas consultation is often a one-off thing. Dialogue is like a conversation, in which information and ideas are exchanged until there is either a meeting of minds or at least a resolution in which the two sides agree to disagree. Between government agencies and their private sector stakeholders, dialogue implies a relationship that is more than casual, or created only for the duration of a particular change initiative. To hold a conversation, the two sides need to be prepared to learn both about and from each other. That in turn suggests a degree of openness and honesty in which problems can be defined, explored and resolved. Yet dialogue is still just a matter of talking about things. Action remains to be taken separately - by the agency to implement change as required by the law or political directive, and by those subject to the change to ensure that they comply with it.

A further step up takes us to 'collaboration'. This implies that government bodies and private sector organisations workg actively together to achieve change that takes full account of the needs, capabilities and constraints on both sides. An example would be the increasingly popular pilot project, in which new ideas are tested and refined before being rolled out to a wider population (or, indeed, scrapped). Collaboration requires both consultation and dialogue, but implies an element of teamwork across the public/private divide in order to develop systems that best meet the requirements on both sides.

At the top of the scale is 'public/private partnership'. This goes beyond collaboration, in that it incorporates a degree of formality by which roles and responsibilities are defined and outcomes agreed upon in a genuine contractual sense. Whereas the other levels described leave the two parties more or less free to decide separately how they organise themselves and what time and money they invest in a project, this higher level implies some degree of jointly agreed investment. This in turn binds the two sides together more strongly, for better or for worse (success is of course shared, but failure is also shared, unlike the other models, in which each side is free to blame the other, or everyone is encouraged to blame the government).

EUROPRO does not suggest that any one of these models is ideal, or suits all circumstances. However, the ideas contained in this paper would, if implemented, call for radical change in some respects, towards a shared approach to border control, notably between border agencies and the trusted traders described above. And of course integration and trust between agencies on the public side of the fence would become all the more important.

We believe that consultation should largely be replaced by dialogue and that opportunities for active collaboration and partnership should be pursued wherever possible. A corollary of this view is that countries where none of these practices is common should examine their practices urgently and thoroughly, with an eye to reform wherever possible, if their trading community is not to lose ground to competing countries that can perform higher up the partnership ladder.

A basis for modern border controls

Managing risk

Almost all customs administrations these days talk about risk management. They claim that it lies at the heart of their approach to their job, and profess to practise it widely and skilfully, using the latest techniques. The reality can be a little different.

We have described the job of managing the world's frontiers in terms of the challenges posed to governments and the risks inherent in different trade flows. Our views on the concept of trusted traders show how understanding and managing risk can help to differentiate between targets that require less or more intervention. Put very simply, border agencies exist to stop certain undesirable things happening, and risk is the likelihood of those undesirable things occurring and requiring preventive or punitive action.

Analysing risk calls for a degree of calculation, juggling various factors and assigning them values and priorities. The result of the calculation depends significantly on the reliability of the information from which those factors are derived. The better the data, the more accurate the calculation, and vice versa. But data is only one component. The nature of the calculation is a vital ingredient, and itself depends on the skill and knowledge of those performing it, or designing the systems that do it for them. However clever the software, it can only be as good as the assumptions and knowledge that it embodies.

When done successfully, risk analysis empowers border agencies by freeing them to concentrate their efforts on areas that will yield the best results: more revenue collected, more fraud prevented, fewer illegal items entering the country, less harm to business and society, and so on. But when done badly, or not at all, the agencies end up concentrating on the wrong things, or acting at random, with consequential costs not only in terms of lost revenue, increased fraud, etc, but also in the increased costs which honest traders have to bear.

Managing risk well is not just a matter of putting the right technical components into a grey box in the bowels of an agency's headquarters. It is a policy and management issue. Basing the agency's whole approach to its job on risk means tackling a range of difficult problems, many of them internal to the organisation.

For example, risk management can call for greater flexibility in the deployment of staff and for higher levels of skill and knowledge. This in turn requires a mix of sensitivity to genuine human concerns (job location, job prospects, income, and so on) and firmness in the achievement of the underlying organisational goals. Some problems may appear almost intractable - corruption comes to mind - but can be addressed in a risk management framework. However, failure to get to grips with these and similar challenges can mean that risk management fails and any investment in technical changes based upon its use is wasted.

EUROPRO's view is not just that risk management should lie at the heart of any modern approach to border management - that goes without saying - but that its full potential should be understood and exploited. This is more difficult, given the institutional obstacles that get in the way.

Differentiating between traders

Combining the notions of risk management and trusted traders means that border agencies must get used to the idea of treating traders differently, according to their risk profile and compliance record (and perhaps other criteria). This runs counter to received wisdom in some countries, which requires procedures to be universal and both available and applicable to all.

Agencies have to tackle the issue of fairness head-on. The accusation that differentiation is unfair misses the point that compliant traders tend to invest heavily in systems that help them manage their compliance and take care in the their choice of trading partners, even going so far as to take some degree of responsibility for their partners' level of performance. Investment calls for reward, and if the consequence of achieving trusted trader status is a reduction in the compliance costs generated by border controls, a fair balance is achieved. This of course carries the converse consequence, that a failure on the part of border agencies to recognise and reward compliance may act as a disincentive to compliant behaviour, or at least to the investment needed to reach ever higher levels of compliance.

The AEO programmes that the WCO, spurred on by examples set in the US, the EU and other leading economies, provide a template for defining and relating to trusted trader populations. EUROPRO welcomes these initiatives, provided they are implemented fully in the spirit of the WCO's recommendations and managed rigorously, to ensure that standards are maintained.

Once trusted traders are identified, border agencies can set up simpler procedures for managing those traders' border obligations. So far, agencies have tended to think in terms of lower levels of checking and control, accelerated passage through border posts and an increasing use of off-line checks - post-clearance audit, for example - in order to ensure a closer fit between their requirements and traders' business practices. But this approach is still based on a fundamental principle of border control: traders bring consignments across the border and are obliged to provide control agencies with detailed information, consignment by consignment, in order to be granted permission to complete the cross-border movement.

This concentration on transactions not only forces border agencies to handle increasing quantities of data at times when there is intense pressure to complete controls quickly, it also risks missing the bigger picture that can be seen more easily by standing back from the transaction and looking at trade from a different viewpoint.

So, although EUROPRO applauds moves to reduce delays in crossing borders - by investing in ever quicker and cleverer IT systems, for instance - we argue that greater gains will come from adopting a fundamentally different approach to the control of cross-border trade, at least as far as trusted traders are concerned.

A NEW APPROACH

EUROPRO has been encouraged by recent discussion of a new approach. Indeed, some practical experiments have been carried out to see if the concept is valid and to learn from limited pilot implementations. So what is this new approach?

Customs controls, which have largely provided the template for other agencies' controls on international goods movements, are different from other controls on businesses and taxpayers. Direct and indirect taxes on companies, for example, are more usually based on the principle that the company manages its affairs in compliance with the relevant laws, reflects that approach in the keeping of its company records, and makes only infrequent returns to the controlling authority, which has the right to make detailed audit checks in the company's books. Two key principles are at work here: internalising compliance in the company's governance arrangements and opening company records to external checks.

This is very different from the traditional customs model, in which transaction data is extracted from company records (and from those of supply chain partners) and then fired at a customs IT systems. This model hides a lot of relevant information from the system carrying out the border checks, since it is unable to build a bigger picture of the company's dealings, relationships, money flows, internal controls and general attitude to compliance. Perhaps in the past these factors were of less importance, but EUROPRO would argue that the stakes are now too high for border controls to ignore sources of information that can tip the balance between the success or failure of particular kinds of control.

Logically it should therefore be possible for trusted traders (at least) to internalise compliance with customs and other border controls along similar lines. This is not just a matter of putting in periodic or delayed transaction data that is audited off-line. It should be the greater step of allowing (or requiring) companies to take full responsibility for understanding their border obligations, assessing their liabilities and 'freezing' them in their internal records in order to meet the legal requirements that attach to the bringing of goods across an international border. This approach would then dispense the trader completely from supplying transaction data as the goods cross the border, but lay them open to challenge through periodic audits. These audits could be done remotely, the agency interrogating records through the use of IT techniques rather than arriving physically on the trader's premises (though this right would of course be retained for exceptional use).

Some observers - including many customs agencies - respond to this logic by acknowledging its coherence but by claiming that it cannot cope with one of today's biggest challenges, that of deciding whether goods can be admitted at all to the territory. And of course the main driver for these 'admissibility' tests is international crime and particularly terrorism. EUROPRO understands the gravity of this matter and accepts that meeting the challenge is a difficult one.

However, there is a logical argument that has to be resolved. Current practice, under which admissibility checks consist of the provision of consignment data and their scrutiny by border officials before the goods can be allowed to proceed, assumes that only border officials have the expertise or facilities to carry out this scrutiny. This assumption would not apply to other controls carried out as described in the previous paragraph, where opinion now seems to accept that companies can acquire and apply the necessary expertise without external agencies' interventions at the consignment or transaction level.

So what is different about admissibility? The conventional answer is that the risk of catastrophic damage to individuals or infrastructure from terrorist activity in particular means that checks must be carried out before the goods can be allowed to proceed. Indeed, the tendency now is to push these checks backward in time, to the point where goods are loaded for shipment in the country of dispatch rather than carried out on arrival. But the checks are based on a snapshot in time rather than a whole picture of a supply chain movement, and rely heavily on the integrity of the traders supplying the information. Put simply, these checks could be circumvented by a determined terrorist, despite the border agencies' best efforts.

EUROPRO contends that it should be possible to shift the main location of these checks into the supply chain, to base them on a wider and more complete view of supply chain activity, and consequently to devolve responsibility for their completion (wholly or maybe partly) to responsible parties within the supply chain. In other words, EUROPRO is not convinced that the quality of the checks would suffer from adopting the 'internalisation' approach outlined above.

That leaves of course a more political argument. If controls are carried out by a government agency, subject to political processes answerable to the society within which they operate, then any catastrophic event can be laid at the door of the government. If companies were to be seen as mainly or solely responsible for admissibility checks, especially if they were in a foreign jurisdiction, then a catastrophe would trigger accusations that the government had abandoned its responsibility for protecting its citizens and businesses. We acknowledge the seriousness of this point, and cannot offer a simple response to it. However, we suggest that any discussion of incorporating admissibility checks into a self-assessment scheme should recognise this issue and tackle it head-on, instead of either ignoring it or using to discredit the very principle of self-assessment and the internalisation of liability that we advocate.

A final thought on these suggestions is this. It is easy to talk airily about internalising controls in company records and allowing agencies to have access to them. Apart from the issues of trust and commercial confidentiality that arise, there is a technical point. Commercial systems (notably what are referred to as ERP systems) are notoriously complex. And different companies use different systems from different suppliers.

Rather than require agencies to master these differences and complexities, there is an argument that companies should be required to make their compliance records more accessible. One option might be to encourage the software market to develop a compliance layer to sit on top of ERP systems in order to accomplish this. EUROPRO does not recommend or advocate this, but notes that a market solution could be attractive, not least because compliance software already exists and could perhaps be enhanced at relatively low cost to carry this additional responsibility.

Traders who cannot reach the highest level

So far we have talked in terms of a new approach based on trusted traders and a 'hands-off' approach to compliance and control. But what of traders who cannot reach these standards?

EUROPRO differentiates between traders who are too risky to be trusted and businesses that are too small to afford the complex governance arrangements of the largest firms.

The former should clearly not be allowed into the trusted circle of traders controlled under new arrangements. Instead, they should be subject to more traditional controls based on the current transactional approach (but perhaps enhanced by the addition of supply chain data missing from present customs and other declarations). These controls could be more rigorous, and could well carry greater compliance costs than at present. This would be the price of exclusion from the trusted trader population and justified in terms of the additional control activity that the higher level of risk would imply.

However, administrations would need to offer an 'upgrade' path, based on advice and education (which could be outsourced) designed to bring the traders in question into the trusted circle. We should also say that the trend currently to look at supply chains as a whole will increase pressure on traders to conform to higher standards in order to stay within (or join) wholly trusted supply chains. This trend could well lead to global differentiation of trusted supply chains from those that do not deserve trust, with significant consequences not just for individual traders but also for countries where creating groups of trusted traders remains problematical.

The problems of smaller businesses need innovative solutions. We start from the assumption that 'small' does not mean 'undeserving of trust'. Indeed, given the generally accepted economic view that small businesses are an important engine of job and wealth creation, there is every reason to find ways of bringing them into the trusted traders' club.

If the problem is that the governance arrangements that open the door to club membership are too complex or costly, then the solution must lie in simplification. To the extent that a small business's affairs are simple, then the data management systems required will be relatively simple too. The larger the market for private sector data management solutions, the lower their price will become. The growth of 'software as a service' offerings means that small companies will increasingly be able to choose only those services they need, with a corresponding reduction in cost.

If a small business is nonetheless unable to make the investment required, an alternative may be to create and joining alliances with the critical mass needed to invest in trusted trader status. Alternatively this category of business could use the services of trusted intermediaries (forwarders, customs agents or brokers, for example) that could check their clients' compliance performance and take at least some responsibility for their performance in the supply chain. In either case the essential ingredient will be the sharing of responsibility within the private sector to ensure that trading partners are running their businesses correctly and that risk is thereby correctly understood and managed.

Obstacles to progress

As always, change is difficult to start and manage. And then it can be hard to stop if it takes a wrong turning. Obstacles take many forms, and EUROPRO offers some comments on them, and on possible remedies.

On the public sector side, turf disputes can constitute a major barrier to progress. This particularly affects proposals for increasing cooperation between agencies, or even merging them. The reasons for closer working, however good, may fail to overcome inbuilt resistance based on conservatism or plain old-fashioned reluctance to give ground to a rival. The main remedy is strong leadership, backed by political will. At the more technical level organisations can resist change to their existing procedures, arguing that they are better than those proposed as replacements. Change can be frustrated if these arguments are not settled, as every organisation tends to think that its way of doing things is the best. The answer is arbitration through an independent or more powerful layer in the bureaucracy, which again may require a strong dose of political leadership.

Again on the public side, finding cash for investment in change can slow or halt desirable proposals. This may be to do with the cycle of public spending, which in many countries can be focussed on very short term requirements. Or cash may be in very short supply. Or government priorities may not recognise the claim of one project over another, leading to the allocation of resources away from the border control domain. This is a particular issue for those championing trade facilitation, since until the Doha Round recognised it as a subject, it had a very low political profile. Indeed, it may still suffer from this in many parts of the world. The remedy is part communication - explaining the benefits of change and enlisting support from different sections of the community - and part power politics, finding suitable champions to drive up priorities and drive through change.

The private sector can also be an obstacle to progress. Companies and whole sections of trade and industry can take an excessively short term view of proposed changes to border controls, trying to limits costs imposed at the beginning of the process and ignoring benefits that come through later. This attitude may be linked to the nature of companies, answerable as they are to shareholders and markets that are concerned with performance now rather than promises of better times to come. But it may also be a consequence of bitter experience, when private sector support for change is betrayed by the failure of promised benefits to materialise or modifications to the project that increase costs beyond what is thought reasonable. The answer, again, is communication. But in addition, the more governments and business can work together in one of the models for cooperation described earlier, the easier it becomes for trust to grow and confidence in longer term undertakings to increase.

A further difficulty facing the private sector is the growing need to take responsibility for contractual partners' performance in the supply chain. The increasing popularity of AEO schemes brings home to companies the consequences for their own status of poor performance by partners. A single risky player in a supply chain can cause significant compliance problems for others both upstream and downstream, with the loss of trusted trader status and the prospect of big fines for errors as the ultimate sanctions. In the approach we advocate, much relies on closer working of supply chain partners. If they are not prepared to do this, and refuse to take an active interest in the competence of other players in the chain, it may prove difficult to achieve lift-off when trialling advanced and very different ways of managing compliance.

Technological concerns may also get in the way of change. Governments do not generally have a good record in setting up and managing complex IT projects. Costs tend to go over-budget and timelines slip. An excessive reliance in the past on in-house resources for the development of systems has sometimes inflated costs and degraded performance and flexibility. Some administrations now see the advantages of buying in services from the private sector, though the disciplines required to bring such projects to a successful conclusion cannot always be said to be present, on either side of the public/private line. Remedies include better definition of the project in its initial stages, better project management, consistency in the statements of needs produced by the public client, strong political support for the project coupled with rigorous cost control, and an honest relationship with the service providers from the private sector helping to deliver the project (and this is a two-way thing, not just from client to provider but the other way round too).

To the extent that change requires international cooperation (every supply chain in international trade has at least two ends), the risk of misunderstandings, disagreements and variations in pace between the different countries involved can bedevil projects.

The EU for example is not immune from this, where the tendency - understandable in this very complex environment - is to go at the speed of the slowest and work to the lowest common denominator. It would be easy to say that the remedy is strong leadership, but issues of governance get in the way. The EU in particular is very difficult to steer in any chosen direction, when the tensions between member states and between them and the central institutions are taken into account. The current customs modernisation project in the EU is remarkable for the fact that it is moving forward at all, and those responsible should be congratulated for that, even if some bodies (EUROPRO included) might disagree with some components or even the general direction of travel in some instances.

A PLACE FOR CURRENT INNOVATION

EUROPRO sees much to praise in current efforts to streamline and modernise border controls. And we have to say that much has been done over the past four or five decades to simplify and accelerate the ways in which border controls are designed and carried out. Part of the present challenge is to find ways of improving still further controls that are already - in a select number of countries - efficient, effective and economical.

We have already highlighted the disadvantages of sticking to the transactional or consignment model for managing trade flows, and recommend a move away from it for those traders that meet the highest standards. In our view the most progressive administrations are now coming round to this view, and much encouraging debate is under way.

Some current thinking, however, is based on the assumption that transactional methods will be basis of border controls for the foreseeable future. EUROPRO therefore wishes to address two examples of this thinking, in order to show how they can fit with its recommended approach.

Many administrations are investing heavily in 'single window' technology as the ultimate model for border controls. EUROPRO strongly supports the principle that information required by agencies should be supplied once and once only, leaving it to the public bodies to take care of the routeing and sharing of data as required. The single window, as described for example in the UNECE Recommendation 33, is based on the traditional transactional view of customs controls, and could at first sight have difficulty in coping with more innovative ways of achieving compliance (such as those approaches described in this paper).

The effort required to create successful single window applications is significant, not least because of the negotiations needed between the agencies involved and the management and technological issues on the resolution of which successful change depends. The risk is that a quest for perfection could tie up resources over long periods without major benefits to trade. The EU, for example, is committed to single window approach to controls across its twenty-seven member states. Even a conservative estimate of the number of border agencies involved - say, five per country - would require a system capable in principle of sharing information between almost any combination of 135 agencies. This is because the centralisation of clearance in the EU, under current plans, would enable traders to submit data from a single point of access for goods movements that could take place anywhere in the EU's territory. Consequently the relevant data could need to be routed to different agencies in a variety of locations in order to maintain a seamless and efficient clearance system across the EU.

It would be tempting to argue that less effort should be put into single windows and more into practical coordination of border controls coupled with investment in the innovation that this paper describes. We will not go that far. But EUROPRO sees considerable value in the setting of standards for border-related communications between agencies so that data can move swiftly and smoothly to the point where it is needed. We would then like to see effort put into the design and trialling of systems that create links between private sector data sources and a standardised and integrated public sector data management system, so that the concepts we have already outlined can be tested. Our key assumption is that - for trusted traders, but also for the bulk of trade by value and volume (the "eighty-twenty" rule in operation) - compliance will be managed on the private side of the fence and controls will be audit-based and very largely carried out remotely. This suggests that the public sector single window will, in this instance, consist of a pipeline into the private data sources driven by protocols that enable all border agencies concerned to interact with the data for their own purposes without duplication of effort or additional compliance burdens on trade.

We also note in passing that software companies increasingly see a market in what they call compliance packages that offload the chore of meeting official border control requirements on to private sector platforms that take care of the marshalling, validation and submission of data. We touched on this in the passage above on managing access by administrations to companies' commercial records. And we have a feeling that the further development of these products could in effect begin to move the single window out of the public sector and into the domain of traders and their service providers. We may find that there is a host of single windows sitting in the private sector, just waiting to be discovered and connected to the government data pipeline.

A second area of concern is the initiative to produce 'globally networked customs'. EUROPRO applauds this work, since strong links between customs administrations will finally free them from the limitations of looking at supply chains from a single geographic and jurisdictional viewpoint and a unique moment in time. More dynamic exchanges of information should make it possible for customs officials to match supply chains in agility, and to build up a more complete picture of the events that occur within them. This can only improve the quality of control and contribute to the reduction of compliance burdens.

However, we hope that networked customs can be seen in this light, and not just thought of as a way of perpetuating existing transactional controls, albeit with some facilitation for traders in so far as data could possibly be submitted earlier in time and across international frontiers. EUROPRO's wish is that the full potential of joining up customs in this way can be realised and harnessed to genuinely twenty-first century techniques in promoting and auditing compliance, along the lines we suggest in this paper.

Finally EUROPRO is also tempted to suggest that in complex environments like the EU, greater discipline should be exercised in the design and operation of IT systems. A single customs union like this cries out for a single system, administered centrally. The existence of twenty-seven individual and different customs systems, flanked by a probably greater number of different systems run by other border agencies, makes it extraordinarily difficult for the central authorities to integrate customs and other controls across the EU or to make change happen at much more than a snail's pace. Yet we realise that politically the day when Brussels runs a single system to cover all border controls may never dawn. And more modest progress towards integration will continue to be difficult. We do not think, though, that these obvious difficulties should stop us from pointing to the costliness of distributing the operation of and responsibility for these systems over such a wide range of countries and organisations.

CONCLUSION

To sum up, EUROPRO believes that there are exciting opportunities to revolutionise the way in which border controls operate. The goal, and the prize, would be a combination of lower compliance costs for business and more integrated, more reliable and better quality controls for governments. Parts of the revolution are already under way, or at least being actively discussed in small and somewhat dispersed cells. The challenge is to bring those discussions into the mainstream and muster political support for them. For this to work, change has to be seen not just as desirable but as essential. And the experts must be persuaded that it can work, otherwise they will advise their bosses, whether private sector or public, that the whole undertaking is doomed to failure.

EUROPRO's view is that beneficial change can be achieved. It will need to be gradual and carefully managed, building on success rather than making wild leaps in the dark. And it will have to be based on some key principles, to which this paper has alluded.

First, innovation must be firmly rooted in a partnership between public administrations and the private sector. It has to embrace the whole of the supply chain and build alliances where traditionally there have been divisions. This is no small task, and calls for political commitment and imaginative leadership on all sides.

Second, border agencies have to set aside their differences and concentrate on what they have in common. This will enable them to create a genuinely cooperative environment at international borders that will enhance the quality of controls while cutting costs for business. This does not necessarily imply mergers or big administrative upheavals, but it does suggest that traditional differences of culture and practice must be swept away in order to create new integrated systems.

Third, the concepts of risk management and trusted traders have to be placed at the heart of these new initiatives. Failure to give them the necessary priority and status will weaken or destroy innovation. Governments will need to understand that this approach is likely to involve different treatment for different groups of traders and tougher controls on the most risky, coupled with genuine benefits for the most trustworthy.

Fourth, a leap of faith is required. Agencies will be encouraged to get over the hurdle of doing everything in their own relatively safe environments and get out into the world of commerce. This means relocating assessments of liability and the supporting data in company records rather than in agencies' own data banks populated by declarations fired at them every time goods cross a frontier. It also implies more imaginative approaches to audit and control, using a combination of new technology and greater skill sets in the agencies.

Fifth, companies - or at least those who aspire to belong to a group of trusted traders - will have to play the game, looking at the longer term rather than short term gains and losses, and taking on significantly increased levels of responsibility in return for much greater freedom. Those that cannot aspire to this status must accept either that they will pay greater costs in terms of increased levels of control or that they must raise their game in order to qualify for membership of the trusted trader circle. Government agencies will have to find innovative ways of helping traders to reach the highest attainable levels.

EUROPRO cannot put a timescale on developments along these lines. Looking at the current EU modernisation project, we can see that anything really big and ambitious takes years rather than months, and even decades rather than years. This worries us less than the thought that at present we may be heading into the future without a compass and with no agreed collective long-term strategy.

We do not claim to have invented the ideas in this paper, and acknowledge the efforts of others in pioneering new concepts in the border control arena. But we do believe we speak with a unique voice, in championing both the cause of lower compliance costs in international trade and the opportunity to raise the performance of our border agencies. This puts us at the meeting point of private and public sectors, where much remains to be done in order to wash away long-standing suspicions of each other and lay down a real cooperative basis on which to build. What we then construct is of course a matter for debate. But we hope that with this paper we have provided a focus for that discussion.

Above all we believe that border agencies and their respective governments must give top priority to the issues of competitiveness facing companies working in the international trade arena. Simpler, cheaper and better border controls can make a major contribution. Here is a 'win-win' recipe for change that brings benefits to all. Let's do it!

***EUROPRO,* 24 January 2011**

ANNEX 1: EUROPRO'S MAIN AREAS OF CONCERN

International trade is a vast domain. EUROPRO in no way aspires to tackle all the inefficiencies and inadequacies in the world's trading system. We concentrate our attention on trade in goods, and particularly on the compliance costs that arise when goods cross international frontiers and are subject to controls by government agencies.

There was a time when frontier controls were largely a matter for customs administrations, whom traders blamed - often unfairly - for every delay, cost and inconvenience that crossing borders entailed. Today the picture is much more complex. A multitude of agencies worry about the threats (whether actual or potential) posed by the movement of goods between countries.

Many of the dangers are real, and the welfare of businesses and citizens (and, at a higher level, of society itself) can be guaranteed only by the actions of vigilant and professional border agencies. Some work in the open: customs, immigration and health checks, for example, are very visible. Others work in the background and in relative or absolute secrecy: security services for instance seldom choose to be seen, and other agencies with more specialised tasks do not often come into contact with international traders. All, however, share a common goal - to exploit the "pinch point" that a frontier usually offers in order to carry out checks on goods and those responsible for moving them.

All also share a less praiseworthy tendency, that of concentrating on their own responsibilities to the total or partial exclusion of others with similar or diverging interests. This can be seen in a lack of coordination between agencies, in disregard for the impact of controls on trade and business, in duplication of effort (different agencies doing essentially the same checks; traders being asked for the same information time and time again; failures to learn from experience or best practice; rules and checks that are sometimes disproportionate to the threats they are designed to counter; and so on).

Here we get to the heart of trade facilitators' interest in international goods movements. EUROPRO does not seek to remove controls for the sake of it, or to deny the value and importance of properly designed and implemented border checks. But we argue for the removal of inefficiencies that generate unnecessary costs for business. And we are pleased, when we can, to promote changes in the way things are done that bring benefits not just to the private sector but to government itself.

This approach implies a willingness to look at frontiers differently, and to advocate innovation and change. None of this is easy, whether conceptually or in the more human terms of getting organisations to alter the ways in which they work. Nor is it a simple matter to look at existing or proposed changes and tell people that they have missed something, or based their procedures on false or misunderstood premises. The virtue of independent organisations set up to argue for simpler international trade procedures is that they feel free to tell the sometimes inconvenient truth.

This requires us on occasion to work at a detailed level, looking at the inner workings of very technical procedures, whether in the public or the private sector. But at other times we take the longer and higher view - how whole systems are conceived and implemented, for example - in order to plead the case for change to be driven by broader and more universal values, such as the push for competitiveness, economic growth and prosperity.

ANNEX 2: EUROPRO'S MEMBERS

Organisation	Country
BULPRO	Bulgaria
CroatiaPro	Croatia
EFA	Germany
EFTA	EFTA
ESPO	Belgium
EVO	Holland
FINSIPRO	Finland
FITPRO	Czech Republic
HTPRO	Greece
HUNPRO	Hungary
ICEPRO	Iceland
Irish Exporters.org	Ireland
NORSTELLA	Norway
ODASCE	France
POLPRO	Poland
SECIPRO	Greece
SemproItalia	Italy
SIMPRO	Spain
SWEPRO	Sweden