Date: February 2015
Vol. 6 Issue: 11

TRADE BEAT

MONTHLY NEWSLETTER OF THE INTERNATIONAL TRADE UNIT

Inside this issue

This issue will inform readers about

WCO Customs Risk Management Compendium

International trade is an established activity that countries around the world have been engaged in for centuries, with proven positive effects on the global economy. By expanding markets for both goods and services, international trade has enabled global market access for both developed and developing countries, which has positively contributed to their economic growth and development. International trade has also grown steadily over the decades, and has been revolutionized in recent times, largely due to advances in technology as well as increases in global trade volumes. This has resulted in complexities in the international trading system, which sees global players constantly adjusting to emerging trade trends and tackling challenges in order to ensure trade stability and efficiency. Key among the players are Customs administrations across the globe, which are tasked with the unique challenge of facilitating trade while maintaining control over the international movement of goods, persons and conveyances.

In order to effectively manage the obligations and responsibilities of Customs, which includes revenue collection and securing the international supply chain, risk management should be utilized. Risk management is defined as “The systematic application of management policies, procedures, and practices to the task of identifying, analyzing, assessing, treating and monitoring risks”. Risk managements suggests that the entire length of the supply chain should be considered when analyzing and employing risk management techniques. Customs administrations are now being encouraged, to not only focus on enforcement at the borders but to rather consider and facilitate the integrity of cargo from the point of supply, as done in the Authorized Economic Operator (AEO) programme. Traditional methods of controls are being slowly abandoned and replaced by more holistic and risk based techniques, which is evident across Customs administrations globally. This approach has been endorsed and supported by the World Customs Organization (WCO) in various ways, including the establishment of the Customs Risk Management Compendium.

TRADE BEAT

The WCO has been instrumental in conducting the necessary research and providing its recommendations through the Customs Risk Management Compendium; which can be described as a reference document for concepts associated with risk management. The Compendium is designed to assist Members of the WCO to develop and implement an all encompassing approach to risk management, which updates and consolidates the work of the WCO using the related tools and instruments pertaining to risk. This consolidation allows the international Customs community to speak as one, in relation to the methodology it applies when managing risk.

The WCO Risk Management Compendium

Purposes: The Compendium identifies Five (5) purposes

- **Defines key terminology in risk management**
- **Outlines the Customs Context for managing risk**
- **Outlines key components of the holistic organizational approach to risk management**
- **Outlines various instruments and techniques for practicing risk management**
- **Presents case studies that outline Member's experience in managing risk**

STRUCTURE

The Compendium is comprised of two (2) separate but interlinked volumes.

Volume 1 is segmented into chapters, and begins by acknowledging the changing operating environment that currently exists in Customs. The need to adopt a holistic risk-based compliance management approach is emphasized, allowing Customs administrations to pursue their objectives through effective and efficient operations. It then outlines the framework for an organizational risk management through the following building blocks:

- **Mandate and Commitment**
- **Risk Governance Arrangements**
- **Implementation of Risk management**
- **Monitoring and Review**
- **Mechanisms for continuous learning and development of the approach**

TRADE BEAT

Volume 2 is divided into 4 broad clusters, and gives a general overview of operational risk management. It is restricted to use by WCO Members only, and contains enforcement sensitive materials for Customs only purposes. These Customs sensitive materials include numerous practical guides and templates for assessing risks in relation to the movement of goods, people, conveyances, economic operators, and other parties related to international trade.

The Volume 2 clusters are as follows:

- **Risk assessment, profiling and targeting**
- **Risk Indicators**
- **Analysis Guidelines**
- **Information and Intelligence**

The WCO Risk Management Compendium is regarded as a living document. In today's constantly changing Customs operational environment, continuous updates to the Compendium are essential to reflect the latest developments regarding risk management practices. The WCO has identified the Permanent Technical Committee (PTC) as the body responsible for updating Volume 1 of the Compendium, while the Enforcement Committee (EC) is responsible for managing the instruments contained in Volume 2.

Risk Management in the Jamaica Customs Agency (JCA)

There is a dedicated Risk Management Unit within the JCA, which forms a part of the larger Border Protection Unit which comprises four other units, namely Intelligence, Investigations, Internal Affairs and the Contraband Enforcement Team (CET).

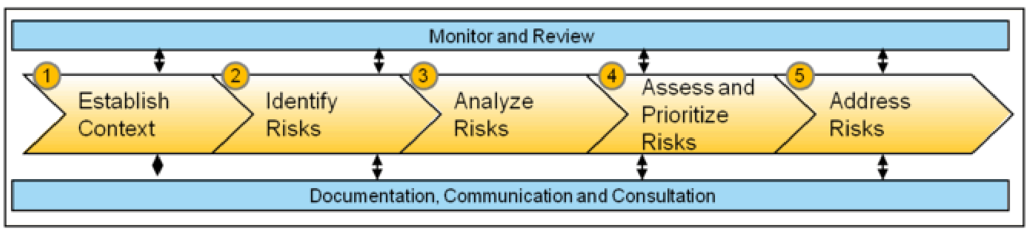
The Risk Management Unit is responsible for planning, organizing and implementing long-term and short-term strategic risk plans and programs that will allow for the identification of imports and exports that represent the greatest risk of non-compliance. This allows for the detection of high risk traders, while facilitating the speedy clearance of low risk traders.

What is the Purpose of the Risk Management Unit?

- To identify and quantify risks in order to develop control procedures and to concentrate control efforts/ resources on those risk areas where non-compliance is most likely to occur.
- To facilitate the increased international movement of legitimate passengers and cargo, while attempting to minimize the movement of illegal goods and loss of revenue.
- To balance trade facilitation with enforcement mechanisms

The Risk Management Process

Managing risk is a process that has to begin by establishing the context in which the risk occurs. A risk assessment should then be conducted, leading to a mitigation strategy to address the risk. The potential risk has to be identified, and then evaluated to determine the impact of that particular risk, culminating with the design of the risk mitigation plan used to minimize or eliminate the impact of the risk effect.



The JCA Risk Management Process chain is as follows:

1. **Establish the Context: Strategic & organizational context in which risk management will take place.**

2. **Identifying Risks: What, why and how risks can arise as the basis for further analysis.**

3. **Analyze Risks: Determine controls and analyze risks in terms of likelihood and consequence.**

4. **Assess & prioritize Risks: Compare estimated levels of risk against the pre-established criteria. Rank these risks to identify management priorities. There are different types of ranking systems, but HIGH, MEDIUM, and LOW is widespread.**

5. **Treat Risks: Identify what type of customs action needs to be carried out to treat these risks.**

6. **Monitor & Review: Monitor & review the performance, effectiveness & efficiency of the Risk Management system and make adjustments where necessary.**

Benefits of Risk Management in the JCA

- Improved risk identification
- Ability to allocate resources to key risks,
- Increased revenue from improved efficiency
- Reduced release time
- Improved trader compliance with laws & regulations
- Lower transaction costs
- More effective strategic planning as a result of increased knowledge /understanding of key risk exposures;
- No costly surprises, based on the risk mitigation plan;
- Improved collaboration between traders and customs;
- Decisions which stand up to internal or external review and audit processes.

The adoption of risk management techniques by Customs administrations globally, is on the rise. This preferred approach is being adopted by more Customs administrations, even more so, with the support and technical assistance offered by the WCO in making this a global standard. Traditionally, risk management was performed in an informal and ad hoc way, largely based on perception. Nowadays, risk management is approached in a more structured and systematic way, supported by the implementation of new business models for a modern Customs administration. Realizing the vision of a modern Customs administration, the JCA recognizes the importance and the impact of practicing Risk Management. The JCA employs best practices in its operations and continues to be guided by the use of the WCO Risk Management Compendium in formulating its strategies for risk mitigation. The challenges are many, but the JCA continues to identify the areas most vulnerable to risk and allocate scarce resources to manage these risks in order to meet set objectives, such as revenue collection and border protection while fostering compliance and facilitating the trading community.

International Liaison Unit

922-5140-8 ext. 3028/3182

Email: International.liaison@jacustoms.gov.jm

Website: http://www.jacustoms.gov.jm