International Trade Centre

Risk management as a tool for securing and facilitating cross border trade

Dr. Mohammad Saeed
Senior Adviser
Trade Facilitation and Policy for Business

Why risk management is essential in current trade environment

Trends

- **Increased volume, frequency** of shipments and complexity of international trade
- **Rise of E-Commerce** and use of technology
- Constant changes in **productions processes and products**
- **Limited time and resources** at disposal of BRAs to process these shipments

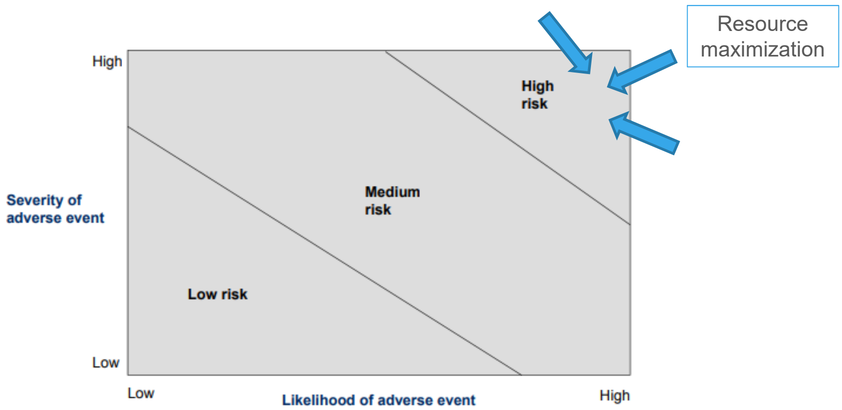
Examples

- **70%** of international trade today involves global value chains (GVCs)
- Amazon shipped over **3 billion items** across borders worldwide in 2017. **126 items** sold per second
- Manufacturers are increasingly leveraging the **Internet of Things,** which entails the interconnection of unique devices within an existing Internet infrastructure to achieve efficiency

Challenges for regulatory compliance

Available resources vs Task at hand

- Resource optimization is crucial for dealing with complex trade environment and avoiding unnecessary bottlenecks
- More resources shall be allocated, where the risk is considered to be higher



McKinsey Center for Government: Risk-based resource allocation,2013

Risk Management is a policy management response for facilitating trade

- ✓ Risk management consists in dealing with both positive and negatives outcomes of trade transactions.
- ✓ Risk management brings the negatives to acceptable levels, and increases the profitability and impact of their positive counterparts.
- ✓ Weak facilitation performance leads to a higher degree of internal and external compliance issues and higher risks

Types of risks to be managed at the border

Operational risks

Definition:

- Inability to provide services, sometimes due to failure of automated systems
- All events related to inadequate or failed internal processes, people and systems

Associated challenges:

- Mismatch of available and required resources
- Insufficient coordination of multiple agencies
- Lack of technology or technology driven governance mindset

Types of risks to be managed at the border

Customs risks

Covered by the **WTO TFA and Kyoto Conventions** - risks with which the customs authorities deal (commercial fraud, counterfeiting, smuggling of highly taxed goods, etc)

Non-compliance of products with technical regulations

Covered by **WTO TBT** agrremtentt with a goal to ensure the application of the **proportionality principle** of regulatory requirements and compliance procedures to risk

Entry, establishment or spread of pests, diseases, etc

Covered by the **WTO SPS** agreement which requires an assessment of the risks to human, animal or plant life or health, taking into account **risk assessment techniques** developed by the relevant international organizations.

A whole of the supply chain perspective on identifying risks

The **systematic identification** and implementation of all measures necessary to limit exposure to risk, from all procedures and actors working in the supply chain.

Buy → Ship → Pay

Prepare for export → Export → Transport → Prepare for import → Import

Commercial Procedures
- Establish Contract
- Order Goods
- Advise On Delivery
- Request Payment

Transport Procedures
- Establish Transport Contract
- Collect,Transport and Deliver Goods
- Provide Waybills, Goods Receipts Status reports

Regulatory Procudures
- Obtain Import/Export Licences etc
- Provide Customs Declarations
- Provide Cargo Declaration
- Apply Trade Security Procedures
- Clear Goods for Export/Import

Financial Procedures
- Provide Credit Rating
- Provide Insurance
- Provide Credit
- Execute Payment
- Issue Statements

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Key components of risk management implementation plan

PREPARE for CHANGE → STRATEGY and PLAN for CHANGE → DEPLOY Pilot at prioritized SITE and PROCESSES

Start

- Policy and Objectives
- Implementation Plan and Priorities
- Deployment at select Procedure, selected Place

Key success factors for risk management strategy

The establishment of **an integrated national risk management system** within the framework of which all border regulatory agencies carry out their mandate in a synchronised and coordinated way

Optimal use and allocation of human resources in resource constrained developing countries in particular;

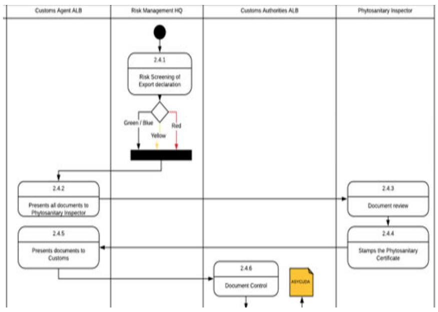
The use of **better resource utilisation through investment in ICT solutions** and the promotion thereof in risk management.

The importance of the private sector for risk management: a win-win situation

- ✓ The business community is critical to improving **trade compliance** and need to understand their risks and responsibilities in this regard.
- ✓ Good communication, consultation and cooperation between trading businesses and BRAs are vital to effectively balance **control and trade facilitation.**
- ✓ Collaboration will improve BRAs **knowledge of trading practices**, while greater familiarity with trends in international trade will **improve risk management.**

Case study: Risk management in CEFTA region

- PPDs organized to understand the challenges of BRAs and private sector
- BPAs conducted to identify bottlenecks and conduct regional comparison



Challenges revealed

- Long queues at the border
- Lack of cooperation among the border agency for inspections
- High frequency of scanning of import shipments at the Border Crossing Point
- Lack of sufficiently trained staff
- Insufficient regional harmonization for addressing common risks

Case study: Risk management in CEFTA region

ITC support

Provide recommendations and support for implementation:

- Regional training on joint inspections for Customs and SPS inspectors
- Study tour to Latvia on integrated risk management practices
- Training and development of strategy for integrated risk management
- Capacity building for BRAs to improve risk based, security and safety controls.
- Design of simplification opportunities for traders, through trusted trader programs and simplified procedures

Concluding thoughts

- Risk management brings the negatives outcomes of trade operation to acceptable levels, and increases the profitability and impact of their positive counterparts.
- Trade risks could be operational or safety risks and their identification is addressed in different international agreements
- Integrated risk management system with trained HR, coordination among BRAs and investment in ICT is key for a successful risk management strategy
- BRAs and businesses have shared responsibility for achieving efficient risk management system and facilitative and cooperative mindset is crucial for that

Thank you for your attention