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

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Why risk management is essential in current trade environment

<table>
<thead>
<tr>
<th>Trends</th>
<th>Examples</th>
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<tr>
<td>Increased volume, frequency of shipments and complexity of international trade</td>
<td>70% of international trade today involves global value chains (GVCs)</td>
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<td>Rise of E-Commerce and use of technology</td>
<td>Amazon shipped over 3 billion items across borders worldwide in 2017. 126 items sold per second</td>
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<td>Constant changes in productions processes and products</td>
<td>Manufacturers are increasingly leveraging the Internet of Things, which entails the interconnection of unique devices within an existing Internet infrastructure to achieve efficiency</td>
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<td>Limited time and resources at disposal of BRAs to process these shipments</td>
<td>Challenges for regulatory compliance</td>
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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

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

<table>
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<th>Operational risks</th>
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<td><strong>Definition:</strong></td>
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<tr>
<td>• Inability to provide services, sometimes due to failure of automated systems</td>
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<tr>
<td>• All events related to inadequate or failed internal processes, people and systems</td>
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<td><strong>Associated challenges:</strong></td>
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<td>• Mismatch of available and required resources</td>
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<td>• Insufficient coordination of multiple agencies</td>
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<td>• Lack of technology or technology driven governance mindset</td>
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#### 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 agreement](#) 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.

**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 Procedures**
- 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

**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

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

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