TRADE & INDUSTRIAL POLICY STRATEGIES

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DECREASING IMPORT CUSTOMS FRAUD IN THE CONTEXT OF CUSTOMS MODERNISATION TRENDS

Sandy Lowitt

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Sandy Lowitt
is a TIPS
Research Fellow

+27 12 433 9340
www.tips.org.za

CONTENTS

ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
ACV	Agreement on Customs Valuation
AGOA	African Growth and Opportunity Act (US)
BCOCC	Border Control Operational Co-ordinating Committee
BMA	Border Management Agency
BUSA	Business Unity South Africa
CPS	Community System Provider
CoO	Certificate of Origin
COMESA	Common Market for East and Southern Africa
dti (the)	Department of Trade and Industry
ECA	East African Community
EFTA	European Free Trade Association
EPA	Economic Partnership Agreement
ETI	Enabling Trade Index (World Economic Forum)
EU	European Union
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GSP	Generalised System of Preferences
ICT	Information and Communications Technology
IDC	Industrial Development Corporation
IPAP	Industrial Policy Action Plan
ITAC	International Trade Administration Commission of South Africa
JIT	Just In Time
LPI	Logistics Performance Index (World Bank)
NCOP	National Council of Provinces
Nedlac	National Economic Development and Labour Council
PTA	Preferential Trade Agreement
RMA	Risk Management Approach
RP	Reference Pricing
SARS	South African Revenue Service

SACE	South African Customs Union
SACU	Southern African Customs Union
SADC	Southern African Development Community
SRA	Swaziland Revenue Authority
SPS	Sanitary and Phytosanitary measures
TBT	Technical Barriers to Trade
TDCA	Trade, Development and Cooperation Agreement
TIDCA	Trade, Investment and Development Cooperation Agreement
TIFA	Trade and Investment Framework Agreement
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UK	United Kingdom
WCO	World Customs Organization
WTO	World Trade Organization

OVERVIEW

Customs are charged with ensuring maximum trade facilitation and decreasing the time and costs associated with clearing consignments into and out of the country. Non-compliance and customs fraud are, however, on the rise through multiple channels including misdeclaration of goods, under and overvaluation, misrepresentation of country of origin, round tripping, and counterfeit goods. As such, customs have to balance the competing needs of improved trade facilitation with improved compliance necessary to protect domestic industry.

This report provides background into the key approaches to customs fraud management, and outlines the processes as well as work done by the South African Revenue Service (SARS) to improve the customs environment. The report finds that as these management processes improve, there will be less physical control at border posts. While South Africa is still a way from being in such a position, the systems and the process are in place to move in that direction, and there is an important role for the Department of Trade and Industry (the dti) to play to support the decrease of customs fraud.

Preparing the report involved the review of a number of domestic and international research reports, as well as conducting interviews with customs technicians, risk management approach experts, organised business and labour, and several business leaders. Very little publicly available data exists on South Africa for these issues.

INTRODUCTION

The National Industrial Policy Framework, National Development Plan, New Growth Path and various iterations of the Industrial Policy Action Plan (IPAP) provide the overall context within which trade and industrial policy in South Africa are formulated and implemented. Core to the growth vision is the need to encourage and upgrade value added, labour-absorbing industrial production. This entails both ensuring access to global markets for South African exports and increasing the competitiveness of domestic manufactured goods by decreasing commodity and intermediate input prices of imports from abroad.

International experience demonstrates the importance of a strategic approach to tariff policy. Tariffs on mature upstream input industries can be reduced or removed to lower the cost for downstream, labour creating manufacturing. Tariffs on downstream industries can be retained or raised to ensure sustainability and job creation. Antidumping duties, countervailing duties and safeguards can be used to prevent injury to domestic industries in the face of specific uncompetitive trade behaviours. As such trade policy is an instrument of industrial policy and since 2012 has been subordinate to industrial policy in South Africa. This positioning was emphasised in the dti's input to the 2017 State of the Nation Debate in which then Minister Rob Davies said "South Africa will be *resolute* in using tariffs to defend domestic industry and support industrial development" (Creamer, 2017).

Tariff policy and the strategic implementation of import duties and rebates to assist domestic production is, however, only as effective as the ability of the state to enforce compliance. While the dti and the International Trade Administration Commission of South Africa (ITAC) have the mandate to formulate import and export policy and set tariffs, SARS is mandated with collecting revenue, ensuring compliance with tax and customs legislation, and providing a service that "will

facilitate legitimate trade as well as protect the economy and society" (SARS, 2017). The role of SARS is highly complex and challenging and becoming more so every day as the speed and sophistication of international trade increases.

These competing needs and the changing environment in which customs officials operate has, since the 1990s, led to a global drive to modernise customs operations and how control over consignments is executed. Against this background, this working paper considers the role of the dti on industrial policy and customs fraud. The paper is limited to considering the importation side of international trade.

Section one provides an introductory overview of the customs ecosystem, which is characterised by multiple steps, stakeholders, mandates and operating procedures. After laying out the basic steps to importing a product into a domestic market the section focuses on the three main contributors to the customs administration ecosystem: legislation, multilateral and bilateral trade agreements, and the key roleplayers. The section aims to provide a broad, overarching view of the scope of the customs administration ecosystem and its key moving parts. This is followed by a status quo assessment of the overall customs and border management system in the country as judged by the World Bank's Logistics Performance Indicators, the World Economic Forum's Global Enabling Trade Index (WEF, 2016) and the Transparency International's Corruption Perception Index (Transparency International (2017). What emerges is a highly complex process and ecosystem which is proving hard to co-ordinate and manage, but which despite these challenges scores relatively well in international indexes.

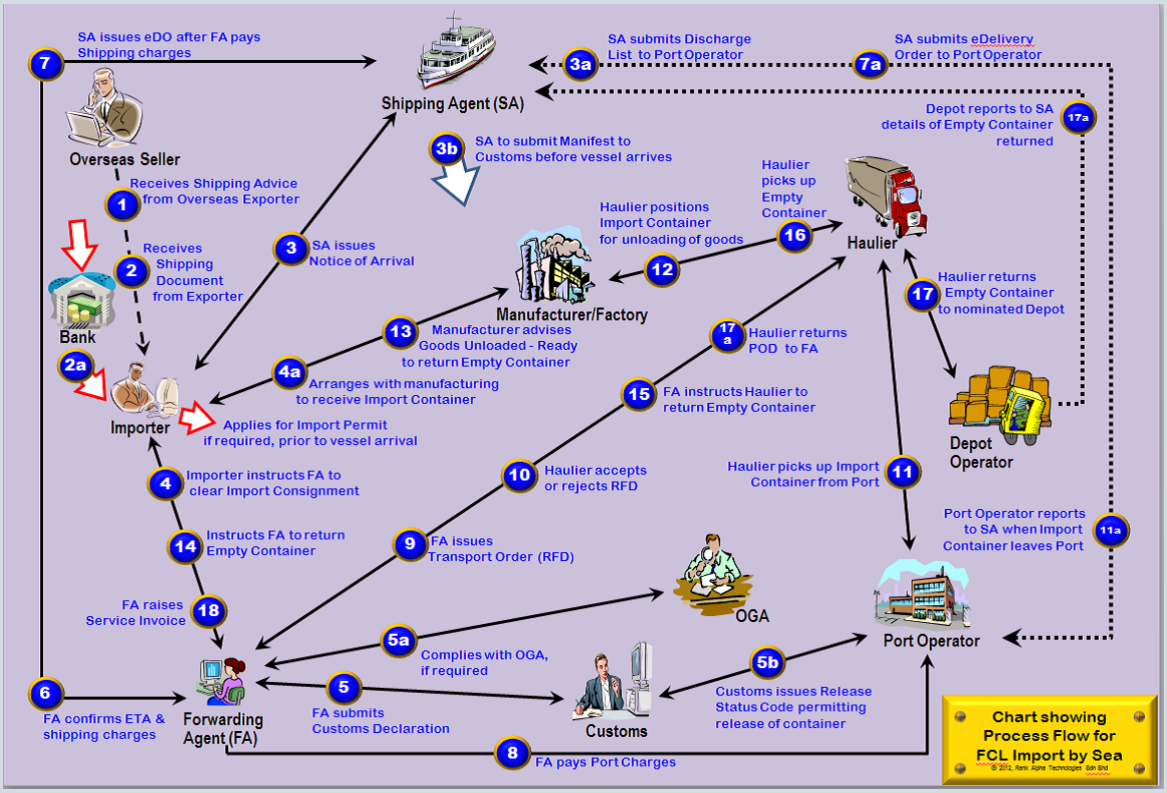
Section two reviews the challenges of customs fraud, looking at the specific means by which customs fraud is committed and the sectors currently most affected by such illegal actions. Section three looks at how SARS has modernised its approach to consignment control and the concrete steps they have taken (and will take) to improve trade facilitation and combat fraud simultaneously. This section will concentrate on the overall international shift away from physical controls towards risk management systems and how SARS has followed these trends.

Section three suggests actions and programmes the dti could consider to assist and improve the implementation of tariff policies at the country's borders, thereby reducing customs fraud and simultaneously improving the operating environment for domestic producers such that they can increase output and employment. The suggested recommendations are also seen as a means of sharpening tariff policy in South Africa so that it can more precisely and more rationally support industrial development. The suggestions are in line with world best practice as undertaken by customs authorities in the United States, the United Kingdom, Hong Kong, Korea and Canada. The recommendations are highly ambitious but have in principle support from both the private sector and SARS officials. As seen with the SARS multiyear modernisation programme, the dti could consider implementing such recommendations as part of a medium term-initiative.

1. THE CUSTOMS ECOSYSTEM

There is nothing simple about importing a product into a domestic economy. The diagram in Box 1 on page 7 illustrates a typical (and simplified) importation process flow describing the importation of a container by sea. The process contains multiple steps, players and processes which need to be completed pre- shipment, in transit, on arrival and post arrival.

Box 1: Simplified representation of a standard importation process



Source: Guidebook on Export & Import Procedures in Malaysia, Malaysia Productivity Corporation, 2019

The process kicks off with the importer receiving shipping advice from the overseas seller. The importer receives their shipping documents, which include the Bill of Landing and the commercial invoice stating the value of the consignment. When a Letter of Credit is involved, the bank informs the importer when the set of documents has arrived from the bank where the exporter has earlier nominated the payment of the goods against the Letter of Credit issued by the importer. Next the shipping agent (SA) issues an Arrivals Notice wherein the importer is informed of all the charges payable. To prepare for the arrival of the ship at the final destination port, the shipping agent submits a Status List document outlining the containers to be discharged to the Port terminal for operations planning. At the same time, the shipping agent submits the cargo manifest to customs to match against the Customs (Import) Declarations. The buyer issues forwarding instructions to his appointed forwarding agent (FA) together with all the relevant shipping documents. The forwarding agent submits the Customs (Import) Declaration electronically to customs. Customs then issues a clearance and specifies if any customs duty or tax is payable. If duties are payable they are paid by the forwarding agent also electronically. In cases where the customs clearance is dependent upon the approval of other government agencies (OGA), the forwarding agent shall submit all relevant permits and documentation to such authorities for their processing and (if necessary) inspection. Once the other government agencies have completed their processing they (the OGA) will submit an approval to Customs. Customs upon approving the Customs (Import) Declaration, subject to all other processes being adequately completed and duties paid will then issue a Release Status to the port terminal giving the terminal permission to release the container to the Forwarding Agent's appointed haulage company.

The South African customs ecosystem is built on three pillars: 1) a suite of legislation that creates the legal environment within which international trade is conducted; 2) a host of bilateral and multilateral agreements which South Africa has negotiated and is a signatory to; and 3) a collection of customs service bodies who collectively implement 1 and 2.

Legislation

There are four core pieces of legislation and 20 associated pieces of legislation which collectively make up the legal parameters of the South African customs ecosystem. The four key pieces of legislation are the Customs Control Act, the Customs Duty Act, the International Trade Administrations Act and the Counterfeit Goods Act.

As part of the SARS drive to modernise, a major rewriting of core customs and excise legislation was embarked on in 2003. Due to the complexity of the legislation the drafting process took considerable time. In 2014 the new Customs Control Act and the Customs and Excise Amendment Acts were published in the Government Gazette. The Control Act and its supporting rules and schedules regulate the importation into and exportation out of the Republic of South Africa of goods and matters incidental thereto. Essentially the Act grants customs officials wide and extensive powers to collect revenue and protect society and the economy in the arena of international trade. More specifically, among other things the Act covers the licensing of ports, registration and compliance checks of importers and exporters, licence approvals, checks of goods declarations, refunds and drawbacks, checks of cargo information, rules relating to detention, seizure and release of goods, inspection of goods, border control functions, and the enforcement of quotas and application of tariffs as per ITAC's Schedule 6. The Customs Duty Act provides for the levying, payment and recovery of customs duties on goods imported into or exported from South Africa. The Act is implemented in terms of the Customs Control Act. According to SARS, the Customs Control Act and the Customs Duty Act will deliver "the capability required for SARS to evolve into a world class Customs Agency.....support international legislative requirements (in terms of the World Trade Organisation and World Customs Organisation).....keep pace with global trends and technological advances and....ensure customs procedures are efficient, predictable and transparent for trade" (SARS, 2017).

After the Customs Control Act and the Customs Duty Act the next most central piece of legislation impacting the customs ecosystem is the 2002 International Trade Administration Act of 2002, which provides for the schedule 3A public entity ITAC. ITAC replaces its predecessor, the Board of Tariffs and Trade and is mandated to "foster economic growth and development in order to raise incomes and promote investment and employment within South Africa and the Common Customs Union Area by establishing an efficient and effective system for the administration of international trade, including the core functions of customs tariff investigations, trade remedies and import and export control" (ITAC website). ITAC is empowered to enter into an agreement with any regulatory authority or organ of state to co-ordinate and harmonise their respective functions with regard to international trade matters. It is through ITAC that the Minister of the dti is effectively able to regulate imports and exports and hence the entry point by which trade policy is used as a tool of industrial policy.

The fourth core legislative block in the customs ecosystem is the Counterfeit Goods Act which protects owners' trademarks, copyright, merchandise marks and intellectual property, and ensures that products which infringe these rights are not released into the normal channels of commerce. The Act stipulates the procedures and powers of customs officials by which consignments can be stopped and inspected, illegal goods seized and disposed of, and penalties attached to such acts.

Finally, there are up to 20 additional pieces of legislation which impact on the customs ecosystem and the implementation of the country's laws with respect to international trade. The Acts are listed to give some sense of the scope and complexity of operating a customs administration in a modern, open economy.

Acts which impact the importation and exportation of goods into and out of South Africa include the Agricultural Product Standards Act, Agricultural Pest Act, Animal Disease Act, Foodstuffs, Cosmetics and Disinfectants Act, Livestock Improvement Act, Criminal procedures Act, Copyright Act, Merchandise Marks Act, National Ports Act, Civil Aviation Authority Act, Airports Company Act, Cross Border Road transport Act, Marine Safety Authority Act, Merchant Shipping Act, Currency and Exchange Act, Immigration Act, The South African Police Services Act, Marine Living Resources Act, National Environmental Management Act and the Standards Act .

Multilateral agreements

The second pillar of the customs ecosystem relates to South Africa's membership of the General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO) and the World Customs Organization (WCO) along with a host of negotiated government-to-government relationships and mechanisms to advance the development agenda of the country.

South Africa was a founding member of GATT which came into effect in 1948. Through various rounds of negotiations, which focused on the liberalisation of trade and the reduction of tariffs and quotas on goods, GATT was eventually replaced by the WTO in 1995. Subsequent to GATT, the WTO extended its reach and negotiated trade rules covering trade in services with the General Agreement on Trade in Services (GATS) and more recently Trade Related Aspects of Intellectual Property Rights (TRIPS) both of which have been adopted by South Africa. More recently the dti has been resistant to signing up to two additional WTO extensions. First South Africa has remained steadfast in not signing the WTO's Optional Protocol on Transparency in Government Procurement on the grounds that it would necessitate the opening up of government procurement to all other state signatories on a non-discriminatory basis and hence effectively disable procurement as a tool for local development and radical economic transformation.

In a similar vein, South Africa has politely but firmly said no to entreaties to sign the Environmental Goods Agreement as it is believed such a step would hobble the local industrial development potential of the roll out of renewable energy. As such while South Africa abides by and implements many of the binding agreements of the WTO as a founding signatory, more recently the need to protect and grow production opportunities domestically has resulted in the South African government making steadfast decisions on only acceding to new trade measures which positively support industrial policy.

South Africa is also a member of the WCO. The WCO is an important player in the global administration and harmonisation of customs authorities and processes, but also in the context of South Africa and the South African Customs Union (SACU) and the Southern African Development Community's (SADC's) commitments to modernise and upgrade trade facilitation in general and customs administration in particular.

The WCO essentially provides the rule book on technical customs issues such as Rules of Origin and Customs Valuation. For example, the WCO has published the Agreement on Customs valuation (ACV). As a signatory of the WCO this means that South African customs officials are required to abide by the terms of the agreement, which establishes that the customs value of an imported good, to the extent possible, is the transaction value, that is the price actually paid or payable for the good. This means that customs officers are bound in terms of the WCO's ACV to accept the declared value of a good unless they have specific evidence to the contrary. If the value is in dispute, the ACV specifies five prescribed evaluation methods which must be applied (in order) by SARS to reach a fair price. Similarly, the WCO provides detailed and technical specifications and processes to determine rules of origin in complex situations in which two or more countries are involved in the production of a good. Several WCO issues are dealt with in more detail in section two.

Apart from creating standardised and harmonised approaches to the technical implementation of the administration of customs globally, the WCO is also a committed player in capacity development to improve trade facilitation and the effectiveness and efficiency of customs administrations globally but particularly in developing nations. SARS has benefitted substantially from WCO capacity development collaboration for its own internal modernisation process, but equally importantly many of South Africa's SACU neighbours have benefited from such support, resulting in improved administration of customs at South Africa's land borders with its immediate neighbours.

For example, the WCO-SACU Connect Project funded by Sweden supports the SACU region in implementing customs system interconnectivity to facilitate real-time customs-to-customs information exchange. The system is based on regionally agreed standards and international best practices, namely, the WCO Globally Network Customs Approach, the WCO Data Model, SACU Utility Blocks and the SACU Unique Consignment Reference framework.

Under the framework of the WCO-SACU Connect Project, a two-day session was convened in 2018 in Pretoria, and gathered IT experts from the Swaziland Revenue Authority (SRA), IT experts from SARS, and external consultants supporting Swaziland in developing their interfacing capabilities. The session aimed at establishing connectivity and data exchange between the two administrations and built on lessons learned from pilots and tests undertaken. Following this important achievement, SARS and SRA are now ready to share their experience in establishing customs systems interconnectivity and data exchange, so that it can be replicated regionally and globally. As will be shown, it is necessary for South Africa to bring along its neighbours as it seeks to improve customs administration and the WCO has a significant role to play in the rollout of such a process.

Over and above South Africa's membership of the WTO and WCO, the country's bilateral and regional negotiations of free and preferential trade agreements most directly impact the customs ecosystem. Table 1 summarises the country's main trade agreements.

Table1: Main trade agreements between South Africa and the rest of the world

	Type of Agreement	Countries Involved	Main Objective/Terms	Products Involved
Customs Union				
Southern African Customs Union (SACU)	Customs Union	South Africa, Botswana, Lesotho, Namibia and Swaziland	Duty free movement of goods with a common external tariff on goods entering any of the countries from outside the SACU	All products
Free Trade Agreements (FTAs)				
Southern African Development Community (SADC) FTA	Free Trade Agreement	Between 12 SADC Member States	A FTA with 85% duty-free trade and 15% of trade, constituting the "sensitive list", Once all liberalisation concluded SADC attains the status of a fully-fledged FTA with almost all tariff lines traded duty free.	Most products
Trade, Development and Cooperation Agreement (TDCA)	Free Trade Agreement	South Africa and the European Union (EU)	The EU offered to liberalise 95% of its duties on South African originating products by 2010. In turn, by 2012, South Africa offered to liberalise 86% of its duties on EU originating products.	A review of the agreement under way, aimed at broadening the scope of product coverage.
EFTA-SACU Free Trade Agreement (FTA)	Free Trade Agreement	SACU and the European Free Trade Association (EFTA) – Iceland, Liechtenstein, Norway and Switzerland	Tariff reductions on selected goods	Industrial goods (including fish and other marine products) and processed agricultural products. Basic agricultural products are covered by bilateral agreements with individual EFTA States
Economic Partnership Agreement between the SADC EPA States, of the one part, and the European Union and its Member States, of the other Part	Economic Partnership Agreement	South Africa, Botswana, Namibia, Swaziland, Lesotho and Mozambique (referred to as the SADC EPA Group) and the EU.	SA's core interest has been to harmonise trading regime between SACU and the EU; to secure further market access in agriculture (beyond the SA-EU Trade Development and Cooperation Agreement (TDCA) provisions) and claw back on some policy space lost under the TDCA.	The agreement covers most products.
Preferential Trade Agreements (PTAs)				
SACU-Southern Common Market (Mercosur) PTA	Preferential Trade Agreement	SACU and Argentina, Brazil, Paraguay and Uruguay	Tariff reductions on selected goods. It is not expected to enter into force before some time in 2012	About 1 000 product lines on each side of the border
Zimbabwe/South Africa bilateral trade agreement	Bilateral Preferential Trade Agreement	South Africa and Zimbabwe	Preferential rates of duty, rebates and quotas on certain goods traded between the two countries	Selected goods. A most recent version of the agreement was signed in August 1996, which lowers tariffs and quotas on textile imports into South Africa.
Non-reciprocal Trade Arrangements				
Generalised System of Preferences (GSP)	Unilateral preferences granted under the enabling clause of the WTO that are not contractually binding upon the benefactors	Offered to South Africa as a developing country by the European Union, Norway, Switzerland, Russia, Turkey, the United States, Canada and Japan	Products from developing countries qualify for preferential market access	Specified industrial and agricultural products
Africa Growth and Opportunity Act (AGOA)	Unilateral assistance measure	Granted by the US to 39 Sub-Saharan African (SSA)	Preferential access to the US market through lower tariffs or no tariffs on some products	Duty free access to the US market under the combined AGOA/GSP

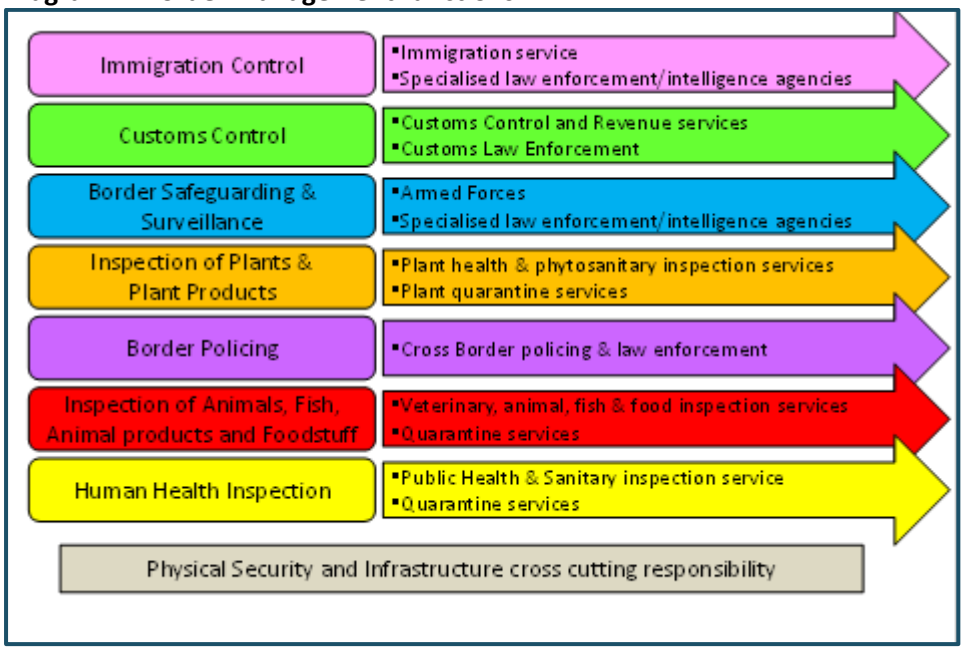
		countries		programme stands at approximately 7,000 product tariff lines.
Other Agreements				
Trade, Investment and Development Cooperation Agreement (TIDCA)	Cooperative framework agreement	SACU and US	Makes provision for the parties to negotiate and sign agreements relating to sanitary and phytosanitary measures (SPS), customs cooperation and technical barriers to trade (TBT). It also establishes a forum of engagement of any matters of mutual interest, including capacity-building and trade and investment promotion.	None
Trade and Investment Framework Agreement (TIFA)	Bilateral agreement	South Africa and US	Provides a bilateral forum for the two countries to address issues of interest, including AGOA, TIDCA, trade and investment promotion, non-tariff barriers, SPS, infrastructure and others.	None
Current Trade Negotiations				
SACU-India PTA	Preferential Trade Agreement	SACU and India	Tariff reductions on selected goods	SACU and India are in the process of exchanging tariff requests
SADC-EAC-COMESA Tripartite FTA	Free Trade Agreement	26 countries with a combined GDP of US$860 billion and a combined population of approximately 590 million people	The Tripartite Framework derives its basis from the Lagos Plan of Action and the Abuja Treaty establishing the African Economic Community (AEC), which requires rationalisation of the continent's regional economic communities. The FTA will be negotiated over the next three years, with the possibility of an additional two years for completion.	The Tripartite initiative comprises three pillars that will be pursued concurrently, in order to ensure an equitable spread of the benefits of regional integration: market integration, infrastructure development and industrial development. The FTA will, as a first phase, cover only trade in goods; services and other trade-related areas will be covered in a second phase.
The African Continental Free Trade Area (AfCFTA)	Free Trade Agreement	The AfCFTA integrates a market of 55 countries with a combined GDP of over US$ 3.3 trillion and a population of more than 1 billion people. The AfCFTA builds on the Tripartite Free Trade Area (TFTA) with the Common Market for East and Southern Africa (COMESA), East African Community (EAC) and SADC and will result in new market access opportunities in West Africa and North Africa which will be beneficial for the export of South African products.	The key objectives of the AfCFTA is to, among others, create a single market for Goods, Services, and enhance economic integration in the African Continent in accordance with the Pan African Vision of "An integrated, prosperous and peaceful Africa" enshrined in Agenda 2063; promote structural transformation of the State Parties; progressively eliminate tariffs and non-tariff barriers to trade in goods; progressively liberalise trade in services; cooperate on customs matters and the implementation of trade facilitation measures; and design a mechanism for the settlement of disputes concerning their rights and obligations; The African Union Assembly launched the AfCFTA negotiations during the 25th Ordinary Summit of Head of States and Governments on 15 June 2015 in Johannesburg, South Africa. .	Phase I of the CFTA negotiations includes the Protocol on Trade in Goods and the Protocol on Trade in Services; whereas Competition, Intellectual Property and Investment will form part of the Phase II negotiations. The AfCFTA is being pursued under the development integration approach that combines market integration with industrial and infrastructure development to address Africa's productive capacity and supply side constraints. Market integration through the AfCFTA will therefore be supported by parallel advancements in the complementary pillars of industrialisation and infrastructure development.

Source: www.thedti.gov.za/trade

Roleplayers and key implementers

There are multiple roleplayers who need to work together jointly to implement the movement of goods (and people) across the country's borders. Diagram 2 shows the key roleplayers and functions they perform. The Department of Health, the Department of Agriculture, the Department of Transport, the Department of Trade and Industry, the Department of Public Works, the Department of Environmental Affairs and Tourism as well as the South African Police services, the National Intelligence Agency, Transnet and the Airports Company all have roles to play in administering the countries import and export of goods through various ports and borders.

Diagram 1: Border management functions



Source: Own design

From this list it is easy to imagine how difficult co-ordination and harmonisation is across so many departments and agencies. Over time multiple co-ordinating mechanisms and approaches have been attempted to streamline processes at border posts and ports to improve trade facilitation. Currently the role is performed by the Border Control Operational Co-ordinating Committee (BCOCC) which is the custodian of the strategic management of the country's border and port environment across which trade is facilitated. The BCOCC is tasked with co-ordinating and harmonising border management functions but it is generally agreed that it lacks the regulatory clout and actual teeth to make any meaningful changes to systemic and structural management problems plaguing the border environment. This poor performance is quantified in various trade and customs performance indexes. Because of unhappiness with the performance and operations at the country's border posts and the seeming inability of the BCOCC to deal with these issues, the former president in 2009 started a process to replace the BCOCC with a Border Management Agency (BMA).

In 2015 the Cabinet approved the introduction of the BMA Bill into Parliament and in 2017 it was passed by the National Assembly and got as far as the National Council of Provinces(NCOP) before lapsing when the previous Parliament rose ahead of the 2019 election.

The BMA Bill is highly contentious and is often seen as part of a larger institutional battle around state capture. It essentially calls for the Department of Home Affairs to be the lead implementing department and for all departments operating at the border to fall under the authority of the BMA, with staff from these departments being employed by the agency. In one of the last rounds of deliberations on the Bill, the National Treasury told NCOP members that the passage of the Bill through the National Assembly's portfolio committee on Home Affairs did not take the finance ministry's input into account, while SARS was overtly excluded from deliberations. This is significant because the Bill threatened to, as the Treasury put it, "legislate away" SARS's customs revenue collection role. At the time, Treasury said no agreement had been reached on this question, or others including whether it would be necessary to transfer any staff from SARS, in light of the effect of any staff transfers "on the integrity of the revenue and customs value chain". Given the history of the Bill it is likely that it will not be revived, but if it is – it will have major implications for the trade and customs ecosystem.

The most important player in the trade and customs ecosystem is SARS, which is responsible for the designation of a specific port of entry that may be used for the import or export of goods; as well as for the administrative control and levying of duties and taxes on imported and exported goods. In its 2018 Annual Report, SARS state that its mandate is to "collect all revenue due, ensure optimal compliance with tax and customs legislation and provide a customs and excise service that will facilitate legitimate trade as well as protect our economy and society". Essentially SARS are the first line of control over the movement of goods across South Africa's borders. More specifically SARS is the custodian of the customs process and is responsible for implementing customs tariffs, trade agreements and industry incentives. It completes its work through 39 customs branch offices which include 10 international airports, 19 designated land ports, five seaports, two inland rail ports, two inland sea ports and three international mail centres.

Of the nearly 14 000 employees of SARS only roughly 2 500 are responsible for customs administration. Staff are involved in either trade facilitation activities, such as documentary or physical inspection of cargo, registration and licensing, processing and auditing; or border control and enforcement functions. Only 15% of SARS staff are actually employed at border posts. The details of the SARS process of customs administration are dealt with in detail in section three.

Along with the 12 key public sector players in the customs ecosystem, the private sector plays a crucial role in providing shipping, haulage, freight forwarding, clearing agent and other logistics services across the supply chain. The South African logistics industry is fiercely competitive and, as will be shown in the performance indicators, it scores highly on efficiency and effectiveness, service quality and competence, although less well on costs.

Trade facilitation and customs performance

The WCO refers to three sets of indicators that collectively provide a snapshot of a country's trade facilitation and customs administrations transparency, effectiveness and efficiency. The indicators are the World Economic Forum's Enabling Trade Index (ETI) (see Box 2), the World Bank's Logistics Performance Index (LPI) and Transparency International's Corruption Perception Index.

The three indicators show that in general South Africa's trade facilitation and customs operations score well and that the country boxes well above its weight grade, especially with infrastructure. In the sub-continent South Africa strongly outperforms the region's average and most SADC and SACU member states; with the exception of the corruption perception index in which South Africa is outperformed by Namibia and Botswana.

Box 2: World Economic Forum's Enabling Trade Index (ETI)

The ETI rates countries according to domestic and foreign market access, availability and use of information and communications technology (ICT), transport infrastructure, transport services, and finally the efficiency and transparency of border administration. Overall across all these pillars South Africa ranked 55 out of 136 counties in 2016 – up three places from its ranking in 2014. In Sub-Saharan Africa the country was ranked third behind Mauritius and Rwanda.

In terms of the ETI index, South Africa performs remarkably well for physical infrastructure and transport services with good air, road, rail and sea port measures, improved intermodal systems and strong scores for the ease and reliability of shipments. However, the country's performance of customs and border agencies in enabling trade scores more poorly, and for this pillar the country's index ranking slipped from 51 to 61 in 2016, scoring only 4.8 on a scale of 1 to 7. Table 2 identifies the details of the border administration pillar of this index for South Africa

Table 2: Border administration scores for South Africa ETI Index, 2016

	Rank/136	Score/7
Customs service Index 0-1 (best)	51	0.65
Efficiency of the clearance process	18	3.6
Time to Import: documentary compliance: hours	70	36
Time to import: Border compliance: hours	114	144
Cost to Import: Documentary compliance: US$	106	213
Cost to Import: Border compliance: US$	111	657
Irregular payments and bribes	59	4.1
Time Predictability to import procedures	86	3.8
Customs Transparency Index 0-1(best)	1	1
Overall Index for Border Administration	61	4.8

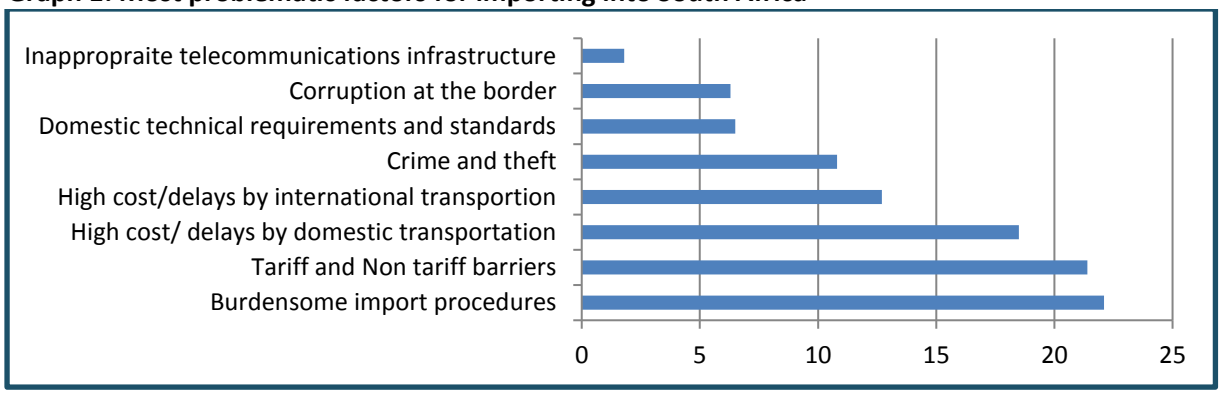
Source: World Economic Forum, Enabling Trade Index 2016

To put South Africa's performance in context, Singapore, which is rated number one globally for its customs service index (0.98) and its efficiency of the clearance process (4.2) takes just 39 hours of documentary compliance compared to South Africa's 70 hours. Border compliance hours in Singapore are just 57 hours compared to South Africa's 114 hours. As expected, these higher times reflect in higher import costs of compliance. In South Africa, the cost to import in terms of documentary compliance is US$213 while border compliance will set an importer back an additional US$657. This is compared to Singapore's respective costs of just US$40 and US$220 dollars.

The ETI also includes an Executive Opinion Survey in which importers and exporters who regularly use trade facilitation services are asked to rate the top five impediments or problematic factors facing a specific country. Graph 1 presents the 2016 findings related to South Africa and shows that

burdensome import procedures are the biggest problem faced by importers. Corruption, crime and theft are issues but are less of an issue than operations and processes at border posts and ports.

Graph 1: Most problematic factors for importing into South Africa



Source: WEF ETI, 2016

The World Bank's LPI provide more detailed information about procedures at South Africa's border posts, and hence help in understanding the ratings received from importers in the ETI. As with the ETI, the LPI analysis highlights and confirms South Africa's strong customs and border infrastructure but points again to poorer performance with regard to process and operational service standards and efficiency. This is important as it suggests that management, process streamlining and operational changes can all contribute to improvements in the performance of the South African customs eco system without massive capital outlays related to improving physical and logistical infrastructure.

Table 3: Country comparisons on Logistics Performance Index across countries (0-5)

Country	LPI Score	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
South Africa	**3.38**	**3.17**	**3.19**	**3.51**	**3.19**	**3.41**	**3.74**
Income: Upper middle income	2.76	2.52	2.6	2.76	2.69	2.77	3.19
Region: Sub-Saharan Africa	2.45	2.27	2.2	2.52	2.39	2.5	2.77
Germany	4.2	4.09	4.37	3.86	4.31	4.24	4.39
Brazil	2.99	2.41	2.93	2.88	3.09	3.11	3.51
Vietnam	2.89	2.89	2.5	3	2.8	2.9	3.22

Source: World Bank, LPI 2016

The values in Table 3 range from 0 to 5 with a score of 5 being the best and 0 the worst. Germany is used as the benchmark as it is ranked first in the 2016 LPI. Regional and developing country comparisons are presented to provide relative context. The index shows that South Africa, across the key pillars of the LPI outperforms upper-middle-income countries, Sub-Saharan Africa and developing nations such as Brazil and Vietnam. Specifically, as shown in the ETI – the country fares particularly well on infrastructure, international shipping and logistics competence. As with the ETI, the country's lowest score is its customs performance although this score is well in excess of the region and upper middle income countries. The LPI asks importers, exporters and private sector logistics operators a series of detailed questions related to importing into the country and the findings start to provide a more nuanced picture of where perceived weaknesses in the customs process exist.

Table 4: Logistics Performance Index: South Africa 2016

Level of Fees and Charges	
Based on your experience in international logistics, please select the options that best describe the operational logistics environment in your country of work	**Percent of respondents answering high/very high**
Port charges	71.43%
Airport charges	78.57%
Road transport rates	50%
Rail transport rates	46.15%
Warehousing/transloading charges	78.57%
Agent fees	35.71%
Competence and Quality of Service	
Evaluate the competence and quality of service delivered by the following in your country of work	**Percent of respondents answering high/very high**
Road	41.67%
Rail	25%
Air transport	58.33%
Maritime transport	41.67%
Warehousing/transloading and distribution	41.67%
Freight forwarders	50%
Customs agencies	41.67%
Quality/standards inspection agencies	50%
Health/SPS agencies	22.22%
Customs brokers	41.67%
Trade and transport associations	60%
Consignees or shippers	41.67%
Efficiency of Customs Process	**Percent of Respondents answering often or nearly always**
Evaluate how you experience the following	
Clearance time without physical inspection (days)	1 day
Clearance time with physical inspection (days)	4 days
Physical inspection (%)	4.00%
Multiple inspections (%)	2.00%
Transparency of customs clearance is always efficient	83.33%
Transparency of other border agencies is always efficient	41.67%
Provision of adequate and timely information on regulatory changes is always efficient	50%
Declarations submitted and processed electronically and online (%)	100%
Expedited customs clearance for traders with high compliance levels is always efficient	66.67%
Sources of Major Delays	
How often in your country of work do you experience	**Percent of Respondents answering often or nearly always**
Compulsory warehousing/transloading	16.67%
Pre-shipment inspection	27.27%
Maritime transshipment	25%
Criminal activities (e.g. stolen cargo)	41.67%
Solicitation of informal payments	16.67%

Source: World Bank, LPI, 2016

The first area of concern is the low approval rating achieved in competence and quality of service along the entirety of the logistics supply chain. Bar air transport, no stakeholder along the supply chain receives a rating of service competence above 50%. Given that infrastructure scores are high, poor service and competence must be attributable to operations both in the private sector, as well as the public and parastatal sectors. Only 46% of respondents felt they received good quality and competent service from the country's customs agency, while other government agencies at border posts (especially health and phytosanitary services) received the lowest rating of all – a mere 22%.

In terms of the customs process, the survey results are quite positive and do not immediately indicate the source of poor quality service and competence. Physical inspection rates and multiple inspections, which are a serious bugbear for importers due to the lengthy time delays they cause, are at modest levels with 4% and 2% respectively. As will be seen in Section 3 research into the effectiveness of SARS inspections suggests that identifying consignments for inspection is a weak point in current procedures and unnecessarily delays compliant consignments, However, the absolute low percentage of inspections speaks to a modern and sophisticated customs administration which, in line with the global trends, is moving away from physical control towards informational and risk management control at border posts. This is expanded in the next section and is the core of the recommendations made for decreasing the incidence of customs fraud and thereby increasing the effectiveness of tariffs as a tool of industrial policy. Positively from a SARS perspective, 83% of respondents found SARS offered a high or very high level of transparency of customs clearance efficiency but the equivalent rating for other border agencies was a very low 41%. This suggests that many of the delays and inefficiencies at border frontiers arise from a lack of co-ordination, standardisation and harmonisation across other government agencies operating at the border and not from SARS itself.

Finally, and of great concern, is South Africa's ranking in Transparency International's global ranking of the Corruption Perception Index. This survey of 180 countries ranks nations based on perceived levels of public sector corruption according to experts and the business community. The global top performers, perceived to have virtually no public sector corruption, are Finland, Singapore, Sweden, Switzerland and New Zealand. The worst performers and those perceived to have the greatest amount of public sector corruption are Somalia, Syria, South Sudan, Yemen and North Korea. Of the 180 countries, South Africa is ranked 73 having dropped 25 places since 1994. Although South Africa performs better than many SADC and SACU members (especially Zimbabwe, ranked 160 out of 180), the country falls below Botswana (34) and Namibia (52). This ranking and the direction of the trends over time is problematic but both the LPI and the ETI suggest that while corruption, theft and bribery are issues in the importation of goods they are not viewed as top tier constraints on the operation of the trade facilitation system and customs administration. However, if the country's problems with corruption continue it is only a matter of time before corruption becomes an increasingly binding constraint on effective and efficient trade facilitation and customs administration.

Illegal and fraudulent activity perpetrated by importers (as opposed to customs officials) is, however, a major issue that SARS and its frontline and backroom staff need to deal with daily as unscrupulous importers attempt various methods to bypass paying duties, tariffs and taxes when importing products for sale in the local market. Such fraudulent activity undermines the effectiveness of the dti's strategy to use tariff protection and trade remedies to protect local industries and employment and blunts the operational effectiveness of using trade policy as a tool in the country's industrial strategy to increase inclusive, labour absorbing production output.

2. CUSTOMS FRAUD

The WCO defines customs fraud as "any act which a person deceives or attempts to deceive the customs administrator and thus evades, or attempts to evade, wholly or partly, the payment of import or export duties and taxes or the application of prohibitions or restrictions laid down by the statutory or regulatory provisions, enforced or administered by the customs administration, or obtains or attempts to obtain, any advantage contrary to such provisions, thereby committing a customs offence" (WTO website). Legally, customs fraud is a customs offence which in South African law is covered as a criminal offense. As such technical customs fraud is legally distinct and different to customs non-compliance. In the 2010 Industrial Development Corporation (IDC) study on customs fraud commissioned by the dti for the National Economic Development and Labour Council (Nedlac), industry and research contributors included cases of customs non-compliance together with cases of actual legal fraud because they argued that non-compliance had the same negative impact on job losses as legally defined fraud. This paper takes a different perspective and distinguishes according to the legislation and SARS's strategy, and enforcement policies between non-compliance and fraud. The reason for making this distinction is that SARS and organised business in South Africa have a distinct view and strategy of engagement regarding tax morality and compliance behaviour, which differs in content and strategy from their approach to legally defined fraud.

In a highly complex econometric model on the determinants and pervasiveness of the evasion of customs duties, Jean and Mitaritonna (2010) prove some easily anticipated and expected results, showing that customs fraud is more likely to occur the higher the rate of tariffs and taxes. They show that customs fraud is more likely to occur the greater the heterogeneity of products being imported, and finally that the cost of avoiding duties increases in line with the quality of customs enforcement –meaning there will be more fraud in a poor-quality customs administration than in a high-quality customs authority.

Levels of customs fraud in the importation of goods into South Africa are high enough that they have been the focus of special SARS and the dti programming since 2004 when the impact of illegal clothing imports from China were first quantified and highlighted in relation to job losses in the clothing and textiles sector. Customs fraud levels are increasing according to the dti and SARS, and this has kick-started a second round of investigations through Nedlac to determine what, if anything, can be done to decrease customs fraud in the future.

Key to answering that question is an understanding of the different types of customs fraud committed at South Africa's borders and ports. Unfortunately, only a theoretical and anecdotal analysis of South African customs fraud is possible at this time as SARS does not make public or allow access to its service management case files which identify actual cases of customs fraud and the method of fraud. Considering industry association reports, IPAP sector analyses, the IDC research report on customs fraud and global case studies it appears that there are five key methods of customs fraud.

Undervaluation

The most common form of customs fraud is the undervaluation of goods in a customs declaration. As tariffs and taxes are ad valorem charges, it makes sense that the lower the declared value of the goods the lower the taxes and duties payable by the importer. Customs fraud in support of

undervaluation occurs when the importer incorrectly declares the weight of the goods (kilograms), the quantity of the goods (in units), the price of the goods (Rands) or decreases the unit price of a good by inflating the costs of transport and insurance (unit cost after transport). An example of such price undervaluation is cited in the IDC study on the clothing and textile industry in South Africa when men's jeans imported from China were declared at a Free on Board unit price of just 49 cents a pair. As the input cost of denim (even based on the lowest global price of denim) for a pair of men's jeans was greater than 49 cents it was obvious that at a unit price of 49 cents customs fraud was being perpetrated.

Similarly, the average value of Chinese footwear imports to South Africa were R25.71 per unit compared to the average unit price of imported footwear from the rest of the world at R99.82. By undervaluing an imported consignment, offending importers pay lower amounts of tariffs and taxes allowing them to channel imported products into the South African domestic market at a cost lower than it should be. This could give them an unfair price advantage over importers that have honestly declared the value of their consignments and it undermines the use of the tariff as a tool to protect local producers from cheap imports. In a survey of the customs administrations in 24 developed and developing countries, undervaluation was cited as the most common form of customs fraud. (Hinta et. al., 2010)

Overvaluation occurs sometimes as a strategy to avoid anti-dumping duties. Overvaluation is achieved by double invoicing. The shipper fills out two sets of invoices. One shows the true value of the consignment, the second a false higher valuation which is submitted to customs. The overstated invoice declares a high enough value to avoid attracting an unfair trade complain being lodged. Even though over valuation results in higher duties being payable by the importer compared to potential anti-dumping duties, the potential loss of market access against the higher valuation is a worthwhile cost.

Misdeclaration/misclassification of HS Code

The second most common form of customs fraud is the misdeclaration of imports due to a misclassification of the goods in terms of the relevant HS code. Misclassification is undertaken to avoid anti-dumping measures, because of differences in tariff rates applicable to different lines of goods described in the HS system or to take advantage of different excise and VAT rates. For example, in Korea loose black beans attract a tariff rate of just 5% while black bean paste attracts a tariff rate of 20%. Unscrupulous importers declare transactions based on the loose bean HS code while in fact the shipments are black bean paste. This is a relatively straightforward example where inspection (either physically by eye or with an electronic scanner) can determine the true nature of the shipment.

In most cases, however, differentiation between different HS classifications is harder to determine. For example, South Africa imposed anti-dumping duties on acrylic blankets to try to protect local producers of acrylic blankets whose markets were being eroded by cheap imports from China. The anti-dumping duties applied to blanket with an acrylic content of over 50%. In response to the anti-dumping duty, importers changed the classification of blankets to the HS code covering blankets with a less than 50% acrylic content. As acrylic content of a blanket is impossible to determine by physical examination, identifying misdeclarations based on erroneous classifications is hard to

ameliorate. In the Hinta et al study misclassification is cited as the third most common form of customs fraud in the 24 countries surveyed.

Misdeclaration of country of origin

Determining the country of origin or the "nationality" of imported products is an important requirement for applying tariffs, quantitative restrictions, anti-dumping and countervailing duties, as well as for requirements relating to origin marking and public procurement policies. Most importantly, in the current South African context correctly determining the country of origin of imported products is crucial to ensure the enforcement of preferential trade agreements and the ability to ensure that only legitimate goods from participating countries in SADC, SACU and the new AfCFTA enjoy preferences such as duty free entry into South Africa.

The WTO and WCO provide rules and technical guidance on the rules of origin. When a product is produced in a single stage or wholly obtained in one country, its origin is easy to determine. When two or more countries are involved in the production of a good, origin in determined by identifying where sufficient or sustained working or processing has been completed and a substantial transformation has occurred that conveys to the product its essential character. The main techniques used to determine origin include a change in the tariff classification of the product, value addition or a specific manufacturing process. Changing packaging or adding labels is deemed insufficient to qualify as substantial transformation and hence to legally change the country of origin of the product. The country of origin appears in a Certificate of Origin (CoO) which is most commonly issued by the manufacturer or exporting party. In some circumstances a manufacturer issued CoO is subject to official certification by an authorised third party, such as a chamber of commerce or a customs authority.

Misdeclaration of country of origin is when imports from a country which is not entitled to preferential duty free access to the South African market exports their goods to South Africa through a free trade partner country of South Africa's such as a SADC member state. At this point the fraudulent exporter may have his products relabelled as products of the SADC country (sowing on labels which say product of the SADC country) or he may leave the labelling unchanged but purchase a fraudulent CoO which declares the product as originating in the SADC member state. Whereas this type of fraud in less common in developed countries due to the electronic issuing of CoO and the ability of customs officials to trace the completes value chain life cycle of a product, in Sub-Saharan Africa, where many SADC member states still issue paper CoOs, misdeclaration of country of origin results is large-scale customs fraud. The IDC report and subsequent SARS reports on the textile and clothing industry show that this type of fraud is common with Chinese and other Asian clothing manufacturers re-routing exports destined for South Africa through SADC countries where fraudulent CoOs are purchased via bribery of customs officials stating that the consignments originate from the member state and are therefore able to enter the South African local market duty free. As with undervaluation, this fraud allows importers to enjoy in-country landed costs lower than legitimate importers giving them a price competitive advantage. This type of fraud obviously also undermines the effective functioning of tariffs on clothing to effectively protect local clothing and textile manufacturers from cheap import penetration and its consequent loss of market share. As will be explained below SARS has on occasion stopped shipments of goods at the South African

border marked as products of Malawi with relevant CoOs to that effect based on intelligence that shows that no such manufacturing or production facilities exist in Malawi for that product.

Other types of fraud

Misdeclaration of value, tariff code and country of origin appear to be the most common types of customs fraud perpetuated across South Africa's borders, based on anecdotal information and discussions with the private sector. Three additional types of customs fraud are worth noting in the domestic context. The first is counterfeit goods when fake branded goods are imported as unbranded goods so as to avoid the licence fees payable to branded goods. The goods are then sold in the South African market as the legitimate branded product. This places legal importers at a price disadvantage and fails to protect consumers. Local producers, producing under licence, are also negatively impacted as after paying the licence fee due, will only be able to sell at a higher local price than the counterfeit products leading to a loss of market share and sales. South African legislation allows customs officials to seize and detain counterfeit products and addresses all the requirements of the WTO's TRIPS Agreement. However, for a seizure to occur a representative of the owner of the intellectual property rights (brand) needs to provide SARS with sufficient information and particulars as to the substance and extent of their intellectual Property Rights and apply specifically for the seizure of identified shipments. As such, representation is often hard to prove beforehand, and industry availability at border posts is limited making such seizures difficult. Evidence suggests that the sectors most vulnerable to import penetration of counterfeit goods are the pharmaceutical sector, the electronics sector and the clothing, shoes and handbag sectors. Of great concern about counterfeit goods (especially in the pharmaceutical industry) is the quality of the counterfeit goods and their safety for South African consumers. Counterfeit goods is a global phenomenon and the Hinta et al study rates counterfeit goods as the fifth most common form of customs fraud in its sample of 24 countries.

Another form of customs fraud which is prevalent and appears to be growing in South Africa is round tripping. In this fraud a product is exported to a neighbouring country and then smuggled back into South Africa and sold in the local market. For example, if a South African car dealer exports a car to Zimbabwe, the dealer gets the VAT on the car back. If the same car is then smuggled back into South Africa the dealer can enjoy a 15% price advantage above legal local companies. This is generally known as VAT fraud rather than customs fraud. This type of fraud has been identified as a major risk to the South African tyre industry where used tyres (and new but to a lesser extent) are imported into South Africa specifically for the purpose of export to Southern African states. The tyres are then rerouted back from SADC states into South Africa and sold on the local market with unscrupulous importers either enjoying a lower selling price in a market characterised by excess supply, or they sell at going market prices but enjoy an effective 15% additional margin over their law abiding competitors.

Finally, there is removal of goods in bond or removal of goods in transit fraud. This is another form of VAT fraud. Essentially this type of fraud exists when a product imported into South Africa is declared in transit on its way to another country but is removed during that transit/warehousing and sold in the local market. The VAT on these ghost exports can be claimed back illegally because the goods are supposedly being sold outside of South Africa even though they are in reality being sold in the domestic market. VAT fraud is the sixth most common form of fraud in the Hinta et al study.

As mentioned, SARS do not make public the case files which are opened in terms of cases which are flagged and investigated for customs fraud. It also does not publish aggregate data on types of fraud committed either by sector or by type of fraud. As such anecdotal and industry input is the researcher's best source of understanding customs fraud at our borders. As will be discussed, this is seen as problematic and it is suggested that one of the roles the dti can play going forward is to analyse data and information in such a way as to more specifically identify sectors and specific products which are most at risk of customs fraud.

Bearing the above qualification in mind, the existing anecdotal base suggests that the electronics, pharmaceutical, clothing and textiles, footwear, cigarette and rubber and tyres sectors are the sectors most at risk of customs fraud. Specific anti-dumping actions have been taken by ITAC for steel, poultry and pasta, but from a SARS perspective the list of at risk sectors has been relatively static over time. The sector most closely analysed for customs fraud in South African is the clothing and textiles sector.

Between 2003 and 2008 both the South African textile and the clothing sector were characterised by the closure of a large number of manufacturing companies with resultant high job losses. The key challenge facing the sectors were seen by industry representatives and unionists as the loss of domestic market share to cheap imports from East Asia (together with low levels of profitability and investment). The 2010 IDC report of customs fraud states that the concern that East Asian countries flood our local markets with low-price imported textiles and clothing is real. SARS agreed and stated that the rapid growth in illicit trade (such as counterfeit goods, undervalued and misclassified consignments) continually eroded South Africa's revenue base and was the main cause of the closure of factories and attendant job losses.

Industry investigations indicated that the application of ad valorem duties created a significant incentive for importers to undervalue or underinvoice imported textiles and clothing shipments. Similarly, they found that products were classified under different tariff sub-headings at varying rates of customs duties, which was also identified as an incentive for customs fraud. The industry went on to find in 2009 that this situation was exacerbated by insufficiently staffed ports of entry, insufficiently and/or inexperienced customs officials, and difficulties in distinguishing between different tariff sub-headings. Circumvention of the tariff as a result of preferential rates of duty in terms of trade agreements emerged as a significant problem, with fraudulent rules of origin presented to customs officials who did not have sufficient knowledge to realise the certificates were not authentic.

In light of this analysis, SARS established a specific clothing and textiles enforcement unit as a platform for increased co-ordination and input from SARS, the dti, ITAC and industry players all contributing to a host of interventions to curtail such fraud.

The first thing that the collaboration agreed on was the need for reference pricing (RP). This was driven by industry which identified cases where finished goods were being undervalued into the South African market to such an extent that the declared value would not even cover the basic input prices of yarn into the textiles, or the fabric content into a finished article of clothing. The RP system is a scientific approach to understanding the underlying costs of key products within protected industries. The RP system provides a platform to consider the risk parameters within an automated customs risk engine rules (the risk engine of SARS is explained in the next section). This identifies

high-risk transactions of specific products identified by their customs tariff code. The RP is based on the absolute cheapest price that can be found in international markets, excluding the cost of labour, trimmings, overheads, transport costs and royalties. SARS looks at the declared price and compares it to the RP. If there is a valuation difference of between 0.1% and 25% of the RP, SARS decides that the importer was attempting to comply with the country's duties but made an honest mistake. This is deemed a category 1 offence and is dealt with by SARS processing hub with no penalties applied. If the difference between the declared price and the RP is between 25% to 60%, SARS deems the importer has chosen not to comply. This is a category 2 offence and is dealt with by a post clearance audit where the required duties payable based on the RP is applied. Finally, if the disparity between RP and declared value is greater than 60%, SARS deems this a category 3 offence of fraud and hard enforcement action is taken and penalties applied.

A look at price declaration changes after the implementation of the RP system shows that the intervention had immediate positive effects. In three months, the average price of clothing imports declared form East Asia increased 72% from R3.31 per unit to R5.69 per unit. For blankets the rise was even greater with import prices rising a massive 139% in 90 days. Terry towelling prices increased by 44%, bed linen prices by 85%, and textiles on average by 41%. In addition to the RP system, the dti and ITAC also assisted in creating new tariff subheadings to ringfence particularly problematic products such as men's and women's denim jeans. A final step was to use industry experts to train dedicated customs officers on the classification of goods as well as the deployment of industry experts to particularly problematic border posts.

In a 2014 submission to the Economic Development Standing Committee in Parliament, SARS representatives claimed they had made progress towards decreasing customs fraud in the clothing industry but that the problem was not yet under control. Currently SARS has a list of 17 at-risk sectors with respect to customs fraud undermining local production.

3. CUSTOMS MODERNISATION AND THE SARS CUSTOMS PROCESS

The responsibilities of customs administrations have changed considerably over the past three decades and will continue to change in the foreseeable future. The key trends having influenced customs administrations and the perceived role of customs in the national economy have come from: 1) the globalisation of the supply chains with nearly 50% of global trade comprising intermediate products which show case geographic fragmentation of production networks and an increase in vertical specialisation; 2) the expansion of Just In Time (JIT) production and massive improvements in the speed and efficiency of global logistics networks; 3) the growth of e-commerce in the form of business to business, business to consumer, and consumer to consumer commercial activity; 4) the massive global proliferation in free trade agreements, customs unions and transit corridors, and finally 5) the constant desire and pressure placed on customs administrators and politicians to decrease the cost of trade and thereby increase country and firm competitiveness.

The World Bank's Customs Modernisation Handbook (2005) states that operational guidelines of customs cannot give equal weight to all functions constantly and that choices and priorities are inevitable. It claims there are four key competing priorities.

The first priority is raising revenue. The second is using tariffs as an important tool to protect domestic producers which expect customs administrators to ensure that all imports pay the official

and declared import taxes to ensure a level playing field and to protect local businesses and jobs. The third competing priority is increased and better service, demanded by local and foreign traders. The private sector are constantly demanding better government services including cost reductions to traders derived from easier and more efficient customs procedures which allow for lower inventories, operational capital and meeting stringent JIT commitments. Finally, it identify civil society's demands that customs administrators protect society from dangerous and unsafe goods (such as narcotics, unsafe medications, harmful additives in food or non-compliant electrical goods).

Priorities will differ across countries, but in lessons learned from the world's most effective and efficient customs administrations, the Handbook (together with studies by the WCO, 2008, 2014; OECD 2009 and UNCTAD 2016) all show three key modernisation trends over the past three decades.

The first trend is that the primary focus of customs attention has shifted away from the physical control over consignments at the time of importation to post release verification using audit-based controls. This switch has required customs to adopt comprehensive compliance improvement strategies designed to progressively increase confidence in the information provided by traders. Increasingly information is now being exchanged electronically and decisions on the treatment of export and import consignments are made on a risk assessment basis. As such the exchange of information and intelligence is the new pillar on which modern customs administrations are built and these will continue to be the basis moving forward. As will be seen, this new basis will require new and more coherent relationships with traders and increased co-operation at national, regional and international level.

The second key trend in modern customs administrations globally is that countries will increasingly rely on a single agency to take control and responsibility for the entire border management process. This will require the merger of a number of different border management functions under one administrative and policy umbrella with co-ordinated and networked information systems across different jurisdictions.

The third and final key trend observable in the global modernisation of customs administrations is the increasing reliance on an intensive use of modern information technology to provide for the seamless transmission of data to an interested member of the trading community. Customs administrations will increasingly rely on electronic submissions of manifests before cargo arrival, on direct trade input of import and export declarations, and on electronic payment of duties and taxes.

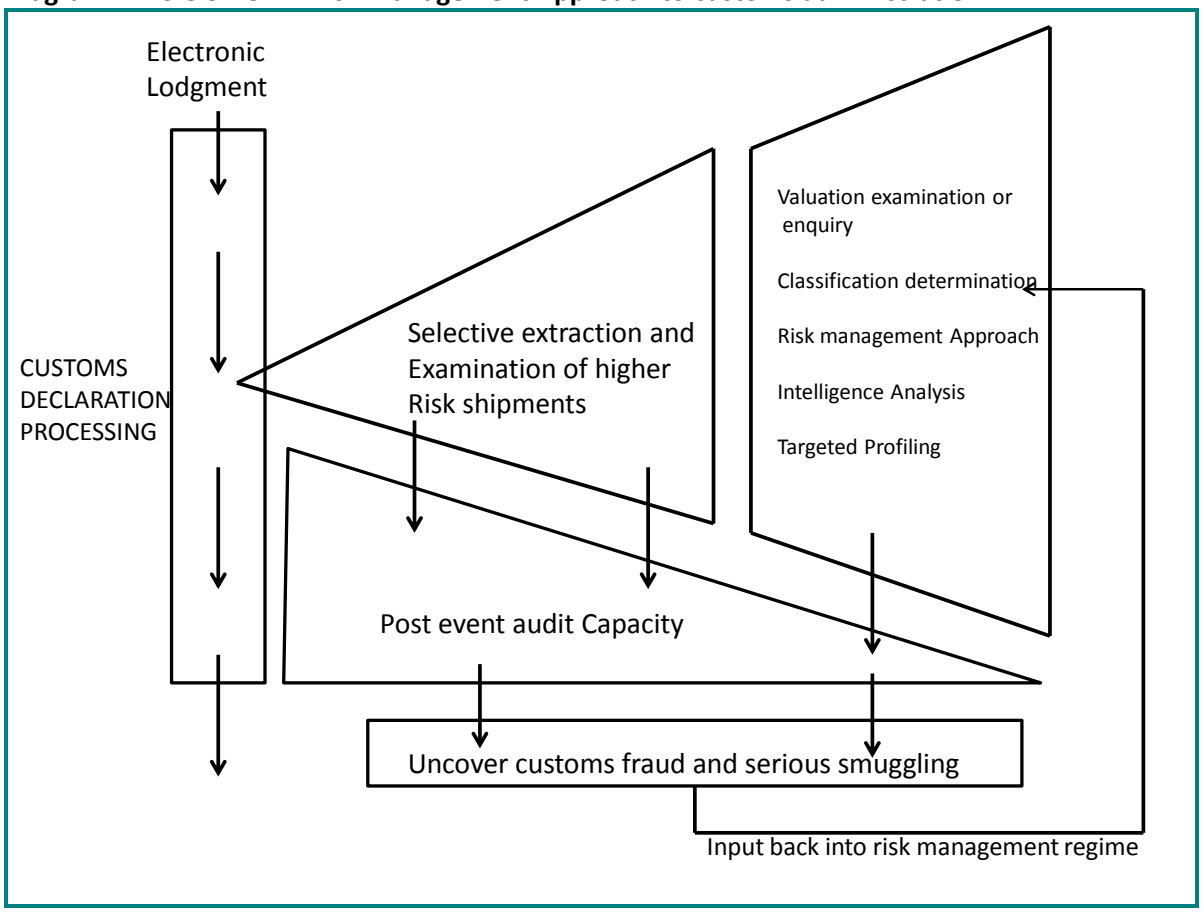
The global trend is for customs administrators to move away from gateway checks and physical checks in favour of applying the principles of risk management with varying degrees of sophistication and success. Customs essentially have two risks to manage: facilitation and control. In other words, there are two risks any customs authority faces: the potential failure to facilitate international trade and the potential risk of non-compliance with customs laws and regulations (including licensing requirements, valuation provisions, country of origin, security regulations, technical standards, duty exemption regimes). The Handbook and other sources go to great lengths to argue that these are not two risks on either end of a continuum and that they should never be viewed as indirectly related. Rather it is argued that a country's customs administration has to measure and provide for both risks simultaneously and that at the end of the day what is needed is to manage compliance in

a way that ensures the facilitation of trade. Countries with high LPI and ETI scores have found this balance.

The customs risk management approach is characterised by the identification of potentially high-risk areas with resources being directed towards such areas and minimal intervention in similarly identified low-risk areas. This risk management approach (RMA) has an information focus rather than a physical gatekeeper focus. It also has a focus on pre arrival clearance rather than clearance on arrival; as well as, a focus on post clearance audits rather than audits on arrival at the port. High risk areas are identified based on: emerging trends analysed over time; previous compliance records of consignors and consignees and intelligence based on parameters such as: type of product, country of origin, history of forwarder, form of packaging, country of transit, means of transport, place of shipment, sensitivity of goods etc). Essentially the RMA results in a situation where low risk traders are permitted to operate under less onerous regulatory requirements and may anticipate little by way of customs intervention. Transactions of deemed high risk traders on the other hand are likely to be selected for high levels of customs intervention and control which may include documentary checks, physical examination, high levels of audit activity and even physical controls at the premises of manufacture.

Diagram 3 illustrates how the RMA operates and specifically the role ICT plays in making such a system effective and implementable.

Diagram 2: Role of ICT in Risk Management Approach to customs administration



Source: World Bank, 2005, p.292

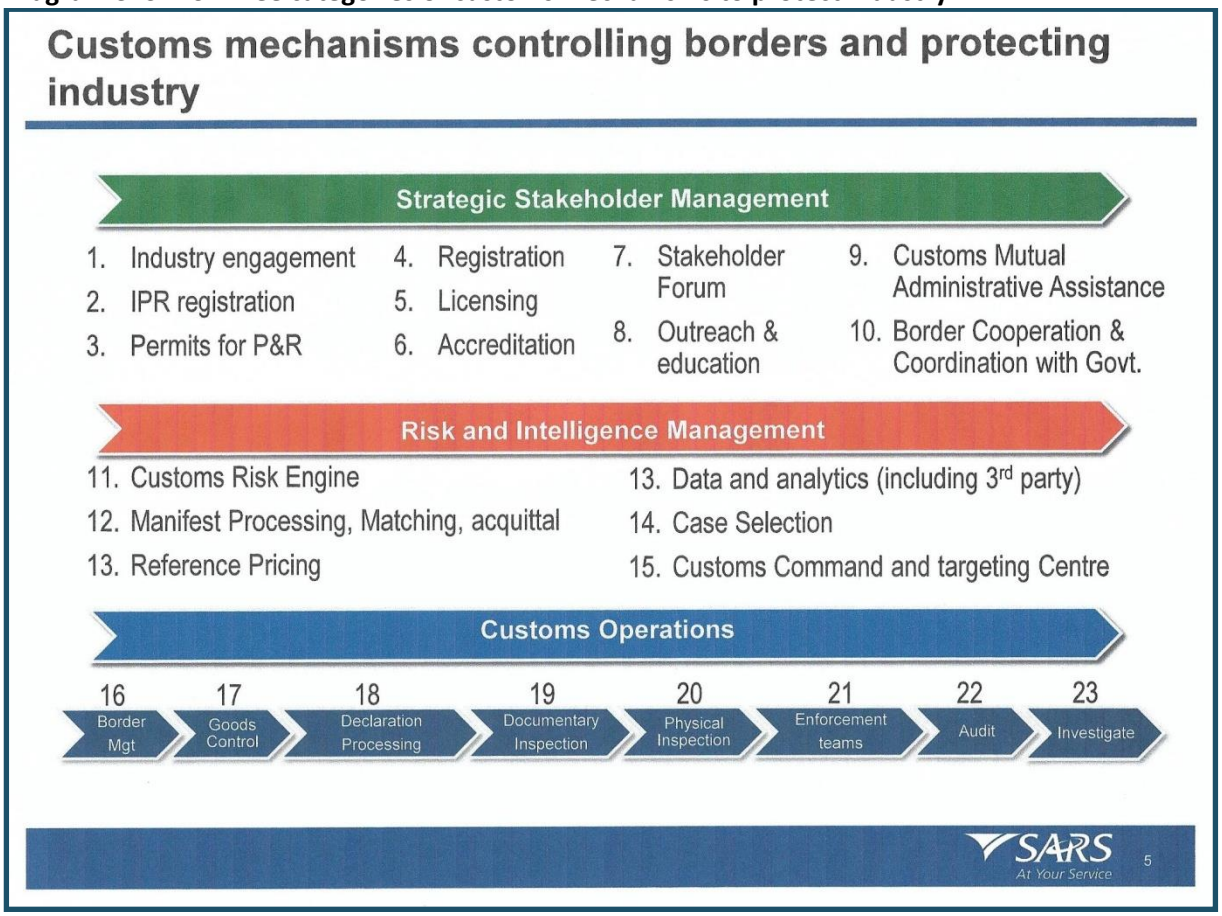
To the right of the electronic lodgement arrow line is the ICT enabled “pre declaration” support to customs officers in a modern cutting-edge customs administration. High-risk consignments are identified through back office customs activities relying on intelligence led, risk management based on historical customs data, and intelligence. High-risk cargo is targeted and extracted from the normal processing path. Such consignments are then subjected to full customs scrutiny. Non-selected consignments are typically released with minimal scrutiny. This system is extensively supported and totally reliant on effective feedback mechanisms being in place to channel the results of post release controls and systems based on audit strategies back into the risk management mechanism. In this way profiles can be updated and risks continuously reassessed.

Post release and post release audits are the system’s safety net. These are measures by which customs satisfy themselves as to the accuracy and authenticity of declarations through the examination of the relevant books, records, business systems and commercial data held by the persons concerned. In post clearance audits, sophisticated systems can look not only at the business data of the importing company but that of the businesses along the complete supply chain. Post release audits acknowledge that often valuation verification, fiscal evasion and customs fraud cannot be detected through individual customs transactions. To uncover indiscretions there needs to be an enquiry into the traders’ entire international trading patterns and transactions including movements of foreign currency. Such information is the cornerstone of how good a country’s customs risk engine is. Usually up to 20 parameters are used, including inter alia history of importer, history of exporter, history of freight forwarder, sensitivity of the good (import duty, VAT, excise, quota), country of origin, country of sale, place of shipment, form of packaging, country of transit, and means of transportation. In some countries this information base is increased immeasurably by the use of big data (which will be discussed in the next section as a possible area of intervention for the dti). In Japan, post clearance audits doubled state revenue in a period of just nine years, and in Canada the risk engine is so sophisticated (it uses big data as well as a more conventional risk engine) that shippers are informed before they leave the export port, whether the consignment they carry will be allowed into the port of destination or not.

Since 2009 SARS has been on a modernisation drive which will continue into the near future. This drive incorporates all of the elements as described in the WTO, WCO and the World Handbook on Customs Modernisation. According to a presentation made by SARS to the Economic Development Standing Committee in 2016 specifically on customs fraud, customs is mandated as the first line of control over the movement of goods across South Africa’s borders. In order of priority they claim that this is done in order to 1) protect the economy and society; 2) support economic competitiveness, and 3) collect and protect revenue due to the government. This speaks to the competing priorities discussed theoretically above.

The priorities described by SARS suggest that it has bought into the role of understanding that tariffs act as a crucial tool in the country’s industrial policy tool kit and that it equally understands the need to support trade facilitation to increase competitiveness. SARS go on to explain that it has three categories of mechanisms in place specifically to protect industry from illicit imports and customs fraud. These are 1) Strategic Stakeholder management; 2) Risk and Intelligence Management and 3) Customs Operations. Diagram 4 shows specific SARS actions under each of the categories.

Diagram 3: SARS Three categories of customs mechanisms to protect industry



Source: SARS, 2016

The diagram makes clear how far South Africa has moved along the continuum of gateway checks and the importance of physical customs checks compared to the effort and resources put in place to achieve pre-arrival clearance and risk identification as per the global modernisation trend. Since 2009, SARS has worked tirelessly to improve stakeholder management and risk, and intelligence management. It is believed that as these management processes improve there will be less physical control at border posts and hence increased compliance and facilitation simultaneously. In reality South Africa is still a way from being in such a position but the systems and the process are in place to move in that direction and, as will be argued in the next section, it is along this pathway that the increased role of the dti in support of decreasing customs fraud can be articulated.

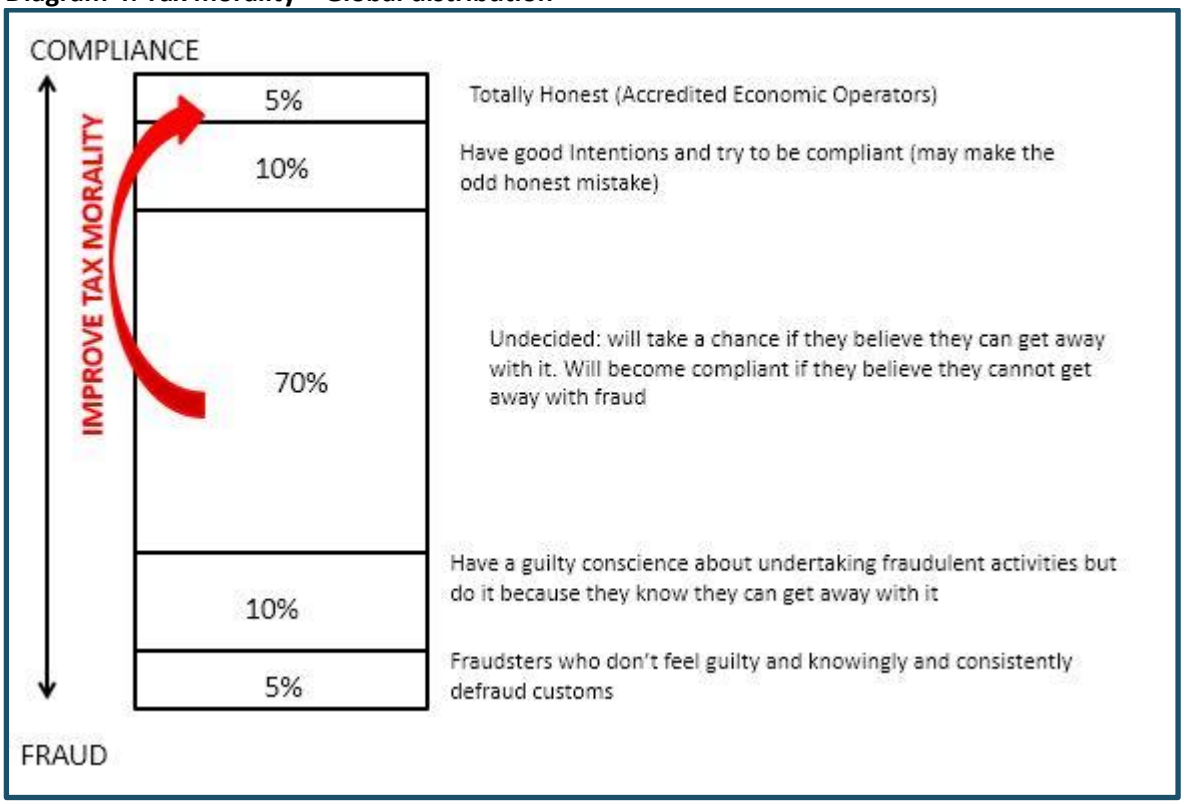
There are two key drivers in relation to improvements in strategic stakeholder management. The first is information sharing and co-ordination. The second is voluntary compliance. SARS's strategic aim is to undertake (by whatever steps it possibly can) to improve voluntary compliance with customs procedures, legislation and trade agreements. It plans to do this by being as transparent as possible and making it as easy to be compliant as possible. It also seeks to meaningfully incentivise compliance so that it becomes in an importers best interest to voluntarily comply. This process of education, informational transparency and incentivisation is crucial given how global import communities operate in terms of tax morality.

In Business Unity South Africa's (BUSA's) presentation to Nedlac on customs fraud in 2018, it discussed the idea of tax morality which is presented in Diagram 5 below (BUSA 2018). Essentially BUSA argues that in any country worldwide there are usually 15% of traders who are honest and

15% of traders who are fundamentally dishonest. The majority of traders (the 70% middle block) are undecided and their behaviour will be determined by how easy it is to be compliant, the benefit of compliance and the risk of being non-compliant.

As customs authorities are able to improve the ease and benefit of compliance, and as they are able to better increase the cost of being non-compliant so they are able to improve the overall tax morality of traders operating in their economy. SARS is committed to improving tax morality among South African exporters and importers and many of the strategic stakeholder management actions listed are aimed at achieving this. A second important component of SARS's strategic stakeholder management is the issue of information, intelligence and data analysis. Many of the actions listed in strategic stakeholder management lie within the mandate of ITAC (for example agreements with other customs agencies; granting of licences and permits for importing) while others such as dealing with industry bodies, engagements and accreditations sits within the domain of the dti. There thus appears to be a major role for the dti to play in gathering data related to strategic stakeholder management and to make such information available to SARS in a way that improves the identification of risky shipments and the general operation of the SARS risk engine. This idea is expanded on in the next section. Certainly the view of organised industry is that the wealth of information which can and should be collected and analysed by the dti as a contribution to aiding SARS in terms of its strategic stakeholder management mechanism is an area which is underdeveloped and underexplored by both the dti and SARS. Speaking to members of organised business and a few business representatives in vulnerable sectors, the message is clear that more collection and analysis of data and industry information is crucial to improving SARS ability through their risk engine to identify and stop high risk transactions.

Diagram 4: Tax morality – Global distribution



Source: own design, based on discussion at BUSA, 2019

The second category of mechanism on which SARS relies to decrease customs fraud moving forward is its Risk and Intelligence management mechanisms. These mechanisms include the creation, operation and consistent updating of the SARS risk engine; manifest processing, matching and acquittals; the use of reference pricing; data collection and analytics from SARS but also from third party data which could include data from dti analysis; case selection which is the decision by SARS to investigate a shipment for irregularities; and the customs command and targeting centre which focuses on 17 high risk domestic sectors.

Under the current system it is hoped and envisaged that over time fraudulent or high-risk shipments will be flagged through data, intelligence, stakeholder interactions and the risk engine, and its associated tools such that low-risk shipments find easy passage across borders while high-risk and possibly fraudulent shipments are flagged and inspected and prosecuted so as to consistently improve the tax morality of the country's traders (importers, exporters and agents). There is a view from industry and researchers that SARS has not been particularly successful with its risk engine and risk management approach to date.

In an unpublished study undertaken by the North West University it was shown that in a period of 25 months SARS processed 3.5 million import transactions. Of these, 2.76 million were not stopped at all – this amounts to 78% of all imports. Of the 22% stopped (either for inspection or for inspection of documents) less than 3% were found to have been guilty of any infraction. This suggests that 97% of the stopped shipments were in fact customs compliant. This suggests that SARS has not yet got its risk engine running correctly or even close to optimally. SARS did not respond when approached for comment about the findings of the North West University research.

What is important to take away from this section is that South Africa is on a customs modernisation development path and that SARS is committed to moving away from physical control at border posts towards the world gold standard of efficient and effective risk management of customs, which allows for increased trade facilitation and increased customs compliance simultaneously. Key to running an effective risk management system is the quality, scope, scale and reliability of the data which is fed into the system. At present the only organisation inputting data into the system is SARS and even then its interplay between operating systems (i.e. between the electronic data collected for customs declarations, cargo reporting and case management) remains weak (although it is on the list of future strategic action plans for the customs unit). The idea of linking these three SARS systems with an additional layer of ITAC and the dti level insight is not yet even on the cards. As will be argued below – if the dti wishes to make a meaningful contribution in the fight against customs fraud as a weapon in its industrial policy arsenal, its biggest impact would be in aiding SARS in collecting and inputting the right information into the risk engine to improve the country's ability to flag real high-risk shipments, and hence increase tax morality and compliance.

The role of the dti in supporting the reduction of customs fraud

In 2014 the dti made a submission to the Economic Development Standing Committee in Parliament on combating illegal and non-compliant imports. In its opening remarks it stated the case that illicit trade from the perspective of the dti included illegal imports, under valuation, false declarations, re-routing and misuse of duty rebates and credits as well as customs fraud. It went on to argue that this erodes the country's manufacturing capacity and competitiveness, its revenue base and legitimate

job creation. It reiterated that illegal activities of this sort give illegal and unfair advantages to companies in other jurisdictions competing against South African manufacturers. Surprisingly however, the department went on to state that "dti's work in this area is mainly advocating effective policy interventions – specifically that trade facilitation should include a strong element of safeguarding South African manufacturing from unfair trade practices" (the dti, 2014). It goes on to argue that "dti is not the operational department on customs issues – dti can only play a supportive function .... its operational mandate is limited to the National Regulator for Compulsory Specifications" (the dti, 2014).

The dti approach takes a narrow reading of the operationalisation of the customs eco system in South Africa. However, in interviews with customs technicians, risk management approach experts, organised business, labour and several business leaders it appears that most stakeholders believe that with the modernisation of SARS since 2009 and its on-going progression towards increased voluntary compliance and risk management systems – the space in the ecosystem has opened up for the dti to play a more meaningful role in supporting SARS in its fight against customs fraud. The role envisaged for the dti revolves around amassing and analysing better quality data and bigger volumes of data to put into SARS's risk engine, and backroom analysis to better identify high-risk shipments while increasing the facilitation of compliant and low risk imports. The argument made by the grouping above is simply that no-one is better positioned to understand trade and the trade eco system than the dti. As risk management approaches increasingly rely on identifying patterns and trends in traded shipments and activity along supply chains and global value chains, it is the dti, not SARS, which is best positioned to understand trade patterns. In addition, it is the dti which is best positioned to ensure that good-quality economic and trade data is collected by SARS and that SARS understands the relevance and implications of certain shifts in the data.

This issue has been raised specifically in relation to SARS use of HS codes and the use of miscellaneous and other categories in importers HS code declarations. Business specifically believes that the dti needs to work with SARS to better define and clarify certain tariff lies in key at risk sectors. Finally, it is argued that the dti data from ITAC needs to talk to data collected by SARS as such comparisons would highlight anomalies, such as imports processed by SARS in excess of import licences issued by ITAC. There is no doubt that SARS would need to be the driver of an increased information co-ordination, intelligence and analysis intervention, but such a progression is part of its long-term strategic plans and is institutionally and operationally supported by its strategic stakeholder management undertakings, which include increasing co-operation and co-ordination with other government departments and the private sector. The door is therefore open for the dti to play such a role. It is also important to qualify that SARS needs to get its own customs declaration, cargo reporting and service management systems speaking to each other before it could add to this co-ordinated knowledge base with the dti inputs. This is not a bottleneck but merely an acknowledgement that the modernisation of the South African customs administration and the stamping out of customs fraud has always been a long-term strategy with no available quick, short-term fix.

Annexure A and B provide just a glimpse of the rich and deep data collected by SARS on only its customs declaration form. The table of contents shows the range of data collected but to appreciate the depth of data within each heading it is worthwhile looking at the SARS Customs Declaration Manual. For example, in Annexure B the Procedure Category Code shows the 12 main categories of

reasons why a product is being imported into South Africa. Each category is then broken down into up to 20 different sub-options, as also shown in Annexure B. In the context of the above it is impossible not to be excited by the analysis that an economist and particularly a trade economist and sector expert could undertake, and add value, before inputting such analysis back into the SARS risk engine. The dti knowledge and expertise of trade, trade patterns, trading behaviour, sector activity on the ground, supply chain and value chain performance and investment and employment patterns would help SARS collect the best information possible, and maximise and optimise that information to pick up anomalies and frauds being perpetuated at the country's borders. As the overseers of the trade eco system, the dti would support SARS as the overseers of the customs eco system. Information, intelligence, data, big data and ICT make this symbiosis possible.

These ideas exist in all modern customs risk management systems and the research suggests that the better the quality and quantity of data into the RMA, the better the effectiveness of the customs administration. More recently the debate has moved into the sphere of big data. If the dti expands its role to contributing to the intelligence and analysis and input of information of the SARS RMA, it is worthwhile considering the gold standard and future trends which such a role will inevitably include.

International experience in use of big data

Big data is considered as extremely large data sets that may be analysed computationally to reveal patterns, trends and associations. The implication is that the volume of data in big data is so great that traditional processing software cannot be used; and Big data is intrinsically worthless and is only useful when it has been worked. As the volume, velocity and variety of the data is so large it cannot be handled and comprehended with human capacity alone and must employ algorithms which assist in machine learning. Effectively harnessing big data allows officials to address problems that could not be tackled before. To date there are six countries customs administrations running big data initiatives: Canada, Hong Kong, China, New Zealand, the United States of America and the United Kingdom (UK).

Hong Kong centralised and consolidated all data across certain government agencies and customs that would otherwise have remained disparate and thus rendered them useless. It set up a centralised information repository to store operational data from nine information systems used for certain regulatory purposes. In 2015 this system processed a staggering 12 terabytes of data. The operational master of the system provides a standardised interface mechanism for users and includes among other things all customs data, all business registration particulars, all inland revenue data, all transport, and import and export permits. The Hong Kong customs administration says that the system has revolutionised its customs approach and increased revenue collection and decreased fraud. More importantly it claims that while it provides insight for short-term decisions on enforcement in terms of risk management, operational planning and resource allocation, it has found its true value to be in providing inputs for better medium- to long-term strategic planning.

The UK have gone a step further in terms of using big data. They have implemented a system based on Community System Providers (CSPs). CSPs are the trade system in place at the UK's sea, air and inland ports which deal with commercial freight movements and physical movement of freight prior to customs clearance. UK Customs has developed a symbiotic relationship with commercial

operators and had its anti-smuggling and targeted technology actually embedded in these commercial operators' commercial systems. This means that UK customs receive and process day-to-day commercial business data from individual commercial operators at source. This big data is then fed into the government system so that electronic data from sellers, buyers, logistics operators, interested parties and controlling authorities can be analysed as a unit and a flow. The project is delivering seamless, integrated data pipelines that provide the right data from the right source at the right time.

UK Customs officials and the implementation of CPSs see data as a means and not an end, and customs officials claim that the ease and speed of trade facilitation has increased while illicit trade has decreased. As electronic scanners, smart scanners and increased digitalisation in line with the fourth industrial revolution occur – so more and more data can be processed by the systems. Essentially this big data allows customs officials to get intelligence and analysis from data bigger than just internal government sources. As big data can analyse structured (forms) and unstructured data (emails) increasingly more data is becoming available for customs administrations to combine and correlate, allowing them to identify unknown patterns and trends concerning the subjects of control – be they cargos, conveyances or even people.

In an article on big data and customs administration, Okazaki (2017) argues that big data allows customs authorities to get a bigger picture and context of the risks they face. He argues that regular transactional data from traders, brokers, shipper, consignees and consignors, for example, put together with other categories of data on in-depth histories of private entities and their commercial and trading performance will better enable them to uncover schemes involving illegal and illicit activities. As the customs authorities become more competent and able to identify high-risk transactions so they are able to increase and ease facilitation of low-risk transactions and shipments, allowing them to achieve the dual aim of a modern customs authority – increased compliance with a simultaneous increase in trade facilitations.

CONCLUSION

The shift to modern custom control systems and the use of big data provides an opportunity for South Africa to strengthen its customs fraud prevention strategies. The need to have robust systems that effectively reduce the multiplicity of illegal activities that can take place in the customs environment, contributes to improved tax collection as well as protection of domestic industries. Balancing customs fraud reduction strategies with trade promotion contributes to effective industrial policy. The dti has an important role to play in supporting SARS by providing sector and industry information, and creating an effective and enabling customs environment.

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ANNEXURE A

TABLE OF CONTENTS

ANNEXURE B

PCC	RPC	PPC	P/Measure	Description	OLD PURPOSE CODE
CHAPTER 8 ▸ HOME USE					
A – Home Use of Ordinary Levy Goods' destined for RSA or SACU countries	10	00	-	Home Use of 'ordinary levy' goods simultaneously dispatched to BLNS states.	OL
	10	20	-	Home Use of 'ordinary levy' goods previously moved under 'National Transit', dispatched to BLNS states.	OL
	10	40	-	Home Use of 'ordinary levy' goods previously entered under the 'Warehousing' procedure.	XOL
	10	41	-	Home Use of 'ordinary levy' goods previously subject to a change of ownership under the 'Warehouse' procedure.	XOL
	10	42		Home Use of 'ordinary levy' goods originally entered for warehouse-for-export	XOL
	10	44	-	Home Use of 'ordinary levy' goods previously entered under the 'Warehousing' procedure, previously re-warehoused under the warehouse procedure.	XOL
	10	48	-	Home Use of warehouse-for-export (WE) goods , previously subject to 'change of ownership' or 're-warehousing'.	XOL
A - Home Use and free circulation	11	00	-	Clearance of goods for Home Use, and free circulation.	DP
	11	20	-	Home Use of goods previously moved under the 'National Transit' procedure.	DP
	11	40	-	Home Use of goods, previously placed under the 'Warehousing' procedure.	XDP
	11	41	-	Home Use of imported goods previously subject to a change of ownership under the 'Warehouse' procedure.	XDP
	11	42	-	Home Use of goods originally entered for warehouse-for-export	XDP
	11	44	-	Home Use of goods, previously re-warehoused under the warehouse procedure.	XDP
	11	48	-	Home Use of warehouse-for-export (WE) goods , previously subject to 'change of ownership' or 're-warehousing'.	XDP
A - Home Use and payment of VAT and levies for goods from SACU countries	12	00	Procedure Measures according to items exempt under Schedule 1 to the VAT Act.	Clearance for Home Use and payment of VAT, of free circulation goods arriving from a BLNS country.	IM4
A – Home Use and free circulation of 'warranty replacement' goods	13	00	412.26 or 412.27	Clearance for Home Use and release into free circulation of warranty replacement goods.	GR
	13	20	412.26 or 412.27	Home Use and release into free circulation of replacement goods, previously removed under the National Transit procedure.	GR
	13	40	412.26 or 412.27	Home Use and release into free circulation of replacement goods, previously cleared under the warehouse procedure.	XGR
	13	41	412.26 or 412.27	Home Use and release into free circulation of replacement goods, previously subject to a change of ownership under the 'Warehouse' procedure.	XGR
	13	42	412.26 or 412.27	Home Use of warranty replacement goods originally entered for warehouse-for-export	XGR
	13	44	412.26 or 412.27	Home Use and release into free circulation of warranty replacement goods, previously re-warehoused under the warehouse procedure.	XGR
	13	48	412.26 or 412.27	Home Use' and release into free circulation of replacement goods, previously subject to "change of ownership" or "re-warehousing" under warehouse-for-export.	XGR
A – Home Use under relief of duties for specific conditions contemplated under Schedule 4, General Rebates	14	00	403.01; 405.01; 405.04; 405.05; 405.09; 406.01; 406.02; 406.03; 406.05; 406.06; 406.07; 407.01; 407.02; 407.04; 407.06; 408.01; 408.03; 410.03; 410.04; 411.00; 412.01; 412.02; 412.03; 412.04; 412.05; 412.06; 412.08; 412.09; 412.10; 412.11; 412.12; 412.13; 412.14; 412.16; 412.17; 412.21; 412.22; 412.23; 412.28; 412.25; 413.01; 413.02; 413.03; 413.04; 413.05; 413.06; 413.07; 414.01; 414.02; 414.03; 460.01; 460.02; 460.03; 460.04; 460.05; 460.06; 460.07; 460.10; 460.11; 460.13; 460.14; 460.15; 460.16; 460.17; 460.18; 460.23; 460.24; 460.25; 460.26; 460.27; 460.28; 495.00; 496.00; 497.01; or 497.02	Clearance for 'Home use' under 'relief of duties and taxes' for specific conditions as provided for under Schedule 4 of the customs tariff.	GR
	14	20		Home use under 'relief of duties and taxes' for specific conditions as provided for under Schedule 4 of the customs tariff, previously cleared under the national transit procedure.	GR
	14	40		Home Use of goods under 'relief of duties and taxes' for specific conditions as provided for under Schedule 4 of the customs tariff, previously placed under the 'Warehousing' procedure.	XGR
	14	41		Home Use of goods under 'relief of duties and taxes' for specific conditions as provided for under Schedule 4 of the customs tariff, previously subject to a change of ownership under the 'Warehouse' procedure.	XGR
	14	42		Home Use under 'relief of duties and taxes' for specific conditions as provided for under Schedule 4 of goods originally entered for warehouse-for-export	XGR
	14	44		Home Use of goods under 'relief of duties and taxes' for specific conditions as provided for under Schedule 4 of the customs tariff, previously re-warehoused under the 'Warehouse' procedure.	XGR
	14	48		Home Use of goods under 'relief of duties and taxes' for specific conditions as provided for under Schedule 4 of the customs tariff, previously subject to "change of ownership" or "re-warehousing" under warehouse-for-export.	XGR

A – Goods offered for 'unconditional abandonment' and/or destruction to the Commissioner for SARS	**15**	**00**	412.07	Clearance for 'Home Use' of goods offered for 'unconditional abandonment'.	GR
	15	**14**	412.07	Abandonment and/or destruction of goods previously cleared for Home Use, and relief of duties.	GR
	15	**20**	412.07	Abandonment and/or destruction of goods previously cleared under the 'National Transit' procedure.	GR
	15	**35**	412.07	Abandonment and/or destruction of goods previously cleared under the 'Temporary Admission' procedure.	GR
	15	**40**	412.07	Abandonment and/or destruction of goods previously cleared under the 'Warehouse' procedure.	XGR
	15	**41**	412.07	Abandonment and/or destruction of goods, previously subject to change of ownership under 'Warehouse' procedure.	XGR
	15	**42**	412.07	Abandonment and/or destruction of goods, originally entered for warehouse-for-export	XGR
	15	**44**	412.07	Abandonment and/or destruction of goods previously re-warehoused under the warehouse procedure.	XGR
	15	**48**	412.07	Abandonment and/or destruction of goods, previously subject to "change of ownership" or "re-warehousing" under 'Warehouse for Export'.	XGR
	15	**80**	412.07	Abandonment and/or destruction of goods previously placed under the 'Inward Processing' procedure.	GR
	15	**85**	412.07	Abandonment and/or destruction of goods previously placed under the 'Processing for Home Use' procedure.	GR

Source: SARS Customs Procedure Code (CPC). Available at: https://www.sars.gov.za/AllDocs/Documents/customsandexcise/CPC%20Chart%20October%202019%20n.pdf