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# RISK MANAGEMENT - A NEW PRIORITY SYSTEM CUSTOMS AND ITS CONSEQUENCES

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**Abstract:** *The preoccupations concerning the analysis and the administration of the risks began in the year 1970 and lasted for 10 years, aiming at different fields of the human sciences: administration, sociology, economy, political sciences. The negligence in analyzing the risks for more than 20 years marked the competitiveness of the enterprises. The risks are still the same, some of them amplified, other new ones appeared by sometimes creating „the avalanche effect”, so it is difficult to estimate and to stop their consequences. Constantly facing new challenges, customs administrations should remain reactive when it comes to managing emerging risks. Risk management in combination with other essential constituents customs, indicate direction of the XXI century in this field. This paper aims to analyze the risks faced by customs, the possibility of analyzing and measuring the risks and their management directions.*

**Keywords:** *risks, evaluation, indicators, analysis, monitoring, review*

**JEL Classification :** G28, G32, M42

## 1. INTRODUCTION

Risk is defined as the likelihood of a ladder-proof event measured in terms of cost, quality and range to achieve a goal. This definition leads to the conclusion that there is no difference between risk and uncertainty. In the opinion of economist Knight (1) the risk of uncertainty is distinguished by the fact that it probably is. On the other hand, risk is measured, not uncertainty.

Customizing the customs, we can say that risk is the likelihood of customs, entry / exit, transit, transfer and final destination of goods moved between the customs territory of Romania and other countries and the stationing of goods have the status of Romanian goods, the event that either prevents the correct application of legal regulations or compromises the financial interests of Romania or threatens the safety and security of Romania, public health, environmental or consumer.

Risk management is a process that determines their risk of an activity, the seriousness of these risks, the circumstances favorable, so far as they are acceptable given the benefits they have work, the means to avoid them, to control them or to prevent it.

Risk is inherent in any activity leads to the conclusion that any individual can be risk or protective producer, or both together. Therefore, to combat the risk is not enough only to know nature but also to know who makes it and who manages it.

Important is knowing the origin to define risk management to be undertaken. Sources risk is twofold, it is equally the result of the internal and external enterprise. In the diversity of risk producers, as say H.Scholer G.Johnson and (2), is necessary to have a network of actors to risk that can be made up of enterprises, experts, private security sector and insurance institutions in which control is an important customs, citizens.

The customs activities, risk management's opinion Martyn Dunne (3), not only the process of determining risks, is a genuine way of thinking without which the customs authorities may react to different situations and anticipate the necessary initiatives and the language is usually known as "risk analysis".

In operational terms, customs risk management is an effective means of treating flows involving a large number of people, goods and vehicles with limited resources and changing risks, without impeding the flow of legitimate trade. Application of risk management the internal organization of the customs system and calls on the following issues: ethics, management, legal matters and relations with partners.

In other words, in customs, which include risk management information and operations should be based on a modern permissive legisltie exchange of information even internationally if needed. From a practical perspective, it is known that customs risk management involves an international component. Cross-border cooperation with other intelligence services and the fight against fraud can contribute to better risk management by improving data collection and means of intervention.

## 2. Customs risk management: who really run them?

Since human resources, fundamental element of risk is harder to control, we can distinguish three typical situations:

- no control over the course of events, something which is due to reasons of force majeure;
- direct control that shaped the human factor is present in the basics of customs;
- an indirect or subsequent monitoring and control lead to purchases after reaching their destination.

In any system of international supply chain management, risk control begins and ends is exercised by the human element. Thus, combining direct control for personnel selection and

control brokering indirect traceability systems (human quality associated quality system) is, or should be, the focus of risk management within the supply chain worldwide.

Therefore, risk management involves the risk profile, which is the means by which the customs to implement risk management and is a predefined combination of risk indicators that were collected, analyzed and ranked, contains instructions (instructions) to implement concrete necessary measures to prevent or reduce risk.

On a careful examination of the content showing how risk management can see that besides the concept of risk profile, we can identify other concepts, such as:

- risk indicators;
- risk assessment;
- customs data and information necessary risk analysis;
- judgment / decision of action;
- versus control audit.

**Risk indicators** include, in general, factors that enable, develop, amplify or reduce the degree of risk inherent in depending on the perception and control of each customs area at risk (risk general customs regimes customs operations, the types of freight or goods, the types of customs fraud, by category of customs). Many indicators of risk, although depending on the risk involved, can be used in completing the risk assessment.

**Risk assessment** is done by applying methods and techniques in order to determine the degree of probability that the passage of goods, property or person to produce an act of smuggling or trafficking of illicit drug activity that customs area.

Risk assessment to identify those facts that may occur in the customs control.

Customs risk level can be: high, medium or low. The probability that he expected action by the customs authority or undesirable situation to take place due to circumstances or its generating factors.

Customs risk assessment degrees can only be based on customs data and information that are managed in a specific database or can be collected from other databases or sources.

**Data and information necessary customs risk analysis** are the result of the collection, storage, use, update made by customs officers at work and trained staff on sector / area. These are problems to solve based on customs data that are analyzed in terms of case / specific events and trends and risk estimates in sectors / areas data.

**Judgment / decision action** is the result of risk analysis combined with the practicality of available personnel and material resources available. The decision determines the type of customs control action to be applied in situation / operation that customs (customs control at border customs control documents, physically, then, total or specific customs control, customs control combined with other types of checks made by other bodies state).

**Versus control audit**, two notions that apparently involve the same issue, but to be separated because the substantive differences.

Thus, while the *audit* is aimed at examining the main economic transactions which they declare at the customs, the main *control* aims to ensure that all movements of goods, vessels, aircraft and the vehicles and persons at the border are consistent laws, regulations and procedures applied by the customs authority.

Unlike customs audit, customs control methods developed can be used based on data and information provided by existing information systems in the offices or customs authority. In principle, however, border controls aimed at moving people, goods, ships, vehicles, aircraft, be made upon the operation, which is why some of these cases is very difficult for customs to define precisely the risks concerned with the details and time of receipt of goods and movement of their actual or All information and actual data arrival and customs clearance, which is usually short.

### 3. Elements of risk management

Customs administrations, there is always a risk element in monitoring and facilitating the movement of goods. To ensure compliance with customs laws and regulations, control measures must be responsible and should be proportionate to the level of assessed risk.

In modern customs control techniques of risk management process is important. This helps determine risk exposure areas where they are and support management decisions on the allocation of scarce resources effectively.

**We believe that risk management** must find a balance between costs and benefits to address all risks equally. Criteria are needed to decide what constitutes an acceptable or unacceptable risk.

To achieve a risk management process, good and effective, and appropriate tools are needed qualified people. This is especially true for IT systems which are essential, given the length, speed and complexity of international trade today.

Risk Management (4) should not be seen as static, but as an interactive process in which information is constantly updated, reviewed and revised and includes the elements:

- context;
- risk assessment;
- treatment and monitoring.

**a. Context** is a medium that is made risk management process and is influenced by several factors such as resources, political objectives, legal and social.

Currently, customs administrations are required to provide extensive facilities at the same time ensuring that the international movement of goods, vehicles, luggage and other goods transported to or from individuals are properly controlled. These responsibilities are a central feature of strategic context established by the customs.

Organizational and risk management context can be defined as a way of thinking based on the answer to the question : ***How can customs achieve the strategic objectives?*** Specialists in the management believes that the answer lies in the need to balance costs, benefits and opportunities, resources and equipment leading to prioritize certain strategic objectives and raise the question correctly assessing the capacity of customs administrations to develop strategic objectives to apply a plan for monitoring the results and increase the number of detections on risks. This requires an assessment of information on structures and general trends to be used by management to customs and policy makers to identify problems and take appropriate decisions on resources and legislation.

Risk management goals are to identify customs operations that are most likely to occur irregularities and to direct available resources to identified targets. How and whether the risk is addressed must be appropriate for the type of risk and seriousness of the risk. Customs must decide which treatment is most appropriate in the circumstances, but the approach must be efficient in terms of cost and able to significantly reduce the likelihood and / or risk consequences.

**b. Risk assessment.** The second step of risk management is a complex process that question first ***appearance date risk identification***, vital information covering trade flows, customs declarations, payments for the experience of operational staff, TARIC information, reports laboratory.

Risk identification is made in relation to the purposes and objectives of customs administration in Romania, among the major risks including: entry into the customs territory of dangerous goods safety and security of citizens, illegal entry into the customs territory (smuggling), seizure of goods under customs supervision, to circumvent the prohibition or

restriction or incomplete payment of customs duties and other taxes, intellectual property infringement, breach of the strategic goods and / or dual-use.

As a starting point for further analysis is necessary to identify all risks occurring, why and how. This stage involves an in-depth control of this process and should include all risks, no matter how insignificant they may seem, if necessary, can give them a later stage, but the inclusion of all suggestions are made a more complete picture.

**Risk analysis** is the second aspect of risk management step 2 and is based on risk and risk assessment in every aspect of context, the risk analysis and risk analysis demonstrated potential.

Size or level of risk is estimated in terms of likelihood and severity of their impact (consequences) if they occur. This combination sets the probability and consequences of that risk.

In this phase of the process, for each identified risk will perform tasks such as using risk information, which is the probability and frequency of risk, determine the impact, cost and consequences of these events taking into account every aspect of context.

Risk is a fact that an irregularity has occurred and customs organization has a record of the incident and the facts surrounding the case. Lists of these risks can be analyzed and compared with current data to see if conditions surrounding the risk currently and whether there may be a new risk assessment.

Exchange of risk information between member states is an additional source of information important to help with checks and counter emerging threats quickly.

**Risk weight** may be subject to discussion from the fact that there are different types of ranking systems. After identifying and analyzing risks are estimated. This involves determining whether the individual risks are low enough to accept them as an insignificant threat to the customs and their goals. If a risk is assessed as representing a significant threat, then we can do something about it.

Based on the information obtained above, consider each identified risk by probability and consequences.

This combination creates the probability and consequences of risk (high, medium, low).

After identification of unacceptable risk, they are placed in order of importance, so that the most serious risks to be priority.

A coherent strategic approach, based on common criteria, understanding, methodology and procedures applicable to all areas of risk management exercise should reduce unnecessary subjectivity in the decision process.

Consistent use of inputs, including criteria, procedures and data, promote comparability of results, such as the risks identified are prioritized according to a common measure. Logical categorization of risk is deemed necessary to determine the priority for risk assessment identified.

If the customs border of risk can be established in three different ways, as follows:

- through *dynamic parameters* - are used for profiling based on information obtained from various sources;
- using *fixed parameters* - occurs when there is a selection based on pre-determined mathematical risk values for each procedure code, country code, product code and trader. The total score value can be determined based on a scoring table resulting in a high risk, medium or low;
- by *random selection* - local customs should be in a position to undertake random checks carried out on lots that were not marked otherwise. This can be achieved through a random selection using a statistical computer program or manual system that eliminates individual subjectivity.

**In our opinion**, in addition to methods known and applied in risk analysis, we believe, in a significant proportion, intuition, flair and experience continues to be an important criterion for selection.

From research conducted, we can say that risk analysis is a systematic use of information and data in order to determine how often an event occurs and the importance of consequences.

To determine the risk of customs is necessary to create databases at different levels, bases subsequently be analyzed continuously. To create the databases required to collect all information deemed necessary.

**c. Treatment of risks** is step no. 3 of risk management. In general, development and implementation of risk treatment can be selected via control actions (documentary and physical), spot (customs) or at the businesses, which outlines the existence of a previous control layout and back control to help minimize the burden on border trade.

Risks are low priority for risks in other categories are developed and implemented specific treatment, as shown in the plans of management.

Using risk management techniques, but also need better access for good communication, consultation and cooperation between economic operators and customs administrations are vital to achieve a balance between effective control and trade facilitation.

Risk management to boost the current international climate, the customs administration must ensure that access to vital information, specialized information on people and goods and "commercial information" through key relationships with importers, exporters, the customs agents, carriers and others is analyzed and the results are effectively managed properly.

Since 1998, the EU Court of Auditors (5) showed that imposing a uniform approach to customs control throughout the Community based on risk analysis techniques for control and clearance of goods.

The fourth element or step of risk management, **monitoring and reviewing** the effectiveness of change strategy contributes to the understanding and implementation of procedures to improve border controls.

Risks should be monitored to determine whether or not changes have occurred in nature or severity or whether new risks as a result of new circumstances.

Monitoring and review could affect / alter the performance, efficiency and effectiveness of risk management. For these reasons, evaluation and review should be carried out regularly through a specific mechanism.

Monitoring should be carried out by Community customs, meeting spirit of cooperation and the review must use feedback information leading to the analysis and prioritization updating of control.

**Therefore necessary to distinguish between feedback and monitoring.** While feedback leads to change and update the risk profile, monitoring is an evaluation of system effectiveness.

#### **4. How can risk assessment and selection modernize customs control?**

Promoting ethics is an important part of reforms that can be taken to modernize customs, and limit controls required under the risk of collusion is attached trader and importer and that are higher before releasing goods from customs. Targeting and selectivity control is indisputable.

At the same time, the reluctance of a significant staff less inclined to change their working methods for fear of losing benefits and therefore lower income suspecting their customs authorities are less open to the prospect of release of goods without physical control

"guarantor" the taxes due. Hence, the need to identify optimal conditions for the control target, without risk of loss of income.

Selectivity control involves identifying the most risky operations to guide control statements to different circuits. Targeting is done either by traditional or innovative methods by using modern tools for risk analysis.

In terms of the classical methods, routing is performed by a random manner, and / or using risk criteria. Identification of risk criteria is done manually based on experience and judgment to customs officials based on information available transaction history or revealed by their intelligence. Targeting criteria, validated by a committee, become parameters of selectivity in an information module, and which, in principle, be reviewed periodically.

Although the point made above is a solution, however we believe that these methods have a double disadvantage. They are dependent on intervention and assessment of the human factor, therefore, risks, and they depend heavily on real-time efforts to adapt to new forms of fraud. Hence, **it is necessary to fully eliminate human intervention by use of more sophisticated risk analysis and automated on which we express a view.**

The idea is to adopt an identical approach to that used in many sectors (banking, insurance, nuclear) for risk analysis based on the use of scientific methods and their adaptation to contextual customs. **This approach is particularly that practiced by the private companies can be adapted to the customs system for risk analysis which is based on four different approaches, namely:**

- control of all operations unknown characteristics (in our case, a new importer);
- examining the import declaration and statistical study of global history series of fraud risk assessment;
- systematic monitoring of operations based on factors related to certain features;
- purely random selection which allows the control reglementaire rate.

The second approach is the "heart" of the system and gives it the character of "rational" (not subjective), which will allow the entire system targeting.

Each operation nine customs fraud are likely (overall score). For this, the criteria for fraud (eg, importer, product origin ...) are initially identified from historical data, then assign weighting coefficients showing the relative importance of each criterion.

Relevant criteria of fraud and their weighting are determined by the scientific method, for example through a econometric analysis. Any new job-specific customs, obtain an overall score assessing fraud risk (predicted probability of fraud) the operation characteristics (criteria for fraud). This score allows the automatic orientation of the declaration by a control circuit. A similar concept has been tested and B.Laporte AMGeourjon (6) the two customs administrations.

In addition to specific skills in "data mining" and the decision statistics, customs administrations have their know-how necessary, but the question is: **government commitment to such a project can create synergy essential for its success, in other words, can mobilize the necessary and create adequate institutional structure?**

Can be considered using the services of private sector credit and financial institutions to help customs administrations in the use of such systems based on customs data, either by purchasing software and its implementation in the (design phase) outsourcing contract (design and operation).

Recent work (7) based on information theory, but stresses the incompatibility of association in the same contract and same private company, a program for checking imports with an objective to modernize the customs (here ranging and risk analysis). In fact, the authors are right in a country because a company pays customs inspection before dispatch or arrival at destination and has no interest for the second objective, namely the modernization of the customs in our case equivalent to program verification more profitable. The success of these



contracts requires certain rules on the compatibility of contract objectives, mode of payment and information flows of the Contracting Parties (NCA inspection program, the objective of modernizing customs offices).

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