

“Innovative methods in national and international trade control: systems and intelligent customs seals

How Customs and Tax Services can cooperate to fight fraud”

Regional Seminar for European Countries

Budapest, 7th - 8th December 2017

Lt. Gen. Mihály Arnold Regional Training Centre (RTC) of the WCO

SUMMARY REPORT

The event brought together **37 participants from 16 countries** (Azerbaijan, Bulgaria, China, Denmark, Ireland, Kosovo, Poland, Latvia, Lithuania, Hungary, Russia, Serbia, Slovakia, Slovenia, Turkey, Ukraine), the European Commission DG TAXUD, WCO and IOTA. The Seminar focused on tax and customs cooperation including joint methods of trade control and risk analysis, the fight against fraud, the control of consignments both at the borders and by using different trade control systems at the national and international level as well as the usage of electronic seals (e-locks).

The event offered an excellent opportunity to share experiences on different systems and methods applied by Member States of the WCO Europe Region to track the movement of selected types of goods in order to effectively prevent tax evasion and to curb fraud. The agenda covered initiatives on tax and customs cooperation at the national and international level, trade control and fight against fraud, integrated tax and customs risk analysis of trade, as well as experiences about trade control systems and IT solutions aiming at the detection of infringements and to facilitate proper processing and analysis of data.

In his opening speech, **Brig. Gen. Károly Szabó**, Deputy Director General for Customs of the National Tax and Customs Administration (NTCA) outlined that tax and customs administrations need to have more and more complex answers to common challenges which resulted in the establishment of the new revenue administration in Hungary in 2011 integrating the tax, customs and criminal fields as well. The Electronic Public Road Trade Control System (EKAER) introduced in 2015 is an excellent example of this collaboration which not only secures state revenues but provides useful data for every professional field responsible for the movement of goods.

Theo Hesselink, Technical Officer of the WCO – moderator of the event – stressed the importance of tax and customs cooperation regarding which a WCO Guideline has recently been developed. Moreover, the WCO – through its Coordinated Border Management (CBM) concept – intends to facilitate cooperation among different agencies operating at the border as well, in order for greater efficiency in managing trade and travel flows, while maintaining a balance with security requirements. Moreover, the organization’s Private Sector Consultative Group provides a platform of cooperation with other stakeholders. Given that 10% of trade is illicit globally, facilitation of legal trade and efficient customs procedures are of utmost importance.

Out of the agenda, the representative of Serbia expressed that the receipt of the instruments of **accession of the so-called „Kosovo“** to the Convention Establishing a Customs Cooperation Council (WCO Convention) is considered as null and void by the Republic of Serbia (see the whole statement annexed) and participation of the representative of the Republic of Serbia at this meeting in no way represented recognition of the unilaterally declared independence of so-called „Kosovo“. Following this statement, the moderator pointed out that this matter was under consideration at political level at the WCO extraordinary Council Sessions on 14-15 December. In response to the above, the representative of Kosovo expressed that Kosovo's accession to the WCO took effect on 25 January 2017, in accordance with Article XVIII of the WCO Convention, it is recognized by 114 UN member states and it is a member of a number of international organizations such as the IMF or the World Bank Group. The participants of the meeting took note of the above declarations.

Theo Hesselink provided a general overview of the establishment, 65-years-old history, organisational background and main activities of the WCO consisting at present of 182 Member States. Then, he outlined that tax evasion, money laundering, illicit money flows, terrorist financing and other related financial crimes are posing greater challenges to political, economic and social interests of countries, thus Customs and Tax administrations under greater pressure in their risk assessment, compliance management and trade facilitation efforts. Mutual cooperation – as part of a whole-of government approach – is required. In this regard, the WCO has developed a number of tools and initiatives such as the CBM Concept or the Customs-Tax Cooperation guidance.

Lt. Col. Gergely Duda, Senior Enforcement Expert presented the Electronic Public Road Trade Control System (EKAER) introduced in 2015, which aims at supporting compliant economic operators, making the movement of goods more transparent and to fight against VAT fraud and dangerous goods. By using EKAER the actual route of the goods can be tracked because transport related data (name and quantity of goods, consignee, consignor, registration number of vehicle, etc.) have to be registered in a central electronic system before starting the transport. The System is integrated with camera surveillance. The NTCA has handled more than 11 million EKAER notifications in 2017 and 197.640 controls have been carried out this year. He stressed that the legal market welcomed the introduction of EKAER which significantly contributed to the cleaning of the market.

In Poland, a similar system was introduced on 18 April 2017 which was presented by **Anetta Janda**, Head of Unit of the Ministry of Finance. The System can be accessed through the Electronic Services Portal of the Customs Service (PUESC) being a single access point to e-services provided by the Customs Service. Taking into consideration that main aim is to prevent fraud, high sanctions have been established e.g. 46% net value of the goods. So far, the System handled more than 2 million notifications and 1 933 irregularities have been revealed. There has been an increase of 2.5 billion PLN in state budget revenues in the 1st half of 2017. Legal consumption of diesel increased by 19% and gasoline by 7% comparing to the 1st half of 2016, moreover, lubricating oil production decreased by over 50% and rapeseed oil export (intra-Community supply of goods/export) decreased by over 75%.

Following these presentations, Theo Hesselink asked for **sending Hungarian and Polish examples to be incorporated as working examples into the WCO Customs-Tax Cooperation guidance.**

Massimo Morarelli, Technical Taxation Expert of IOTA presented in general the organisation which consists of 44 Member States. IOTA provides a platform for European tax administrations to share experiences and best practices, to network and to effectively react to challenges of the 21st century such as digital economy, the transformation of public service, the use of data and analytics, e-commerce, sharing economy, increased cross-border VAT fraud or small consignments. Effective tax and customs cooperation results in identification of transactions and cross-border trade, detection of hidden assets and income, improved efficiency on combatting complex and cross-border VAT fraud with goods and services/intangibles, risk based compliance management or access to shared databases.

Following the above, the application of **Smart and Secure Locks (SSL)** was presented by China and Slovakia.

On behalf of the China Mission to the EU, **Ding Ye**, Second Secretary expressed that the application of SSL is in line with efforts to seek both security and facilitation along the global supply chain. She described the main technical and operational parameters of the locks which have been applied by China from 2016 at freight trains to Europe (within the territory of China). Talking about the roles of stakeholders, she expressed that Customs at departure/transit should ensure data accuracy, while rail operators/logistics operators should care for customs compliance, quality data transmission, voluntary submission of high-risk goods info, hardware in place e.g. SSL, handheld readers as well as hardware maintenance and allocation. In December 2016 the 1st Seminar on data exchange and mutual recognition on customs control was held in Beijing – officially presenting the partnership program for promoting freight trains between China and Europe – and in March 2017 the 2nd Seminar was held in Chong Qing. In September and November 2017 a pilot project was launched with Kazakhstan and as a next step, China would welcome more volunteers to join pilots on SSLs.

Following this presentation, **Vladimir Staško**, Director of International Relations and Cooperation Department shared the Slovak experiences regarding SSL. This equipment is able to contain information about means of transport and also goods (including customs declarations, invoices, records from controls, x-ray images etc.). All data are available in real time and they could be checked in every transit country and in Slovakia at the moment, when the goods are still physically in the territory of exporting country. After activation of the e-lock, the track of the vehicle will be displayed on a vehicle supervision page in the logistics supervision system and risk analysis can be done in advance. The E-Tracking System and the Customs Inspection Centralized Supervision System has been tested from September 2017 and 6 e-locks are being tested in the territory of Slovakia as an own pilot project and not like a customs seal but as a tool.

Following questions from the floor, it has been confirmed by the speakers that **SSLs are not customs seals** (they are provided by the private sector), the locks **contain manifest information** supplemented with results of customs controls and scanning images and **there are different types of locks** (and standardisation could be an issue) and finally, **customs are responsible for data accuracy** and the **private sector is responsible for maintenance**.

Lt. Col. László Kelemen Dr., Deputy Head of Department of Risk Management and Selection presented in general the main sources of the NTCA's digital data assets – data from the taxpayers, third party data and data processed by the NTCA – which form the basis of joint (tax and customs) analysis and are all stored in a joint data warehouse. Following the

establishment of the integrated revenue administration in Hungary, centralised risk management system was set up with shared risk information, common tools, systems and methods, integrated applications which facilitate complex and real time analyses. Tax and Customs risk information are utilised in an integrated way in order to fight against carousel fraud, change of ownership, tax avoidance, undervaluation, or to secure consumer protection. In his related presentation, **c.w.o. Péter Mosonczi**, Senior Risk Management Expert the main aim is to filter out risks related to safety and security. Although data from NCTS, ICS or ECS are available, their data content is limited and of mixed quality. Amongst the main advantages of the electronic system he mentioned that it is free of discrimination, minimizes subjectivity, ensures legality and professionalism, protects legitimate traders and allows fast procedures with the necessary and sufficient controls.

Karel De Greve, Policy Officer of European Commission DG TAXUD Risk Management and Security Unit emphasized that Customs are facing new challenges: they must ensure the smooth flow of trade while applying necessary controls on the one hand and also guarantee the protection of the safety and security of the Community's citizens on the other hand. WCO tools (SAFE Framework of Standards, Risk Management Compendium) and the Union Customs Code applied since 1st May 2016 are supporting these efforts. The EU focuses on supporting trustable economic operators, which is confirmed by the fact that Authorised Economic Operators (AEOs) were involved in 81% of import, 72% of export and 56% of transit procedures in 2016. Moreover, he outlined the Smart and Secure Trade Lanes (SSTL) Pilot project between the EU and China which allows testing end-to-end supply chain security instruments and mechanisms in line with WCO SAFE Framework of Standards. During the 3rd Phase of the Project the pilot is extended to air and rail transport (in addition to maritime transport), advanced risk management techniques are incorporated and common risk rules are developed. An ambitious data exchange mechanism is being developed also to support the above objectives and actions.

Maj. Khumar Seyidli, Senior Inspector described the organisational background and main fields of activity of the State Customs Committee (SCC) of Azerbaijan. The Single Window System was introduced in 2009 and a Green Corridor Gating System was also set up in order to simplify customs procedures and ensure transparent customs clearance, smooth transportation of goods and increased export potential. From 4th May 2016 all the declarations have been submitted to the customs authorities only in electronic form through the official website of the SCC or e-government portal and entrepreneurs need to have the e-signature or "Asan (easy) signature". The Unified Automated Management System was created in order to increase efficiency of customs procedures, to use paperless technology in the processing of customs documents, to create a single information space for customs authorities and to create an efficient mechanism for mutual exchange of information e.g. with other government agencies, authorized economic operators, economic operators and customs authorities themselves. In line with WCO standards, a Time Release Study was implemented in order to measure the average time needed for customs clearance.

On the second day of the Meeting a **field visit** was organised at the Directorate for Deployment of the NTCA. **Col. András Dajka**, Director welcomed the delegated and held a presentation on the organisational structure and operation of the Directorate. Participants had the possibility to visit the EKAER Dispatcher Module as well, where practical information were shared on the operation of EKAER, the usage of EKAER-related programmes (EKAER Analyser, ARUREG, Panorama), the analysis of data, the selection for control or the tracking

of vehicles. The field visit ended in a truck parking space by a highway near Budapest, where two trucks were selected for control and delegates could follow the work of patrols, their equipment and the audit process itself.

Results of the evaluation questionnaire filled in by participants at the end of the Seminar show that according to 65% of participants the seminar achieved its objectives very well (and 35% well), the quality of lectures was very good according to 60% (and good according to 40%) and in total 90% thought that the course contributed to the performance of the delegating Administration.

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