
Risk mapping in the customs field

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One of customs main tasks is to assess risks in the flow of goods. Risks are those factors that could influence Customs objectives. In pursuing those objectives it is important to have good knowledge of the risks that we face and the impact they might have on the objectives. The Customs administrations in the Member States have opted to base the control on economic operators on the basis of risk management. The purpose of using risk management is to aim Customs' control activities on risks rather than on random selected aspects or declarations.

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One of the main elements of the security amendment of the Community Customs Code is the creation of the AEO concept (Authorised Economic Operator).

On the basis of Article 5a of the security amendments, Member States can grant the AEO status to any economic operator meeting the following common criteria: customs compliance, appropriate record-keeping, financial solvency and, where relevant, security and safety standards.

The status of authorised economic operator granted by one Member State is recognised by the other Member States. This does not automatically allow them to benefit from simplifications provided for in the customs rules in the other Member States. However, other Member States should grant the use of simplifications to authorised economic operators if they meet specific requirements.

Economic operators can apply for an AEO status either to have easier access to customs simplifications or to be in a more favourable position to comply with the new security requirements. Under this new security framework, which will become applicable from 1 July 2009, economic operators will have to submit pre-arrival and pre-departure information on goods entering or leaving the EU. The security type of AEO certificate will allow their holders to benefit from facilitations with regard to the new customs controls relating to security.

The detailed provisions are laid down in the amendment (by Regulation 1875/2006) of the Implementing Provisions of the Community Customs Code. These provisions were drafted on the basis of experiences from the AEO Pilot conducted in 2006.

THE AEO COMPACT MODEL

In 2002 a Customs 2002 Project Group was established to revise the catalogue of Risk Indicators for Economic Operators and to develop a common framework for risk assessment of economic operators called COMPACT (Compliance Partnership Customs and Trade).

In using risk management Customs takes into account the measures that the operators themselves have taken to prevent risks in their business processes. Customs administrations want to aim their limited capacity in particular towards risks that are not or not sufficiently covered by measures taken by the economic operator. In order to be able to follow that approach it is necessary to create a good picture of the economic operator, its business processes and the measures the operator has taken to reduce the risks in fiscal and non-fiscal processes including the supply chain. Customs therefore have to assess the economic operator's organisation, processes, procedures, administration, and so on. In short the operator's administrative organisation and its internal control system must be assessed.

The COMPACT framework is a methodology to perform such an assessment. Not only on a national level, but also on an international level, when more countries are involved.

It is a flexible tool that can be used not just in the protection of the fiscal interests of a Member State or the Community, but also in the protection of the non-fiscal interests such as the protection of the external frontier of the Community (e.g. Supply Chain Security and Anti Smuggling).

Integrated parts of the AEO COMPACT Model are the Risk Mapping method described the guidelines on standards and criteria. The economic operator applying for AEO status shall implement, in conformance with its business model and risk analysis, the systems, the procedures, conditions and requirements established in the Community Customs Code and the guidelines on standards and criteria.

The risk mapping process

The assessment of the operator's risks is the cornerstone of the COMPACT framework. This assessment can be done by using the risk mapping method. Also the Customs can benefit by developing the risk mapping method to be used as a systematic method to the assessment and judgement of risks. Furthermore, a systematic approach is also needed to determine in what way a certified operator should be controlled and evaluated afterwards.

The method is meant to prioritise risks by evaluating the likelihood and impact risks will have on the Customs' objectives. It is a method that structures and supports the weighing and judging of risks. By using the risk mapping approach together with measures expressed in the COMPACT framework you will have a structured approach aimed at risk identification, risk assessment, control approach and the evaluation for continuous improvements.

The risk mapping process originally consists of five basic steps:

Step 1: Understanding the business (of an operator),

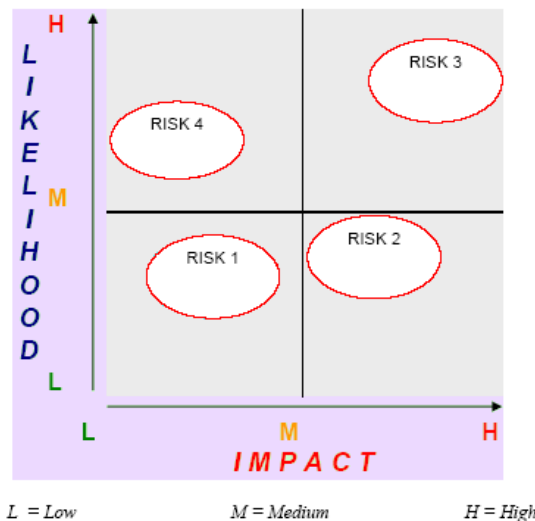
Step 2: Clarify the customs' objectives,

Step 3: Identify risks (which risks might influence the customs' objectives)

Step 4: Assess risks (which risks are the most significant)

Step 5: Respond to risks; what to do about the (remaining) risks.

Although the assessment of the risks is not always quantitative, the risk map will provide a certain degree of transparency into the risk environment of the operator in relation with the customs facilitation.



By using the risk mapping approach as simple as possible in terms of the working performance, it is desirable to separate the risk mapping method into a two actions by performing the *mapping internally* (within customs) first, followed by a *common mapping* (together with the operator) in which the customs eventually has to come to a decision where to set the risks and how to respond on these.

It is necessary to make a structured and proper documentation of the contents of the assessment made, in particular it should be docu-

mented why a specific risk was assessed at a particular level, to follow possible (positive/negative) developments of a risk.

For validating the risk it is important that the processes described in writing are verified in practical, for financial aspects that can be covered with random sample checks in the operator's administration but most of the security aspects should be verified through physical verification again on a random basis.

Once all relevant risks are mapped and completely documented in the Customs risk mapping phase, the common risk mapping can take place. This starts with presenting and discussing the outcome of the customs risk mapping with the operator. After that must be determined whether the assessment made within customs corresponds with the current situation (i.e. finally determining to what extent the operator himself has taken measures to cover identified risks and also in what way the operator prioritises different types of risks internally).

Finally a decision must be taken about the weaknesses and strengths of the operator's AO/IC in terms of general as well as procedural aspects and place each identified risk in terms of its impact and likelihood.

After all relevant risks are assessed, including the operator's own measures regarding these risks, there may be some risks not (sufficiently) covered. This we call **the remained risks**.

Risks are part of doing business. It is the intention that the customs administration understand the significant risks, set boundaries for risk taking and applies (tailor made) risk responses.

Granting the AEO status with the consequent facilitation/simplification can start in theory if all risks can be covered. If not, there must be an evaluation whether the status is to be rejected or adjustments or improvements are to be made by the operator to cover the risk or to reduce it to an acceptable level.

Responses to risk utilise one or several of the following strategies:

TAKE = within the acceptable materiality

TREAT = audit plan

TRANSFER = guarantee

TERMINATE = rejecting the facilitation

Take the risk

To some extent there is a degree in every response to most significant risks. Some risks can not be avoided, some risks can be practically and affordably reduced to zero likelihood/zero impact. For example it is physical impossible to check all exports shipments to third countries. Whenever risk taking is significant, it should be explicitly stated, understood and approved by an appropriate level of management.

Treat the risk

Because the response to significant risk will be active rather than passive there will be some degree of treatment in the response to significant risks. By treating risks, the aim is to change the likelihood and/or impact of a recognised risk in order to achieve the customs objectives. In the evaluation provided that the customs facilitation is possible, it can be considered that significant risks can be (effectively) reduced by specific administrative or audit measures carried out by customs. These must be described and planned in a control/audit plan.

Transfer the risk

Sometimes it is possible to transfer risks to another party. For example, an operator can transfer the risk of unauthorized access to a surveillance company. Agreements made between the company and the third party involved have to be examined and assessed.

Terminate the risk

Risk can be avoided by intense controls and/or regular audits or even not granting the status.

A “fit for purpose” risk response will combine various strategies and mechanism to achieve the desired results.

Conclusions

When the pre-audit process is completed through the five steps, the following conclusions can be possible:

(1) There are no remained risks or if the remained risks can effectively and efficiently be covered by additional control measures, **the AEO status can be granted**. When after the (first or second) pre-audit the decision has been made that the AEO status can be granted, customs issues the authorisation/certificate to the operator. If necessary specific working agreements are added to the authorisation/certificate.

(2) There are too many remained risks or the remained risks are too big to cover them effectively and efficiently by additional control measures but it is possible for the operator (and the operator is willing) to undertake improvement actions regarding the administrative organisation and the internal control system, in this case **granting of the status is not possible at that time**, but it may be possible after the operator has undertaken improvement actions. These improvement actions must be checked by Customs in a (second) pre-audit (including the common risk mapping procedure) to establish if the remained risks from the first pre-audit are now covered in a sufficient way and in the end the status might be granted.

(3) There are too many remained risks or the remained risks are too big to cover them effectively and efficiently by additional control measures and it will not be possible for the operator (or the operator is not willing) to undertake improvement actions regarding the administrative organisation and the internal control system, in this case **the status will not be granted**.

It is desirable to make this final assessment in a team. Important is good documentation why the risks have been set, where they are in

the mapping and/or why the risks have moved in one or another direction in the map, is of vital importance.

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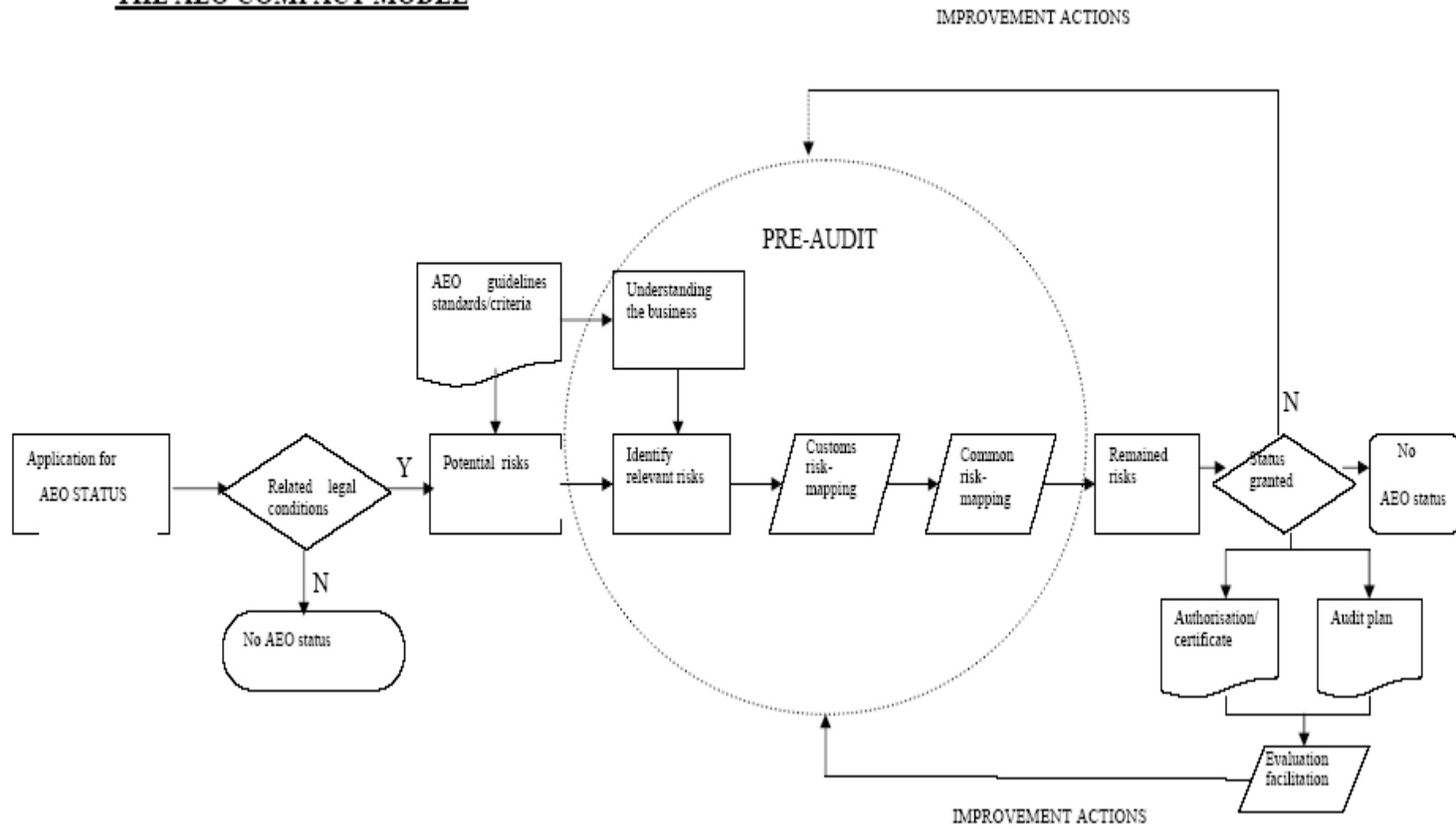
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THE AEO COMPACT MODEL



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