



TRADE COMPLIANCE: THE BASIS FOR A TRUSTED SUPPLY CHAIN

Whitepaper

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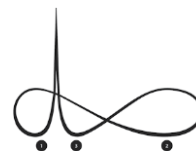


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1 Management Summary

Trade Compliance is the basis for a trusted supply chain. A trusted supply chain consists of organisations that are trusted by government agencies and have proven to be in control of their business operations. Industry and government-agencies have identified three main innovation-paths to break with the “old way of thinking and acting” within Trade Compliance.



1. **System Based Control:** this refers to the change from transaction driven control into process-control, working together and exchanging information between all partners in the supply chain.
2. **Coordinated Border Management:** this refers to the development of aligned legislation and close co-operation of different government agencies (e.g. custom and tax authorities) to minimize the disturbances in the supply chain flow of the industry while maintaining the mandatory inspections. The lack of cooperation and non-harmonisation border laws result in major constraint in the supply chain.
3. **Pushing Out the Border:** this refers to inspecting goods at the most effective place and time, taking into account the level of interference they can cause in the logistical chain.

In this whitepaper we take a closer look at the status of these innovations, new developments within Trade Compliance, the negative consequences for non-compliance, the enforcement vision ‘Pushing Boundaries’ of the Dutch Customs and the importance of an integrated approach to Trade Compliance. This paper has been initiated by the Network Trade Compliance and aims to create further awareness about the relevance of Trade Compliance and stimulate further discussion. The Network Trade Compliance acknowledges that the three innovative concepts for Trade Compliance are the key drivers that will need to be further developed, designed, tested and piloted. Especially Coordinated Border Management needs a boost in development and incentive.

There is a clear need for innovation in Trade Compliance. The balance between enhanced security and reduction of trade transaction costs is overstretched. There is still a lot to gain: US\$ 2.6 trillion according to The World Economic Forum. Organizations need to reconsider their supply chain risk management by applying collaborative chain control strategies. Government agencies need to understand supply chain dynamics, recognize the effectiveness of these chain control strategies and apply corresponding supervision models, such as the trusted trade lane supervision model. The Dutch Innovation Policy in Dutch Top Team Logistics needs to support the acceleration of these transitions.

Logistic parties cannot always reach the desired level of compliance by themselves. The so-called business case for being compliant needs to become clearer. What are the benefits, especially for midsize companies, to be compliant? Integrating, redesigning, harmonizing and simplifying government processes and procedures will result in cost reduction. The enforcement vision: Pushing Boundaries is a step in the right direction as a reply from government side on improvement of trust and visibility in supply chains and supply chain partners, but there are still too many examples of non-compliance in the supply chain. More focus should be put on identifying business drivers to be compliant. Fact is that Trade Compliance as a whole is still in the early stages of its life cycle. Government and Logistic organisations constantly need to be informed and advised of the importance, risks and benefits of investing in Trade Compliance and trusted supply chains.

Trade Compliance is the base for a trusted supply chain. Therefore the network Trade Compliance sees an integrated approach to Trade Compliance through training and education as the next innovation to be further developed over the next couple of years. The innovations complement each other and work side by side as the enforcement vision of Dutch Customs 'Pushing Boundaries' illustrates by differentiation, and approach in enforcement, of the supply chain in blue, green and yellow flows. The regulated delivery of all sorts of logistic information to government agencies and changing checks/controls upstream or downstream of the supply chain are results of a layered supervision, which is filled in depending of the visibility, trustworthiness and transparency of a supply chain. That provides a layered focus of Trade Compliance.

By simultaneously focussing on awareness, education and on processes (based on layered supervision) thus decreasing government control, and trusting and rewarding compliant organisations, Trade Compliance creates openness and trust within the supply chain.

The Network Trade Compliance will continue to advice, support and recognize all the initiatives as an opportunity to create awareness, to improve and optimize the logistic chain, to create more value and to reduce costs and administrative burdens for both government agencies and logistic Industries.



2 Introduction

Did you know that?

- Supply chain inefficiency accounts for 30% of food that is lost or wasted between harvest and consumption?
- Enhanced visibility and data accuracy allow governments to perform better risk targeting, thus safeguarding societal interests more effectively?
- Accessibility of trustworthy trade data opens up new supervision concepts that are able to better facilitate international trade?
- For trade organisations, enhanced supply chain visibility based on accurate data means better predictability, resulting in cost reductions and better aligned processes along the value chain (supply chain synchronisation)?
- Innovative Customs procedures and digital document exchange alone could realize saving of around €200 million?
- The total cost for regulations for the Rail, Road and Air is estimated on €23.514.000 or €11, 52 by container and harmonising laws and regulation for these modalities is crucial for decreasing costs?
- The International Chamber of Commerce (ICC) believes Trusted Trade programs that recognize the differences in risk between traders will result in more efficient and uninterrupted trade lanes?
- Trade Compliance will be a major subject for education and training as part of an integrated approach to Trade Compliance?



Source: Actal Report: Business Rules: Logistic scan TNO (November 2013) + Cassandra – D9.1 CASSANDRA Final Report

International supply chains are constantly in motion. Despite the current economic recession, forecasts, for instance the World Bank Enabling Trade Index from the World Economic Forum, show the goods flows will vastly increase over the coming years. But international trade is bounded by laws, complex regulations (including safety and security) and various trade procedures that govern export and import. Therefore logistic innovations are needed to optimize the supply chain. Trade Compliance is focussed on conforming to the rules of international trade, such as a specification, policy, standard or law. This includes regulatory compliance, describing the efforts to ensure that organisations are aware of and take steps to comply with relevant laws and regulations. Development and research on Trade Compliance has developed significantly, but there are still challenges to deal with.

In the spring of 2012, the network Trade Compliance published the whitepaper Trade Compliance: A Burden or Opportunity? This whitepaper described the burdens but also the opportunities of Trade Compliance.

To break with the “old way of thinking and acting” within Trade Compliance, the whitepaper concluded that there are three main innovation paths:

1. **System Based Control:** this refers to the change from transaction driven control into process-control, working together and exchanging information between all partners in the supply chain.
2. **Coordinated Border Management:** this refers to the development of aligned legislation and close co-operation of different government agencies (e.g. custom and tax authorities) to minimize the disturbances in the supply chain flow of the industry while maintaining the mandatory inspections. The lack of cooperation and non-harmonisation border laws result in major constraint in the supply chain.
3. **Pushing Out the Border:** this refers to inspecting goods at the most effective place and time, taking into account the level of interference they can cause in the logistical chain.

In this whitepaper we take a closer look at the status of these innovations and the new developments within Trade Compliance. Furthermore this paper points out some examples of the negative consequences for noncompliance and the importance of an integrated approach to Trade Compliance. This paper has been initiated by the Network Trade Compliance and aims to create further awareness about the relevance of Trade Compliance and stimulate further discussion.

3 What is Trade Compliance?

Trade Compliance basically is the process by which companies trading and/or transporting goods internationally, comply with all laws and regulations (including safety and security) of the countries that goods are shipped to, through and from. However Trade Compliance does not only focus on complying with laws and regulation, internal company policies, logistic procedures and documentation, but also on reducing direct and indirect logistic costs and reducing risks. This can be achieved by simplification and harmonisation of rules, regulations, clear communication and data exchange with government agencies, and by clear and effective (inter)company procedures.

There is a clear need for innovation in Trade Compliance. The balance between enhanced security and reduction of trade transaction costs is overstretched. Additional regulations were initiated after 9/11, such as the pre-departure Entry Summary Declarations, special regimes for inbound flights from Third Country Airports (ACC3) and dynamic and far-stretching export control regimes. These requirements lead to a rise in trade compliance costs.



Although friction costs in global trade is decreasing tremendously, through digitizing trade documents and single window initiatives. There is still a lot to gain: US\$ 2.6 trillion according to The World Economic Forum. Organizations need to reconsider their supply chain risk management by applying collaborative chain control strategies.

Government agencies need to understand supply chain dynamics, recognize the effectiveness of these chain control strategies and apply corresponding supervision models, such as the trusted trade lane supervision model. The Dutch Innovation Policy in Top Team Logistics needs to support the acceleration of these transitions.

Development and research on Trade Compliance has advanced significantly and Trade Compliance has become a major theme in Transport and Logistics Research and Development. Various research programs like CASSANDRA, CORE (start summer 2014), INTEGRITY, ITAIDE and SMART-CM focus on innovation and optimization of the international supply chain, but there are still challenges to deal with. These challenges mainly concern identifying the proper business case for the alignment of business benefits and activities to comply with law and regulation.



A main concern is the hurdle for organizations of taking the next step in compliance. How to balance between the cost of being compliant and the benefit of managing and mitigating associated risks, including the risk of non-compliance? Is Trade Compliance merely perceived as a must for companies because otherwise they'll run into problems with government agencies? Or is Trade Compliance an integral part of the companies own business target to become more efficient and cost effective by improving the control and monitoring of their own business processes?

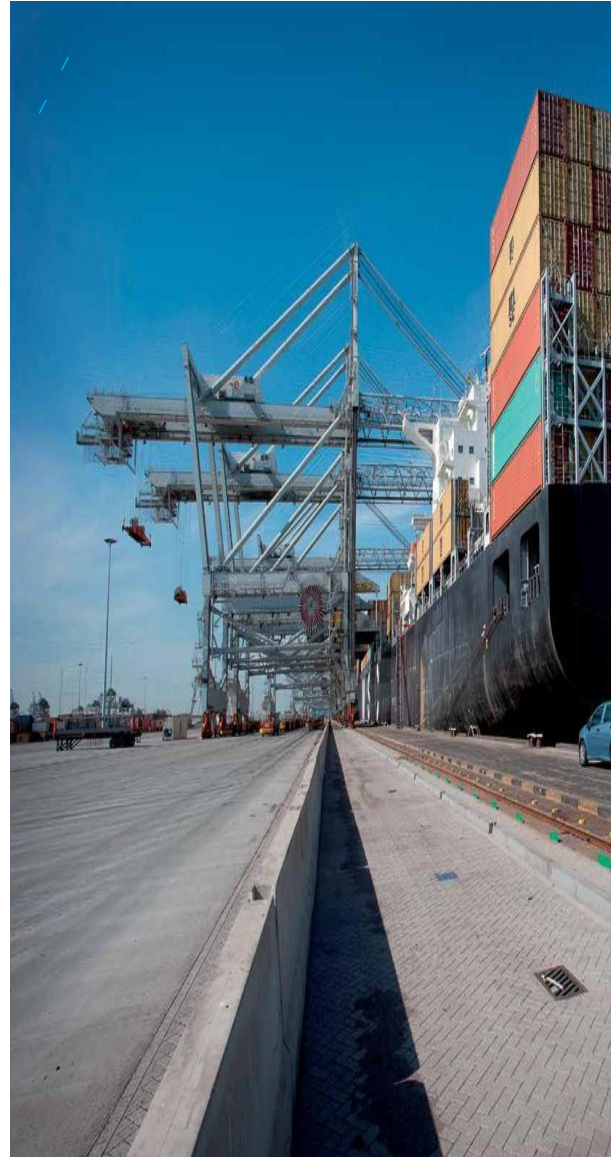
Also the commercial benefits of being compliant and in control versus the (internal) time and costs are not always in balance. As the previous whitepaper concluded, Trade Compliance offers opportunities for companies. Opportunities appear in integrating regulated control and monitoring tools as much as possible in the supply chain activities and regular business processes. By being compliant, organisations can benefit from smoother trade lanes with fewer checks.

Further development of the three innovation paths may even further enhance the incentives, of which the ultimate goal is the creation of trusted trade lanes. Trade Compliance is one of the bases for a trusted supply chain. A trusted supply chain consists of organisations that are trusted by government agencies and have proven to be in control of their business operations.

4 The Business drivers behind Trade Compliance

Logistic parties have a lot to gain by becoming and remaining Trade Compliant, though they cannot always reach the desired level by themselves. The so-called business case for being compliant needs to become clearer. What are the benefits, especially for midsize companies, to be compliant? Initiated by Dutch trade associations and financed by Dutch Top team Logistics, the research organisation TNO together with the Dutch Customs started the PROMENADE research project. Objective of this project is to investigate the best practices of the AEO self-monitoring by determining when, how and why a certified party carries out and follows internal control procedures and integrates these controls in regular business processes.

Although certain organisations will probably not be aware of the burdens until confronted but the withdrawal of the AEO certificate can result in bankruptcy because of the related commercial and financial implications. The enforcement vision of the Custom organisations is based on the level of trust in companies, so also for the Dutch Custom organisation the AEO certificate is very important. The PROMENADE project team collected and evaluated a large number of best practices of integrating control, monitoring and interaction with Customs into regular business processes from a group of 15 Dutch companies. The results of PROMENADE will facilitate and advise organizations about (unnecessary) compliance investments.



For organisations the benefits of Trade Compliance, the control process (when, how, how long, why), simplifying legislation, secure uninterrupted trade lanes but foremost financial consequences should be clear. But also the dangers and consequences of non-compliance should be clearer. The AEO certificate is very important within Trade Compliance and the benefits should outweigh the investments. An AEO certificate should indicate that an organisation is in control of their internal processes and because of that control forms a lower risk of non-compliance in the supply chain. This should be rewarded and that is what is missing in the view of the organisations involved in the supply chain. Organisations will further improve their processes to become even more compliant if there is a proper reward.

The enforcement vision of Customs is a step in the right direction. Inspections and control needs to be done in the supply chain and this will take an investment from all parties in the supply chain. By increasing the quality of information and creating a safe and trusted supply chain, the frequency of controls will be reduced and thereby the costs of the supply chain. But a government reward for investments in compliance is not the only solution. The business should find business benefits for increasing compliance. There is more than enough funding available by all kinds of logistic organisations for research, but organisations remain looking at government agencies to provide benefits and solutions as a drivers to be compliant.

TNO has done extensive research at the cost of non-compliance and regulatory pressure in the international movement of goods in The Netherlands. TNO calculated that innovative Customs procedures and digital document exchange alone could result in a cost reduction of approximately €200 million. In The Netherlands almost €10, 5 million is spent by the logistic parties on applying and handling of all kinds of trade documents. Making documents digital and accepting digital documents by all parties will reduce cost. TNO estimates that €75 million can be saved by digitalisation of all regulatory filings in the supply chain. TNO calculated that implementing a system based control approach and carrying out inspections at the most logical and efficient moment and point in the supply chain will result in savings on inspections (scan control €15,5 million and physical control €28,3 million). TNO calculated that by creating and implementing solutions for horizontal control savings can range from €23, 5 million (Air freight) and €12 million (Ocean freight). Harmonising laws and regulation for Rail, Road and Air can further decrease costs. The total cost for regulations for those three modalities is currently estimated on €23.5million per year or €11, 52 per container. These are all significant numbers and are validating the investments for being compliant.

Cross border coordination, but also pushing controls out of the border, is heavily dependent on cooperation. Government agencies and business organisations need to invest more time in each other; it is only then that a certain level of trust can grow. They must create that sense of awareness and trust between all parties involved and between the control mechanisms of the various governments combined with a clear internal business case that can qualify the benefits and support the investments.



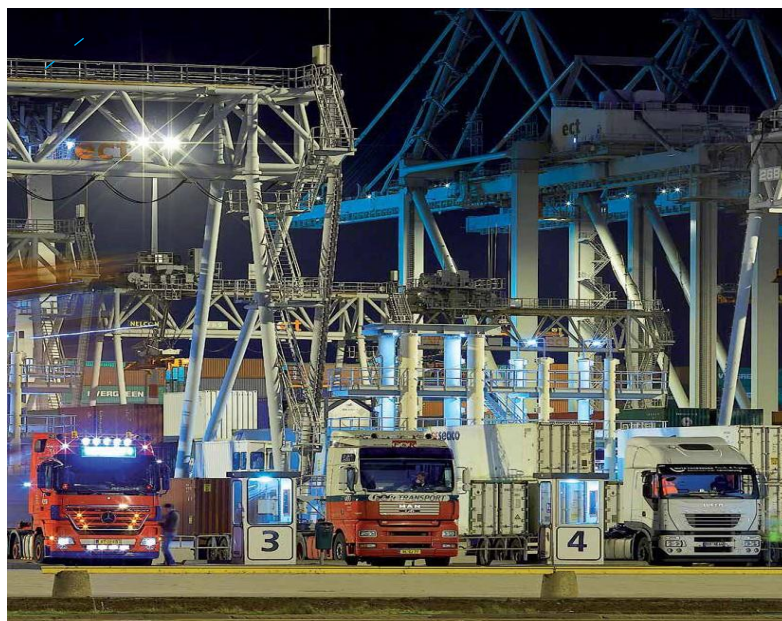
An example why this is needed is a recent issue with a cheese importer from New Zealand. The authorities fined the importer because the weight of the cheese was not the same as documented on the import documents. Because of the long period of time cheese can lose a substantial amount of weight (water). This caused mismatch, extra cost, delays and a lot of discussion between parties and the Food & Health Authority.

This is a typical example where exception handling in compliance is incurring high costs. Non-compliance can cost companies a lot of money, but for smaller companies it sometimes is cheaper to accept the occasional fine than to invest in Trade Compliance. Trade procedures have transaction costs. Costs can be direct (e.g. compliance costs, charges and fees) or indirect (e.g. delay at the border, additional storage charges, missed business opportunities, exception handling). The concept of Trade Compliance recognises that trade transaction costs are undesirable. It seeks the simplification, harmonisation, standardisation and modernisation of trade procedures.

The governments, on a national and international level (main trade countries), should make Trade Compliance a priority and support the issues by funding (inter)national innovation programmes for further research and development. A pro-active leading and supporting role needs to be taken in creating awareness, simplifying regulations, facilitating set-up and agreements on standards and seeking the input of the logistic parties. Although the enforcement vision is a supervision model based on levels of knowledge and trust of traders and trade lanes, trust and compliance is a two way street. A common criticism of companies is that the government requires and asks a lot from organisations but what they get in return is minimal or not visible.

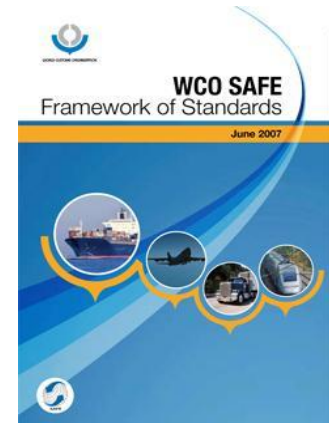
Government agencies should really increase the benefits of Trade Compliance but also give more advice and/or reward companies during and after auditing. Also clearer guidelines when being in-control is sufficient or enough. Government agencies want to control risks. They need to apply less restrictive frameworks that enable businesses to controlling those risks in efficient ways. When such measures allow for supply chain optimisations and at the same time contribute to more predictable fulfilment by the way of supervision, the benefits become obvious and compliance becomes an opportunity to leverage supply chain optimisations.

As Trade Compliance is fundamental for economic integration and a safe and healthy society, the European Commission need to become more trade minded. A long catalogue of trade facilitation recommendations has been produced by international organisations, like the World Customs Organisation (WCO) and United Nations Economic Commission for Europe (UNECE), to help improve trade procedures. The three initiatives described in this whitepaper, should be incorporated in these recommendations and elaborated into a common strategic plan for the next 10 years. A Trade Compliance mind-set and simplified future legislation should be integrated into a trust-based supervision approach of cross-border movements of goods. Collaborative programs for Trade Compliance and Safety & Security, between countries and companies are required, but above all a supportive attitude of the European Legislator is necessary to further explore these developments. Only then can the trusted supply chain blossom with a smoother trade line with lesser obstacles and lesser parties in the chain.



5 Innovations within Trade Compliance

The ambition to considerably reduce trade transaction costs along the whole supply chain by creating trusted trade lanes has resulted in three concepts for innovation and facilitation of trade logistics. These concepts are based on the philosophies introduced in the strategic vision document “SAFE Framework of Standards of the World Customs Organisation (WCO, 2007: www.wcoomd.org)” and are the base for further strategies and developments by the WCO, various government organisations but also the Top Team Logistics in The Netherlands. The SAFE framework of standards act as a deterrent to international terrorism, effective revenue collections and to promote and balance trade facilitation and control while ensuring safety and security of the global trade supply chain.



The innovations in Trade Compliance, System Based Control, Coordinated Border Management and Pushing Out the Border, all contribute to the improvement level of compliance within the logistic supply chain and contribute to the reduction of administrative and inspection burdens as well as in as alongside the supply chain. These innovations can only fully succeed and blossom if there is a basic (justified) level of trust. Trusted relationships between government agencies and organisations are vital to the way we do business in the logistic supply chain. The level of trust in Trade Compliance as in business relationships is the key success factor and thus also the reason for failure should there be mistrust between people, governments and/or organisations.

In the next chapter the enforcement vision of Dutch Customs shows a framework for governments, to supervise and control the cross border movements of goods, depending on the proven level of Trade Compliance within a supply chain. Trust in Trade Compliance can mean many things. We use the word trust to:

- Interpret what organisations do or deliver in the supply chain.
- Describe feelings and emotions about companies, products or country of departure or entry.
- Decide if we feel comfortable sharing and/or accepting information.
- Indicate whether we feel other organisations have the same interest or goals in the supply chain.

The Trust Equation combines these variables into the following equation:



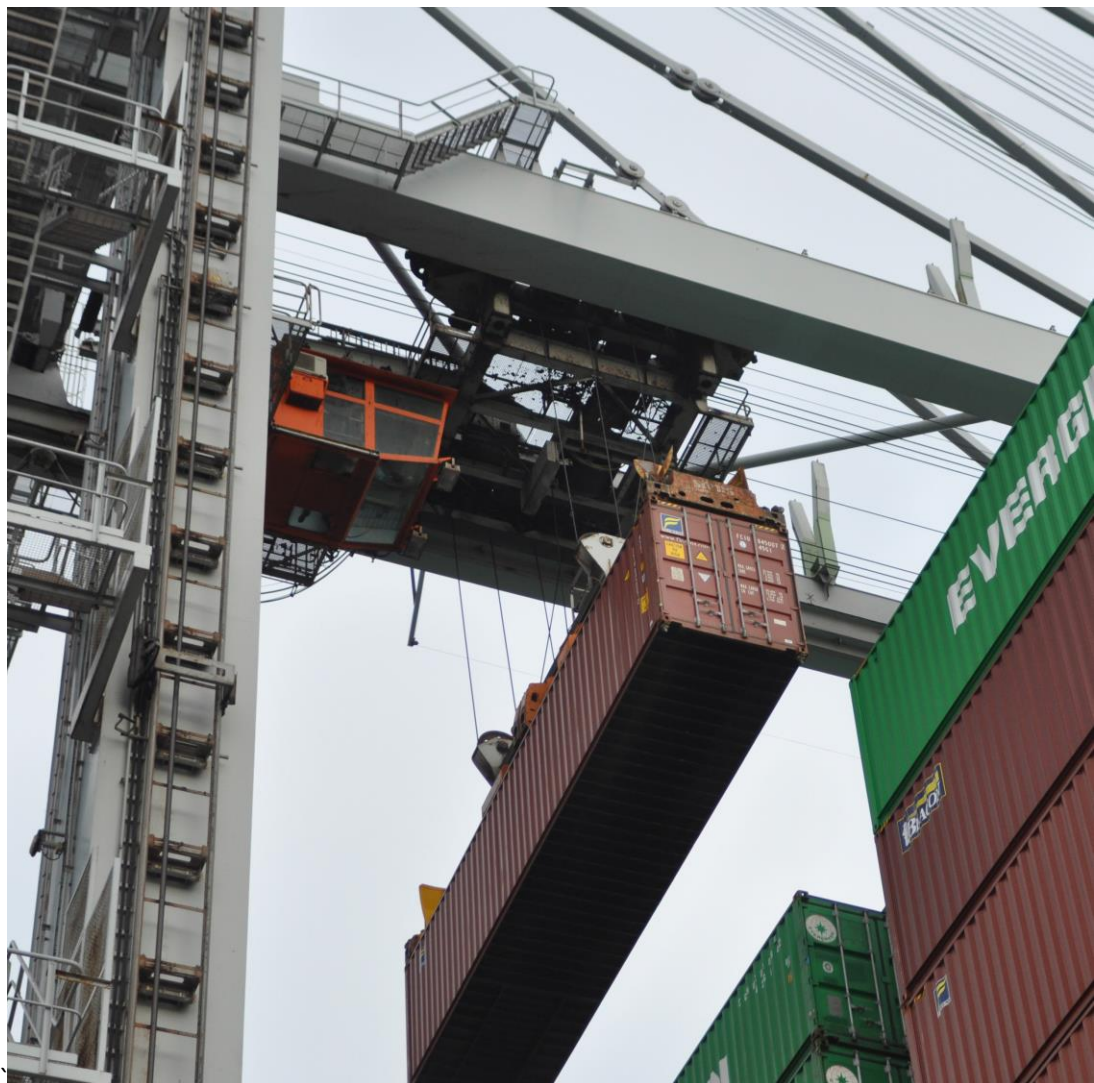
The Trust Equation:

$$\frac{\text{Credibility} + \text{Reliability} + \text{Transparency}}{\text{Self-Orientation}} = \text{TRUSTWORTHINESS}$$

The Trust Equation has one variable in the denominator and three in the numerator. Increase of self-orientation decreases the level of trust. **Credibility** has to do with reputation and words being said. Is the other party competent and able to perform the tasks as promised? Is it believable? Organisations that advertise with their AEO certificate, control measures and proven procedures want to share that they are a credible organisation.

Reliability has to do with action. Does the other party keep his promises? Monitoring the effectively of the control measures, outcome KPI's, like historic compliance record like perfect order rates. The customer can rely on the fact that the goods are delivered complete and in time. **Transparency** refers to safety, benevolence, openness, intimacy, discretion and security, feeling confident to talk about different agenda's, open discussion about conflicting objectives and understanding positions about residual risks. Does the other party take my concerns in consideration? **Self-orientation** is the personal focus, whether (people in the) organisation are primarily focused on their self or on the other parties in the supply chain. Do they have a common stake or outweigh the personal stake the intent to be compliant?

The (political) world is constantly changing, new laws and regulations are implemented and therefore the hurdle for taking the next step for organisations is not always easy. For instance, gaining and retaining an AEO certificate can only be achieved by organisations willing to invest in innovations. Those organisations expect to gather sufficient benefits even if those benefits are not always clear. In the next chapters we will take a closer look at the innovations, new developments, benefits and opportunities, but also at the consequences of lack of compliances.



5.1 System Based Control

System Based Control aims at moving from (physical) control of goods and containers, to checking the internal control systems (quality checks, audits) of the companies that manufacture and transport the goods. The focus of control shifts from transaction-based to system-based process control. This shift is already acknowledged by larger manufacturing companies that have implemented integrated quality- and control systems, but also by “smaller” companies that are optimizing their quality and control processes. The size of a company is no obstacle for being compliant. Although larger companies have more financial means at their disposal, also midsize companies can achieve an AEO certification and benefit from ‘proven’ compliance. By gaining an AEO certificate companies can have the benefit of less physical and documentary controls by government agencies.

Compliant companies are relying on built-in and integrated control structures and systems, comparable to a “well-oiled machine”. Internal processes are in place; they perform multiple checks within their logistic chain, evaluate and document in detail all sorts of information of the manufactured or received goods. The ultimate goal these organisations aim for is a decrease of costs for logistic interference caused by government control at the border. The AEO certificate is a first step towards that goal.



System Based Control aims to achieve a level of horizontal supervision resulting in a more seamless logistic flow. Authorities monitor the reliable trade flows and focus their more traditional supervision activities, i.e. physical checks, on companies that require more specific attention. The reason why System Based Control is a successful innovation compared to Coordinated Border Management and Pushing out the Border, is that the Dutch Customs is behind the steering wheel. Dutch Customs can set the standards themselves, taking in account the EU level playing field.



Also from an industry point of view, moving towards system based controls has a high intrinsic drive. Less document and physical audits will result in more process audits and this is for the better. Both Government agencies and the industry now need to market this approach internationally to create understanding of a different way of working, a different way of managing risks. This is the first step towards the beginning of trust and understand

The Customs Administration of The Netherlands takes a pro-active and supportive approach to System Based Control towards other government agencies and trade organisations. In 2013 an enforcement vision has been created by Dutch Customs and that vision is currently being optimised and improved.

Enforcement Vision: 'Pushing Boundaries'

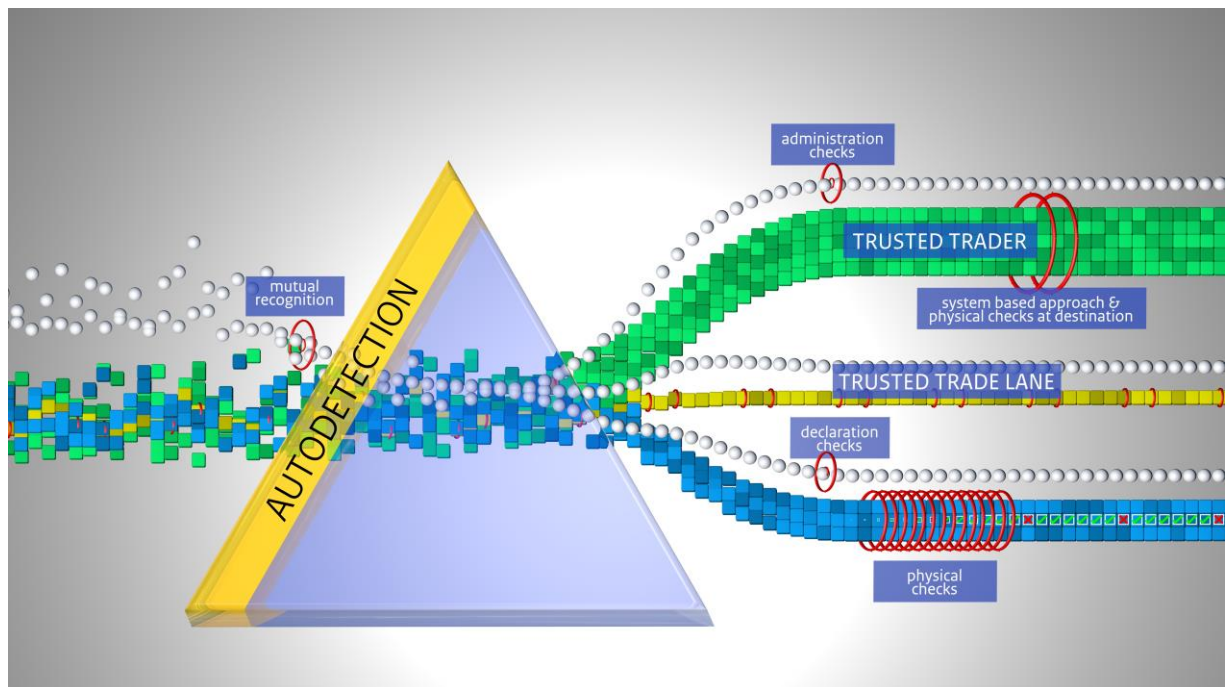
Expectations in global growth of trade show that the volume in the logistic supply chain will increase in the coming years. However it is expected that the capacity of the Customs Administration will not grow in line with the volume of goods. Supporting the three innovations within Trade Compliance, the Customs Administration of The Netherlands developed a layered approach to supervision and control of cross border goods traffic. This is called their enforcement vision 'Pushing Boundaries'. The goal is to increase the smart approach to have a 100% supervision of all goods crossing the EU borders via The Netherlands. That does not mean that all goods will be checked but that the Customs organisation has a clear view of all incoming and outgoing goods and means of transport crossing our EU external borders based on smart technologies for gathering information.

Checks are done based on risk assessment, taking in account the level of knowledge of these goods, the persons "behind" them and the supply chains in which they are forwarded. Physical and administrative control will be more structured and precise, which will result in less obstruction in the logistic supply chain.

Investment in high-end scan and detection technology and development of IT-solutions is needed to support this. In the previous whitepaper we already discussed the Seamless Integrated Data Pipeline, a concept for data exchange to improve global visibility within the supply chains. The Customs Administration is investing in technology aimed at auto-detection of risks, so carrying out inspections without interrupting the supply chain. For example drive through train and truck scans are developed and already implemented in The Netherlands. Currently research is done on scanning systems that have software and sniffer technology that can detect or smell dangerous goods automated. These technological resources either detect risks in cargo immediately, for instance the nuclear detection gates, or provide additional information for risk analyses.



Customs use four main sources of information in their “Intelligence cycle”. The declaration data (ENS, import/export declaration, exit manifest) holds the basic information for Customs. Additional information and knowledge is gathered about commodities, traders and supply chains based on history, knowledge of goods, other (partner) government agencies and business data such as shipment information. The gathered information is used for risk analysis.



Source: Heijmann/Hesketh 2014

Based on all the gathered information, the logistic supply chains are divided in 3 colours, Green, Yellow and Blue. The green traders are the so-called Trusted Traders. Traders are classified to the **Green** lane based on the risk analysis and the knowledge about those traders. These traders are known to the Customs organisation and are AEO Certified. Traders in the **Yellow** lane are trusted traders just like the Green traders but they form a chain of trusted traders in a whole supply chain or lead the whole global supply chain. They take a pro-active approach towards compliance by leading or support various research projects (supply chain visibility, high quality data exchange etc.), and they actively work together with government agencies or invest in technological solutions for data-exchange. The **Blue** traders are the so-called “Unknown Traders”. These unknown traders are not AEO certified, don’t have a known pro-active approach to compliance and/or are in that sense unknown to government agencies. This enforcement vision enables Customs to focus more on the goods and traders that have a higher risk of incompliance.

The proportion of physical checks and verification of document based on the risk analysis is much lower for the yellow lane; the green lane is next and finally the blue lane traders. Also the intervention in logistics is different, as physical inspections in the green lane are not only less than in the blue lane, but also carried out at more logical moments and places, preferably at destinations, in the supply chain. In the yellow lane the compliance is assured at point of loading.

This vision clearly shows a benefit for companies to get their AEO certificate and co-operate more with government agencies as they can influence the way and place of interventions caused by government inspections. Government agencies in return apply a basis of trust toward these traders and can focus their control effort in the areas where it's more needed and only intervene in the logistical supply chain when it is really necessary. This approach is a major development within the system based control innovation and promises the holders of an AEO certificate less control of government agencies in the supply chain versus NON compliant companies and a smoother trade lane.

The enforcement vision 'Pushing Boundaries' is currently being optimized and discussed between the Customs organisation and other government agencies and put in an international perspective. Of course the discussion will be opened with logistic parties. A different mind-set is needed, a Trade Compliance mind-set based on trust. The notion that every trader is a potential smuggler and should be checked and agencies need to be prepared for the worst is an idea from the past. Unfortunately not all EU agencies agree to this, the AEO-standard is for example only a Customs standard; other government bodies do not recognize this standard. Neither do all of them cooperate with each other extensively. Trade organisations are well aware of both. In a recent UK survey of importers, 19% of the respondents (n=131) admitted to actively diverting traffic cargo to an alternate port because of actual or perceived differences in the enforcement of rules and procedures. Similar re-routing of traffic due to differences in the enforcement of procedures is likely to be systematic across the EU.



The enforcement vision described above is an initiative that combines system-based approach with the other two initiatives. The Dutch Customs organisation uses their vision as the dot on the horizon to which all developments are aligned. A mutual recognition agreement for AEO programmes with various countries and a joint strong commitment to enhance collaboration between government agencies nationally and internationally is a prerequisite for success. But another very critical factor is that other inspection bodies and different legislation that applies on cross border goods traffic, is aligned to this philosophy. When Customs grant trade facilities to a certain extend in green or yellow flows, by not intervening in the logistical process in exchange for increased visibility and justified trust, while other inspections services still check all and everyone at the border in the middle of the logistic supply chain, the benefits of the model will not appear to its full extend. It is of vital importance that other inspection agencies and legislative bodies start an equal approach to goods, traders and supply chains.



5.2 Coordinated Border Management

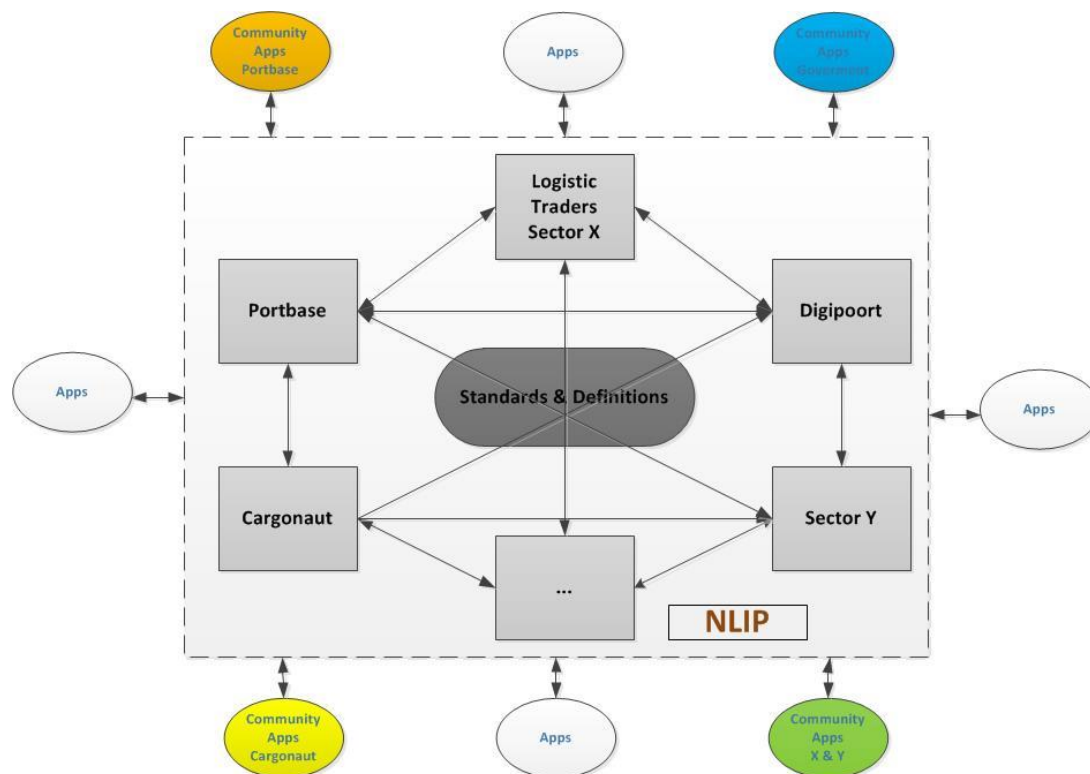
Coordinated Border Management (“CBM”) refers to the coordinated approach by border control agencies, both domestic and international, in the context of seeking efficiencies over managing trade and trade flows, while maintaining a sound balance with compliance requirements. Goal is a more controlled and logical approach to manage border operations in order to ensure efficient and effective processes and procedures.

Although the sense of urgency for all three innovations is present throughout the supply chain, Coordinated Border Management is lacking in progress. One of the reasons is the continuously evolving political relations in the (political) world. Recent developments and trade sanctions in Russia will undoubtedly influence cooperation between the agencies of Russia and Europe. There is also a lack of cooperation between government agencies within a country, but looking at Europe, the different directorates within the European Commission still cause an overload of not aligned regulations. And due to the economic crisis various government agencies had to cut back on capacity.

The urgency for fundamental change and a trust-based approach is needed. When will legislators be aware of the impact of ‘their’ rules and procedures on a traders employee’s desk? That does not mean that the situation is hopeless, various innovations and incentives are being developed but the throughput time will be 2020 and beyond.

The ultimate goal is to create a single window for the transport and logistics supply chain. By creating a **Single Window Environment ("SW")** logistic parties will be able to electronically submit the required (trade and transport) data at a single entry point (e.g. via EDI or online government portals). Submission of documents is a one-time transaction. It will enable government agencies to access and check the data. The next level of (international) coordination is **One Stop Shop (OSS)**. OSS will create coordination, optimization and interlinking of controls to be done by these agencies, resulting in improved coordination among those inspections and harmonisation of the linked processes. Currently this is being developed for physical inspection, but the preferred OSS is that all types of controls, physical, process, document and administrative control, are done jointly.

In The Netherlands, the Top team Logistics took the initiative for developing a platform for interchanging information between government agencies and the companies in the logistic supply chain. This Neutral Logistic Information Platform is known as NLIP. NLIP uses best practises and knowledge of other successful information platforms, as there are the Port Community Systems, like Cargonaut (Schiphol Airport), Portbase (Port community system Amsterdam & Rotterdam) and Digipoort (Dutch Digital Single Window Government). NLIP aims that all platforms interact and will be updated with other systems to create one Single Window Environment.



Source: www.nlip.org

Based on the guidelines of single delivery of information and maximum sharing and re-using of information, NLIP is a neutral platform without commercial interest and available for all logistic parties in the supply chain. Financial and commercial information will not be shared. Further initiatives are taken for creating so called "Apps" for accessing, up/downloading and processing information. Government agencies are also deciding on standards, authorisation, security and the impact and the interchanging of NLIP with other community systems.

The development of NLIP and the enforcement vision 'Pushing Boundaries' are a big step forward for Coordinated Border Management. Alas there is also criticism about NLIP in the perceived lack of progress in the development as a common infrastructure despite of the recent pilots. The agriculture sector is not yet fully involved in the development of NLIP although a very important sector in the logistic supply chain with a lot of specific Trade Compliance issues that could benefit from trusted trade lanes. A series of recent incidents with a/o horsemeat and contaminated fish in supermarkets demonstrates the importance of compliance.

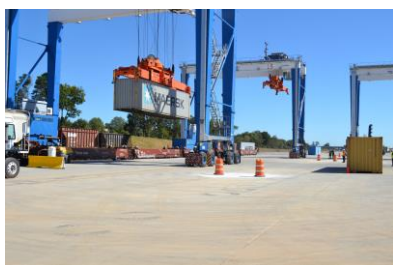
There is still a next level to be initiated, which is legal alignment. All legislators involved in legislation that somehow 'touches' on cross border movement of goods should be aware of the impact of their legislation on logistics. The enforcement vision of the Customs organisation will contribute to coordinated border management if other government agencies and the logistic companies in the supply chain support the vision.

5.3 Pushing Out the Border

The third innovation step is to push physical controls away from the border. Preferably cargo should be inspected at point of loading, so before leaving the country of origin (pre-departure) or after the goods have arrived at their destination (post-clearance), aligned with the logistic process of unloading. Another option for control is at locations in the transport chain that minimise disturbances in the value chain, for instance at inland terminals where the goods already fulfil an inventory-carrying function. At least these inspections should be carried out at logical moments and places, upstream and downstream, in the supply chain and acknowledged by all parties.



Inspections should be done by using drive-through equipment, scanning applications and other technological applicable detection of risks applications at the point of entry or exit as there is less interference in the supply chain caused by this inspection. On the other hand cost intensive inspections like physical checks should be performed during loading or unloading. Depending on the sort of goods one or the other could be more appropriate.



Research & Development is being done on the so-called chain of custody. Can the process and information placed with the (electronic) sealing of containers be optimised to a level that inspections at point of origin or loading by a mutual recognized certified trader and a seal placed at the country of origin is sufficient for Customs at the destination? The concept of pushing out the border is being implemented for instance at the ECT terminal with their extended gate concept, European Gateway Services (EGS).

Also Maersk Netherlands is offering an Inland Container Yard (CY) service. Both examples are based on the pushing out the border initiative. Customs release the containers at Rotterdam and then they are moved to an extended gate or inland terminal under the Customs license of the customer or carrier, hereby creating a trusted trade lane and lowering the "hinder" in the busy port of Rotterdam.

The level of these extended gates is now merely focused on simplified procedures, where necessary Customs inspections are still done at entry. However if these supply chains create high level smart data and physical integrity from the place of loading, even those inspections might be pushed out of the border. The port of loading or unloading goods is nothing more than a logistic crossing involving un-interferences in neither formalities nor inspections.

The level of trust, understanding and varying cultural aspects between government agencies and logistical parties is paramount in all of the above innovation concepts. For example: Why do the Dutch Customs not trust foreign checks claimed to have been performed by the authorities in the country of dispatch of goods (for instance China) and vice versa? Government agencies nationally and internationally have to form a basis of trust in Trade Compliance, so that the same checks and procedures do not have to be repeated and the logistic supply chain is not unnecessary interrupted. All parties involved require a different mind-set. By implementing the Enforcement Vision, the Customs authority takes the first step. Getting other government agencies sharing the vision is the second step. Discussing, evaluating, sharing and implementing the vision with another international Customs agency is the third step.

5.4 An integrated approach to Trade Compliance



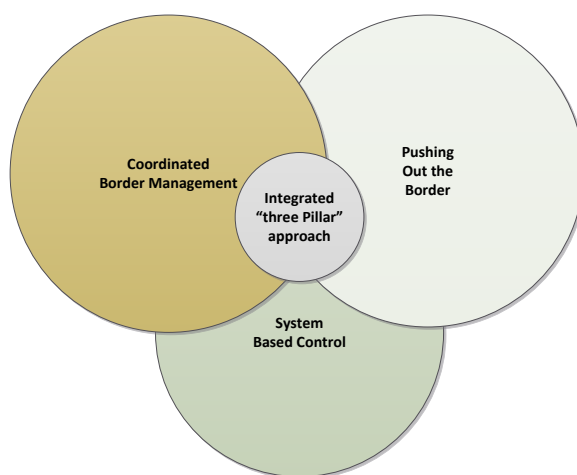
An important method to increase awareness and changing the Trade Compliance mind-set is to bring the Training and Education of the Customs profession to a next level.

The next level is an integrated approach to Trade Compliance. DG TAXUD – Taxation and Customs Union - of the European Commission has developed a European Competency Framework (ECF) for the Customs profession. The primary goal is to harmonize and increase the professional standards of the Customs professional both from the public administrations perspective as well as the trade perspective. Based on ECF, a qualification system will be developed for all levels of Customs training and education in Europe, starting with vocational training ranging to the level of academic master programmes and even PhD doctorate programmes. The Customs professional is not the only government official dealing with Customs matters. Aim of the training is that all trade Customs specialist (government and non-government) learn from each other, whilst understanding each other business from a private of public perspective. This is one of the strengths of the future Customs professional.



The Netherlands is considered by DG TAXUD as one of the leading member states with respect to developing advanced academic Customs master education in Europe.

In particular the executive master program, Customs and Supply Chain Compliance (CSCC) that is offered by the Rotterdam School of Management in close collaboration with the Delft University of Technology, Eindhoven University of Technology and TNO (see www.rsm.nl/Customs). This master programme started in 2013, and is designed specifically to educate the Customs professional in the key innovations system-based control, enforcement vision, coordinated border management and pushing out the border and integrate all the complex aspects of Trade Compliance in one integrated approach.



This resulted in the unique so-called integrated 'three pillar' approach in which the important knowledge domain of Customs Regulation is enriched with two other knowledge areas; namely Supply Chain Management, and Information and Compliance.

The expertise acquired during this master programme provides the Customs professionals with a deeper understanding of the configuration and planning of international supply chains and the IT-based control systems that can be used to control these advanced international supply chains.

This helps the Customs professional in the trade companies to make their international supply chains more efficient and compliant, and it provides the Customs official innovative tools and deeper understanding to assess whether international supply chains are indeed in-control, whether they qualify for AEO, and to identify inspection moments in the supply chain that provide equal Customs assurance but are less interruptive and costly for the trade.

Increasing awareness and integrated knowledge of Trade Compliance is a combined responsibility and investment of government agencies and trade organisations. Both parties need to invest in training and education. An integrated approach to Trade Compliance with managers and employees having wide business knowledge of various aspects of the supply chain (ICT, Compliance, Finance, Logistic) will result in more awareness and understanding of Trade Compliance on both sides of the supply chain. This will create understanding, spark new ideas and developments and positively change the Trade Compliance mind-set.

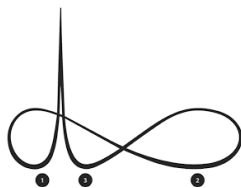
6 The role of VLM Network Trade Compliance

This paper is written by the “Network Trade Compliance”, part of the Dutch Association for Logistics (VLM) with support from Connekt as part of the Trade Compliance and Border Management roadmap of Dutch Top Sector Logistics. The vision described in the whitepaper is supported by the Dutch Customs organisation. This paper aims to create further awareness about the relevance of Trade Compliance.



VLM (Vereniging Logistiek Nederland) is a professional association set up for logistics managers and specialists with around 1900 members. The association’s main goal is to support the professional development of logistics specialists by supplying them with a logistic knowledge network. VLM is the official partner of APICS USA and is also a member of the European Logistics Association (ELA).

Connekt is an independent network of companies and authorities that links up parties to improve mobility in the Netherlands in a sustainable manner. Sharing knowledge, know-how and initiatives and connecting members is their main goal. Connekt is a public-private co-operation consisting of 125 authorities, companies and knowledge institutions, each with its own reasons to participate in Connekt. In addition, Connekt also maintains contacts with international organizations such as ERTICO, EIRAC, UITP, as well as the European Commission.



Initiated by the Dutch Government in 2012, the Top Sector Logistics wants to unite and reinforce Logistics in the Netherlands. This is necessary to Secure the top European logistic position by 2020. Top Sector Logistics supports initiatives. This means: devise, develop, demonstrate and apply on a large scale new logistics practices.

The Network Trade Compliance acknowledges that the three innovative concepts for Trade Compliance: System Based Control, Coordinated Border Management and Pushing out the Border are the key drivers that will need to be further developed, designed, tested and piloted. Especially Coordinated Border Management needs a boost in development and incentive. The enforcement vision: ‘Pushing Boundaries’ is a step in the right direction as a reply from government side on improvement of trust and visibility in supply chains and supply chain partners, but as described there are still too many examples of non-compliance in the supply chain.

Business drivers should be determined more. Fact is that Trade Compliance as a whole is still in the early stages of its life cycle. Government and Logistic organisations constantly need to be informed and advised of the importance, risks and benefits of Trade Compliance. Trade Compliance IS the base for a trusted supply chain. Therefore the network Trade Compliance sees the integrated approach to Trade Compliance through training and education as the next innovation to be further developed over the next couple of years as the fourth concept.

The concepts complement each other and work side by side as the enforcement vision illustrates. The regulated delivery of all sorts of logistic information to government agencies and changing checks/controls upstream or downstream of the supply chain based on layered enforcement provides a layered focus of Trade Compliance. By simultaneously focussing on awareness, education and on processes, based on layered enforcement, thus decreasing government control, and trusting and rewarding compliant organisation, Trade Compliance creates openness and trust within the supply chain.

The Network Trade Compliance will continue to support, advice and recognizes all the initiatives as an opportunity create awareness, to improve and optimize the logistic chain, creating more value and reducing cost and administrative burdens for both the government agencies and the logistic Industry.

7 Strategic Advisory Board – Network Trade Compliance

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- Ir. Gerwin R. Zomer; TNO and programme Developer Dutch Top sector Logistics for Roadmap Trade Compliance and Border Management



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