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Regional Best Practice Study
on
Customs Modernization



Customs Modernization in
Papua New Guinea

PNG Customs CMMT

and

WCO ROCB Asia Pacific

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I. Preface

Papua New Guinea (hereinafter called “PNG”) is composed of the eastern part of the main island of New Guinea and hundreds of other small islands and coral atolls. Located in the southwestern part of the Pacific Ocean, neighbored by Australia to the south, Indonesia to the west and Solomon Islands to the east, the country has a coastline of 5,152km and 820km land border with Indonesia. PNG is a developing country, and its main industries are mining, agriculture, fishery and forestry

Customs is established as an operating division of the Internal Revenue Commission under the Ministry of Treasury and Finance. PNG Customs has only about 240 officials and has to maintain effective border control along a lengthy coastline and land border. At the same time Customs is requested to collect target revenue through import and export activities.

PNG Customs, like other Customs administrations, is also requested to support the national economy through facilitation of international trade. Increasing the export competitiveness is one of the pillars of the overall national strategy, similar to other developing countries. As a key player in border management, Customs has a critical role in facilitating exports and imports while pursuing rigorous reforms and improvement.

In this regard, PNG Customs has undertaken a dynamic and comprehensive modernization program to address greater challenges since 2002 when PNG Customs became a member of the WCO. The efforts have been mainly focused on establishing a modern legal framework consistent with the Revised Kyoto Convention, a Blue Print for the modernization of Customs, and related initiatives such as IT implementation and application of risk management.

This best practice report for Customs modernization is developed by PNG Customs and ROCB Asia Pacific based on the strong opinion that the experience of PNG Customs is a good example for other developing Customs administrations, particularly the smaller sized Customs administrations on how to modernize Customs administration internally.

Takashi Matsumoto
Head of ROCB Asia Pacific

II. Executive Summary

PNG Customs has undertaken dynamic and comprehensive modernization program since 2002. By the end of April 2009, PNG Customs had implemented a great deal of reform projects including amendment of Customs Law and regulations, upgrading of computer system and other facilitation and border control measures. The key elements identified for the success of the program are political support, ownership of Customs reforms, clear target and plan, good management, support from donors and establishment of a good modernization team. Among others it should be underlined the activities of the modernization team and the team members' strong will and mutual trust of each other.

III. Background

3.1 Background

PNG Customs commenced a Customs modernization project in 2003 to meet the demands of stakeholders and the obligations to international organizations. The environment surrounding PNG Customs before the commencement of the modernization project was somewhat the common situation in many Customs administrations in developing countries.

(Poor management and lack of competency of staffs)

In 1992 PNG Government merged the Tax Office and the Bureau of Customs and Excise into the PNG Internal Revenue Commission (IRC), responsible to the Ministry of Finance, to focus on the revenue collection to the Government. The importance of trade and trade facilitation was never realized and acknowledged as an important contributor to economic development until the start of the modernization program in which Customs was able to justify to both government and the industry.

For a period of time following the merger of the Customs and Tax office, uncertainty reigned under the IRC resulting in senior managers and experienced technical officers leaving the organization. In addition, as the Customs Training Center was shutdown in 1992, training within Customs was ad hoc with officials not receiving appropriate or even sufficient training in core Customs areas such as Classification, Valuation and enforcement. This created a sizeable vacuum in both qualified staff numbers and experience which impacted on the IRC's capacity to effectively deliver on the objectives of the Customs function under the IRC.

(Poor legal framework)

The legal framework of Customs was also significantly out dated. The Customs Act 1901, which was adopted from the Australian Colonial Administration of what was the Customs Act in Australia, was implemented with several modifications until 2005. It was obvious that the Customs Act 1901 didn't comply with the WCO Revised Kyoto Convention (RKC), which stipulates the simplification and harmonization of Customs procedures, the so called Blue Print for modern Customs administration. Amendments made at that time were in certain respects disjointed and lacked uniformity in application.

(Less Integrity)

Because of the complicated and less transparent nature of Customs procedures with wide discretion available to Customs Officers, the opportunities for corruption were very high. Very few corruption cases were reported because of the monopoly power of Customs at the borders as well as the acceptance of corruption as a norm with little legal sanctions and awareness by officials on the negative impact of corruption. The private sector feared repercussions of Customs officials if reported.

3.2 Driver for Customs Modernization

PNG's location within the Asia Pacific region contributed to the Government's decision to seek membership of the Asia Pacific Economic Cooperation (APEC¹) which led to PNG Customs participating as a member of the APEC Sub-Committee on Customs Procedures (SCCP) since 1995. The SCCP was established in 1994 and set several common action plans called Collective Action Plans (CAP). Most of the CAP items were developed and adopted with the objective of facilitating the implementation of WCO tools such as Harmonized System and WTO Valuation Agreement, and as members of the SCCP each are expected to implement the CAP items set by the SCCP through a phased process.

Participation at the APEC SCCP meetings has provided good opportunities for

¹ Asia-Pacific Economic Cooperation (APEC) is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. APEC has 21 members - referred to as "Member Economies" - which account for approximately 40.5%¹ of the world's population, approximately 54.2%¹ of world GDP and about 43.7%² of world trade. APEC's 21 Member Economies are Australia; Brunei Darussalam; Canada; Chile; People's Republic of China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Republic of the Philippines; The Russian Federation; Singapore; Chinese Taipei; Thailand; United States of America; and Viet Nam.

the PNG Customs to learn and study the international Customs environment. This had greatly influenced PNG Customs to eventually become a member of the WCO after more than 27 years as a fully fledged Customs administration following independence in 1975. In acceding to the Convention establishing the Customs Cooperation Council (CCC) in April 2002, with PNG Customs becoming a member of the WCO, which was the first step in demonstrating the desire to become a modern Customs administration having the capacity to effectively deliver on government policy objectives of revenue collection, trade and investment facilitation and border security.

Whilst being exposed to the SCCP and WCO meetings, PNG Customs officers identified the need for PNG Customs to move forward towards a modern Customs Service. At the same time, stakeholders, particularly the private sector became vocal in requesting modernization of Customs so that PNG could be in a competitive position in the international market through trade facilitation.

Ultimately, it can be said that the real drivers for PNG Customs modernization project were:

- ◆ Invisible external pressures through the APEC SCCP and WCO activities
- ◆ Internal awareness for the necessity of modernization
- ◆ Visible pressure from stakeholders

IV. Customs Modernization Project

4.1 Establishment of the Customs Modernization Management Team

The SCCP initially adopted the Revised Kyoto Convention (RKC) as a pathfinder initiative in August 2002 and organized a RKC seminar in Hanoi, Vietnam in 2003 to facilitate an understanding of the RKC and to promote accession to the Convention by members. Following the seminar in Viet Nam, PNG Customs decided to establish a project team for implementation of the RKC, called Kyoto Project Management Team (KPMT). The team comprised of ten (10) officers representing Legal, IT, senior Customs and including one Customs Advisor from the Australian Customs Service attached to PNG Customs under the Strongim Government Program (SGP).

It was envisaged that in establishing the team, initially under the auspices of progressing work on the SCCP CAP item on the RKC, it would also lead to ensuring full implementation of the APEC CAP items. The KPMT set a clear target, that is, acceding to the RKC by 2006. Each member of the team was

assigned a specific area of the RKC and started the gap analysis between the RKC and Customs Act 1901 of PNG.

The work undertaken through the Australian government's institutional strengthening Enhanced Cooperation Program had the potential to create overlaps with the work of the KPMT in a number of areas. If left uncoordinated and unfocused to the priorities of the organization, it would lead to difficulty and confusion for staff.

As a consequence, PNG Customs was requested to undertake a more comprehensive modernization program including modernization of the legal framework in compliance with the RKC, computerization of processes and implementation of modern Customs techniques. Under such pressure, in 2004, the Customs Management Committee in PNG Customs approved an expansion of the responsibilities of the team through a change of name to Customs Modernization Management Team (CMMT) and issued a new Terms of Reference (TOR) to conduct Customs modernization comprehensively and efficiently. More responsibility and roles were designated to the team members.

A new mandate was established through a Mission Statement and Terms of Reference for the CMMT. The Mission of the CMMT is to strive to:

- ◆ Provide leadership and direction in the planning and implementation of various international commitments providing the platform for Customs modernization.
- ◆ Manage policy and procedural changes within Customs.
- ◆ Liaise with external stakeholders on issues of mutual benefit.

The TOR of the CMMT's is:

- A) Report to the Commissioner of Customs, Deputy Commissioner of Customs and the Customs Management Committee (CMC) on the status of implementation of all the commitments relating to Customs modernization reform
- B) Assess and determine the progress of development within the area of Customs Capacity Building consistent with the recommended policy schedules of the World Trade Organization (WTO), World Customs Organization (WCO), Asia Pacific Economic Cooperation (APEC) and Oceania Customs Organization (OCO),
- C) Propose or prepare a package of legislation for submission to the National Executive Council (NEC) or National Parliament,
- D) Provide direction to work areas with respect to policy formulation.

- E) Oversee the introduction of revised processes and practices,
- F) Prepare briefing for the Minister and other Governmental agencies on Customs change initiatives and pursue marketing opportunities where appropriate.
- G) Advise and recommend to the Commissioner of Customs on the attendance and appropriate PNG attendees, at overseas conferences, seminars and trainings consistent with existing guiding principles and ensuring that any useful information is properly circulated afterwards.

4.2 Activities of the CMMT

Accession to the RKC being the core business of CMMT, the team used the APEC SCCP *“Pathway To Kyoto Accession”* guide and commenced work in 2003. A thorough gap analysis by the team members against existing Customs laws and regulations identified that out of the 491 standards and recommended practices of the RKC General Annex, PNG was fully compliant with 210 articles, partially compliant with 25 and non compliant with 196.

Based on the gap analysis, the CMMT decided to focus mainly on bridging the gap between the existing Customs Law in order to comply with the RKC and included the development of standard operating procedures (SOP) based on the new legislation. The work program consisted of dealing with the 10 Chapters to the General Annex which was divided and assigned to each member based on their individual area of expertise. It was within each member’s responsibility to carry out the Gap Analysis and make the relevant recommendation for becoming Kyoto Compliant including making amendments to the Act or Regulation.

Because the team comprised of both legal and non-legal technical persons, the non-legal members developed clear instructions on what the legal provision should contain. This enabled the legal officers in the team to draft each section that required amendment before being submitted for approval by the IRC Technical Committee.

The membership of the CMMT was initially made up of two executives at Assistant Commissioner level (i.e. management component of the RKC), three lawyers, one IT expert, three Customs technical officers, and one Australian Customs official (technical component). The team basically met once in a month for three days to a week to deal with the issues apart from their individual substantive jobs. There was therefore no permanent team due mainly to human

resource constraints. The CMMT took the role of a steering or coordination body for the whole modernization project.

These meetings were usually conducted away from the head office, often in other parts of the country at hotels and island retreats in order to escape the demands of individual daily tasks and to concentrate on the issues at hand and complete them within the timeframe. The most demanding period was when the Gap Analysis was being pursued in which members often had to work past midnight and start promptly at the normal time of 8 am.

Every discussion of an issue in meetings is based on respect for each other's views in order to reach the best solution even though discussions are often intense and vigorous. Some issues are new and such discussions also contribute to educating other members of the team. The team members also do their own bit of research through the internet or from using APEC and WCO materials such as Guidelines and Best Practices to enhance their own understanding of specific topics in order to contribute to the discussions. This leads to a new laws or regulations being developed in addition to future work plans or policy guidelines.

No special remuneration was prescribed or allocated to the team members including promotions. So, what is the driver for them to undertake this hard work? What is the motivation? Through interviews with team members the following elements were revealed:

- ◆ High level of commitment to contribute to the development of the Customs administration and the country
- ◆ Good opportunities to learn from each other through the activities
- ◆ Satisfaction to develop new things and change things
- ◆ Provide good opportunities to see other Customs administrations and compare them with PNG Customs and try to develop PNG Customs to one day be like the advanced administrations.
- ◆ Good team spirit, team members respect and trust in each other.
- ◆ Strong will to change PNG Customs from an old legacy to a strong, vibrant and modern Customs Service
- ◆ Do not want to let the other team members down.
- ◆ A common clear goal, good pressure and expectation from outside, good leadership of the team existed.
- ◆ The fear of being labeled as failures in introducing the modernization program if it did not bring benefits.

4.3 Difficulties for modernization

The team successfully completed its initial target, to develop a new Customs legal framework in line with the RKC to modernize the PNG Customs. It was not a smooth and easy process. Resistance and opposing activities from both inside and outside of Customs were observed particularly at the initial stage. Forms of resistance differed; some of them were skeptical, some of them doubted the team's activities, some of them just stood outside and provided no cooperation to the team's activities, and some of them apparently opposed the team.

There were others who appeared to support the changes but continued to work as usual under the old regime which provided more difficulties for the team. An overall change in mindset in moving away from the old processes to the new more simplified processes was very difficult to achieve at the start. These proved to be bigger and more difficult challenges for the team.

◆ Private sector

The majority of those in the private sector saw how it was going to benefit them when it was explained in awareness program and fully supported the changes. The reality was the implementation part that was proving difficult for them which was within Customs responsibility. There was no uniformity and consistency because the major ports in the country were applying totally different procedures and did not complement each other's operations such as the introduction of Gateway Clearance procedures. It took about two years from the date of introduction of the Gateway Clearance procedures to finally make it work. To date the industry is satisfied with what Customs was doing.

One of the greatest challenges in modernization is for the industry or the stakeholders to be made aware of the changes before or as soon as it is introduced. Team's biggest problem was that changes were started without the private sector knowing about it, thus causing complaints to be made. Following a step up and conducting in awareness for both Customs staff and stakeholders, a lot has changed with the private sector. Now they become a very appreciative of what Customs is doing and now blame other border agencies for their time consuming procedures.

◆ Other government agencies

A great number of government agencies support Customs with the modernization activities, significant among them are the Departments of Treasury and Finance, Planning and Monitoring, Foreign Affairs and Trade and the PNG APEC Office. This demonstrates particularly the progress through commitment that PNG Customs has undertaken in introducing changes based on both APEC and WCO measures and programs to bring benefit to the country and the people.

Other related border agencies such as Quarantine and Immigration are fighting it tough with so many complaints made against them because the administrations are very slow in adopting changes and simplifying procedures. This also contributes to Customs' difficulties because of the problems these organizations are unable to resolve.

To tackle and overcome this resistance, the team held a series of workshops to raise awareness for stakeholders and undertook visits to frontline offices for face to face discussions, and provided information through the Customs web-site after the team obtained several concrete products or actions. Through such activities the CMMT gradually gained trust from stakeholders and built confidence within the team.

The team was able to maintain its position and overcome these criticisms because of the clear goal and concrete plan toward the modernization of Customs, strong will and intention, and strong mutual trust among team members. Constant visits to every port in the country are conducted to review how the changes were being implemented. It is done every six months to ensure officers at the ports do not lose sight of the modernization program and to assure them of the CMMT's continued support to them.

4.4 Outcome of the CMMT

Through implementation of legislative and procedural reforms in complying with the RKC, a revised Customs Act and Regulations was entered into force in 2006, and other additional reforms through APEC CAP items, the team achieved the following by the end of 2008:

- ◆ Development of a revised and updated Customs Act and Regulations.
- ◆ Introduction of Administrative Penalties Scheme
- ◆ Implementation of Appeal system (waiting final decision)

- ◆ Computerization of Customs clearance procedure by upgrading toward ASYCUDA++ System
- ◆ Introduction of Direct Trader Input for Cargo Clearance using a Single Administrative Document for Import and Export clearances
- ◆ Establishment of Advance Ruling System
- ◆ Development of Code of Conduct and National Integrity Action Plan
- ◆ Enhancement of the border control on counterfeiting and pirated goods
- ◆ Improvement of Customs Brokers Business
- ◆ Enhancement of control of Customs areas
- ◆ Introduction of the Gateway Clearance (goods are cleared at Port of Discharge and not at Destination Port)
- ◆ Introduction of Late Payment Interest
- ◆ Introduction of Post Clearance Audit Scheme
- ◆ Introduction of Advance Cargo Notification Scheme
- ◆ Introduction of a Customs Service Charter
- ◆ Launching of the Customs Website
- ◆ Development of Risk Management

Most of the legislative reforms for the RKC General Annex have been completed and are currently being implemented. There have been some issues in the difficulties with implementation that led to the CMMT organizing workshops for Customs officers and external stakeholders to attend to and resolve these issues.

These reform activities also enabled PNG Customs to commence work on some of the WCO SAFE FOS initiatives. PNG Customs received a WCO SAFE FOS Diagnostic Mission in October 2007 which carried out an assessment of the administration and made a number of recommendations. PNG Customs has already developed a Customs Modernization Strategic Action Plan to implement the recommendations with support from ROCB Asia Pacific. Some of those have already been implemented such as advance lodgment of cargo manifests by electronic means.

V. Evaluation of Customs Modernization

5.1 Key success elements

Through a brainstorming session with the Customs Modernization Management Team (CMMT) members the following elements which led to the success of the program were identified:

1) Moved by themselves

PNG Customs started its modernization project through its own initiative inspired by the APEC SCCP and WCO activities. Soon after the Hanoi RKC workshop organized by the AEPC SCCP, PNG Customs decided to set up a project team to accede to the RKC. There was no budget, little to experience in drafting laws, and insufficient human resources; however PNG Customs decided to put in what little resources they had at hand and build on from there. More importantly they moved to the first step by themselves by establishing the Kyoto Project Management Team (KPMT) currently called CMMT and started to conduct a gap analysis between the RKC and the PNG Customs Act 1901. The first budget for the CMMT was provided in 2006 through a special budget allocation by the Department of Treasury and Finance. Since 2008, the CMMT receives annual allocation through the budget process to fund its activities.

2) Ownership by Customs

PNG Customs established KMPT, currently CMMT, for the modernization of the Customs legal framework, management and procedures. Of course PNG Customs welcomed the support from outside such as long-term experts from Australian Customs and short term experts from APEC SCCP and WCO/WCO ROCB. With whatever assistance that was offered PNG Customs, it has continued to retain ownership of the whole project because PNG Customs believes that the results originates from ideas and plans developed through the hard work each team member has contributed up to executive management level.

3) Clear Target and Plan, and management

PNG Customs has set a very clear plan, to accede the RKC before the end of 2009 once the domestic Constitutional process is completed. An Annual Plan sets the activities for the team with each team member responsible for specific areas of the RKC as well as the project implementation plan developed with assistance from ROCB Asia Pacific. The CMMT ensures that the projects together with the international donor assistance such as Australian aid complement each other to benefit the organization and achieve government objectives.

The team also applies suitable change management to persuade external

stakeholders and internal Customs officials of the necessity to modernize in a global environment.;

4) Leadership

The Commissioner General of IRC and the Commissioner of PNG Customs acknowledge the many benefits that have resulted from the activities of CMMT and continue to provide support for it. This has been shown through their participation in a number of workshops conducted by the team. They have also given support to create a structure within Customs to accommodate full time staff committed to the work currently undertaken by the CMMT. The Division which has been approved will be called Modernization Policy Division and will have its own staff to continue with the plans developed by the CMMT.

5) Political support

Through timely and continuous briefing to the Minister of Treasury and Finance through the Commissioner General of IRC and Commissioner of PNG Customs, the Minister has demonstrated a strong support for the modernization of Customs and has attended the National Customs Consultative Meeting to exchange views with stakeholders including private sector and other government agencies. The increasing of the budget allocated by the Government to the CMMT also shows the strong support from the Government and Parliament. The CMMT gained extra budget in the fiscal year 2008 to further facilitate the modernization process.

6) Support from donors

The reform in Customs procedures in line with the legislative reforms is being greatly assisted by the Australia / PNG Strongim Gavaman Program (SGP). The Australia/ PNG SGP program complements the CMMT program, where SGP Advisors work together with their PNG counterparts to implement the new procedures in line with the legislative reforms.

7) Support from traders

Customs had received lots of complaints and claims from traders because of the complicated and slow Customs procedures. They were very suspicious about the CMMT's activities. However, because of the awareness raising seminars and conferences to stakeholders by CMMT, traders gradually identified a clear

picture of the future Customs is heading and concrete benefits that can accrue to them as a result of the modernization of Customs. As a consequence they have now become a strong supporter of the Customs modernization.

5.2Evaluation

The ROCB evaluated the PNG modernization project as an example of one of the best practices in the Asia Pacific Region. The project has provided huge benefits to the private sector and Customs and Government.

1) Benefit to Private Sector

A properly managed reform program is of an immense benefit to industry and active industry participation is crucial to a reform program especially Customs Reform Programs. Some of the benefits that Industry will derive out of a properly managed Customs reform program are;

- ◆ Greater transparency and predictability in Customs procedures that should reduce transaction costs.
- ◆ Increased voluntary compliance that should result in fewer interventions by Customs on imports and exports.
- ◆ Improved supply chain security through active participation by Industry.
- ◆ Improved trade and travel facilitation.
- ◆ Enhanced competitiveness at the international market

The Customs Business Partnership is also in line with the national governments Public Private Partnership Policy which encourages public and private sector agencies to work together to achieve the national governments development objectives of a stable and secure economy suitable for foreign and domestic investments.

2) Benefit of Customs and Government

The benefits to Customs in a properly managed reform program are;

- ◆ Increased voluntary compliance resulting in redeployment of resources to high risk areas.
- ◆ Appropriate use of limited resources for maximum returns
- ◆ A modern Customs Service with well trained personnel implementing Customs best practices.

- ◆ A modern Customs service fulfilling its roles in meeting the country's national and international obligations such as collection of revenue, facilitating trade and increase foreign investment.

5.3Future of Customs Modernization

The PNG Customs Service has taken measures to ensure the continuity of the modernization program. In the current restructure, PNG Customs has established a division responsible for modernization and strategic planning headed by an Assistant Commissioner Policy and Modernization. The current role of the Customs Modernization Management Team (CMMT) will be absorbed by this new division who will have fulltime personnel dealing with modernization and strategic planning issues.

The division's primary responsibility is to ensure that a Modern PNG Customs Service implements Customs best practices in line with PNG's national and international obligations. In order to maintain continuity, the CMMT invites younger generation officers to its meetings as observers to identify new capable team members and to give them precious experience through active participation in the discussions and debates.

In today's environment of the ever changing trends in global trade, transportation, technology and trans-national crimes, modernization programs do not have set end date or time limit. Customs Services worldwide must change and implement international best practices to meet these challenges. PNG Customs will continue with its efforts to meet "Customs in the 21st Century" objectives adopted by the WCO Council.

[End]