

RISK MANAGEMENT APPROACH IN MACEDONIAN CUSTOMS

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Abstract International trade of goods and services is conducted in an environment that is exposed to widespread risks. The customs administrations of all countries are expected to affect the facilitation and acceleration of international trade while protecting their economies and citizens. This is a big challenge that can only be addressed by applying methods that will balance these two requirements. Applying a risk management approach in the everyday work of customs administrations is the best known way to accomplish a balance of these specified requirements. As a modern administration, the Customs Administration of the Republic of Macedonia has incorporated a risk management approach as general policy in all its customs offices. Customs controls are based on risk assessment, profiling and selectivity, disposing risk areas and facilitating management decisions on the allocation of resources. The aim of this paper is to analyse the importance of implementation of a risk management approach, with a focus on the Customs Administration of the Republic of Macedonia. Using statistical methods, calculations will be made to create indicators for the implementation of the risk management approach in the Customs Administration of the Republic of Macedonia.

Keywords:
risk,
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customs,
Customs
Administration of
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indicators

1 Introduction

The application of risk management in the everyday work of the Customs Administration of the Republic of Macedonia helps customs to effectively collect revenue, facilitate trade and protect society in terms of security and safety.

Risk management is successfully applied in the private and public sectors as a way to determine areas of risks and to support management in making the best decisions according to that information. Implementation of a risk management approach should ease the controls on the less risky consignments and focus on the consignments that represent the greatest risk. This would reflect a balanced approach between control and trade facilitation. The World Customs Organization (WCO), according to Standard 6.3 of the Revised Kyoto Convention (RKC), defines risk management as ‘the systematic application of management procedures and practices providing Customs with the necessary information to address movements or consignments which present a risk.’ (WCO, 1999).

There are five main steps in the standard customs risk management process as defined by the WCO (WCO, 1999): 1. Establish context; 2. Identify risks; 3. Analyse risks (likelihood of a certain risk occurring); 4. Assess and prioritise risks (classify risks as high, medium or low); 5. Address risks by accepting and monitoring low-priority risks. Constant monitoring and review are crucial in this process in order to eliminate false negative or false positive risk assessments.

Risk management within Customs can be strategic (identifying areas of risk, e.g. exclusion of drugs, weapons, import/export prohibitions, quotes etc.), operational (determination of the control level needed to deal with the assessed risk) or tactical (in their everyday work, officers make decisions about which consignment needs greater control according to their experience, skill and intelligence). The risk management process can apply across all of these levels.

2 Literature review

Hintsä, Männistö, Hameri, Thibedeau, Sahlstedt, Tsikolenko, Finger, Granqvist (2011, p.3) stated that ‘customs risk management has its own limited legacy in literature, consisting mainly of policy papers, practitioner guidelines, technical reports, project reports and press releases. Academic literature is currently very

limited, possibly due to its previously perceived niche nature and security sensitivities linked with the topic.’

According to Anderson and Terp (2006), ‘Customs risk management has always been at the core of customs administration and is a fundamental discipline enshrined within the WCO’s Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures. It has proven to be the most effective means of managing the huge volumes of cargo that enter the country every day of the week because it allows an administration to concentrate resources on high-risk areas while allowing low-risk cargo to flow unimpeded into the commerce of the country.’

Harrison (2007) and Conrow (2003) claim that customs risk management coupled with good intelligence and effective data analysis allows the profiling and targeting of cargo prior to arrival at a port so that low-risk cargo can be released immediately, and high-risk cargo can be diverted for physical examination. Dunne (2010, p.16), stressed that a customs risk management system provides an opportunity to ‘determine risks’ and is ‘a genuine way of thinking without which the customs authorities may react to different situations and anticipate the necessary initiatives and the language is usually known as risk analysis.’ The implementation of a risk management system in customs was discussed by Jacob and Zaharia (2012, p.3): ‘Risk management is a process that determines the risk of an activity, the seriousness of these risks, the means to avoid, control or prevent them.’ Frank Altemoller’s opinion is that in order to implement increased protection of international supply chains, authorities must identify the specific risk to which they are exposed. Ascertaining risks and tackling them effectively, as suggested in the paper, can be done by implementation of a risk management system in customs (Altemoller, 2011). Drobrot, Klevleeva, Afonin and Gamidullaev (2017, p.4) define customs risk management as ‘an effective means of treating flows involving a large number of people, goods and vehicles with limited resources and changing risks without impeding the flow of legitimate trade.’

The above-mentioned study papers on customs risk management link the efficiency of customs administrations with the implementation of a risk management approach. Furthermore, the author of this paper is of the opinion that the customs risk management approach has a positive effect in terms of making the best decisions, according to the information obtained, in terms of risk exposure.

Implementation of a risk management approach should ease the controls on the less risky consignments and focus on the consignments that represent the greatest risk.

3 Implementation of a risk management approach in Macedonian customs

The Macedonian economy is highly dependent on international trade, therefore policies of facilitating trade by accelerating and simplifying customs procedures are necessary while protecting society. Implementation of a risk management approach in the Customs Administration of the Republic of Macedonia began in 2002 with the application of the selectivity control method in some customs offices (CARM, 2006), which has now become general policy in all customs offices in the CARM. A supporting legal framework was needed for further development of the risk management approach. This approach was enshrined in the Customs Law and other customs regulations as a fundamental doctrine of the everyday work of the Customs Administration of the Republic of Macedonia.

The risk areas determined upon implementation of the Guidelines on selective controls of customs operations (CARM, 2015) are: 1. Avoiding payment of taxes by: declaring and accepting improper customs value, declaring and accepting improper subheadings or further subdivisions of the Combined Nomenclature (CN), declaring and accepting improper origin/preferences, discharging of imports for processing, discharging of outward processing, unlawful removal of goods from customs supervision, failure to report imported goods for customs clearance; 2. Threatening the safety and reliability in terms of public health, environment and consumers, including proper application of measures concerning the import and export of goods to and from the Republic of Macedonia through: smuggling of weapons, smuggling of drugs and precursors, money laundering and financing terrorism, smuggling endangered animal and plant species, smuggling of nuclear and radioactive material, smuggling of high technology and weapons, illicit trade in dual use, smuggling of cultural heritage, trafficking in counterfeit/pirated goods, environmental crime, and trafficking.

The risk areas determined in this document are not permanent but can be modified according to the basic responsibilities of the Customs Administration of the Republic of Macedonia. The risk areas determined are the main basis for the identification of risks and analyses carried out by the Risk Analysis Department in

terms of likelihood and consequence, thereby producing an estimated level of risks. The process continues by assessing and prioritising risks by comparing the estimated levels of risk against the pre-established criteria, and classifies those risks as high, medium or low. After deciding which risks are acceptable, the development and implementation of a specific management plan follows, in which risk indicators and risk profiles are determined. The information obtained through the risk profiles is used as selection criteria on control channels for customs control (Milosboska, 2016, p.17). The Customs Administration of the Republic of Macedonia uses ‘red’ (mandatory physical and documentary inspection of the goods), ‘yellow’ (documentary control only), ‘blue’ (control at a later stage-post clearance control), and ‘green’ (immediate release of the goods with no control) channels for customs control.

Today, the legal framework for the customs risk management approach in Macedonian Customs is covered by the Customs Law. Article 4 defines risk as ‘the possibility of an evasion of duties or endangering of the security and safety of the Republic of Macedonia, in respect to public health, the living environment and consumers.’ (Customs Law, Article 4). Risk management means the systematic identification and application of all the measures necessary to limit the exposure to risk. This also includes actions, such as the gathering of data and information, risk analysis and risk assessment, the providing and taking of measures and regular supervision, and reconsideration of the results of the measures taken, based on international and domestic sources and strategies (Customs Law, Article 4).

4 Indicators on implementation of the risk management approach in Macedonian customs

Indicators on implementation of the risk management approach in Macedonian Customs relate to the distribution of customs declarations by channels (selective control of customs declarations), the number of processed declarations and the time of processed declarations, the number of felony and misdemeanour charges, and total revenue collection.

The Customs Administration of the Republic of Macedonia operates four clearance channels. In 2018, approximately 75% of the total imports and exports were selected for the green channel, while only 6% of the total imports and exports were selected for the red channel (CARM, 2014-2018). The distribution of the total imports and

exports on the green channel increased from 52% in 2014 to 75% in 2018, which shows the application of risk selectivity in the daily work of Macedonian Customs. Figure 1 shows that Macedonian Customs applies a risk management approach and has improved the system for selective controls by reducing the percentage of physical and documentary customs controls from a rate of 17% for physical controls in 2014 to 6% in 2018, and from a 30% rate for documentary controls in 2014 to 17% in 2018. The Customs Administration of the Republic of Macedonia has adopted a risk management approach, has applied risk-based selectivity (red/yellow/blue/green channels), and is capable of conducting high-risk operations, while increasing the efficiency of customs clearance for low-risk shipments. Macedonian Customs can determine shipments that require additional inspection in the form of physical and documentary customs control in order to fulfil its obligations in terms of safety and security.

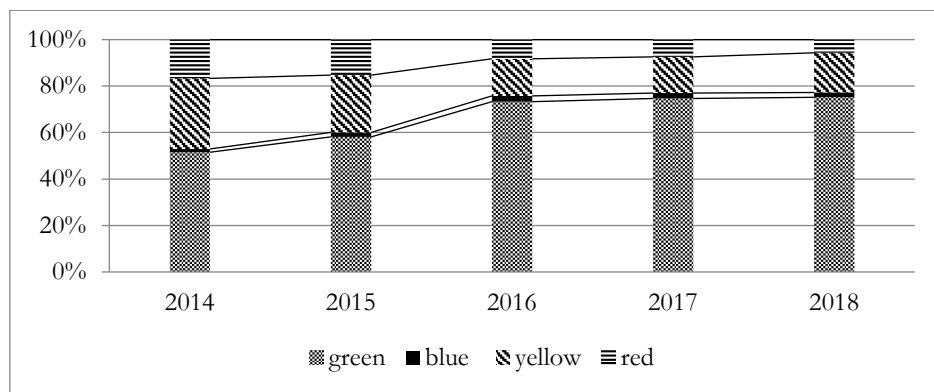


Figure 1: Indicator of selective control on customs declarations in Macedonian Customs

Source: CARM (2014-2018), author's calculations (Official data for 2019 and 2020 had not yet not been published by the Customs Administration of the Republic of Macedonia at the time of writing of this paper)

Another important indicator related to application of the risk management approach in the customs operations of Macedonian Customs is the average processing time on the customs declarations by channels. When analysing these data (Figure 2), it is noted that the average time required to process the declarations distributed on the green channel (immediate release) reduced from 29 minutes in 2014 to 23 minutes in 2018. Comparing the data related to the number of declarations processed in 2018 to that of 2014, an increase of 77% can be seen in 2019, whereas the number of

employees increased by only 2% (CARM, author’s own calculations). These figures show an increase in efficiency and productivity in customs practices, leading to gains in time and resources for export and import entities. In contrast, the average time required for processing the declarations distributed on the red and yellow channels increased from 176 minutes in 2014 to 206 minutes in 2018 for the red channel, and from 82 minutes in 2014 to 122 minutes in 2018 for the yellow channel. These figures show that by applying a risk management approach, Macedonian Customs detected shipments that represent a high risk and conducted additional physical and documentary controls in order to protect its economy and citizens in terms of security and safety.

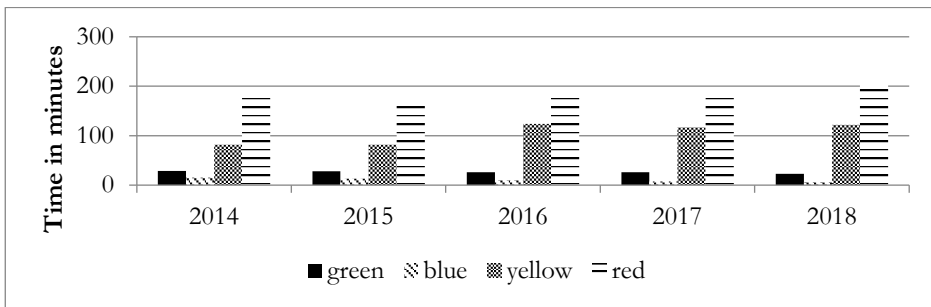


Figure 2: Average processing time of customs declarations by channels

Source: CARM (2014-2018), author’s own calculations (Official data for 2019 and 2020 had not yet not been published by the Customs Administration of the Republic of Macedonia at the time of writing of this paper)

Implementation of a risk management approach assists in the successful fight against customs crime. Using the data obtained in the risk analysis, customs officials can use their capacity to detect and prevent crime. Indicators on the detection of crimes by Macedonian Customs relate to the number of the submitted felony charges, the number of submitted misdemeanour charges and the number of the submitted charges per employee (Figure 3).

The indicator of felony charges shows the continuous efforts of Macedonian Customs in fighting crime and protecting society. The highest number of submitted felony charges occurred in 2015, when 110 such charges were recorded. This figure then decreased by 58% in 2019 when 46 felony charges were recorded. In 2019, the highest number of declarations was processed, while the lowest felony charges were recorded. These figures indicate that implementation of the risk management

approach enables the allocation of resources to the appropriate high-risk shipments. The long-term application of the risk management approach changes organisational behaviour and individual behaviour by deterring them from carrying out criminal activities. This strengthens the preventative role of the Customs Administration of the Republic of Macedonia in the fight against crime.

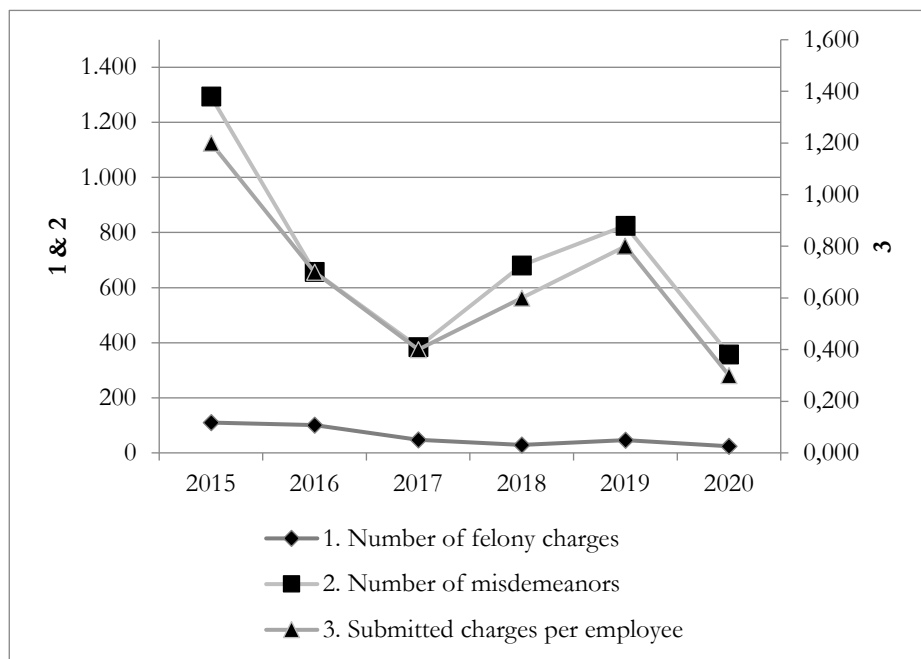


Figure 3: Indicators on the detection of crime by Macedonian Customs

Source: CARM (2015-2020), author's own calculations

As an important state institution, the Customs Administration of the Republic of Macedonia operates under the umbrella of the Ministry of Finance. One of the basic tasks of Macedonian Customs is the calculation and collection of export and import duties, taxes and other fees related to the import, export or transit of goods. The duties and taxes administered by Macedonian Customs are: customs duties, VAT on import, excise duties (production, import and trade), and fees.

Some of the indicators that present the fiscal role of Customs relate to the number of employees, the total volume of collected revenues of customs and excise duties, VAT, fees and collected revenue per employee (Figure 4).

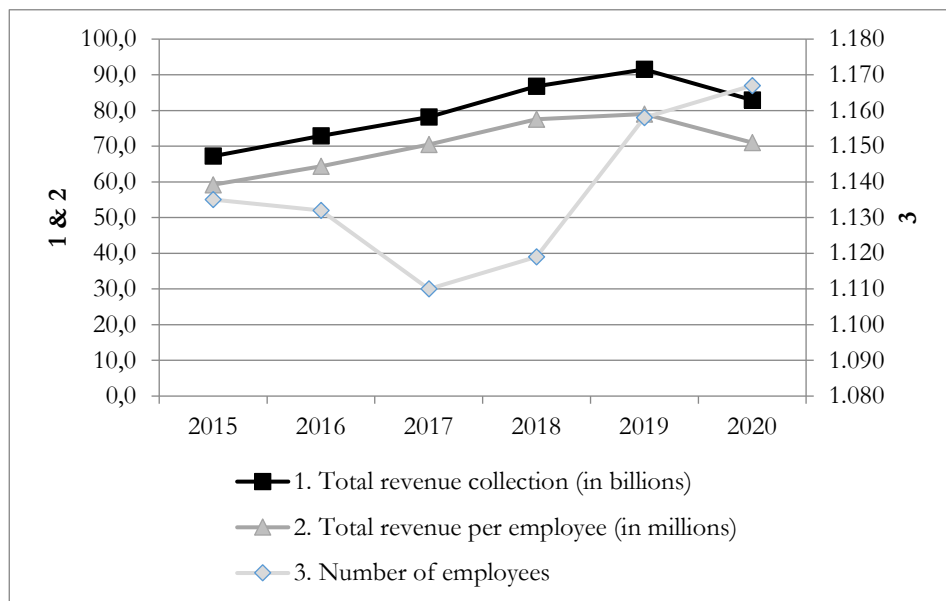


Figure 4: Indicators showing the fiscal role of Macedonian Customs

Source: CARM (2015-2020), author's own calculations

The indicator related to the number of the employees shows that there is no significant fluctuation in these numbers, whereas the total revenue collected in customs and excise duties, VAT and fees expanded rapidly during the analysed period of 2015-2019. The decrease in total collected revenue in 2020 is the result of the reduced workload as a consequence of the COVID-19 crisis, therefore that year is not relevant for this research. The indicator on the revenue collected in customs and excise duties, VAT and fees shows an increase of 36% in 2019 compared to 2015. Additionally, the indicator on the revenues collected per employee shows an increase of 20% in 2019 compared to 2015. By analysing these indicators it can be concluded that the fiscal role of the Customs Administration of the Republic of Macedonia has significantly improved over the years (Figure 4).

5 Conclusions

Analysis of the risk management approach in Macedonian Customs raises some key conclusions.

First, as a modern service, the Customs Administration of the Republic of Macedonia operates in four main areas: trade facilitation, revenue collection, community protection, and national security. To maintain its goals, implementation of the risk management approach in everyday work is necessary. The legal framework for implementation of the customs risk management approach in the Republic of North Macedonia is covered by the Customs Law. According to its provision, Macedonian Customs has developed a modern risk management system on a strategic, tactical and operational level.

Second, the indicators analysed on the implementation of the risk management approach in Macedonian Customs illustrate the current situation in relation to facilitation of trade, revenue collection, community protection and national security.

The facilitation of trade was analysed using the indicator on the selective control of customs declarations in Macedonian Customs and the average processing time on customs declarations by channels. The results of an analysis of these data show that in 2018 approximately 75% of the total imports and exports were selected for the green channel, while only 6% of the total imports and exports were selected for the red channel (CARM, 2014-2018). The average time required to process the declarations distributed on the green channel (immediate release) reduced from 29 minutes in 2014 to 23 minutes in 2018. These figures show an increase in efficiency and productivity in customs practices, leading to gains in time and resources for export and import entities. Implementation of the risk management approach has allowed Macedonian Customs to speed up customs procedures for low-risk shipments that are within the customs laws and regulations.

Community protection and national security was analysed using the indicators on the detection of crime by Macedonian Customs. Analysing these indicators showed that the highest number of submitted felony charges occurred in 2015, when 110 such charges were recorded. This figure then decreased by 58% in 2019 when 46 felony charges were recorded. In 2019, the highest number of declarations was processed, while the lowest felony charges were recorded. These figures indicate that implementation of the risk management approach enables the allocation of resources to the appropriate high-risk shipments. It is notable that Macedonian Customs has a strong commitment to its role in the prevention and detection of crime and protection of its citizens, however, more efficient control methods still need to be developed in terms of customs misdemeanours.

Revenue collection was analysed using the indicators showing the fiscal role of the Customs Administration of the Republic of Macedonia. By analysing these indicators it can be concluded that the fiscal role of Macedonian Customs has improved significantly over the years. The indicator on the revenue collected in customs and excise duties, VAT and fees shows an increase of 36% in 2019 compared to 2015.

Finally, the Customs Administration of the Republic of Macedonia applies a customs risk management approach (as shown by the indicators analysed) while conducting customs operations. The application of a risk management approach and the use of risk-based selectivity criteria allow Macedonian Customs to allocate its resources to high-risk shipments while increasing the efficiency of the clearance process for low-risk shipments. Nevertheless, the data analysed show that the quality of risk management could be improved as part of the organisational culture and the decision-making process at all levels of the organisation. Macedonian Customs faces a challenge in balancing border security and safety threats while facilitating trade. Customs and other border security and management agencies should work together to fulfil their new roll.

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