

**RECOMMENDATION OF THE JOINT COMMITTEE OF THE CENTRAL
EUROPEAN FREE TRADE AGREEMENT
No. 1/2019**

On CEFTA Customs Risk Management Strategy

Adopted on 18 December 2019

The Joint Committee,

Pursuant to Article 40.4 of Annex 1 to the Agreement on Amendment of and Accession to the Central European Free Trade Agreement;

With the objective to facilitate free trade in goods,

Recommends the CEFTA Parties to implement the CEFTA Customs Risk Management Strategy, as annexed. CEFTA Secretariat shall assist the CEFTA Parties in provision of adequate funding for the implementation of the CEFTA Risk Management Strategy.

This recommendation shall take effect on the date of its adoption.

Adopted in Tirana on 18 December 2019, in the presence of representatives of all CEFTA Parties.

Annex

CENTRAL EUROPEAN FREE TRADE AGREEMENT (CEFTA)

**Customs Risk Management Strategy
Action Plan
Roadmap 2020-2024**

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1. INTRODUCTION

"*Strategy. Action Plan. Roadmap. (2020-2024)*" contains a proposal for the development of an enhanced Customs Risk Management Framework during the forthcoming four-year period for CEFTA Parties.

The consultants completed an assessment of the national strategies and operations of the CEFTA Parties, as it relates to Risk Management, through a series of online and on-site interviews, which resulted in the completion of this proposal.

Each Customs administration had the opportunity to present their approach to the different scenarios presented by the consultants. The working teams analysed subjects such as IT, Equipment, Resources, Risk Management technics, and many others.

The consultants produced a working document substantiated in these inputs. The CEFTA Parties received the working document a week prior to the workshop in Ohrid, North Macedonia. The technical teams from each of the administrations had the opportunity to review the materials and provide their feedback and input during the workshop.

This document proposes a Strategy, an Action plan and a Roadmap that reflects the consensus of those accepted by experts of CEFTA Parties as base for a detailed revision and it is the summary of CEFTA Risk Management Working Document V.2, that is included as a Supporting Document.

Some of the activities proposed by the Strategy can be costly in both budget and human resources. The CEFTA Parties will identify the financial resources needed to deliver the implementation of the Strategy and will seek additional resources by approaching the European Union and other international donors willing to co-finance the necessary investments to cater to the information and communication technology needs of CEFTA Parties. It is worth noting that it is already reaffirmed in a preambular provision of the Additional Protocol 5 on the Facilitation of Trade to the CEFTA Agreement.

CEFTA Parties will retain human expert teams whenever possible and disseminate knowledge within its own administrations for all capacity building activities.

2. MISSION AND VISION

Mission

A mission statement describes the “present” state of an organization. These are the summarized missions of the CEFTA Parties as capture through the interviews, analysed documentation and workshops:

- Harmonization of legislation with the EU Acquis and of the procedures with EU standards.
- Development of information systems.
- Sustain the Revenue collection and protect the financial interests.
- Achieve a right balance between customs control and trade facilitation
- Protect and secure the customs territory environmental interest.
- Better exchange of information between other institutions.
- Improve cooperation with the business community.
- Development of human resources.
- Support economic development and the elaboration of statistics.
- Combat illegal activities.

The proposed strategy for Customs Risk Management (CRM) must be coherent with the context, an organic part of the systems designed by Customs, that have their own overall missions and visions, and with CEFTA mission of promoting trade facilitation. The elements of the proposed strategy are:

ICT+ based. The Strategy takes into account that Information and Communication Technology (ICT) are necessary and that are changing with enormous speed. CEFTA Parties are facing a technological sea change. The implementation of single windows (SW) and the growth of B2C will generate a new architecture of electronic messages between traders, carriers and authorities that will be the foundation of new customs procedures. CRM tools should have interfaces with these systems. Investments and efforts of CEFTA Parties in Information and Communication Technology will be of a substantial magnitude and will require flexibility.

CRM transformation and optimization implies not only the improvement of classic transactional Information Systems. New tools and concepts such as Warehousing, Business Intelligence, Data Mining and Pattern Detection offer new possibilities to Customs and will require new skills.

From the point of view of communications, CEFTA Parties should continue to fulfil all the necessary conditions related to the EU Interconnectivity and Interoperability System (IIS) between the national and IT systems of the EU Member States.

New technologies for non-intrusive examinations aim to push beyond the limits of today’s passive radiation detection to active high-energy X-ray based scanning, that can identify types of cargo, using muons and other subatomic particles.

Parties should promote the cooperation, pursuing the minimization of infrastructure costs, sharing, as far as possible, the load of the design and development of the tools that will enable these types of communications and controls.

“ICT+ based” express the idea that evolution of Customs Risks Management must be oriented by the evolution of ICT and non-intrusive technologies.

Data driven. In the past, CRM used a probabilistic approach. Specific types of goods with origin in some specific countries were selected for control because previously, similar expeditions were problematic or because their essential characteristics supposed a risk and should be controlled. Controls were designed based in the experience obtained from past seizures. Control was organized driven by experience. CRM officers required a considerable amount of professional experience because they had at their disposal only a few data set (those declared in manifests or import declarations in most of the cases) to make decisions.

Nowadays databases built by Customs, have an impressive amount of data and CRM managers can invert their questions, going from evidence to causes. CRM evolves by looking for causes (profiling and pattern detection) and not for punctual effects. From the statistical point of view, this implies to evolve from a frequentist approach to a Bayesian one.

Tool wise, CRM managers should be able to, automatically, obtain profiles from data and be able to detect patterns of risk and patterns of fraud.

Data analysis, data mining and text mining can help CRM officers, in combination with analytical tools and data mining algorithms.

A CRM system should, in the future; use tools based on open standards architectures and be designed to access all existing available data sources (i.e., information exchanged with other CEFTA Parties and, eventually, with other EU MS). Data mining can assist CEFTA Customs administrations to make the best use of the resources and information providing insight. New concepts and new tools also present its own challenges as they range from the freely available to the very complex and expensive. CRM officers should observe the best practices and provide learned opinions about these tools giving the correct business vision to technology managers and Customs Authorities.

Goal metrics oriented. Performance measurement, in Customs, considers risks against objectives, provides descriptive statistics about detection and seizures and elements to gauge efficiency.

CEFTA Risk Management experts agreed on the importance of the measurement of performance and efficiency of CRM with methodologies as GQM+ Strategies¹. These metrics can provide Customs with the balance between trade facilitation and the necessary degree of control and provide a quantitative basis for decisions.

Single-window, One-Stop-Shop, Joint-Border-Control approach based on Mutual Recognition and Cooperation.

The move towards the implementation of Single Windows and One-Stop-Shop solutions requires further cooperation, communication and mutual recognition of certificates and controls that are the foundation of these concepts.

¹ GQM+ Strategies is a method that provides concepts and actionable steps for creating the link between goals and strategies across an organization and allows for measurement-based decision-making.

Arrangements/agreements on mutual recognition of AEO and/or other measures are based on the trust between the parties. Mutual recognition of controls should be implemented only in cases where the conditions that allow for the adequate degree of confidence are satisfied, including that controls are made for the same reason. Also, issues of data protection need to be taken into consideration because a lot of sensitive information will be exchanged or at least made accessible to the partner country's administration during the cooperation, ultimately leading to mutual recognition. No administration can afford this information being leaked especially if it concerns sensitive or personal data.

The role of the customs service in enhancing competitiveness and improving the economic environment through trade facilitation is critical. Therefore, CEFTA Parties should, after creating the conditions for the implementation of simplified customs procedures and modernization of procedures, strength the post clearance audits and promote further cooperation with inspection bodies.

Vision

A vision statement describes "future" state.

The different CEFTA Parties share aspects of a Customs Administrations vision.

"A modern, professional efficient and transparent customs service that performs the tasks of revenue collection and protection of the society according with the best practices. Customs Risk Management is a key element in trade facilitation."

In order to achieve its vision, CRM CEFTA experts believe that Customs should adopt the strategic goals that are detailed further on:

3. STRATEGIC GOALS

Priority Goal 1. ICT+ Evolution

The pursuit of this goal implies the assessment of the actual level and the design of a roadmap for the evolution of the CEFTA Parties current ICT+ technologies.

ACTION 1.1 Design, plan and implement appropriate ICT+ solutions for CRM including those created to enable international cooperation.

Trade facilitation requires continuous ICT+ evolution due to changes in:

- *Procedures*, that are evolving
- *Technology*, that impose a continuous change in the standards applied (web- services, message format, security protocols, etc.)
- *Adaptation of communication tools* between customs offices
- *Technology for non-intrusive scanning*, etc.

CEFTA Parties should assess their actual situation, from the technological point of view, and evaluate the business strategy consequences of the adoption of alternative paths.

ACTION 1. 2. Develop further cross-sectorial cooperation arrangements and mechanisms for data sharing, including the analysis of the convenience of adapting or

create repositories, platforms, shared databases, or new ways to access risk information including targeting and profiles information.

Sharing databases and common repositories of information is valuable, but its creation and maintenance raises many questions among the CEFTA Parties. Analyzing in detail all the pros and cons of all the available solutions and reaching consensus on the best approach is paramount to obtain a solution that is acceptable by all.

ACTION 1.3. Improve SEED + Knowledge based tools.

CEFTA Parties manifested the good results obtained from the use of SEED and the convenience, as a general concept, of pushing for the evolution of this tool into SEED+ maximizing the value for money of investments.

ACTION 1.4. Design of solutions for traceability of goods movements during various control stages.

Risk mitigation relies heavily on traceability. In the future, emerging technologies such as block-chain, will be used in the area of traceability. CRM experts should consider these new opportunities for control. Extending control of risks to pre arrival and post arrival and enhancing the tools for traceability are steps that will promote security.

Priority Goal 2. Building a Maturity Model for CRM

ACTION 2.1 Building a Maturity Model for CEFTA CRM

Processes have different degrees of maturity, and it is a common best practice to evaluate the maturity of processes and organizations.

This approach is common in the field of Security and IT technology (CMM model²), but the idea has permeated to other fields, as is the case in the methodology TADAT³ for assessment of Tax Organizations.

Working Document V.1 proposed "governance" as one of the principal dimensions for the analysis. The CEFTA Parties expressed the desire to have some *key indicators* and to develop a conceptual framework to measure performance and progress.

This action would provide:

- a) a management tool for CRM units
- b) a way to give transparency to the effort of facilitating trade,
- c) an instrument that let assess the *maturity* of Customs Risk Management processes and that could offer Customs Authorities the way to calibrate the performance of their units.

² The Capability Maturity Model (CMM) is a methodology used to develop and refine an organization's software development process. The model describes a five-level evolutionary path of increasingly organized and systematically more mature processes

³ TADAT - Tax Administration Diagnostic Assessment Tool. Designed to provide an objective health assessment of a tax administration.

ACTION 2.2 Manage legal evolution and harmonization.

CEFTA Parties have changed their Customs Codes and this effort will facilitate the accession to EU. EU Customs Risk Management Framework has been built aligned with changes in UCC code.

CEFTA Parties have advanced a long way in the process of adapting legal structures to best practices but the effort must continue to account to additional steps in harmonization and also because best practices continue evolving.

Priority Goal 3. CCRMF Enhancement (CEFTA Customs RM Framework)

ACTION 3.1 Further develop the national and CEFTA risk assessment tools for the full range of threats and risks.

The availability of new data, in the context of pre-arrival controls, combined with the possibility of using new tools (analytics, data mining, etc.) is the foundation of new risk assessment tools, which improve those currently used.

CEFTA Parties should consider the use of new tools in CRM, such as warehousing and analytic tools.

ACTION 3.2. Develop further CEFTA common risk criteria and standards for the full rank of risks, in cooperation with competent services.

Common Risk Criteria are not only the base of integral protection, a piece of RM Strategy oriented to consider all Customs of a zone as one, but also an axis for the work of CRM experts in the construction of a rational Joint Border Control.

ACTION 3.3 Develop protocols for non-commercial controls.

CEFTA Parties have stressed the importance of the creation of CRM oriented to the control of the non-commercial expeditions, especially protocols and rules relative to the control of passengers and to the specific problems of airports.

Priority Goal 4. Maximize the value of data

ACTION 4.1. Training on common theoretical tools.

After consideration of the costs and benefits of the analytic solutions implemented in some countries, and just in the case that the decision of their use is adopted, CRM managers should be trained in the concepts related to these tools.

These capacity-building activities will provide them the elements for the elaboration of the specifications needed by IT specialists, knowledge about the way that these tools should be used and skills to interpret the parameters obtained in the analysis. These tools will provide much more benefits than those obtained through classification or quantification of risks.

ACTION 4.2. Assess best practices in customs risk analytics

Many countries are using now analytics tools in risk management. Some of them are based on multivariate techniques as logistics regression in targeting, discriminant analysis on selection, component principal analysis in the detection of factors of fraud

and many others. In the analysis of post clearance is common the use of Theory of Decision Multi-criteria.

These mathematical approaches can be implemented with tools as SAS, SPSS and in many cases with free software, as R.

Parties should evaluate the cost benefit of these solutions and the resources that are required previously to evaluate their use.

ACTION 4.3. Explore application of analytics tools for CEFTA parties

New tools that in many cases are classified with commercial purposes such As Data Mining, Artificial Intelligence, Pattern Discovery, Link Discovery, Expert Systems and many others can be freely obtained as libraries associated to R or Python. These freely available tools are used in training, and in most cases, they have an academic origin and relate to questions associated to social networks. The cases of use, the examples and the training of the experts must be adapted to the Customs problems and from the infinity of possibilities should be selected the most relevant for Customs purposes. After consideration of the best practices, a common selection of tools to be implemented would reduce their costs.

4. ROADMAP

The objective of this document is to propose to the competent authorities a strategy, an action plan and a roadmap for the development of the CRM (Customs Risk Management) function. It is evident that, if approved, the subsequent decisions should consider the availability of the necessary budgetary resources and reach a political agreement on the management of the process, but both issues exceed the scope of this document.

Based on the input received from the CEFTA Parties during the workshop held in Ohrid, North Macedonia on October 2019, and taking into account the goals and the human resources, these are the three main elements of the proposed Roadmap:

- Initial actions
- Definition of
 - One Project Group
 - One Expert Team
- Periodic actions during a period of four years

The **Project Group** will be in charge of the management and reporting of the Roadmap activities which might also require auditing at later stages of implementation. The members of the Project Group will be defined after the approval of this Strategy, Action Plan and Roadmap.

The **Expert Team** will be composed from the current technical team members inside CEFTA, namely the Working Group on Risk Management and the Working Group on Information Exchange, whenever possible. The expert teams will be in charge of participating in the Workshops and Seminars and document and disseminate all the knowledge and information in their own administrations. Other responsibilities will be outlined during the Initial activities after the approval of this Strategy, Action Plan and Roadmap.

Initial actions

Two diagnostic missions and one workshop in 2020, to assess the actual situation and the necessities in two key aspects. ICT+ tools and CRM tools.

ICT1	DIAGNOSTIC MISSION Identify weakness in actual IT solutions and elaborate a proposal for appropriate IT solutions, where relevant, with multilateral funding, if possible.
GOV7	DIAGNOSTIC MISSION Analyse challenges, opportunities and costs of ICT+ use for CEFTA Parties in control of risks. Analyse the possibilities of sharing best practices and common technical criteria in procurement.
GOV1	WORKSHOP Develop a structured approach) evaluation cycle) for systematically monitoring evaluating and improving implementation of risk management by parties and measuring the performance to ensure harmonised effective and efficient implementation (4.5.2)

Table 1 - Initial Action

Group of experts and project group

The mission for the group of experts would be to carry on activity GOV4: “Develop further, under the CCRMF, (CEFTA Customs Risk Management Framework), common criteria, together with competent authorities, for full range of risks associated with goods movements.

The mission for the project group would be the implementation of three processes

- Common Risk Management Criteria
- Common Risk Management Controls
- Measurement of performance of CRM processes and activities.

The mission for the expert’s group would be to provide Customs authorities learned opinions about technologies, tools standards and common specifications that could be applied by CEFTA Parties.

Their activity will be recurrent during all the length of the roadmap (four years).

Periodic activities

After the initial activities, this strategy proposes a set of periodic activities for the next four years. The following table, (table 2) describes the activities. In some of the activities, a three-digit numeric code (x.x.x) identifies the activities with similar actions adopted by the EU.

The GOV code defines Governance activities. ICT code defines Information Technology and Communication activities.

AREA OF INTEREST	CODE	ACTIVITY
INTELLIGENCE	GOV2	Intelligence building. Promoting cooperation with other customs and agencies
COOPERATION	GOV3	Develop customs threat and risk assessment at CEFTA level and ensure their results are shared (4.3.3) and create a common metric for the measurement of the progress.
	GOV4	Develop further, under the CCRMF, common risk criteria together with competent authorities for full range of risks associated with goods movements (4.4.1)
CAPACITY BUILDING	ICT2	Training on concepts associated to new analytic tools and CRM techniques.
	GOV5	Cross sectorial seminars to develop further cooperation between customs and other competent authorities with a view to ensuring complementary or roles in supply chain risk management (5.1.1)
	ICT3	Identify and determine at CEFTA Parties level possible further capacities that might be necessary to support more efficient risk management (4.2.1)
	GOV6	Analyse and identify options for further enhanced proactive cooperation, coordination and better risk

		management of the supply chain on a real time basis in cooperation with EU Member States and CEFTA Parties (4.2.2)
	ICT4	(SW) Assessment of the implications and prerequisites of single window.
	ICT5	Analyse the use of One-Stop-Shops for Joint Border Control
	GOV8	Identify the possibility the use of common criteria at the level of CEFTA Parties for harmonize the most appropriate place and time for application of customs controls and risk mitigation measures based on the type/level of risk, control and supply chain constraints (availability of information) now and in a foreseeable future (3.1.1)
	ICT6	Define Risk Management Standard Operating Procedures for CEFTA Parties

Table 2 - Periodic Actions

Table 3 – *Activities of the Roadmap*, summarizes the activities that should conform the roadmap. There are three activities, **ICT1**, **GOV7** and **GOV1** that should be performed during 2020, in the first semester, if it is possible. GOV2 and ICT4 can be completed during the second semester of 2020 (3Q and 4Q) and ICT2 and GOV3 during 2021 (1Q and 2Q), including some site visits. The cycle will repeat. The roadmap will be adjusted based on the evaluation of the activities, including the results of the work of the expert team and joint group. Under the code TBF (To Be Defined) are reserved three activities in 2022, 2023 and 2024 that will be designed applying the lessons learned in 2020 and 2021

	ROADMAP																			
	2020				2021				2022				2023				2024			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Seminar/ Diagnostic Mission	ICT1	GOV7	GOV2	GOV5				GOV5				GOV5				GOV5				GOV5
Workshop		GOV1				ICT3				ICT3				ICT3				ICT3		
Expert Teams Project Groups	GOV4, ICT6, GOV8				GOV4, ICT6, GOV8				GOV4, ICT6, GOV8				GOV4, ICT6, GOV8				GOV4, ICT6, GOV8			
Capacity Building				ICT4	ICT2	GOV3			GOV3		TBD		GOV3		TBD		GOV3		TBD	

Table 3 - Activities of the Roadmap

The detail of the activities, including the code that let put them in connection with EU plan is included in the Reference Documents.

Reference Documents

Documents used as reference during the drafting of this text are as follows:

- Medium-term Work Programme of the Government and Annual Work plan of the South East Europe 2020 Strategy;
- The International Convention on the simplification and harmonization of Customs procedures (revised Kyoto Convention);
- World Customs Organization's Framework of Standards to Secure and Facilitate Global Trade (SAFE 2015);
- EU Customs Blueprints.

Supporting Documents

Documents created through the activities carried out to complete this text.

- CEFTA Risk Management Strategy. Work Session Report, Ohrid, North Macedonia, October 2019;
- CEFTA Risk Management Working Document