White Paper on Accreditation of Operators and the Supply Chain Security (StairSec®)
A way forward - Proposal to connect national customs accreditation systems and create an authorised supply chain security (pilot)
Our operational aims

- We want to offer flexible Customs routines for foreign trade, within the framework of the legislation, a smooth border passage for travellers and an efficient border protection.
- We are continuously striving to improve Customs routines, in order to benefit society as much as possible and to strengthen the competitive power of Swedish business enterprises. In our work we co-operate both with the business community and with other public authorities.

Our vision

- We want the Swedish business community to consider us the most efficient Customs administration in Europe.
- We cooperate with the business community to the extent that the standard of lodged Customs declarations is so high that 90 percent do not require manual handling.
- We play a leading part in border protection with the aim of reducing by 25 percent the costs for society, caused by illegal importation of narcotic drugs, alcoholic beverages and tobacco products.
- In the collaboration with others on the national as well as the international level we want to be renowned for fresh ideas, simplifications and innovative working methods.
- We enjoy a good working environment with rich opportunities for personal development and are proud of the fact that our work benefits society.

Pictures on front page from SAS Cargo web site, Volvo Trucks web site and Sune Carlsson and Lars Bryman, Swedish Customs. Design and layout Peter Rödström, Swedish Customs.
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Introduction

The world of international trade is changing more and more rapidly, posing new challenges on all involved parties of the supply chain. Globalisation and Information Technology are only but a few factors that have great impact on international trade as well as Customs administrations. Customs administrations may contribute to a high degree to see prospering economies inasmuch as to facilitate legal trade, allocate resources to high risk areas, and also opt for integrated electronic information, based on commercial systems and reuse that information for Customs-purposes.

To add to the full perspective is also the fact that Customs-duties are decreasing at the same time as trade volumes are increasing, meaning that administrative and compliance costs will become higher and higher if measures are not taken to decrease those costs for both Customs and trade.

At the same time Customs plays a leading role in protecting the society and its citizens from undesired exposure to drugs, child pornography and other threats, for instance supplies for terrorism through smuggling of weapons of mass destruction. The overarching challenge for Customs is of course to maintain balance between the necessary trade facilitation in order to create prospering economies and the urgent controls to safeguard the wellbeing of citizens.

An efficient mean to face that challenge is to apply efficient risk management in order to separate high risk trade flows from low risk - or mainstream - flows. In order to be able to detect and establish criterion for low risk flows, one solution is to make it possible for compliant operators to receive a Customs-accreditation and hence simplifications and more efficient logistics, all based on partnership between Customs and trade, and covering all aspects of the supply chain.
Background

As a consequence of the despicable terrorist acts 11th September 2001 the demands for security in the supply chain around the world has increased. Customs has a natural role to play in adding a security perspective to the international supply chain, having core competence in controls of trans-border movements of cargo regardless of transport mode. This is clearly shown in the approaches from the Customs administrations for instance in the United States and in Australia.

In order to achieve a secure supply chain a number of actions are to be undertaken by national Customs administration and the business community’s stakeholders in the supply chain. As examples can be mentioned demands for new working methods, organization, sharing of information, new technical equipment – for instance container scanners and equipment to measure radioactivity– and also several other measures. The conditions and prerequisites when designing the added value of Customs’ controls should be established in close co-operation and dialogue with the business community, hence ensuring as many aspects as possible to be considered during the process.

Swedish Customs has for several years used accreditation of economic operators as a working method in order to promote compliance and facilitate the international trade for operators proven compliant through application of sophisticated risk management. Acknowledging the necessity to improve security in the global supply chain, efforts has been focused on designing a global Supply Chain Security System to be integrated with the existing Customs system The Stairway® - a Customs system for improved service, quality and efficiency based on partnership between Customs and the business community.

The Swedish Strategy

Customs is one of the oldest public services in Sweden, dating back to the mid 17th century. However, more recently it was recognised that Swedish Customs actually has customers and customers wanting to be compliant and co-operate with Customs. In order to facilitate trade, increase service and decrease compliance costs at the same time as control measures and collection are improved, solutions implemented must be orientated to the needs of both Customs and its customers. Swedish Customs has therefore developed several solutions in close co-operation with the business community and results show that these products facilitate business for both Customs and legitimate trade. Through the individual solutions possible through partnership and accreditation within the Stairway program, simplifications are given at the same time as controls are improved. There are examples of decreases in compliances costs for accredited operators by up to 76 % while Swedish Customs has seen increases in some hit rates based on risk management from 5% to 45 %!

Facilitation, Quality and controls in the supply chain

The basic idea behind accreditation as working-method of Customs is sophisticated risk management and efficient risk-analyses. For several years risk-analysis and risk-assessments has been working-methods in order to select where to allocate Customs-resources in order to perform control-measures. However, the focus of risk-analyses is mainly high and medium risk while low risk areas, foremost depending on the fact that the economic operator involved
is assessed to be compliant regardless of the kind of commodity and Customs-procedure applied, has been left without further improvements.

What if focus of all risk-management and risk-analyses were to be transferred to the economic operator, striving to be compliant and provide Customs with information of the highest quality possible? This reasoning, which is relevant since the major part of the business community do want to be compliant, leaves Customs with a mainstream of low risk imports and exports providing great opportunities to improve controls at the same time as low risk and flows assessed to be part of a compliant operator’s international trade may be facilitated in order to strengthen the competitiveness of that operator giving benefits for Customs, citizens and countries on all levels. High quality and high compliance must pay by means of simplified Customs-processes and facilitated trade! The member states of the European Union and the European Commission share this philosophy, something shown during the development of COMPACT – a framework for international accreditation of compliant operators. COMPACT has been developed by the support of the EU Customs 2002/2007 programs and it is in the Swedish model used for accreditation of operators on the highest level of the Stairway (step 5).

When Customs has identified customers having high levels of compliance and quality it is possible, based on mutual agreements, to tailor-make Customs-routines and hence give full benefit for the individual customer as the same time as Customs may make optimal use of information and systems of that customer. The program is adopted for all customers where especially step 3 of the Stairway is designed for small and medium-sized enterprises (SME’s).

In order to benefit in an optimal way from both Customs and customer perspective the controls performed on accredited customer must be system-based. This means that Customs and the operator in partnership ensure that the commercial systems of an operator are reliable and hence information contained therein may be used also for Customs-purposes. If an operator holds systems that are not possible to trust he will at the end of the day also cheat himself. Also by using existing commercial data, the room for involuntary human errors when processing electronic information will be diminished to the lowest level possible. For instance, the warehouse records of a compliant customer are likely to hold a journal that must be correct, otherwise the company cannot sell goods to their customers.

All this in combination with fully integrated electronic flows facilitated by technical development gives opportunity for Customs-administration to improve service, efficiency and quality for those compliant operators by introducing new solutions for Customs-processes as well as for the commercial logistical-processes. True One-Stop-Shop and Single Window solutions are within reach through partnership between all stakeholders in the international supply chain.
The methodological approach to achieve optimal processes for both Customs and the involved economic operators is based on:

**Partnership** creates a common platform of trust necessary for close co-operation on all levels between Customs and operators and also between Customs administrations.

**Risk Management** based on residual risks and preferably shared with the operator in order to ensuring synergies between Customs’ and trade’s efforts to maintain high quality in the legal part of the supply chain and also to join forces to combat the illegal elements operating in that same chain.

**Memorandum of Understanding** to include all of Customs business in the partnership and hence enhancing Customs performance in protecting society and citizens.

**Processes and system based controls** are the starting point hence laying down possibilities for both Customs and trade to benefit from optimal logistical processes with integrated electronic solutions with high quality due to re-use of commercial information to the greatest extent possible.

**Cost and benefits** must be evident for both Customs and the business community through simple but effective models of calculating the financial possibilities offered through accreditation, and the facilitations possible, of Customs processes.

**Results of the accreditation approach**

Through The Stairway program Swedish Customs has been able to decrease compliance costs for the Swedish business community by up to 76%. This was established through an independent study performed by the University of Linköping, specialised in logistical researches. The decrease of the compliance costs apply to medium-sized companies, for multinational companies IKEA as an example has been able to decrease the costs for administration of Customs matters by 50%. As regards small enterprises, a Swedish company dealing with leather clothing, HUC, with eight employees saves a full logistic day on both imports and exports.
Security in the supply chain

The Supply Chain Security Model by Swedish Customs is designed on a special accreditation module within the Stairway-framework named StairSec® (The Stairway Security Model). Through StairSec® all global supply chain stakeholders will be able to hold an accreditation for a secure supply chain:

- importers/exporters,
- brokers,
- forwarders (air/sea/land i.e. multi-modal transports), and
- terminals (seaports, hubs, warehouses etc.)

The solutions are aligned with the basic philosophies of the Stairway, facilitation for compliance, countering increased demands on the Swedish business community and avoiding duplication of systems through full integration with existing programs for accreditation and facilitation of international trade processes.

StairSec also constitutes the basis for the Swedish CSI-model and was used for the CSI-certification of the seaport of Göteborg in January 2003. However, StairSec goes beyond the requirements and demands of the Container Security Initiative and by the end of 2003 Swedish Customs will have in place all elements in order to establish a full value authorised secure supply chain, available for all.

The starting point for both The Stairway and StairSec is the processes and/or flows of the client. By adopting control measures to the prerequisites of the client higher efficiency and better overview will be achieved. The differences of maintaining high quality in the international supply chain and ensuring secure flows are from the perspective of Swedish Customs not that great since the building blocks used in both The Stairway and StairSec creates the possibilities to meet the same objective: managing international trade from both fiscal and non-fiscal perspectives. This approach will enable Swedish Customs to maintain the delicate balance between controls and facilitation as regards international trade, as laid down in documents produced in the World Customs Organisation’s Task Force.

StairSec makes maximum use of existing commercial systems for maintaining the international supply chain, for instance track & trace system or equivalent initiatives. Sharing information and access to information sources on behalf of Customs are crucial in order to apply efficient, targeted risk management. Simultaneously Swedish Customs is investigating what solutions are at hand regarding intelligent seals, GPS-applications and other technical solutions in order to facilitate monitoring of international movements of goods.
The ongoing work on the national level is targeted towards practical solutions in order to establish an authorised secure supply chain for all stakeholders in the international supply chain, namely importers/exporters, brokers, forwarders independent of transport mode and also terminals, such as seaports, warehouses and other hubs for cargo management. Modules already exist for importers/exporters and brokers, where implementation has shown great success in increased security in the supply chain simultaneously as far reaching facilitation has been granted the accredited companies. As regards forwarders (air/sea/land) pilots have been launched and methodology for increased security also for this part of the supply chain will be developed by the end of 2003. For terminals, the module that has been developed is tested in practice for the seaport of Göteborg during the joint work in achieving the CSI-certification in January 2003.
The design and the development of StairSec is conducted in close co-operation with the business community through the ALFRED-group, a joint committee with delegates from Swedish Customs, Swedish Board of Agriculture, Swedish Board of Trade and the relevant business organizations.

**Future**

Today most supply chain security measures apply to one transport mode, namely container traffic, that is logic since it is a mode for shipping large quantities of cargo. However, in turning the international supply chain to an accredited logistic chain more – if not all – transport modes must be included and possible for Customs to control and facilitate. Therefore the StairSec, besides being designed for all stakeholders in the supply chain, also is developed in order to cover all transport modes of international trade.

Also today several Customs administrations, for instance US, UK, Australia, New Zealand, Canada and the Netherlands, are constructing and designing Supply Chain Security Systems. However, to ensure the greatest benefits possible for both Customs and the business community, measures should be undertaken in order to create compatibility between such initiatives, establishing a multinational platform for Supply Chain Security through connecting security systems. One way to go forward concerning the important work to establish authorised secure supply chains through practical results is to establish international operational pilot-actions which if successful would serve as best practice for other administrations.

**Proposal**

From Swedish Customs point of view practical testing is the next logical step. A project should be possible to set up under the WCO where interested member countries together with trade would:

1. ensure higher degree of compatibility between existing models, for instance StairSec and C-TPAT, and also to strengthen the partnership with trade regarding supply chain security,
2. test through live pilot actions in a limited timeframe the models developed.

Such a project should produce results making it evident that accreditation is one of the solutions to increase security in the supply chain at the same time as facilitation and compliance is promoted and should serve as best practice for others.
Conclusion

It is possible to design and implement Supply Chain Security Systems that will satisfy the objectives of both Customs and the business community, as shown through the full integration between the two systems: The Stairway for trade facilitation and StairSec for enhanced security in the international supply chain, maintaining the delicate and necessary balance between controls and simplifications.

To form partnership between Customs administrations and compliant operators is a measure that will increase the competitiveness of both concerned parties and establish the necessary platform to invent, design and implement Customs solutions in close co-operation with the business community.

Working methods like modern, sophisticated risk management, accreditation and the use of Memorandum of Understanding are by no means limited to the fiscal perspective of the Customs mission but fully integratable with securing the international supply chain. Through the use of existing methodologies opportunities present themselves for Customs administrations to design compatible Supply Chain Security Systems, allowing for future solutions possible to connect to achieve end-to-end security within transactions of international trade.

We are convinced that this is the moment where it is not only logic but also natural to initiate a WCO-lead project with live pilots in order to test different supply chain security systems between countries, ensuring higher degree of compatibility and also increase co-operation and partnership with compliant economic operators.

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