



## MILLENNIUM CHALLENGE CORPORATION (MCC) CUSTOMS PROGRAM

# Evaluation of Risk Management Practices

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### JORDAN CUSTOMS ADMINISTRATION MODERNIZATION PROGRAM

*Submitted to:*

**USAID/Jordan**

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TABLE OF CONTENTS

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- 1. Executive Summary ..... 3
- 2. Importance of Trade Facilitation..... 4
- 3. Risk Management Theory and Expectations ..... 5
- 4. Risk Management as Currently Practiced..... 6
- 5. Golden List Program - an Important Step Toward Voluntary Compliance ..... 8
- 6. Analysis of Selectivity Usage ..... 11
- 7. Traditional Controls Contrasted with Modern Controls ..... 14
- 8. Priorities ..... 16
- 9. Selectivity Effectiveness..... 17
- 10. Opportunities for Improvement ..... 20
- 11. Conclusions ..... 24
- 12. Recommendations..... 25

Report prepared by Robert Holler, consultant to ARD, Inc.

## 1. EXECUTIVE SUMMARY

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During the Integrity Assessment conducted by the Customs Administration Modernization Program during the second Quarter of 2007, the effectiveness of Jordan's implementation of cargo selectivity was identified as an operational component that required a more in-depth review than was possible during the initial assessment.

Although Jordan Customs has a sizeable Risk Management Directorate that manages the cargo selectivity system, it was noted that an exceptionally high percentage of import shipments were being identified for (high-risk) "red channel" treatment by Customs officers. It was also noted that there appeared to be no significant difference in the way "green channel" and "yellow channel" declarations were being processed. Finally, it appeared that the majority of consignments were receiving only cursory inspections and that there was not an adequate emphasis on the truly high risk consignments.

As a result of these observations, the Customs Administration Modernization Project and Jordan Customs determined that it would be advisable to have the Customs consultant who conducted the initial evaluation return to conduct a more in-depth review including:

- A cost effectiveness and productivity analysis of Jordan Customs' current risk management system;
- An analysis of current method of assigning risk levels;
- An analysis of the current method of reviewing and updating risk criteria;
- Recommendations for more effective assignment, review and updating of risk; and
- One week of on-site mentoring and assistance with implementation of those recommendations.

During this subsequent evaluation, the following opportunities for improvement were noted:

- The Risk Management Directorate, which is technically competent and fully capable of managing the cargo selectivity system, is laboring with outmoded equipment and is only now beginning to focus on issues other than revenue.
- The selectivity process is not being effectively applied in the Customs field offices.
- The award system that entitles a Customs officer a share of a monetary penalty from a finding that he or she originates or participates in works against effective implementation of risk management.
- The Golden List program has yet to be fully implemented and has not delivered the hoped for benefits to either Customs or the trade.

These findings are based on interviews with Customs and business managers and by Customs statistics provided by the Risk Management Directorate.

This report will conclude with specific recommendations as to how to effect improvements in each of the above-mentioned opportunities.

## 2. IMPORTANCE OF TRADE FACILITATION

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Although sometimes used in a broader sense, “trade facilitation” generally refers to efforts to streamline the processing and clearance of traded goods as they cross international borders. Trade facilitation activities seek to maintain or improve the safety and security of international supply chains, while reducing processing delays and transaction costs as much as possible.

The following is quoted from the 2003 World Bank Trade Note, Trade Facilitation: New Issues in a Development Context: “The relationship between economic growth, trade facilitation, and development is relatively simple in theory. Economic theory suggests that development is enhanced through income growth -- which is driven through increased trade. Expansion of trade is achieved, at least in part, through programs to lower transaction costs in goods and services crossing borders. Although these linkages appear straightforward, measuring the benefits of trade facilitation based on empirical evidence is much more challenging. This is particularly true when considering capacity building priorities. There is no standard definition of trade facilitation. In a narrow sense, trade facilitation relates simply to the logistics of moving goods through ports or the required documentation at a customs post at the border. More recently, the definition has broadened to include the environment in which trade transactions take place. The focus of trade facilitation efforts is now clearly inside the border. Reform involves ‘domestic’ policies and institutional structures where capacity building can play an important role.... The cost of moving goods across international borders is now as important as tariffs in determining the cost of landed goods. The ability of countries to deliver goods and services in time and at low costs is a key determinant of their participation in the global economy. Easier movement of goods and services clearly drives export competitiveness. “

While this evaluation will demonstrate that Jordan Customs should strive to achieve further process improvements, we are fully cognizant that Customs already has made substantial progress to date. Although Jordan’s overall ranking in the World Bank Doing Business Report has declined from 74th in 2005 to 78th in 2006 to 80th in 2007, its ranking in the “Trading across Borders” subcomponent improved from 78th in 2006 to 59th in 2007. The “Trading across Borders in Jordan” country report provides the following measurements relating to import transactions:

**Chart 1: World Bank Trading Across Borders 2007**

<b>Nature of Import Procedures</b>	<b>Duration (days)</b>	<b>US \$ Costs</b>
<b>Document Preparation</b>	13	75
<b>Customs Clearance and Technical Control</b>	5	30
<b>Ports and Terminal Handling</b>	2	110
<b>Inland Transportation and Handling</b>	2	850
<b>Total</b>	22	1065

With that clear understanding, the purpose of the remainder of this report is to identify opportunities for further improvement that will benefit not only Jordan Customs but also the Jordanian economy, by encouraging increased trade and investment.

### 3. RISK MANAGEMENT THEORY AND EXPECTATIONS

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Risk management is the name given to an effective methodology of identifying, analyzing, treating and monitoring the risks involved in any activity or process. It is a logical and systematic process for improving decision-making. Risk management is an approach that helps managers to allow for the best use of available resources. As workloads increase, it is unreasonable to expect resources such as staffing and facilities to increase at a corresponding level. Customs must turn to methods that utilize available resources more effectively. Customs administrations have turned increasingly to risk management as an effective means of meeting national objectives. Modern Customs administrations provide facilitation while maintaining control over the international movement of goods and persons through the application of risk management to focus Customs resources on Customs' highest priorities.

Risk management is, essentially, an approach for analyzing and responding to the challenges Customs faces in accomplishing its mission with the most efficient deployment of resources. Risk management, fully implemented, should be expected to provide the following benefits:

- More productive and effective achievement of organizational objectives;
- Improved management processes;
- Better use of existing resources by focusing them on the highest risks;
- Increased facilitation, flow of goods and inward investment;
- Decreased physical examinations;
- Increased numbers of detections;
- Improved employee morale and retention;
- Improved facilitation of legitimate trade;
- Increased overall business confidence and improved public profile;
- Promotion of inward investment; and
- Stimulation of the national economy.

Risk management enables Customs Administrations to demonstrate to Government that they are:

- Quantifying risk using scientific methods;
- Managing risk, by deploying staff to address the greatest areas of risk while allowing legitimate trade to flow freely; and
- Significantly improving outcomes without significantly increasing resources.

Risk management also carries with it a growing realization that this degree of change can be achieved only with the active participation of legitimate business (importers, exporters, transportation companies, brokers, etc.). The partnership approach provides for greater efficiency and more effective controls based on knowledge of commercial operations. As a result, only high-risk transactions will be selected for examination. From a business perspective, this results in quicker, smoother clearance of legitimate trade through simplified procedures.

## 4. RISK MANAGEMENT AS CURRENTLY PRACTICED

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Jordan Customs currently operates its cargo processing activities using the ASYCUDA++ declaration processing software. With financial assistance from the Millennium Challenge Corporation, working through the USAID and the Jordan Customs Administration Modernization Program, Customs is currently in the process of migrating to the internet-based ASYCUDA World system.

Customs has established a Risk Management Directorate consisting of three Sections:

- Selectivity and Analysis;
- Compliance Assessment; and
- Audit and Control.

The Risk Management Directorate has approximately seven years experience managing the selectivity system and is currently staffed with approximately 20 Customs employees. The Directorate staff members demonstrate admirable knowledge and skill levels. The Directorate has developed and implemented innovative and noteworthy programs that, for the most part, surpassed the evaluator's expectations. These will be discussed later in this report.

The level of sophistication of the Risk Management Directorate obviated the need for the initially proposed follow-up mentoring and assistance. The three sections of the Risk Management Directorate each demonstrate a high level of commitment to and expertise in their specialized functions. Impressive data-mining studies were presented to the evaluator and every question asked of the staff members received a technically and logically correct response. However, the evaluator noted opportunities for improvement concerning the application of risk management to the cargo clearance process, including:

- The level of technical sophistication within the Risk Management Directorate raises the question as to why clearance procedures at both the border and at the inland clearance offices are not more efficient and why neither Customs nor the trading community has derived more benefit from the process: specifically, better facilitation of legitimate shipments and reduction of costly delays. This question, and proposed recommendations, will be addressed in greater detail in subsequent sections of this report.
- There is a serious lack of adequate computing capacity within the Risk Management Directorate. The current computers have long outlived their expected life spans and urgently need to be replaced with modern, latest generation work stations and printers. The Risk Management Directorate is the "brain" of the cargo selectivity system and the ASYCUDA selectivity module is the nervous system. Upgrading of the ASYCUDA system from the older ASYCUYCA++ system to the current, web-based, ASYCUDAWorld system MUST be complemented by upgrading the antiquated equipment now being used by the Risk Management Directorate. The Customs Administration Modernization Program will examine this situation and determine if additional funds can be made available to address it.
- The estimation by the Risk Management staff that the majority of field officers do not understand the selectivity process raises serious concerns. Selectivity and risk

management have been in place in Jordan for seven years. All officers at every field office should, by now, have a broad understanding of the goals of the selectivity process and their role in it. Additional training is needed. The Risk Management Directorate recognizes this need and is working with the Training Center to develop that training. Directorate analysts should conduct field visits on a regular basis. At this time they do not. The staff recognizes that and is discussing how they can begin to do so.

- The absence of fully developed and documented standard operating procedures contributes to this lack of understanding. The Risk Management Directorate provided the evaluator with copies of the very brief existing instructions.
- The Risk Management Directorate is able to gather important workload and productivity statistics at almost a moment's notice but has not established a concise reporting format by which it regularly provides meaningful statistics in a useful manner to top Customs managers.
- The Golden List Program appears to be stalled and must be revitalized. It is the keystone for future improvement in customs processes and for achieving higher levels of compliance.

## 5. GOLDEN LIST PROGRAM - AN IMPORTANT STEP TOWARD VOLUNTARY COMPLIANCE

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In August 2005, Jordan Customs implemented an Authorized Economic Operator (AEO) program known as “The Golden List Program” (GLP). According to published brochures, the Golden List Program allows importers, exporters, brokers, transportation companies and industrial zone operators to “voluntarily implement state-of-the-art customs due diligence and supply chain security standards. Doing so will enable these companies to qualify for GLP status and benefit from the facilities offered by Jordan Customs. Customs believes that ‘good’ companies that pose a minimum risk with respect to their customs transactions must be rewarded.”

The stated objectives of the Golden List Program include, but are not limited to:

- Improving Customs processing procedures at border crossings by focusing on high risk cargo shipments;
- Expediting Customs processing procedures and goods release for low risk shipments;
- Upgrading Customs work to meet best international practices;
- Supporting the economy of Jordan via a viable and strong trade sector and making Jordan an attractive environment for foreign investments;
- Enhancing “early” Customs control mechanisms with respect to cargo shipments; and
- Reducing the cost of cargo processing at border stations.

The remaining objectives focus, quite reasonably, on ensuring improved compliance with Customs and other governmental requirements relating to the movement of goods internationally.

Benefits promised to Golden List Program participants include, but are not limited to:

- Reduced frequency of cargo shipment inspections and more frequent use of green lane processing at all border crossings to expedite border clearance;
- Reduced post-release compliance audits;
- Pre-arrival clearance of goods;
- Goods release before completing customs formalities;
- Clearance of goods during off-work hours; and
- Recognition of GLP status by other Customs administrations.

The Golden List Program is consistent with modern Customs philosophy and best practices and is a credit to Jordan Customs. The GLP has already been used as a model for at least one other Customs administration (through the auspices of the consultant who conducted this

evaluation). Even more significantly, U.S. Customs and Border Protection is preparing to grant the Golden List Program mutual recognition status with respect to its Customs-Trade Partnership Against Terrorism (C-TPAT).

Unfortunately, the GLP has not yet delivered the anticipated benefits to either Customs or to those private industry members that agreed to participate on a voluntary basis. The Golden List will figure heavily in the recommendations made at the conclusion of this evaluation. Those recommendations will emphasize the importance of providing the promised green channel benefits and the concept of releasing goods prior to completion of customs formalities (which includes direct delivery of imported goods from the point of arrival to the importer's facilities, bypassing the need to pass through a Customs clearance center).

The GLP is well-conceived and, when fully implemented, will have an immediate impact on the trade facilitation process. Unfortunately, in a recent "Partnership Council" meeting, a trade member reportedly characterized the program as an "empty box". The reason for this characterization is that, from the trade perspective, much was promised but little has been delivered.

The program currently has 17 approved participants and has received applications from 13 more. The Risk Management Directorate estimates that if all 30 of these companies were active members in the GLP, their combined activity would be as high as 40% of the total trade volume (in terms of value) processed by Customs. In fairness, this was a quick answer and the Risk Management Directorate did not have the time to conduct a definitive analysis. Their estimation, however, is consistent with the U.S. Customs experience, which has determined that out of a population of 445,256 U.S. importers:

- The top 447 (1/10 of 1%) were responsible for 50% of the value of imported goods;
- The top 1000 were responsible for 59% of the value of imported goods;
- The top 3000 were responsible for 72% of the value of imported goods; and
- The remaining 442,256 importers were responsible for 28% of the value of imported goods.

If Customs has not conducted a similar evaluation of its importers, it is recommended that this be done. Assuming a similar relationship is found to exist, identifying the top companies and engaging their voluntary commitment to compliance and security through membership in the Golden List Program will have a dramatic impact on trade facilitation and on voluntary compliance.

Customs must not allow circumstances to continue that would cause more traders to characterize GLP as an "empty box". Promised benefits must be delivered. Neither the promised benefits of green channel or early release/direct loading have been fully implemented at the time of this evaluation, well over two years after the GLP's implementation. Interviews with the Risk Management Department indicate that:

- There is no difference between the green channel treatment received by GLP members and the green channel treatment received by other traders;
- GLP members seem to receive very little, if any, benefit when crossing the border;

- GLP green channel treatment does not, at this time, allow for direct delivery of goods to the GLP member's facilities. Goods must first proceed to a Customs terminal and undergo the same document review as any other green or yellow channel shipment;
- Customs has promised that GLP green channel shipments will be released within 30 minutes but statistics indicate that this is not consistently happening;
- The benefit to GLP brokers is that they are allowed to open branch offices;
- The benefit to exporters will be the mutual recognition by C-TPAT and similar programs with the EU and other trading partners;
- The benefit to importers and to transporters has yet to be realized; if it is not delivered, as promised, then enthusiasm for the program will eventually turn to cynicism.

Both Customs and the trade will benefit from full implementation of the promised benefits and from a general expansion of the program to increase membership.

As alluded to in Section 5, the Risk Management Directorate is in the process of organizing seminars for the Association for Exporters and for Customs representatives from other countries. They will also be organizing classes at the Customs Training Center for Jordanian Customs managers and officers since it is believed that 70% of them don't have a basic understanding of the program or their role in it. They are also considering conducting field visits. This evaluator encourages that these actions be given a high priority and the full support of Customs top management.

## 6. ANALYSIS OF SELECTIVITY USAGE

The percentages shown in Chart 2 summarize shipments processed through each channel during the six-month period from July through December of 2007 based on statistics provided by the selectivity and analysis staff. The two numbers in each block represent the range of percentages measured over the six-month period. A lower first number and a higher second number do not necessarily represent an increase over time. The general trend over the six-month period is indicated by the ↑↓ symbols to the right of the range. An up-arrow (↑) indicates that the trend over the six months was to increase the number of shipments processed through the channel while a down-arrow (↓) indicates a trend toward decreasing the number of shipments processed through the channel and being subjected to physical examination.

**Chart 2: Usage of Selectivity Channels – July through December 2007**

Customs Office	Green Channel	Yellow Channel	Red Channel
Sahab	21.0% - 28.8% ↑	25.4% - 32.0% ↓	42.9% - 48.8% ↑
Al-Zarqa Free Zone	3.6% - 7.3% ↓	37.7% - 43.2% ↓	49.6% - 58.7% ↑
Amman	8.2% - 9.6% ↓	30.7% - 33.5% ↓	57.9% - 61.0% ↑
Airport	21.5% - 30.1% ↓	34.6% - 40.0% ↑	34.7% - 40.0% ↑
Aqaba	10.3% - 12.2% ↓	39.4% - 41.3% ↓	46.9% - 49.3% ↑

The trend at these Customs offices was to increase the percentage of transactions processed through the red channel resulting in more physical examinations. With the exception of the airport, the trend was to decrease the percentage of transactions processed through the yellow channel. While the border office trend was a slight increase in green channel shipments, the general trend at the clearance offices was fewer green channel shipments, the only exception being Sahab. Unfortunately, the green and yellow channel distinctions reflected above do not represent an entirely accurate picture of the situation.

In the internationally accepted Customs selectivity methodology, declarations processed through the green channel represent the lowest risk to Customs and do not receive a detailed document review. They are subjected only to a computer validation of the electronically submitted data. Declarations processed through the yellow channel are also subjected to the computer validation but then, based on reasons usually related to preferential agreements or other documentary requirements or questions of value, are subjected to a document review by an experienced Customs officer. There is a significant difference in the level of resources that should be directed to these two channels.

Red channel declarations should receive a physical examination after the computer checks and document reviews have been completed. The level of attention is progressive. All declarations receive the computer checks, a smaller number receive a detailed document review in addition to the computer checks, and an even smaller number receive physical examination in addition to the computer checks and document review. Chart 3 demonstrates the progressive nature of the selectivity scheme.

**Chart 3: Progressive Nature of Selectivity Channels**

Selectivity Channel	Green	Yellow	Red
Computer Validation of Entered Data	√	√	√
Detailed Review of			

Selectivity Channel	Green	Yellow	Red
Declaration and Attached Documents		√	√
Physical Examination of Imported Goods			√

Clearly, each of the three levels of review requires a finite period of time. Logically, then:

- Green channel is the minimum possible processing time (G);
- Yellow channel MUST take longer than green channel (Y = G+ document review);
- Red channel MUST take longer than yellow channel (R = G + Y + physical examination).

In the current Jordan Customs methodology, this logical relationship does not exist. It is generally agreed to by all concerned, both Customs and traders, that no shipments are released without an intensive document review, regardless of which channel is designated by the risk management-based selectivity system. Statistics gathered in the time measurement study indicate that with only one exception, there is no significant difference in the amount of time it takes to conduct the yellow channel controls and the time it takes to conduct red channel controls. This study clearly suggests that regardless of which channel is designated by the ASYCUDA selectivity module, Customs officers at the examining offices are conducting document reviews of all shipments and physical examination of most shipments. Anecdotal information obtained in various interviews conducted during this evaluation support that conclusion. The unavoidable conclusion is that field offices are not complying with Headquarters instructions or policy as stated in Notice Number 35 of 2002, Notice Number 353 of 2005 and the examination instructions generated by the ASYCUDA selectivity module. The reason most often cited by private industry interviewees is that Customs officers personally profit from the penalties they generate through the current incentive award system. More will be said of this later in the report.

Because of the lack of meaningful distinction between the green and yellow channels, combining the two channels as shown in Chart 4 presents a clearer picture of the current situation. This report will deal with red channel inefficiencies in a later section. The trend at all of the clearance offices measured indicates that they are regressing to the traditional approach of Customs controls when they should be taking full advantage of the capabilities of the Risk Management Directorate and moving toward the modern risk management style. Although, the backward movement over the six-month period was not drastic, to an experienced observer the trend is disturbing and must be reversed. Since there was virtually universal agreement among all persons interviewed, both Customs and private industry, that green channel declarations receive the same document reviews as yellow channel declarations, Chart 4 refocuses the ranges and trends provided in Chart 2. By combining the green and yellow channels, the unavoidable conclusion is that the trend is uniformly moving away from modern selective controls to outmoded, inefficient traditional controls.

**Chart 4: Usage of Selectivity Channels – July through December 2007**

Customs Office	Document Review Only (Green and Yellow Channels)	Physical Examination (Red Channel)
Sahab	47.1% - 41.2% ↓	42.9% - 48.8% ↑

<b>Customs Office</b>	<b>Document Review Only (Green and Yellow Channels)</b>	<b>Physical Examination (Red Channel)</b>
<b>Al-Zarqa Free Zone</b>	<b>50.4% - 41.3% ↓</b>	<b>49.6% - 58.7% ↑</b>
<b>Amman</b>	<b>42.1% - 39.0% ↓</b>	<b>57.9% - 61.0% ↑</b>
<b>Airport</b>	<b>65.3% - 60.00% ↓</b>	<b>34.7% - 40.0% ↑</b>
<b>Aqaba</b>	<b>53.1% - 50.7% ↓</b>	<b>46.9% - 49.3% ↑</b>

## 7. TRADITIONAL CONTROLS CONTRASTED WITH MODERN CONTROLS

The traditional and modern approaches to Customs controls are generally characterized by the following two charts:

**Chart 5: Traditional versus Modern Approaches**

TRADITIONAL	MODERN
<ul style="list-style-type: none"> <li>• Low levels of compliance</li> <li>• Non-transparent procedures</li> <li>• Multiple windows, multiple officers</li> <li>• Mandatory examinations</li> <li>• Unreliable results</li> <li>• Unreliable reporting</li> <li>• Minimal analysis - patterns not recognized</li> <li>• Non-tariff barriers and delays</li> <li>• Added costs including facilitation fees</li> <li>• Lack of trust and respect</li> <li>• Damage to the economy</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance is encouraged</li> <li>• Customs-Trade partnerships</li> <li>• Compliance measurement</li> <li>• Fewer but more thorough examinations</li> <li>• Controls vary in type and intensity</li> <li>• Emphasis is on post release controls</li> <li>• Officers receive detailed instructions</li> <li>• Accurate reporting and analysis</li> <li>• Simplified transparent procedures</li> <li>• Single window processing</li> <li>• Automation</li> </ul>

**Chart 6: Comparison of Customs Management Philosophies (Traditional versus Risk Management)**

	Traditional Gatekeeper Style	↔ Risk Management Style
<b>Legislative Framework</b>	Legislative base provides for a “one size fits all” approach to compliance management	↔ Legislative base provides for flexibility and tailored solutions to enable relevant risk management and administrative strategies to be implemented
	Onus for achieving regulatory compliance is placed solely on the trading community	↔ Legislative base recognizes responsibilities for both government and the trading community in achieving regulatory compliance
	Sanctions for non-compliers	↔ Sanctions for non-compliers
<b>Administrative Framework</b>	“One size fits all” compliance strategy	↔ Strategy dependent on level of risk
	Control focus	↔ Balance between regulatory control and trade facilitation
	Enforcement focus	↔ Dual enforcement–client service focus
	Unilateral approach	↔ Consultative, cooperative approach
	Focus on assessing the veracity of transactions	↔ Focus on assessing the integrity of trader systems and procedures
	Inflexible procedures	↔ Administrative discretion

	<b>Traditional Gatekeeper Style</b>	↔	<b>Risk Management Style</b>
	Focus on real-time intervention and compliance assessment	↔	Increased focus on post-transaction compliance assessment
	Lack of or ineffective appeal mechanisms	↔	Effective appeal mechanisms
<b>Risk Management Framework</b>	Indiscriminate intervention or 100 percent check	↔	Focus on high-risk areas, with minimal intervention in low-risk areas
	Physical control focus	↔	Information management focus
	Focus on identifying noncompliance	↔	Focus on identifying both compliance and noncompliance
	Post-arrival import clearance	↔	Pre-arrival import clearance
	Physical control maintained pending revenue payment	↔	Breaks nexus between physical control and revenue liability
	No special benefits for recognized compliers	↔	Rewards for recognized compliers

*Source: David Widowson, Chief Executive Officer, Centre for Customs and Excise Studies and Adjunct Professor, School of Law, University of Canberra, Australia.*

Today, Jordan Customs falls somewhere in the middle of the traditional-modern continuum. The administration has the capacity at this time to fully make the transition to a modern approach and to serve as a model for other Customs administrations in this region, but progress seems to have stalled and may actually be in the process of reversing.

Based on the high level of knowledge and expertise demonstrated by the Risk Management Directorate, one cannot avoid the question of why, after at least seven years of operational experience in risk management, is such a high percentage of shipments being examined and why do current trends seem to favor even more examinations? Jordan's risk management capacity is highly developed, but its application has not resulted in anything close to what would normally be the expected results in terms of facilitating the movement of legitimate shipments. From the trade facilitation perspective, implementation of risk management practices at the field level has not accomplished its intended goals.

## 8. PRIORITIES

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It was stated by Jordanian managers more than once during the interviews that Jordan resides in a “tough neighborhood” and that national security concerns require this high level of examinations. However, current cargo selectivity criteria are predominantly based on revenue issues, not on security issues. Information provided to the Jordan Customs Administration Modernization Program by the Case Management Directorate and the Risk Management Directorate prior to the initiation of this evaluation focused solely on revenue increases (duties and penalties) as the measurement of success. Security threats do not exhibit the same characteristics as revenue threats. Effectiveness in countering them is certainly not measured in terms of the amount of additional duties collected.

Jordan Customs appears well-equipped to counter security risks and to interdict smuggling of materials and equipment that represent a threat to the national security. This is reflected by the sophistication of the technological equipment available to scan full trucks and containers as well as by the presence of a well-trained and equipped mobile Enforcement directorate. The extent to which physical examinations of shipments at a Customs clearance office contribute to this enforcement posture is entirely dependent on the instructions provided to those officers. Those instructions should be delivered through a clear communication of Customs priorities and, more specifically, through specific examination instructions provided to the officer at the time a specific shipment is directed for red channel physical examination. These examination instructions are developed by the Risk Management Directorate as a component of each specific criteria entered into the ASYCUDA selectivity module. Expecting a Customs officer to actually discover such threats to the national security based on revenue-oriented examination criteria is unrealistic. The selectivity module can be applied to targeting such things as dual-use equipment and chemical and biological weapon (CBW) precursors and the evaluator has provided the Risk Management Directorate with readily available reference materials on precursors. On the other hand, Customs must first be confident that the officers in the field will follow the instructions delivered by the selectivity system. At this time, that does not appear to be the case.

Moving from security to revenue concerns, thorough physical examinations are generally effective when it comes to such issues as undeclared goods or contraband concealed among declared, admissible goods, under-declared quantities, country-of-origin, counterfeit trademarked goods, and prohibited or controlled goods secreted in false compartments inside truck trailers or shipping containers. Valuation concerns are best dealt with through yellow channel document reviews based on specific instructions provided in the examination criteria, through post clearance controls conducted by the Audit and Inspection Directorate and through unannounced compliance inspections conducted by the Audit and Control Section of the Risk Management Directorate. Conducting physical examinations to counter valuation issues is not a particularly effective use of Customs manpower.

## 9. SELECTIVITY EFFECTIVENESS

Prior to the commencement of this evaluation, the Jordan Customs Administration Modernization Program requested statistics for three major Customs offices for the month of August 2007. The following charts are based on those statistics provided by the Risk Management and Case Management Directorates. The managerial challenge is to determine just what those charts tell us and what they do not tell us.

Chart 7 confirms the high percentages of red channel examinations reflected previously. It also indicates that between 16% and 28% of those examinations resulted in the discovery of some sort of discrepancy. At first glance, this would seem to indicate that red channel examinations are reasonably productive. Unfortunately, the statistics did not break down the discrepancies by either type or significance. Consequently, this chart does not provide sufficient information to enable a manager to determine how effective these examinations were from a cost-effectiveness perspective. The question of whether there is an appropriate balance between resources expended and results realized cannot be determined from this information alone. These statistics neither confirm nor disprove the assertion that Customs examining officers are looking for any opportunity to impose a penalty for selfish gain, but the fact that there is no mention of significant contraband seizures resulting from the examinations and the unusually high percentage of discrepancies certainly adds credence to the suggestion that the emphasis is on finding even the most minor error rather than on interdicting significant smuggling activities.

**Chart 7: Declaration Processing August 2007**

# Declarations	Airport	Aqaba	Amman
<b>Total</b>	12,903	9,248	10,880
<b>Red Channel</b>	4,656	4,607	6,178
<b>Green Channel</b>	8,247	4,641	4,702
<b>Percentage (Red)</b>	36.08%	49.82%	56.78%
<b>Percentage (Other)</b>	63.92%	50.18%	43.22%
<b>Red Channel Errors</b>	776	1,282	1,735
<b>Red Channel Error %</b>	16.67%	27.83%	28.08%

Chart 8 provides a breakdown of the shipments by value and reflects that Customs efforts at the three Customhouses resulted in value increases ranging from 1.5% to 9%. What it does not reflect is how those increases were achieved. Were they based on yellow channel reviews of invoices, certificates of origin and other relevant documents, or were they achieved through intensive physical examinations of the goods themselves? The evaluator's hypothesis is that they resulted from the document review and comparison to an acceptable value range database. Uninvited anecdotal information received from interviews with Customs brokers supports this estimation. Currently available information does not appear to provide Customs top managers with the information they need to judge the overall effectiveness of their clearance processes from a compliance perspective.

**Chart 8: Declaration Value and Revenue Increases August 2007 (in JOD)**

	Airport	Aqaba	Amman
<b>Total</b>	228,572,628	619,071,900	233,325,951
<b>Red Channel</b>	80,658,421	329,287,050	144,569,587
<b>Other Channels</b>	147,914,207	289,784,850	88,756,364

	<b>Airport</b>	<b>Aqaba</b>	<b>Amman</b>
<b>Percentage Red</b>	35.29%	53.19%	61.96%
<b>Percentage Other</b>	64.71%	46.81%	38.04%
<b>Value Increase</b>	1,199,942	12,142,272	2,993,556
<b>% Increase</b>	1.49%	3.69%	9.00%
<b>Revenue Increase</b>	287,021	1,133,800	3,315,008

Chart 9 focuses on the activities in the red channel from a compliance perspective. As reflected in Professor Widowson's chart (see Chart 6), the traditional Customs management philosophy focuses on identifying non-compliance while the modern philosophy and approach focuses on identifying compliance as well as noncompliance. Customs processes are not as simple as identifying and punishing violators. Certainly, Customs must maintain and refine its capability to do exactly that but it must also be aware of the unintended consequences. Customs enforcement and trade facilitation are not competing priorities. They are equally important components of the Customs process. Both must be continually monitored and evaluated to ensure that a lack of balance is not having an unacceptable impact on either Customs compliance or a country's competitiveness in the international market. In the simplest of terms, does the benefit of Customs controls to the economy, to the national security and to the safety and health of the citizenry equal or surpass the negative impacts on the economy (higher costs and reduced competitiveness) resulting in increased processing times?

**Chart 9: Red Channel Compliance**

<b>Red Channel</b>	<b>Airport</b>	<b>Aqaba</b>	<b>Amman</b>
<b>Selectivity</b>	4,656	4,607	6,178
<b>Diverted</b>	40	3	10
<b>Total</b>	4,696	4,610	6,188
<b>Discrepancies</b>	783	1,284	1,735
<b>Compliance Rate</b>	83.18%	72.13%	71.92%

A Customs Administration embracing the modern risk management based approach to Customs controls would not congratulate itself on the number of discrepancies detected; it would ask why it has been unable to achieve a higher level of compliance. In order to do so, however, its managers must be able to ascertain the nature of those discrepancies. If, as asserted by the trade, they include arbitrarily generated penalties, then the numbers are relatively unreliable.

Chart 10 reflects the number of penalties generated as a result of the red channel examinations. What does this chart reveal? For one thing, it seems to suggest a significant difference between the threat levels and consequences of examinations at Jordan's major airport, major seaport and major inland inspection office. Although the differences may simply reflect the relative size and value of the different types of shipments cleared at each type of office, this cannot be clearly established from the statistics. Does it indicate that the officers at Amman are between two and three times as effective as the officers at Aqaba and between six and seven times effective as those at the airport? Again, the statistics don't allow those conclusions to be drawn with any degree of confidence.

From a compliance perspective, the chart shows that the level of compliance when measured from a smuggling perspective ranges from 97-99% at these three major offices. Unfortunately, it was not possible to break down the smuggling attempts into appropriate categories (under-declared quantities, prohibited or controlled substances, national security threats).

**Chart 10: Red Channel Enforcement Results (in JOD)**

<b>Red Channel</b>	<b>Airport</b>	<b>Aqaba</b>	<b>Amman</b>
<b>Total Declarations</b>	12,903	9,248	10,880
<b>Number of Smuggling Cases</b>	30	70	172
<b>% Smuggling Cases/# of declarations</b>	0.23%	0.76%	1.58%
<b>% Smuggling cases/# of examinations</b>	0.64%	0.76%	2.78%
<b>Penalty Amount</b>	19,128,035	51,882,024	170,231,415
<b>Penalty Total/# of declarations</b>	1,482	5,610	15,646
<b>Penalty Total/# of examinations</b>	4,073	11,254	27,510
<b>Number of Penalties, other enforcement activities</b>	52	510	229
<b>Penalty Amount, other enforcement activities</b>	10,346	36,765,748	38,450

## 10. OPPORTUNITIES FOR IMPROVEMENT

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Before moving to a discussion of significant concerns and opportunities for improvement, we must be mindful of Jordan Customs' demonstrated strengths, including:

- Competent, capable risk management capability;
- Effective technological and operational entities in place to effectively address security concerns;
- Effective post clearance controls; and
- Effective compliance audit mechanisms.

With those strengths in mind, we can now move to those areas that are of concern to the evaluator and should be of equal concern to Jordan Customs.

The recently conducted Time Release Study raises serious concerns as to how effective the current physical examinations could possibly be. From a purely technical point of view, a red channel physical examination should include a review by the examining officer of the declaration and the accompanying documents. There is no reason to assume that this review would take any less time than the document review conducted for yellow channel declarations. Chart 11 raises some rather important questions.

**Chart 11: Overloading Yellow and Red Channel Results in Cursory Examinations**

Customs Office	Time to Conduct Yellow Channel Document Review	Time to Conduct Red Channel Physical Examination including a Document Review	Difference
Jaber	154.1 minutes	164.1 minutes	10.0 minutes
Zarqa Free Zone	222.8 minutes	255.6 minutes	22.8 minutes
Amman	145.2 minutes	146.7 minutes	1.5 minutes
Airport	133.6 minutes	136.5 minutes	2.9 minutes
Sahab	337.0 minutes	117.5 minutes	-219.5 minutes
Aqaba	504.5 minutes	882.6 minutes	378.1 minutes

A thorough enforcement examination of a truck trailer or sea container can take several hours depending on the risk level of that container. A thorough examination of an air cargo shipment can generally be conducted in between 30 and 60 minutes.

The measurements at Sahab are an anomaly which we cannot begin to explain. Nor can we explain how a proper enforcement examination could be conducted in the time frames shown for Jaber, Amman, Zarqa or the Airport if the times shown for the yellow channel only reflect the time taken to examine the documentation. The unavoidable conclusion is that these numbers indicate that physical examinations are being conducted on yellow channel shipments without rerouting the declaration in the ASYCUDA system. There is no other plausible explanation.

What would be the motivation for conducting physical examinations without making the appropriate adjustments in the selectivity module to record the fact that physical examinations are being conducted on green and yellow channel declarations? Anecdotal information

received during this evaluation and statistical data tend to indicate that the manner in which the Customs incentive award system has been designed may be having unintended consequences that are entirely contrary to risk management concepts and are very close to becoming serious integrity concerns. If a Customs officer is assured that he or she will receive additional financial compensation for every penalty generated, his or her natural response will be to generate more penalties. That does not mean that those additional penalties will have any relevance whatsoever to accomplishing Customs trade priorities. It does not mean that the penalty will be based on an assessment of the degree of culpability of the person or company receiving the penalty. These types of penalties may not take into account culpability or significance (unintentional clerical errors are an example). Customs processes are then put in danger of reverting to a purely punitive orientation rather than the desired voluntary compliance orientation. Importers and transporters will generally feel coerced to pay the penalty rather than appeal because the time it takes to have an appeal decided means additional costs to the importer in terms of demurrage and loss of customer confidence. Insuring that selectivity system channel designations are appropriately modified in the system when a decision is made to physically examine green and yellow channel declarations will alert the Risk Management Directorate that their criteria are not being followed. Not updating the system records makes this much more difficult to detect. It was only due to the anomalies in the time measurement study that it became evident that the selectivity system is being subverted, perhaps intentionally.

The goal of risk management is to focus scarce Customs resources on the highest risk shipments, refer them to the red channel and conduct thorough physical examinations. This is why risk management stresses reducing the level of attention paid to lower risk shipments. Only in that way can a Customs Administration provide the necessary amount of attention to the high risk shipments.

Reducing the number of shipments referred to the yellow channel frees manpower to concentrate on ensuring that high risk shipments are examined more thoroughly: looking for significant violation not petty errors. Reducing the amount of red channel referrals allows the Customs examining officers to reduce congestion on the dock or examination bay and allows more time for each physical examination to be conducted.

A physical examination of a truck or container that is conducted in less than an hour is generally a waste of time and effort from an enforcement perspective. The old maxim applies that if it's worth doing, it's worth doing well. When Customs conducts cursory examinations, not only are the results going to be minimal, it actually encourages non-compliance by dishonest traders who know that the chances of under-reported quantities or unreported merchandise actually being discovered are minimal. When Customs officers focus on finding insignificant issues to generate penalties and increase incentive payments, if that is actually the case, they are not focusing on the highest, most significant risks. This is exactly the opposite of what risk management is designed to accomplish.

High examination rates tend to lull managers into a false sense of security, causing them to think that if their officers are conducting a very high percentage of examinations, the dishonest traders will be intimidated and fearful that they will be caught in the act. Nothing could be further from the truth.

The answer to this dilemma has two parts. First, examinations must be more thorough and must be tailored to specific threats as developed by the risk analysis team. This calls for well-written examination instructions that are enforced by Customs managers. Every examining officer must know the minimum amount of effort that he is expected to put into each

examination. However, the only way managers can demand that their officers perform better examinations is to make certain that they do not drown them in an unmanageable workload.

With finite resources (manpower, examination facilities and equipment), it is neither realistic nor practical to demand better examinations without first decreasing the number of examinations to a manageable number. By taking into account the number of officers available to conduct physical examinations at a given Customs office, the number of unloading/examination bays available at that office, and the average amount of time that an examination should take, it is relatively easy to determine how many proper examinations can be conducted in any given Customs office or sub-facility in one day. Referring more than that maximum number for examination only ensures that the desired thorough examinations cannot be conducted in a timely manner.

Overloading the red channel will discourage the examining officers, have a negative impact on their motivation, and increase cynicism among not only Customs officers who feel they are being asked to do the unreasonable, but also among brokers and traders who are very observant and watch for any weak point in the Customs process. Customs managers who believe more examinations will result in better enforcement results are often chagrined to discover that they have exactly the opposite effect. More examinations, absent increased staffing or better facilities and equipment, generally will result in less thorough examinations and a less effective enforcement posture.

We have already asked why, when Customs has the demonstrated competence and sophistication necessary to analyze and manage risk, have neither Customs nor the trading community derived more benefit in terms of better facilitation of legitimate shipments and reduced delays which significantly reduce costs. The question is a harsh one. It is not, however, an unfair one. It is clear that neither Customs nor the trading community have derived sufficient benefits and trade facilitation results are not what they should be. What is the basis for this assertion: international standards, best practices, or merely personal opinion?

Unfortunately, there are no international standards delineating Customs processing times or goals. Very few countries publish their internal standards or the actual processing times they are capable of providing. Nevertheless, in order to substantiate that clearance procedures both at the border and at the clearance centers are inadequate from a trade facilitation/competitiveness perspective, some sort of baseline or understanding of international best practices is required. Chart 12 may be helpful in establishing international base lines.

#### **Chart 12: Comparative International Processing Times**

<b>Mexico 2002 (Published standard)</b> 3 hour maximum allowed, after which goods are automatically released
<b>Canada 2002 (Published standard)</b> Immediate release if declaration is submitted 2 hours before arrival 45 minutes for automated declarations 2 hours for paper declaration
<b>United Kingdom 2002 (Customs &amp; Excise Charter)</b> 4 hours for electronic declarations 12 hours for manual declarations 24 hours for shipments selected for verifications

**Denmark 2002 (Published Standard)**

Immediate release if declaration is submitted 2 hours before imports arrive

**European Union (2002)**

The EU has not set standards but import clearance time is generally one hour or less at inland terminals

**Japan (1998)**

Average time from filing of declaration to release:

Air cargo: 42 minutes

Sea cargo: 5.6 hours

**Southeast Europe Customs Administrations (2003)**

Average border crossing time: Albania – 30 minutes, Bulgaria – 20 minutes, Croatia – 20 minutes, Macedonia – 30 minutes, Romania – 20 minutes

Percentage of trucks cleared at border in under 15 minutes: Albania – 15%, Bulgaria – 20%, Croatia – 25%, Macedonia – 30%, Romania – 35%

Average clearance center processing: Albania – 60 minutes, Bulgaria – 40 minutes, Croatia – 40 minutes, Macedonia – 60 minutes, Romania – 60 minutes

Average examination rate: Albania – 25%, Bulgaria – 5%, Croatia – 10%, Macedonia – 40%, Romania – 35%

**United States Major Border Crossings (2007)**

Detroit Michigan Average time 20.4 minutes; 95<sup>th</sup> percentile time 33.9 minutes

Blaine Washington Average time 17.3 minutes; 95<sup>th</sup> percentile time 35.6 minutes

Port Huron Michigan Average time 34.2 minutes; 95<sup>th</sup> percentile time 80.3 minutes

Buffalo New York Average time 23.3 minutes; 95<sup>th</sup> percentile time 83.4 minutes

El Paso Texas Average time 37.2 minutes; 95<sup>th</sup> percentile time 77.4 minutes

Laredo Texas Average time 31.2 minutes; 95<sup>th</sup> percentile time 54.9 minutes

Otay Mesa California Average time 35.0 minutes; 95<sup>th</sup> percentile time 64.3 minutes

(Note: these times begin at the time the goods arrive at the border and end when they are released for home consumption or transit movement to another Customs office)

With these processing times in mind, the following chart shows that the processing times measured during the Jordan Customs Administration Modernization Program Time Release Study are not consistent with international norms and best practices.

**Chart 13: Comparative Jordan Customs Processing Times**

Customs Office	Green Channel	Yellow Channel	Red Channel
Jaber	41.3 minutes	154.1 minutes	164.1 minutes
Omari	75.9 minutes	214.5 minutes	143.9 minutes
Zarqa Free Zone	-	222.8 minutes	225.6 minutes
Amman	48.7 minutes	145.2 minutes	147.7 minutes
Airport	85.0 minutes	133.6 minutes	136.5 minutes
Sahab	175.8 minutes	337.0 minutes	117.5 minutes
Aqaba	261.8 minutes	504.5 minutes	882.6 minutes

## 11. CONCLUSIONS

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We have asked why, considering the high degree of competence and sophistication demonstrated by Jordan Customs, have neither Customs nor the trading community derived more benefit in terms of better facilitation of legitimate shipments and reduced delays which significantly reduce costs. We have utilized statistical data provided by Customs and the results of a Time Release Study conducted by the Jordan Customs Administration Modernization Program to provide an answer to that question. We have conducted interviews with transporters and brokers to gather anecdotal information to validate initial conclusions. This evaluation suggests that the answer to this question has four parts:

- The Risk Management Directorate, which is technically competent and fully capable of managing the cargo selectivity system, is laboring with outmoded equipment and is only now beginning to focus on issues other than revenue.
- The risk management/selectivity process is not being effectively applied in the Customs field offices. There is no significant difference between any of the selectivity channels' processes: green, yellow or red. Existing procedures clearly are not being followed. Unnecessary and redundant document reviews and cursory physical examinations may be resulting in a false sense of security. Selectivity and processing time targets should be established by top management, and field offices should be held accountable for achieving them.
- The system which entitles a Customs officer to a share of a monetary penalty he or she originates or participates in works against effective implementation of risk management.
- The Golden List program has yet to be fully implemented and has not delivered the anticipated benefits to either Customs or the trade.

## 12. RECOMMENDATIONS

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### i. Risk Management Directorate Equipment and Training

- The Risk Management Directorate's computers and peripherals have long outlived their expected life spans and urgently need to be replaced with modern, latest generation work stations. Upgrading of the ASYCUDA system from the older ASYCUYCA++ to the current, web-based ASYCUDAWorld must be complemented by upgrading the antiquated equipment now being used by the Risk Management Directorate.
- The Risk Management Directorate has just recently, as part of the Single Window initiative, begun to consider utilizing the selectivity system to address other agency compliance issues. Consideration also should be given to Customs issues other than revenue, particularly the public health and safety components. To do so, Customs management should insure that training received from external sources on such issues always includes Jordan Customs risk analysts among those receiving instruction. This includes such training as that provided by the U.S. Export Control and Border Security Program dealing with weapons of mass destruction, precursors and dual use equipment.

### ii. Field Implementation of Risk Management Procedures

- Field operations should be more closely monitored to ensure that they are complying with Risk Management policies, directives and goals.
- The first step is to publish clear and concise policy statements that enunciate Customs' mission, goals and priorities. If Customs has other priorities than revenue, all Customs officers should clearly understand them. Once priorities and goals are established, only then can Customs effectively measure its success in meeting them. Trade priorities typically include:
  - Classification;
  - Trade Statistics;
  - Country-of-Origin Marking;
  - Intellectual Property Rights;
  - Embargos and Sanctions;
  - Anti-Dumping Duties;
  - Transshipment;
  - Trade Agreements;
  - Quota Evasion;
  - Revenue; and
  - Valuation.

Trade priority issues also include public health and safety. This broad category includes everything from contaminated food products to environmental threats to product safety to national security concerns.

- An effective Customs administration must prioritize its key issues and concerns and establish compliance targets. (It would be presumptuous of Jordan Customs Administration Modernization Program to suggest to Jordan Customs what its priorities should be. Trade priorities can be decided only within the Government. )
- Once these priorities have been defined, they must be effectively communicated both to the Customs officers and to the trading community.
- Having communicated these priorities, Customs must then develop standard operating instructions. Processes, like priorities and goals, cannot be disseminated effectively by word-of-mouth. Uniformity in procedures is achieved through the publication of and adherence to clear, concise written instructions.
- Once priorities, goals and the measures to accomplish them have been defined, Customs can then begin to measure its success; more specifically, in measuring the level of compliance it has achieved in each priority area. This means that enforcement actions are not measured solely in terms of revenue collections and that penalties are not the ultimate measure of success of a modern Customs administration.
- The true measure of success is how effective Customs has been at ensuring compliance with the laws. Once the management philosophy has changed from catching people doing things wrong to encouraging them to do things right, Customs can take advantage of an entirely new set of tools and options. Jordan Customs has made a commendable effort in this direction: The Golden List. More will be said about the need to reenergize that program in Recommendation iv.
- Performance measurement is an ongoing process. If existing management reporting systems do not adequately address trade priorities, then new reporting mechanisms must be designed. The information used in this evaluation that led to the conclusion that risk management has not been effectively implemented came from readily available Customs statistics found in existing Customs databases.
- Proper management reporting systems ensure that this type of information is provided to top managers on a monthly basis in a clear and concise manner so that they will be able to quickly ascertain when any of the types of anomalies demonstrated throughout this report begin to occur. When that happens, field officers can be held accountable and corrective action taken before the situation worsens. If a directive has been issued that states that green, yellow and red selectivity routings shall be processed in a certain manner and the monthly management reports indicate that a specific Customs office is failing to comply with that instruction, top management should be alerted as early as possible. It is far better for Customs managers to have the tools to immediately detect such situations than it is to have an outside evaluator identify them.
- The final aspect of this recommendation deals with establishing realistic expectations and accompanying goals for the number of document reviews and physical examinations conducted and for drastically reducing processing times at Customs clearance centers to bring them closer into line with international baselines. Customs management cannot expect these improvements to just eventually happen: goals must be established and managers held accountable for accomplishing them. Part of this accountability is that the manager maintains a high level of compliance at his facility. Fewer but more selective and thorough examinations will result in better enforcement results. The challenge to the manager is to ensure that this happens. Clearly, it is the prerogative of Customs top management to establish its own goals. The following examples are based on international best practices:

- Processing a green channel declaration takes no more than 2 to 3 minutes time by an experienced inspector, and collection of duties and issuance of a release takes no more than 2 to 3 additional minutes.
- A Customs administration with 7 years experience in risk management would normally be expected to release 35-50% of declarations in the green channel.
- Reviewing a yellow channel declaration and accompanying documents takes no more than 15 to 20 minutes.
- A Customs administration with 7 years experience in risk management would normally be expected to be releasing 25 -35% of declarations in the yellow channel.
- A red channel physical examination may take as much as 1 to 4 hours to the process.
- A Customs administration with 7 years experience in risk management would normally be expected to be releasing 10-20% of declarations in the red channel.
- Red channel physical examinations cannot exceed the capacity of existing staffing and logistical resources. (It is a simple matter to determine how many examinations can be conducted in a given time period at a given facility if Customs first establishes standards for how long a physical examination should take and then determines how many examination bays and examining officers are available. Exceeding those constraints only diminishes productivity and morale. The Risk Management Directorate is capable of factoring in specific workload capacity for each facility into the ASYCUDA selectivity module. )
- 75% of all shipments processed at a large Customs clearance office are released within two hours of arrival.

### **iii. Penalty and Awards Systems**

- The Jordan Customs Administration Modernization Program supports the philosophy that Customs employees should be compensated in such a manner to provide a reasonable standard of living. Many nations have concluded that Customs officers should receive greater compensation than other civil service employees and the consultant conducting this report agrees with those conclusions. The Jordan Customs Administration Modernization Program also supports the concept of performance based incentives designed to recognize and reward those employees that consistently perform at a higher rate than others or who achieve a singularly notable accomplishment in performing assigned duties. Jordan Customs is to be commended for having embraced both concepts. However, anecdotal information received during this evaluation and statistical data tend to indicate that the manner in which the incentive award system has been designed is having unintended consequences that are entirely contrary to risk management concepts and are very close to becoming serious integrity concerns.
- If a Customs officer is assured that he or she will receive additional financial compensation for every penalty generated, his or her natural response will be to generate more penalties. That does not mean that those additional penalties will have any relevance whatsoever to accomplishing Customs trade priorities. It does not mean that the penalty will be based on an assessment of the degree of culpability of the person or company receiving the penalty. These types of penalties may not take into

account culpability or significance (unintentional clerical errors are an example). Customs processes are then put in danger of reverting to a purely punitive orientation rather than the desired voluntary compliance orientation. Importers and transporters will generally feel coerced to pay the penalty rather than appeal because the time it takes to have an appeal decided means additional costs to the importer in terms of demurrage and loss of customer confidence.

- It is recommended that Customs and the Jordan Customs Administration Modernization Program agree to an expert analysis of the current penalty-based incentive award system with two goals:
  - First, to evaluate a representative sample of past penalty cases to determine whether they were valid enforcement efforts or merely initiated for the purpose of increasing the officer's paycheck.
  - Second, to determine how the incentive award system can be improved to reward good performance but eliminate the unintended consequence of unwarranted penalties.

#### **iv. Golden List Program**

- The Golden List Program (GLP) is a progressive move in exactly the right direction. As discussed earlier in this report, modern Customs administrations have acknowledged the importance of partnerships with industry designed to both increase voluntary compliance and to improve supply chain security. The Golden List Program is a well-designed programmatic approach to accomplishing both of those goals. However, Customs must recognize that a voluntary program must be attractive to industry and must offer real, not merely promised, benefits. Comments heard at a Partnership Council that the Golden List Program was a good idea but is nothing more than an "empty box" cannot be allowed to become the common perception of Customs' potential partners. Customs must deliver on all that has been promised and do so quickly.
- The GLP provides the perfect test-bed to let selectivity operate as it is meant to. True green channel processing is vital to implementing "direct-loading" (also known as "direct delivery") benefits which allow GLP members' shipments to be moved directly from the place of importation by a GLP approved transporter to a GLP member's warehouse or other approved facility without being searched at the border, delayed by the escort process or required to move through a Customhouse terminal at the place of destination.
- Where imports are cleared for home consumption or other approved use at the Customhouse at the place of importation, a separate processing window should be established reserved for approved GLP members. When a declaration is selected by the ASYCUDA selectivity module for physical examination on either a criteria or random basis, Customs should dispatch an officer to the importer's premises rather than requiring the goods to be transported to the inspection facility at the Customhouse.
- GLP trucks entering and departing Jordan should be provided with a dedicated "fast-lane" allowing them to bypass the congestion and delays at the border stations. Only one transportation company, Agility, has been approved at this time for GLP status and not only do all of its trucks and drivers meet Customs standards, its trucks are continuously tracked by GPS systems. Additionally, its hubs and warehouses are protected by sophisticated electronic security systems. A second major Jordanian transportation company, ARAMEX, has submitted an application that is now under

consideration. ARAMEX maintains similar quality and security over its trucks and facilities. Both companies are willing to fully cooperate with Customs to ensure that the sanctity of their sealed shipments is guaranteed. The managers of a third major trucking company, The Jordanian-Syrian Land Transport Company stated that they had never heard of the Golden List Program. This was quite surprising. ARAMEX advised that they had previously applied and been turned down because they had some “previous problems” with Customs.

- Customs, and the Risk Management Directorate, must remember that the GLP is a dramatic change in direction. It is a transition from the old style of focusing on catching a company doing something wrong, to one of encouraging the company to do things right. While past compliance is definitely a valid consideration for approval in the GLP program, there are two reasons why it is not a crucial consideration. The first reason is that the possibility, if not the probability, that at least some Customs officers who are anxious to increase their weekly paychecks are generating petty penalties that never should have been generated. The fact that a company has a few violations in the past should not prevent it from being favorably considered. The Risk Management Directorate needs to evaluate each and every one of the past problems to determine whether it was truly significant and whether the company was intentionally trying to defraud Customs. The second reason is that if Customs is going to change, it has to accept the possibility that companies are willing to do so as well. If a company has incurred penalties in the past, are they prepared to implement due-diligence procedures that provide Customs with a reasonable expectation that these problems will not occur in the future? This program depends on very well developed specific requirements, but it also depends on common sense and a reasonable analysis, both of which the Risk Management Directorate is clearly capable of providing.
- The Golden List Program, just like the U.S. C-TPAT Program, focuses on security throughout the entire supply chain. If a GLP member outsources its clearance procedures to a clearing agent, then that agent’s role and performance are critical to the program. Such GLP companies can reasonably be required to utilize the services of a GLP approved clearing agent. Customs staff interviewed in several directorates expressed their concerns at the lack of professionalism of clearing agents in general. Here is an opportunity to provide the highly competent brokers a meaningful advantage and thus allow the competitive process to begin to weed out the lackadaisical performers.