

Outcomes of SACU Regional Joint Customs Enforcement Operation

Operation Texo



September 2017

1 INTRODUCTION

- 1.1 The SACU region conducted a joint Customs Enforcement Operation, named Operation Texo, from 1 November 2016 to 31 March 2017. The overall objective of the Operation was to test the parameters of the SACU Regional Customs Risk Management Strategy through assessment of traders compliance in the textile and clothing industry. The Regional Customs Risk Management Strategy makes provision for common approaches in identifying the risks, analysing the risks, assessing impact and taking remedial actions at both regional and national levels.
- 1.2 In this regard, the Regional Customs Risk Management Strategy outlines the criteria to be followed treat risk collectively at a regional level. The criteria include the following i) risk is rated as a ‘high’ risk by the Member State; ii) risk is described as identical by all SACU Member States (or by the decision of the Risk Management Working Group); iii) risk is common and require collective mitigation approach by all SACU Member States; and iv) will result in each Customs and Revenue Authorities reporting results of interventions centrally for the benefit of the region. The Strategy further provides that a regional risk register will be developed and maintained. Therefore, the Operation Texo followed the prescribed procedures as outlined in the Regional Customs Risk Management Strategy.
- 1.3 The scope of the Operation Texo targeted trade in textile and clothing under the Harmonised system (HS) Chapters 61, 62 and 63, footwear of chapter 64 as well as blankets under Heading 6301 and 940490. The Operation covered all Customs procedures with specific focus on Valuation; Origin; Tariff; Prohibitions and Restrictions.
- 1.4 This final report on the SACU Joint Customs Operation Texo aims to provide the outcomes of the Operation with respect to importation and exportation of identified clothing, footwear and blankets.
- 1.5 The clothing and textile industry is a key industry in the Southern African Customs Union (SACU) Member States, as the industry accounts for a sizable proportion of employment in both the retail and manufacturing sectors. Undervalued imports or smuggled goods (especially clothing and footwear) impacts negatively on the region’s employment levels, and thus warrants some measures of industry protection.

- 1.6 The SACU Member States have put stringent customs controls to detect illicit imports and take corrective measures. Despite the efforts, critical challenges remain within the Customs Administrations with respect to their internal capacities and skills in the areas of valuation and tariff classification. The lack of capacity in these areas undermines effort to detect and suppress illicit trade. These weaknesses have allowed cheap imports to penetrate the SACU market unabated and has damaged the local industry with contractions reported in the last decade.
- 1.7 The Operation Texo therefore aimed to identify gaps that leads to the illicit practice of undervaluation, incorrect tariff classification, and origin declaration on import and export in the clothing and footwear industries. The Operation also sought to allow the Member States to share best practices with a view to developing better detection methods, thus increasing successful interventions and enhancing skills in investigating valuation matters.

2 SCOPE OF THE OPERATION

- 2.1 The Operation was code named **Operation Texo**. The scope of the Operation covered clothing items, footwear, and blankets. The Operation included registered and unregistered traders, all modes of transport and all clients' types. However, the highest priority was given to sea and land borders. For land borders, Member States selected borders with the highest imports of concern. The specific goods targeted were clothing, footwear and blankets.
- 2.2 The Operation covered all relevant Customs procedures with a specific focus on the following risk areas:
- **Valuation:** to ensure proper valuation of goods risk engines of Member States were tuned to detect declaration of values that are below reference prices for certain goods;
 - **Origin:** to make sure that all rules of origin in place in SACU are adhered to This is inter alia to ensure that transshipment does not occur;
 - **Tariff:** misclassification of goods is common where intention is to avoid any higher duties; and
 - **Prohibitions and Restrictions:** there are some restrictions and prohibitions where some Member States have prohibited importation of second hand clothing while in others these are restricted goods.

2.3 The timeframe for the Operation was from 1 November to 31 Dec 2016. It was further extended for January to March 2017 as many Customs Administrations had yet to conclude their internal preparations. Some administrations however could register success for the period prior to the extension.

3 KEY OUTCOMES AND MEASURES OF SUCCESS

A. KEY OUTCOMES

3.1 The Operation was successful in various aspects. The key measures of success for the Operation under the four key areas of Customs Valuation, Tariff Classification, Origin and Prohibitions and Restrictions. In these areas, the following were general findings from Member States:

- a) **Customs Valuation** - the goods concerned were imported in a total of 497 754 tariff lines for Member States during the period in relation to Customs Valuation. Out of these lines, a total of 181 400 stops/hits were made representing a revenue prejudice of R3 953 683. This was Revenue prejudice was detected across Member States in relation to Customs Valuation. 266 lines were found to have been undervalued on import.
- b) **Origin** -the risk related to rules of origin related to goods incorrectly declared as originating in the European Union, instead of China. Some transactions/ bills of entry did not have a valid EUR1 certificate for imports from EU. It was found out that the correct origin of the goods was China and not the EU. In addition to this, a total of 494 150 lines were declared during the Operation across all Member States. Of these lines, there were 181 284 hits recorded. After customs interventions, successful hits were 71. The total under entry for these transactions amounted to R63 698.
- c) **Tariff Classification** - Member States reported a total of 496 577 lines declared for tariff classification for the goods concerned. 181 193 of these were hits of which only 75 recorded successful outcomes after customs interventions. In addition to this, an overall revenue prejudice of R3 249 159 was recorded. It was observed that tariff mis-classification of goods was the easiest way goods are imported without paying the correct duties.
- d) **Prohibition and Restrictions** - a significant number of prohibited and restricted goods were also reported in the Member States. Detections related to goods that infringed Intellectual Property Rights imported for commercial purposes by both individuals and companies.

4 CONCLUSION

- 4.1 Operation Texo was regarded as success in terms of its set objectives. The Operational areas of textile and clothing is generally complex given the intensity of analysis to be done. SACU Member States need to continue building capacity in this area for their own internal use. The use of risk engine has been the core pillar of success in this Operation. The SACU risk Management strategy as well as modern customs risks engines played a key role in the success of the operation.