



**ADDRESS BY COMMISSIONER OF THE  
SOUTH AFRICAN REVENUE SERVICE MR OUPA MAGASHULA  
TO THE JOINT PORTFOLIO COMMITTEES ON  
BORDERLINE AND BORDER POST SECURITY:  
THE ROLE OF CUSTOMS  
8 NOVEMBER 2011**

***Introduction***

Honourable chairperson and members of the committee, thank you for the opportunity to brief you today on the work SARS is doing in respect of border security in line with our Customs mandate.

In the introduction I gave you a brief outline of our Customs mandate which is to two-fold: namely to facilitate trade and to protect our country from unwanted and harmful products.

These two objectives require a delicate balance between service and enforcement. Too great an emphasis on speeding up the movement of goods in and out of South Africa will leave our markets and our people vulnerable to unwanted and harmful products.

On the other hand, too great an emphasis on enforcement can slow and stifle trade which is the lifeblood of any economy – undermining economic growth and job creation. It takes between 15 minutes and five hours to search a truck effectively – depending on what it is carrying and how it is loaded and with nearly 450 trucks a day passing through Beit Bridge border post alone, you can imagine what would happen if we were to conduct a detailed search of each truck.

The queue of trucks would very quickly extend for many kilometres! Just as an example, the committee may be interested to know that the Zimbabwe Revenue Authority introduced an updated version of its customs system at its border posts last weekend and the change resulted in delays in processing on the Zimbabwean side. Within a few days, 750 trucks which had been long cleared in South Africa but not yet cleared into Zimbabwe were backed up in queue on the South African side of 75 km!

SARS has been faced with this delicate balance between service and enforcement since its inception – not only on the customs side but also on the tax side where we face a similar paradox of wanting to provide efficient service and rapid refunds to compliant taxpayers but at the same time making sure everyone pays their fair share and protecting the fiscus from abuse and fraud.

Ladies and gentlemen, we are painfully aware that we have not always got this balance right – most especially within the Customs environment. Every drug which corrupts our youth and which has its origins outside of our borders is a reminder that the safety net we and other agencies of state provide has failed to protect our people. Every counterfeit product on sale on a street corner and every illicit cigarette is an indictment on our ambition of protecting our local economy and indeed our fiscus.

### ***The challenges we face***

Honourable members, the movement of goods through our borders is just one aspect of the overall supply chain which begins with manufacture and ends with the purchase of a product by the final consumer.

But as with any chain, it is only as strong as its weakest link and the movement of goods through borders can have a massive impact on the efficiency of the entire supply chain and indeed on economic growth of any country.

You heard in the introductory remarks how trade has grown exponentially over the past 15 years topping R1.5 trillion in imports and exports in the last financial year.

Last year we handled 1.4 million export transactions and 2.2 million import transactions from almost 500 000 registered importers and exporters. While we have seen significant growth in electronic declarations, the process remains heavily paper-based which significantly slows the process and limits our ability to perform adequate and advanced risk assessments on goods.

The problem is compounded by the complexity of international and domestic trade rules and the large number of different technology platforms in use not only internationally but within South Africa. SARS itself has over 39 different legacy systems managing various aspects of the movement of goods.

Quite simply, these systems and the related processes were not designed to handle the kind of volumes in trade we currently have – nor expect to have over the next decade and longer.

These outdated systems and processes pose significant risks to efficient and effective customs control. And contribute significantly to the costs of moving goods in and out of South Africa.

A paper-based, manual system is not only highly inefficient but is also highly vulnerable to fraud and corruption. Paper can easily be forged, customs release stamps can be easily stolen or misused and paper is easily lost or misfiled to cover tracks.

The result of these weaknesses has been insufficient protection for our society from illegal goods – including drugs, illicit alcohol and cigarettes and counterfeit products – as well as from under-declared or non-declared goods especially in vulnerable industries such as clothing and textiles.

### ***Balancing service and enforcement through risk***

Honourable members, the way SARS and other customs authorities around the world are attempting to ensure the rapid movement of legitimate goods is by utilising sophisticated risk assessment tools which can identify low risk goods to move relatively unimpeded while pin-pointing high risk goods to be subjected to more stringent verification processes.

The key ingredient in any effective risk-based process is information on which to base a risk assessment. Equally important is the provision of this information in a format which allows for rapid, real-time risk assessments to be conducted automatically.

This quest for accurate, electronic information is at the heart of our modernisation programme which began in 2006. This programme looks at how we can harness technology and process change to make it easier for people to meet their obligations and at the same time easier for SARS to detect and deter non-compliance.

Already improvements have been introduced in Customs over the past few years— most especially in the adoption of electronic interchange between traders and SARS. EDI is already far and away the most common form of interaction with SARS with almost 94% of international and Customs Union imports and exports using EDI.

This electronic migration has not only speeded up the process – but more importantly has allowed the implementation of a new Customs Risk Engine which has given SARS the ability to move from being a gate keeper to a risk manager - targeting specific consignments with a higher hit rate.

The Customs Risk Engine has been redesigned to such extent that it enables more precise risk targeting and selection, thus driving better operational efficiency and output. This precision has enabled declarations to be controlled by the risk engine, thereby ensuring that cargo that are stopped for inspection have

a more likely chance of being non compliant. This reduces time and resource inefficiencies being employed on legitimate traders and enforcing compliance on illegitimate traders.

A further aspect of the Customs modernisation programme is a re-engineered and more robust inspection process. Importantly, this contributes significantly in the fight against corruption in that inspectors are no longer allowed to select the cases they work on. Instead, in line with our tax reforms, Customs now uses the “get next item” concept in which cases identified by the risk engine are randomly assigned to inspectors.

A cornerstone of the modernisation programme is the replacement of the Customs legacy system with the in-house development of a world-class customs software platform not only for South Africa but also for those of other administrations in the region and in Africa.

More and more, Customs will focus on imported products that specifically target undervalued imports – including clothing and textiles. This will be achieved by utilising third party and historical data analysis gathered over a number of years to identify potentially risky consignments.

Additionally, following extensive engagements with local manufacturers, Customs is collaborating with business and labour through NEDLAC to identify appropriate benchmark prices which will assist in identifying potential undervaluation of similar commodities. These consignments will be targeted for very close scrutiny and will only be released following a multi-level approval process, including reference to a valuation data base which contains the necessary reference pricing.

Finally, the ‘Preferred Traders’ initiative continues to grow. These are traders that have demonstrated a greater assurance of their compliance and will therefore be rewarded with greater service benefits and more rapid movement of goods. At the end of the financial year, a total of 125 client engagements were conducted, 49 audits were finalised and 39 clients were recommended. It pleases me to say

that the majority of clients that were engaged with, have welcomed the initiative and are showing high level of commitment to the process.

### ***Impact of these changes***

Honourable members, these initiatives while at an early stage are already having an impact on both speeding up the movement of legitimate goods through our borders and in allowing us to detect illegal goods.

During the past financial year SARS has made over 20 000 seizures of goods with a projected value of almost R1 billion including:

- Almost R100 million worth of contraband cigarettes
- Almost 1 million counterfeit CDs and DVDs
- Over 2 tons of hard drugs taken off the streets by SARS in joint operations with other agencies
- Over 750 000 pieces of under-declared or illegal clothing confiscated worth R483 million

On the criminal side, SARS has also taken strong action against a variety of alleged smugglers and during the past financial year 149 criminal cases were referred to the National Prosecuting Authority for prosecution. In the same year, 56 cases went to court and convictions were obtained. In addition to the criminal cases, there are 8 civil matters relating to clothing and textiles that are currently with the courts.

For the impact these changes are having on facilitating legitimate trade, I think it is best to hear the feedback from other members of the supply chain.

*“Electronics means progress and new challenges – as has been the case in South Africa with the Customs modernisation programme,” said Arnold Garber of Compu-Clearing. “The process is faster, smoother and all in all more efficient.”*

*Graham Clark from Zimbabwe, a truck driver who travels through the border on a regular basis, was delighted by the speedier process. “The best case scenario in the past when it came to travelling through the border was about one and a*

*half hours on the South African side. On Monday after the new process was introduced, it took just 30 minutes,” he said*

*“Vehicles are moving through the border much quicker,” says Leticia Schutte of Clear Fanatics Import & Export. “The system cuts out a lot of time and now there are very few queues of trucks with a much better flow across the border. I think Customs Modernisation is very good for trade because of the faster turnaround times which will mean fewer demurrage costs and ultimately better business for trade.”*

*Lorraine Stander of Baseline Import and Export agreed, saying their clients were very happy that things were going so quickly. “We had a client’s truck coming from Johannesburg today and when it arrived at the border it was through within minutes as all the processing had been done in advance.”*

### ***Enhancing our resources***

Honourable members, these system and process changes are only as effective as the people using them – and a critical component to the process remains the skills, integrity and professionalism of the people involved.

On the Customs side we have invested significantly in our people over the past year and will continue to focus on enhancing the resources deployed to manage the movement of goods and the fight against illegal and illicit products.

In the past financial year we appointed an additional 625 Customs and Border Control inspectors, bringing to 1 313 the number of officers in this frontline unit in the fight against criminal activities including smuggling.

This is in addition to the 1 713 trade operations personnel who manage the verification of declarations, conduct inspections and audits and other interventions to establish technical accuracy and adherence to international trade protocol.

We have also invested heavily in improving the skills of our Customs personnel with almost 2 000 Customs officials undergoing training during the past financial year as part of our on-going development of our people.

On the anti-corruption side, SARS adopts a zero-tolerance policy on any form of corruption. In relation to cases of fraud and corruption involving Customs officials reported in the last financial year, 9 Customs officials were arrested, 12 dismissed, 8 issued with warnings and 6 resigned when charges were brought against them. The formation of a joint Anti-Corruption & Security and Customs forum in SARS has also resulted in the establishment and implementation of joint strategies to prevent, deter and detect corrupt activities in the Customs environment.

Our interventions to curb smuggling are also not limited to technological advances. We have also introduced a dog detection capability over the past three years – with dog units now deployed at OR Tambo International Airport, Durban and Cape Town with a further roving team deployed at our land borders.

***Working together for greater efficiency and effectiveness***

Honourable members, progress is being made and more is expected as we continue to modernise the entire Customs process.

But we cannot fight this fight alone. Only by working together as partners in the security of our borders can we and the other agencies of government make more meaningful impact into the security and economic growth of our countries and our region. In this regard you have heard in the introductory remarks about our collaboration within government and how it is contributing to a more effective security response.

But there are other partners too in the supply chain who we are working with to improve the customs process.

As part of our modernisation programme we have been working with the transport and logistics industry – including clearing agents, importers and exports and with technology companies who provide systems throughout the supply chain.

The collaboration in both the design and implementation of modernisation is a key aspect of its success and I would like to share with you a comment made by a member of the industry recently in Freight and Trade Weekly:

*Ridwaan Mohammed, customer support manager of Advanced Customs Solutions (ACS), says Customs modernisation has without doubt taken the industry to new heights. “With customs and service providers meeting regularly to put their minds together in order to find simpler ways and means for customs processes, we believe that everyone has reaped the benefits of the modernisation process.”*

This collaboration goes beyond systems integration. A further important aspect of working together with all the members of the supply chain is part of our education and awareness drive to curb demand for illicit goods.

I earlier mentioned our work together with the social partners in NEDLAC in identifying benchmark prices for a variety of commodities to help identify under-valuation of goods imported into South Africa.

At the same time, we have also been working with industry to raise awareness among consumers for the role they play – sometime unwittingly and sometimes knowingly – in contributing to crime and threats to local industry by consuming illicit products.

We have partnered with the South African Federation Against Copyright Theft (Safact) to raise awareness about intellectual property and the harm it can cause when consumers buy fake products from music and films to shoes, watches, bags and clothing.

We are also working with the Tobacco Institute of South Africa and the local tobacco industry to raise awareness among retailers and consumers of the dangers of illicit tobacco products and the harm this poses to our local economy. The Tobacco Institute estimates that some 50 million illicit cigarettes are bought in South Africa every day – depriving our fiscus of some R3 billion and posing a direct threat to local jobs and a very grave health hazard – above and beyond the existing dangers of smoking - to those who buy these sub-standard products. In conjunction with the industry, some 800 million illegal cigarettes have been seized this year.

On the textiles side, we are also working with industry to raise awareness among retailers and consumers about the benefits to South Africa of supporting locally produced clothing and textiles and, with the help of unions and the media, we are seeing this issue gaining prominence in society.

Cooperation between neighbouring countries is also a vital ingredient in efforts to improve the speed and security of goods moving between countries. Each export is another country's import and visa versa – so it makes sense to work together in meeting our shared objectives.

In this regard we are proceeding with a Customs to Customs data exchange within the World Customs Organisation's SAFE Framework. One of the main purposes of the SAFE Framework is the Customs to Customs network arrangements to promote seamless movement of goods through international supply chains. The objectives of our Customs to Customs data exchange are to:

- Understand and overcome the barriers/challenges to data exchange
- Enable earlier risk detection
- Reduce the regulatory burden on industry
- Mitigate the elimination of paper between the SACU countries

The benefits of this will be to improve supply chain security, increase trade facilitation and improve end-to-end visibility – including helping to identify cases of

under or non-declaration. This programme also supports domestic and regional Preferred Trader and AEO programmes for the benefit of key traders.

We are currently piloting this concept with both Swaziland and India and have thus far managed to exchange data for specified periods. Currently each country is analysing the data that has been exchanged, once this has been completed, further workshops will commence to further this initiative.

### **Conclusion**

In conclusion, honourable chairperson and members, SARS is highly cognisant of the critical role of trade for the economic growth and prosperity of our country – and of the harm illegal, illicit and under-declared goods pose to this and the South African people.

According to the World Bank, unnecessary Customs delays have more sinister effects than increasing costs; the *Doing Business 2009* report suggests that the more delays in the import and export process, the less likely that a trader will be able to reach markets which negatively affects the ability to expand businesses and create jobs. Another study found that each additional day that a product is delayed prior to being shipped reduces trade by more than 1% percent.

At the same time our ability to detect and prevent unwanted goods from entering our country – and to ensure that the correct duties are levied on other goods – has a direct impact on local industry and job creation and retention.

In working together with our colleagues in government, in business, in labour and internationally we are moving ever closer to our objective of facilitating legitimate trade, protecting our borders and collecting all revenue that is due.

Thank you