

# **KEYNOTE ADDRESS BY COMMISSIONER TOM MOYANE**

## **At the South African Association of Freight Forwarders (SAAFF) Conference**

**14 October 2015**

Board of directors of the South African Association of Freight Forwarders,

The Chairman of SAAFF, Mr Basil Pietersen,

CEO of SAAFF, Mr David Logan,

Distinguished guests,

Esteemed colleagues,

Senior SARS Officials,

Representatives of the SAAFF,

Members of the media,

Ladies, gentlemen and friends,

It is my distinct pleasure and honour to address you at a conference of such magnitude.

The facilitation of cross-border trade underpins the goals of achieving significant economies of scale, increased competitiveness, industrial modernisation, higher domestic and foreign investment and greater intraregional trade.

Improving customs procedure at our ports of entry will not only reduce the cost and delays incurred by commercial companies and enhance

trade competitiveness, but will also boost government revenues and thereby accelerate economic development.

SARS plays a pivotal role in ensuring the health and stability of our fiscal framework. A strong revenue service and customs administration is the fundamental cornerstone of a capable state and the key enabler to government's ability to fund expenditure and provide better services for its people.

In support of building a capable state, SARS has adopted a strategic shift from an isolated departmental view to a government posture which sees SARS assisting in the enhancement of value chain activities both before and after it enters SARS's domain.

Furthermore, the recent Constitutive Act of the African Union encourages governments to scale up their efforts towards facilitating intra-regional trade. Since 2000, a new pattern of trade has begun to take centre stage as South Africa witnesses an upsurge in its trade with emerging BRICS nations. Yet the volume of intra-Africa trade has also been increasing at the expense of its traditional partners, principally the EU and US.

There are four key outcomes which we as SARS have adopted in delivering our mandate. These are (1) Increase customs compliance; (2) Increase tax compliance; (3) Increase ease and fairness of doing business with SARS; (4) Increase cost effectiveness and institutional respectability.

To unlock the potential of trade and boost competitiveness, an increased effort to improve both 'hard' and 'soft' infrastructure is necessary. Measures on the 'soft' infrastructure include **simplifying** and **harmonising** customs and **border procedures**, encouraging the use of new technology by customs agencies and eliminating corruption and illegal payments at borders and checkpoints. Improving this infrastructure will not only facilitate intraregional trade and international exports but will also improve the business environment, thereby encouraging investment, both domestic and foreign. Furthermore, this infrastructure improvement will foster transparency and incentivise those in informal trade to formalise their activities.

Trade, like all economic activity is affected by both the micro and macro economic environment. The **global economy** continues to transition from the financial crisis to a period of more stable growth; there has been a slowdown in actual and potential growth rates across advanced as well as emerging economies. The *International Monetary Fund (IMF)* has warned that the slower and diverging growth rates among emerging and developing countries are here to stay.

Earlier this month the IMF projected global growth at 3.1% in 2015, marginally lower than the 3.4% growth rate for 2014. The Budget estimate for South Africa for the same period is 2%. The slowdown in emerging markets will outweigh the pickup in advanced economies. The risks to the global economic outlook are still tilted to the downside and include the consequences of tapering in the US, instability in emerging

markets, weakness in the Eurozone, slower Chinese growth, and geopolitical flare-ups.

Commodity prices and world trade volumes continue to collapse. According to the *Netherlands' Central Planning Bureau World Trade Monitor Report*, the volume of world trade contracted by 1.2% m/m in June 2015 following a 0.2% m/m decrease in April 2015. The decline in volumes is widespread with import and export volumes decreasing in most regions and countries, both advanced and emerging. Data also shows that export price deflation is becoming intense. The IMF all Commodity Price Index shows that commodity prices fell by 7.0% m/m in July 2015 following a 1.4% m/m drop in June 2015.

It is important to note that growth momentum is picking up in ***advanced economies***. The stimulus is emanating from better financial conditions, declining fiscal drags, lower fuel prices and the energy revolution, improving confidence, and declining unemployment rates.

The slowdown in ***emerging markets*** is reflective of lower commodity prices, tighter financing conditions, structural imbalances, and rebalancing in China. Although growth is slowing in emerging markets, the growth outlook still outpaces that of advanced economies and so emerging markets will for much of the short to medium term increase their share of the global economy.

Most emerging market economies are suffering big capital outflows. The emerging market capital outflows represent the gradual unwinding of the excessive inflows into the emerging world during the years of zero interest rates in the US.

Without steady capital inflows, emerging market countries have less money to pay their debts, finance their deficits and spend on infrastructure and corporate expansion.

Recent losses in equities and currencies across emerging markets might generate negative feedback loops and exacerbate the slowdown in real economic activities.

Sub-Saharan Africa is envisaged to be a key source of growth. The average growth rate of about 5.0% from 2008 to 2014 has been higher than any region in the world. This is thanks to higher exports, vast resources, rapid growth in tourism, massive urbanisation, and greater cooperation through regional agreements and other economic unions.

***The domestic economy*** is under pressure as economic data points to weakness on the demand and supply side. The second quarter GDP figures indicated that key economic activities such as agriculture, manufacturing and mining are under pressure as a result of a combination of domestic structural constraints and a muted global demand.

The economic outlook for 2015 remains fragile and risks are mainly on the downside as:

- Lacklustre growth in manufacturing and mining production sets a weak tone for short to medium term GDP growth.
- Unemployment in the country is on the rise, currently the total unemployment rate is 25.0 percent or 5.2 million unemployed persons)
- Downside risks related to electricity problems and soft commodity prices offset the pass through and second round effects of low oil prices and improving external demand.
- Overall businesses and households are in the grips of economic hardship which has resulted in low profitability, liquidations and increased unemployment, and increased household debt.
- The rand remains a significant risk factor to the inflation outlook given the vulnerability of the rand to possible US interest rate increases, as well as deterioration in South Africa's terms of trade.
- The renewed weakness of commodity prices and the planned mothballing of some mining shafts are likely to dampen exports of mineral products.
- Constraints in production and demand are likely to continue over the medium term compounded by declining business and consumer confidence

The fiscal programs of the national government are highly dependent on tax revenue. Budget deficits are funded by borrowings, both local and foreign, and have interest costs. These costs constitute a large part of the government's budget, shifting needed resources away from other

government programs. When revenue targets are not met, the expenditure program is undermined.

## **Customs developments**

SARS's mandate is to ensure optimal compliance with tax and customs legislation. Such compliance must be achieved in a manner that does not unduly impede trade, economic growth and development by imposing an excessive and unfair administrative burden on taxpayers, traders and businesses. Moreover, compliance must be achieved in the most efficient and cost effective manner.

Keeping in mind this bigger picture of growing our economy, while still maintaining that balance between ensuring compliance and facilitating legitimate trade, SARS is about to embark on one of its biggest projects yet ... the implementation of brand new customs legislation.

This will obviously have a massive impact on our stakeholders as well as the way we work – so it is important to understand why we are doing it and how it will benefit everyone long-term.

Work started on relooking at the current customs legislation around 2003 as it was realised that the Customs and Excise Act of 1964 had not kept pace with the changing focus of customs work which had gone from purely control-focused to encouraging legitimate trade and tourism as much as possible. The environment in which international trade is

conducted has also changed radically, particularly the rapid growth in the use of information technology and the exchange of electronic data.

South Africa, as a signatory to many international agreements such as the Revised Kyoto Convention and the SAFE Framework of Standards, had to ensure that its legislation created a legal framework that is aligned with South Africa's international obligations.

The reworking of the customs legislation took the form of the Customs Control Act, the Customs Duty Act and the Customs and Excise Amendment Act, which were published in the Government Gazette last July. The existing Customs and Excise Act will be renamed to the Excise Duty Act when these Acts become effective. The two Customs Acts will be implemented on a date yet to be determined by our President. The implementation will occur when SARS and all relevant stakeholders are ready, in other words, when the relevant rules, systems and processes are in place. The impact of the new legislation, its incorporation into current automated systems, policies and procedures as well as the necessary re-adjustments to be made by every entity engaged in business with SARS Customs is no small feat.

The new systems, policies and procedures are thus being developed in phases – the first three are Registration and Licensing, Goods Reporting and Declaration Processing. Roll out of the Registration and Licensing phase will probably begin in the 2016/17 financial year.

Each of these three initial phases will also have their own sub-phases, but we will be communicating all the details of these well in advance ... including through engagement sessions with clients in the build-up to roll out.

Ladies and gentlemen, these changes will obviously have to facilitate trade and investment and not hamper it – which I believe has been one of the biggest concerns from our clients.

Your organisation, the South African Association of Freight Forwarders, is a key player in the supply chain and an extremely important stakeholder for SARS. Most of the major companies involved in trade and the movement of goods across our border are members of SAAFF. Indeed, an estimated 80% of trade in the country is managed by SAAFF members.

It is therefore imperative that there is a cordial, open and mutually beneficial relationship between SARS and SAAFF in the interest of effective trade facilitation.

To this end, I am very pleased to acknowledge the fruitful partnership and the positive role your organisation has played in the Customs modernisation programme of the past few years.

The successes of the customs modernisation initiatives of recent years would not have been possible without the participation and active support of SAAFF.

The association can be proud of the fact that it not merely pursued limited industry self-interests, but sought to assist SARS in exercising its mandate effectively in the realisation that significant improvements in customs control, as well as in the efficiency of associated customs processes, could be achieved if all role-players became focused towards a common goal, namely the combating of illicit trade and the facilitation of legitimate trade.

The impending implementation of the new Customs legislation via the NCAP (New Customs Act Programme) will again, as is the nature of projects of this magnitude and complexity, result in a number of challenges that must be faced and resolved.

We know that change is not easy and there will be challenges – for both SARS and our clients. However, as the Frederick Douglass quote goes: “If there is no struggle, there is no progress.” Yes, there may be financial, logistical and other challenges as we implement these changes, but there will also be a number of benefits to trade and to the country. These include greater transparency and predictability of doing business, promoting exports, enhancing business competitiveness and stimulating domestic activity, promoting an environment for SMMEs to flourish, and ultimately making South Africa more globally competitive.

SARS wishes to assure you that it will not implement any aspect of the new legislation without proper consultation and that it will follow the well-established modernisation approach of collaborative design, combined development and a structured and/or incremental implementation of the business processes and systems enhancements

that are required to be delivered in support of the new Customs legislation.

We are also aware that one of the biggest concerns of clients is delays at the border post. Many of these issues have been addressed through our modernisation programme over the past few years. For instance, automated processes, electronic declarations and mobile inspections have simplified procedures and reduced paper usage considerably.

Administrative burdens have also been reduced, as no supporting documents are required, unless requested. Customs now receives advance information about consignments from traders and can assess risks in advance, using third-party data verification tools.

There are also a number of other initiatives that Customs is currently working on to speed up passage through borders, including the Single Window concept. As Customs and Border regulatory authorities ramp up their commitment to international agreements, such as the WCO Revised Kyoto Convention, SAFE Framework of Standards and the more recent WTO Trade Facilitation Agreement, more countries are offering a single point of entry through which traders, international carriers and logistics providers can access and comply with the resident customs regulatory regimes.

The concept of a Single Window is borne out of the fact that traditional import/export and related regulatory requirements pose a barrier to market entry for international goods. SARS is currently in data sharing

talks with various SACU and SADC countries. This will greatly reduce mis-declarations and fraud, once the necessary legalities are ironed out.

Additionally, the one-stop border post (OSBP) arrangement to reduce the compliance burden on taxpayers, traders and travellers at our ports of entry has been adopted. Preparations for implementation between SARS and Mozambique are currently underway.

SARS is also working with the Department of Home Affairs on the establishment of the Border Management Agency (BMA). SARS has consistently supported the establishment of a BMA as a means to secure the borders of the Republic, ensure enhanced border management and support effective delivery on the mandates of all relevant organs of state.

Last month Cabinet approved the introduction of the Border Management Agency Bill, 2015 into Parliament and it's currently following the normal parliamentary process before approval. In the meantime, however, I would like to assure you that there is no change to our current customs mandate and role. SARS will continue to exercise its powers and perform its functions as provided for in legislation and in line with South Africa's relevant regional and international obligations, until finalisation of the Parliamentary process and any subsequent enactment.

The establishment of the BMA is a process and not an event. It is, therefore, anticipated that SAAFF will serve its membership's interest

and constructively engage with the BMA in order to put across industry concerns, as well as proposals, to help inform this process. SARS, in turn, will also actively participate in this process and will continue to serve the customs needs of the forwarding industry during this time in the same manner that it has always done.

Ladies and gentlemen, illicit trade is a global problem affecting all countries and sectors of the economy. South Africa is not immune to the impact of illicit trade in all its forms. As part of the vast global international trade market, illicit trade activities have exploited the legitimate trade channels. The illicit economy is perceived to be more apparent in emerging economies; however, there is growing demand for illicit goods in advanced economies.

The illicit economy continues to be a serious threat to legitimate forms of business and financial activity and undermines economic growth and the tax revenue base. Illicit economic activities contribute towards many of our social ills e.g. bribery of officials and financial institutions. Some of these activities include smuggling and the sale of contraband cigarettes, drug abuse, wildlife exploitation and illegal immigration which affect national security and the well-being of citizens. Illicit economic activities also have the effect of eroding the formal tax base from which SARS will collect tax revenue. For example, it is estimated that there is an annual loss of between R4.5 billion and R6 billion to the fiscus due to the smuggling and consumption of contraband cigarettes

SARS is aggressively developing strategies to combat this and already some operational and technical capabilities have been put in place to disrupt, mitigate and arrest those individuals, syndicates and companies involved in the illicit trade. Some of the initiatives SARS has introduced include:

- Introducing new integrated border management tools, for example our new, highly sophisticated cargo scanners in Durban and Cape Town.
- Increasing our inspection capability
- Pursuing a common customs working philosophy across Africa
- Increasing supervision of cigarettes exported via warehouses.
- Improving the manual tracking of cigarettes in transit through South Africa.
- Working with tobacco industry experts to develop a way of detecting illicit cigarettes.
- Improving authentication markings on cigarettes
- Conducting more retail inspections.

SARS has, over the years, focused on disrupting illicit trade in cigarettes estimated between R5.6 billion and 9.5 billion illicit cigarettes consumed in South Africa every year, with excise revenue losses in the region of R3.75 billion annually.

In the previous financial year, through customs interventions, we collected R1.9bn in duties and VAT from non-compliant traders. Undervaluation, particularly in high duty items such as textiles and clothing, remains prevalent as importers seek to evade paying 45%

duty. Imports of these commodities last year totalled R34.9bn and it is estimated that the annual loss of revenues in clothing imports alone due to undervaluation could total R8.4bn.

The threats and challenges of illicit trade are not for SARS or other enforcement services only, but must involve every law abiding citizen. Everyone can play their part by:

- Refusing to buy counterfeit goods or contraband cigarettes;
- Reporting poaching incidents to SARS, the Police and the Department of Environmental Affairs;
- Reporting informal trade in precious stones such as diamonds to SARS and the Police and
- Being vigilant as if it's a real bargain it may have been illegally smuggled in to this country. As the saying goes: **"If it's too good to be true it usually is"!**

Amidst the economic and other uncertainties that beset our environment, we must all work together to safeguard our country and its reputation. We acknowledge that our efforts to carry out the SARS mandate and to contribute to critical government programmes will not be successful if we work in isolation from other stakeholders.

Ladies and gentlemen, our plea is for an increase in collaboration with other state entities, business, labour organizations, NGOs and society to make this a reality. Placing the economy onto a more robust growth

path is not a task for government alone; all role players are needed to take ownership of their part. We believe that together we can do more.

The concept of active citizenry underpins the goals of the National Development Plan. According to the NDP, citizens have the right to expect government to deliver certain basic services and to hold leaders accountable for their actions. They also have responsibilities to other citizens, including mutual respect, tolerance and abiding by the laws of the land. To accelerate this, SARS needs the active support of all citizens to pay their fair share and comply with their tax obligations. SARS intends to make fiscal citizenship a reality for all South Africans and businesses operating in South Africa by increasing their engagements with all South Africans even if they are not eligible to pay any tax directly. This includes building a relationship with all South Africans by educating them on the importance of their tax contribution.

Looking ahead, the streamlining of administrative procedures, the introduction of computerised customs management systems and the sharing of information between different agencies and countries will reduce workloads thereby liberating skilled human resources for other activities.

Consumers who are at the end of the cross-border trade chain will also gain from the efficiency of customs procedures. The reduced cost of trade transactions through efficiency savings at borders can be leveraged by companies and traders to pass on these savings to consumers via lower costs of imported goods.

While it is difficult to quantify the correlation between improved customs procedures and employment creation, empirical evidence suggests that increased trade volumes and reduced prices of goods will lead to higher demand by consumers, thereby stimulating the economy and the job market.

Conclusion:

We call on SAAFF to actively play a role in the economic growth of our country by working together in a spirit of partnership. SARS is committed to regular dialogue with our clients and we would like to build stronger partnerships with key stakeholders such as yourselves.

In fact, we are looking at establishing a forum which will operate on two levels: one being to discuss strategic issues which are of concern to our stakeholders and the second, to focus on operational issues.

We have always worked closely with SAAFF and appreciate all the support and input we have received from you over the years. I trust that our relationship will continue to go from strength to strength as we share a common goal of achieving maximum compliance and facilitating trade in the country in the most effective way possible.