

KEYNOTE ADDRESS BY COMMISSIONER TOM MOYANE

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

6 September, 2016

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

The Chairman of SAAFF, Mr Basil Pietersen,

CEO of SAAFF, Mr David Logan,

Esteemed colleagues from SARS

Representatives of the SAAFF

Distinguished guests,

Members of the media,

Ladies, gentlemen and friends,

It is my distinct pleasure and honour to address you once again at your annual conference and it's good to return to SAAFF a year on, to share some of the latest developments in Tax and Customs as well as to engage with you on how SARS is performing. This event provides SARS with an opportunity to listen to your needs, and for us to take stock of how we can continue to improve in meeting our collective goals.

Developing and supporting closer stakeholder relationships is a vital part of the SARS strategy of providing a more efficient and effective service; and hence the importance of engagements with key stakeholders such as SAAFF. I am delighted that SARS and SAAFF have signed a Memorandum of Understanding to help us maintain and build an even stronger partnership in the period ahead – working together I believe we can achieve our mandates.

In the 21st century, the basic mission of Customs remains the same:

- We are at the frontline to protect the economic and security interests against illicit and harmful imports, exports and trans-shipments and ensuring that traders comply with the laws of our country that govern international trade.
- What has changed in recent years is - we are processing more volumes, faster, with significantly more complexity of risks, and policy demands for Customs.

The levels of the sophistication of those who aim to harm the interests of the state and our society have also increased – and the pace of change will continue to accelerate. This places us under constant pressure.

Customs operations helps define who we are as a country and performs a key function by supporting national economic competitiveness and productivity within a context of integrated and just-in-time supply chains.

We aim to be aware and responsive to the important business for trade, amongst others these include:

- Facilitating fast predictable business processes and release of your goods;
- Managing reliable and efficient accounts, provisional payments and deferment programs;
- Supporting your transition into the Customs Control Act and Customs Duty Act;
- Supporting South African business expansion into Africa;
- Helping to collaborate with Other Government Agencies at borders and avoiding repetitive stops where possible;
- Creating a level playing field for businesses by consistently applying tariff, valuation and origin, and supporting advanced rulings and determinations, and
- Supporting trade by protecting intellectual property rights, and preventing unfair competition through abuses of duty, VAT, and tax.

Delivering on these facilitation roles is important to support competitive South African businesses, and through this success you help us generate the tax income that in turn finances our national development plan and our long term vision of alleviating poverty, creating meaningful jobs, and supporting a higher quality of life for all of the people living in our country.

It's also important for our stakeholders to understand these facilitation requirements fit within a broader context of our full SARS and Customs mandate: where Customs controls the goods and conveyances into, out of and through South Africa, fulfilling our mandate to protect our economy and society, as well as supporting economic competitiveness and collecting all trade revenue due.

We are passionate about fostering and supporting diversity and representivity, focusing on good governance, ethics, and integrity in all that we do. SARS aims to show the leadership that contributes to a strong and healthy South Africa.

I would particularly like to emphasise our officers' role of serving the country. SARS' commitment to you as SAAFF, and to each of you as individual tax and trade stakeholders, is that we shall:

- make it easy, and hassle-free to comply
- that we shall aim to serve and offer measurably good service
- that we shall engage openly with you and include you in co-creation of our products and services, so that together we make a better collective future, by establishing Consultative working groups for specific issues and industry groups, and
- that we shall support integrated logistics partnerships in association with Transnet and business – for example by streamlining movement of goods into Gauteng consolidation centres – including City Deep and the new Tambo-Springs hub.

As a key vehicle to support this, I am pleased to announce that we will be having the inaugural meeting of the new stakeholder forum in October this year.

Since I took over as Commissioner of SARS, we also committed to taking an objective and considered look at ourselves – to make sure our strategy focuses on doing the right things - and to focus operationally on doing them well.

So, you may ask - how is Customs performing now? And how do we shape up to perform our mandate better in the future?

SARS is an organisation with a proud reputation to maintain - of continued tax collection performance, of world leading cost per Rand collected, as well as one of sustained innovation.

The establishment in 1997 of SARS as a unified tax and customs administration following the first report of the Katz Commission is widely recognised as a critical success factor after 1994 in funding government's social and infrastructure expenditure programs. Currently customs collects almost 20% (approximately R200 billion) of total tax revenue in respect of cross border movement of goods, rising to almost 30% (approximately R300 billion) if the full customs and excise function is taken into account. In contrast, in various developed countries such as Canada, Australia and the US (current benchmarks for the proposed institutional integration approach), the customs contribution to overall revenue is typically significantly lower, for example less than 1% in the US.

Between 1997/98 and 2015/16, the customs contribution to revenue collection¹ has grown by 588% from R43.9 billion to R302.3 billion, representing an average annual growth of 11.3% (see graph below) specifically attributable to the following:

- Increased knowledge and control of all goods (imported, exported, transited, warehoused and manufactured);
- Integrated risk management across tax and customs processes to expose under-declarations of all taxes due; and
- Enhanced systems and operational platforms, integrated both internally and with key external stakeholders, including traders and other government agencies such as ITAC and SA Reserve Bank ("single window" concept), resulting in improved logistics flows and trade facilitation (according to the World Bank logistics report,

Customs in South Africa has improved from as low as 150 on the index to within the top 20 globally).

On the independent judgement from latest World Bank logistics ratings we are now up to 20th in the world, and the best performing administration in Africa but I was also very interested to learn what our Customs peers thought.

We invited our WCO colleagues, represented by a world class team of experts from Australia, New Zealand and Europe, to perform a two-week independent Phase 3 diagnostic assessment on all aspects of our Customs administration and for them to identify areas where we can improve.

I was pleased that the report highlighted a lot of compliments on the progress that Customs has achieved in the last 10 years. In particular, it highlighted our world class dog unit, quality declaration processing systems, and state of the art scanners. A high quality Policy and Standard operating procedure based approach, and an appetite for hard work, were also highlighted.

The latest successful release of our integrated Manifest Processing capability is a good example of our intent to relentlessly focus on continuous improvement, both in capability and in results, and I know this initiative will continue to support compliant traders with seamless processing as we move into implementing the new data requirements within the Customs Control Act.

SARS has aggressively followed strategies to combat illicit trade and consistently improves its operational and technical capabilities to disrupt, mitigate and arrest those individuals, syndicates and companies involved in the illicit trade.

This year we have introduced new integrated border management tools to improve our presence, including baggage scanners at our international mail centres and border posts, and also installed a cargo scanner in Beitbridge, to add to the ones we have at Durban and Cape Town harbours.

We have also expanded the detector dog unit, as well as supported our neighbours in Mozambique, Botswana and Mauritius to build their own units.

Our national tobacco initiative has kept an emphasis on auditing cigarette and tobacco companies, as well as improving tracking of cigarettes in and out of warehouses and in transit through South Africa. Through working with tobacco industry experts, we are further improving ways of detecting illicit cigarettes. I am pleased to report that we are also developing new authentication markings for cigarettes, as well as conducting more retail inspections, to focus on compliance as well as disrupting the illicit trade in cigarettes.

Our success has been reflected in improved Customs collections and seizures in the last year. We collected R3.36 trillion total Customs value processed, and R2,94bn in additional duties from interventions from non-compliant traders.

We made 867 Narcotics related busts, 314 busts of Viagra, 308 tobacco busts and 99 CITES busts. I am also pleased to report that year to date; our busts are up nearly 50% compared to this time last year. This supports our belief that Customs competencies are improving and our new technology and scanning tools are supporting improved Customs Control.

Our global economy and its interconnectedness has benefits to wealth creation, but it also brings greater challenges with illicit trade risks, global safety and security challenges, and continuing tax and trade compliance issues from base erosion to profit shifting, trade mispricing and trade under invoicing.

As we have seen, with global financial constraints, continuing commodity and currency volatility, and domestic factors such as the drought, South Africa is currently suffering from a period of constrained economic growth. Our Government is committed to putting in place the necessary policies and plans to overcome these issues.

To give an unbiased view of issues on the radar of global Customs of Commissioners, I would like to share the following - WCO Policy Committee Council discussions and commitments that took place from 11-16 July in Brussels:

- As you may know, the WCO theme for 2016 has been “**Digital Customs: Progressive Engagement**” this is a key ongoing driver in helping us reduce administrative burdens and improve risk management.
- **Managing e-commerce** compliance has been an increasing challenge for Customs administrations. The Council agreed to create an E-Commerce working group consisting of Members, representatives from the Private Sector, international organisations, and e-commerce operators, to undertake future work. I am delighted to report that SARS will work as part of the WCO group with the Universal Postal to review advanced electronic exchange of information and harmonised implementation approaches.
- **Global Counter-Terrorism Strategy**, which will bridge the Punta Cana Resolution and the WCO’s counter-terrorism activities, remains a critical issue. The WCO is organising security-focused workshops in each of the six WCO regions to help develop region-specific cooperation plans to counter violent extremism.
- The WCO is also supporting enhanced **Customs-Police cooperation**, and has developed a diagnostic tool to support both organisations to assess the current state of play of Customs-Police cooperation in their countries, and support realisation of cooperation objectives. I am pleased that SARS is already using the draft WCO handbook and will develop a proposal for discussion on improving cooperation with the SAPS border police unit.
- The Council also endorsed the Guidelines for strengthening cooperation and the exchange of information between Customs and Tax authorities at national level.

I can assure you that SARS has taken into account these global trends as well as our current domestic situation in choosing our Customs and Excise strategic approach and key focus areas for improvement this year.

One of our main focus points this year is on training and development – we will embed our new operating model and invest in building a Customs administration that is professional and competent and in which we can all be proud. Our WCO report suggested we had some world class officers... our aim is to make this consistent

across the organisation. To achieve this is going to require a consistent investment, both in recruitment, training, talent management and retention of staff. To realise this people focus, we have already started by training our senior management and operations managers, and refining the job competency models and proficiencies required to perform at the gold medal Customs levels. This focus is immediately aimed at raising the quality of all aspects of our inspection activity this year.

We are also placing greater focus on the control of goods and conveyances, through our operating model, improved goods tracking systems, as well as through the introduction of a national command centre.

We are also working hard to improve our Customs Risk engine, so that we can better identify and respond to the many different types of risks that we face.

We are pleased to confirm the roll-out of our Customs Accreditation program, Level 2, known as Preferred Trader, after several years of working closely with importers and exporters and their clearing agents. I know that over 250 companies volunteered to be part of this initiative, and improved their compliance in association with Customs. We have set a target of accrediting at least 100 traders in this financial year as well as working to build a full Authorised Economic Operator Program, or AEO in WCO terms, in association with Customs supply chain operators in the future. I know this will help support trade facilitation, as well as help to remove some of the pressure of our transactional inspection capacity - as we improve segmentation of compliant clients' transactions from high risk transactions.

I know you are also waiting patiently to hear the latest news on the New Customs Acts (NCAP). I am pleased to report that significant strides have been made to gain traction and expedite the critical functionality, design and development that shall give effect to the new legislation. One of the key things is that we aim to lever off our current solutions – both at SARS and in trade, to take us to the next level of performance.

NCAP is a major undertaking and requires accessibility to business, financial and technical resources, appropriate time for trader engagement and consultation on the

rules to the Act, and internal and external readiness to absorb the size and the complexities of NCAP implementation. It's very important to ensure cross-functional dependencies are taken into consideration in design and planning.

We want to report progress and on the development of functionalities for the three main NCAP streams:

- **Registration, Licensing and Accreditation (RLA)** - will deliver the core capability for electronic application and management of RLA applications and entity data, and provide for all new client types under the new Act. Testing for re-registration as well as the Client Sufficient Knowledge management system is scheduled for the first quarter 2017, and deferment management specifications will follow in Phase 2.

- **The Reporting of Conveyances and Goods (RCG)** enhances the newly implemented MPR system by providing for the submission of additional cargo reports as per the new Customs Act, including the functionality that will match data from all supply chain parties, including the customs goods declaration. This phase is scheduled for implementation at the end 2017. Our development is at an advanced stage, and policy and standard operating procedures are currently being reviewed and drafted.

Declaration Processing and Release (DPR) - this is the most complex work stream and involves extensive procedural options, control validations and messaging. The teams are currently defining all new procedures and the associated validation requirements.

I wish to draw special attention to our stakeholder engagement process going forward. SARS' NCAP design will expand on the Customs to business co-creation process by including direct involvement of trade resources, with appropriate trade staff, as chosen by trade, to be involved to help optimise efficiency. As I have said, it's essential to make sure that the new Acts are implementable for trade, and realise value for all stakeholders. We hope to run a smooth program that has as few issues as possible by resolving problems upfront, and by building our plans together.

In conclusion

We call on SAAFF to actively play a role in the economic growth of our country by continuing to work together in a spirit of partnership. SARS is committed to dialogue and co-creation of a bright future with our clients, and key stakeholders, such as yourselves. We wish to build strong partnerships for growth.

We have a close working relationship with SAAFF and SARS appreciates all the support and input we have received from you over the years, and all that we shall receive in the coming months, as we progress towards NCAP implementation. I know our relationship will get stronger as we work closer and closer together – and reach our respective goals - that in turn helps to collectively build this great country of ours.