

## MINUTES OF MEETING

### **“Stakeholders Briefing”**

April 30, 2014 DBP Social Hall, Makati City

#### **Part I. SALIENT POINTS of Commissioner J.P. Sevilla’s Speech**

##### **A. *BOC manpower, high responsibility and low compensation***

1. There are 3,600 employees in BOC tasked to do a lot of mandates
2. Not enough to do the job with only 994 computers with limited internet connection
3. These are example of constraints which make impact on the way we operate that we need to change to get to where we want to be
4. On average, we have 3,300 entries and 6,600 individual items being imported everyday. 90% of the number of entries is in NAIA, Port of Manila and MICP. We look at the number of transactions, the volume of cargo if bulk, break-bulk, containerized
5. Around 4,500 containers arrive in the Phils. every single day but only 200 containers get x- rayed, or close to 5 percent which means 92 percent do not get x-rayed or examined
7. People with great responsibility and high degree of accountability such as BOC Collectors, Deputy Commissioners, Commissioner get poor salary compared to their counterparts

##### **B. *Systems that should have been in place in Customs***

1. There wasn’t a single organized, reliable database for valuation references
2. Products falling into 8,000 tariff headings come into the Philippines. Keeping track of that from the point of view of ensuing consistency in valuation, that’s a lot of tariff headings, or a lot of valuation to look at for. For over 50% of those 8,000 tariff headings, the standard deviation of valuation is about 25% of the mean. Quite disperse valuations for a large part of our imports.
3. Do not have any reliable capability not only on valuation trends but even the growth of revenues, compared with what is going on in the Philippine economy. Cannot link our collections or products to the underlying trends in economy.

##### **C. *Budgetary constraints***

1. Admittedly, there is rampant smuggling. We started at a time, late in 2013, when BOC operating budget for 2014 was already closed.
2. Example of budgetary constraints: the Intelligence Group has 175 people all over the country, with vehicles at their disposal but they cannot get gasoline allowance for operations so they only use four vehicles. Things like that put impact and constraints on what they can do in a short term.

**D. *Problem of Trust***

1. A problem of trust against BOC exist from among the public and even among BOC's stakeholders, something to be work out on and fix
2. Considering all sorts of problems, limitations, systems that won't work, when everything is manual, that's a working environment that's inefficient and makes it easy for corruption

**E. *Initial steps to stamp out corruption and smuggling***

1. What have we done so far in the last five months?
  - 1.1. Vast increase in transparency because BOC has posted the information since December ---the public can now look at every single import entry that BOC process, what is being imported, how much is being imported, where is it being imported, how much duties and taxes are paid, something that has not been done before
  - 1.2. Can look into the reference value for every single tariff heading that BOC publish and keep updated every month
  - 1.3. Still working for all other data to be in digital form. Already compiled these data, starting from resin and steel which gained good results
  - 1.4. Have stamped rice smuggling, several are facing criminal cases
  - 1.5. Hold BOC's own people accountable because none of that corruption will happen *kung walang tao sa loob namin* who is helping that happen. Has filed investigation complaints as the first step in taking administrative action against those involved BOC employees, following CSC rules and initiate 82 people in the last four months more than all of last year put together. Interestingly fact is, all evidence used to file these complaints is all electronic. We're mining IT systems to find all evidence of misdeeds
  - 1.6. Doing everything to eliminate discretion, example, we took away all discretion that examiners use to have on whether or not to apply surcharges in case of underdeclaration or misdeclaration.
  - 1.8. Continue to review the processes to make it as clear as possible. Ideally, examiners should not have to make the decisions, they just process

**F. *Results of steps taken***

1. Revenue collection from January to March cumulative is now 25.7%
2. Whole year of 2013 revenues grew by 5%, but in just 1<sup>st</sup> quarter of 2014 revenues grew by 25%

**G. *Alert Orders***

1. Customs has been issuing an unprecedented alert orders. For every 100 alert orders only 18 has the basis to be released without further actions. 82% of everything that was alerted has ground for a significant additional duties and taxes to be paid or there's an immediate ground for seizure

2. On average, for every alert order which have additional duties and taxes, we collect Php194,000

3. In the short term, BOC is trying to gather as much data on things that are interesting to the public like alert, or the result of our examination and everyone wants to publish them on a regular basis, to know exactly who are the importers behind these 82% of shipment which we end up charging additional fee

4. Alert can also be used for extortion purposes so the best antidote for that is to be fully transparent

5. Time to restore the requirements for pre-shipment inspections for containerized cargo within the next month or so, in response to the fact that such a high percentage of cargo that BOC examined have negative findings

**H. Customs procedures**

1. Working on preparing a simple, comprehensive, black and white rules to explain as clearly as possible customs procedures so people would know where they stand on balikbayan boxes, donations, etc.

**I. Internal reforms 6-12 months from now**

1. Sort out a reasonable and appropriate way to pay for overtime of Customs people on a regular basis

2. Hire more people

3. In September, everyone who wants a computer will have one and no longer have to share

4. In September, all offices in Manila will have the best internet access

5. In December, all of our ports will have internet access because IT is key to be where we want to be a few months from now

**J: Where do we want to be in June 2015**

1. To offer the public a fully electronic, paperless, man contact-free processing of Customs transactions

2. Build an e2m system that can automate the transactions and documentation

3. In the short term, BOC will coordinate with PEZA so that the needed documents can be sent electronically. Stakeholders can apply for a boat note digitally without going to BOC office

4. Resolve CBWs, NSW problems by putting all comprehensive permit issue in a single system

5. Presently designing the IT infrastructure, building the platform to be able to do everything digitally

6.

**K: Other Issues**

1. Overstaying cargoes
  - a. There's legal process to be followed in moving the cargo Ex: public bidding, ICTSI
  - b. Currently working on the bottleneck to make the processing faster
2. Faster processing of settlement of seizure proceedings
3. Using technology to more effectively monitor vessel movement and use that information in coordination with law enforcement

**L: What to expect in Customs for the next 14 months**

For the importers/exporters and the public to get used to a standard of service that is significantly faster and better and give the public a much higher disclosure, to leave behind a system that enable transparency

**Part II. Q & A**

1. *Mr. Bart Santiago, representative of PAG-ASA STEEL WORKS*

**Re: Valuation differences in importation of steel billets**

The Phil. Steel industry wrote a note to the BOC for a hearing about a month ago so that they can select the right valuation for the steel billets but they haven't receive the response from BOC yet. The price of the commodity of steel billets have gone down since.

Comm. Sevilla asked how much per ton. Mr. Santiago responded 550 but the BOC \_\_\_\_\_ them for what they have stated in FOB, what they have is 525.12.

Comm. asked if they haven't gotten the specific clearance yet. Mr. Santiago replied that they have gotten the clearance but this is happening so often that they have to clear, adding up to the lead time and made even more complicated by the truck ban. They are requesting for an inventory which was the reason why they have asked for a hearing. Mr. Santiago pleaded if they can get the reply from BOC within the week. Comm Sevilla said yes, he will get the reply right at the end of the Q & A.

2. *Mr. Ernesto Ordoñez of ALYANSA AGRIKULTURA* lauded the BOC for a fantastic and strategic move in getting 2000 containers in such short period and fighting big smugglers. He said that the entire presentation is fantastic and strategic but it is focused on what the BOC can do. They would like the Commissioner to know that some of them might knew more about smuggling than him because he is new. Therefore, he advises that the Comm. take advantage of the private sector people particularly from agriculture to tell him about smuggling, for example the Inward Foreign Manifest which they have never gotten, thanks to DC Aguas it is now coming. Likewise, he has talked to DTI and DA, and told that many years ago, as Inward Foreign Manifest gives a product before it arrive, the DTI Director can tell that he knows what might be smuggled. Mr. Ordoñez advises that it is better to use the Inward Foreign Manifest that gives advance

information 2 days before it arrive, and give it already to DA and DTI so they can use the intelligence and alert because it is very professional to act before they come as compared to chasing them. He also advises BOC to use the private sector to fight smuggling, and encouraged everyone to give the information and become part of the solution.

3. *Representative from CENTURY PEAK METALS*

Re: **Advance Cargo Clearance** which will be implemented in June this year. Can it be assumed that it will not exempt the Super Green Lane?

**DC Uvero** said that they have not issued the final rule yet but the draft actually exempt the Super Green Lane.

The rep said that if they exempt the SGL, it will hit the whole program.

4. *John Forbes, AmCham*

About a decade ago, interested private sectors formed and organized a group to go over to Subic, a time when about 180,000 US products were being imported....they went to see some of the businessmen at Port Irene. I think it is symbolic that the Philippine government would walk the talk, not just talk the talk. Subsequently, one of the countries that went to Port Irene closed their factory here. I hope that the problem in Subic would stop so they would not leave Subic.

Question is, what will the Commissioner do about the remaining problem at Port Irene?

Comm. said that alert order was first issued on vehicles at Port Irene, we did not allow the-----

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**Comm. Sevilla:** I think you are aware of the court rulings that say there's nothing we can do to stop the entry of vehicles into the PEZA zone but we haven't allowed the exit of any vehicles from the PEZA zone to the Customs territory.

There's a degree of surreality, I've made public statements about surreal court rulings, particularly the context of rice entry just like in Davao, Batangas and Manila. If you read the Regional Trial Court of Aparri's rulings subsequent to the Supreme Court's rulings on the legality whether to continue the Executive Order 156 banning the importation of used motor vehicles, it's really unbelievable, but we're not allowing that. In a smaller scale, there's a very high-end motor vehicle smuggling going on in the South, it was Cebu probably about 9 months ago. We were able to stop it in Cebu late last year, then it was in General Santos and in Davao. We saw a lot of it in December and January and seized quite of it. At least in March and April the amount of vehicle import in Davao and Gen. Santos is down to about 10 percent of what it used to be. That's the ultimate indicator that we look at.

5. *Walt \_\_\_\_\_ Representative of \_\_\_\_\_ Union*

Very grateful for the insight that you gave us of where you are. It's a daunting task and I see a lot of good work that you're doing and I appreciate it.

Question regarding **trade facilitation** under WTO, seeing that the Comm. wants to expand pre-shipment inspection, are there other ways that we can use to achieve the same objective? Their office is more than willing to sit down with you and discuss it

**Comm Sevilla:** Right now, given the gaps in technology, with much of the processes still manual, Customs is like a bag of water with about a hundred holes in it. Technically, let's not even talk about trade facilitation until we cover out those bags because everything that we do, for as long as we are not covering those leaks, is going to undermine all these proposition or undermine our credibility. We're not talking about a medium term reform target. We're talking about getting system that should have been in place a long time ago. Doing them right so that they'll be in place by the middle of next year, fourteen months from now. I think that for purposes of defending the national interest and ultimately being able to really go full blast in strategic locations I think we have to focus in forming our processes first and fix them because otherwise any gains in trade facilitation are going to be temporary, unsustainable and come at the cost of harming even our targets. We are not going to violate our international commitment, but I don't want to leave any doubt that we are determined to implement -----.

6. *Jesus Arranza, FEDERATION OF PHILIPPINE INDUSTRIES*

Question regarding the different import value or pricing for tobacco. Because in your advertisement, the pricing is too much. 200 as against 36? Do you have now a reference value or reference pricing for tobacco?

**Comm. Sevilla:** Yes, but we're not using it as formally as we're doing with resins and steel. So in a meeting with you we said that we will study it and get back kapag medyo nakapag-aral na kami ng konti. In tobacco there are various grades and we want to understand what those various grades are, those are much complicated. Basically, we divided commodities, and 55 commodity tariff headings account for 50% of our collections. Of those 55, we discovered 20% of them are petroleum. I don't think that smuggling problem with petroleum has anything to do with valuation. So we're focusing on those 35.

*Who is really tasked to file cases against rice smugglers? How come there is no case filed against rice smugglers yet?*

**Comm. Sevilla:** Abangan na lang po ang susunod na kabanata, hindi po naming magagawa lahat ng gusto namin sa oras na gusto ng lahat ng tao. But fortunately, we're fighting several miles at the same time, we're working on it, and it's personal now because we'll file criminal case against them. Kahapon tatlo yung dumating, apat dati, pero tatlo 'tong criminal so we want to glue them.

*What's the basis for the pricing of pre-inspection?*

**Comm. Sevilla:** Pagmamahal sa bayan po.

*Do you have coordination with duty-free shops?*

**Comm. Sevilla:** No, that's something that I think we need to do more but specifically on vehicles. One thing that we're planning to do centralize the issuance of CPs for certain types of motor vehicles. Rather than focusing on the seller, we focus on the type of vehicles so that we can have an effective inventory on that.

*Re: Customs Bonded Warehouses monitoring issue*

**Comm. Sevilla:** Lahat iyan de-bulk eh, meaning, we cannot monitor any part of it. Now, the formula of manufacturers, actually, ni hindi nga sa amin galing iyan eh. Even assuming that the formulas of manufacturers are correct, the part of the CBWs that Customs is supposed to be monitoring we don't know if we're doing all the job. So first things first. But in the middle of next year, all the CBW monitoring and inventory-keeping will be digital.

**DC Aguas:** For the price of the Pre-shipment inspection for cargo clearance, we have this ceiling for bulk and break bulk and it should be about one-half of 1% of the FOB. There are consultations ongoing together with the surveyor but the price will not be more than what is existing right now.

7. *Joy of MALABAT & CO.*

Re: BOC Accreditation for Importers. Considering process and the additional requirement for said importers' accreditation, is there a possibility that a letter request for extension of time or deadline to submit required documents for said importers accreditation will be granted by the Bureau of Customs?

**DC Uvero:** We're actually waiting for the Department Order to be revised. The intention is to make it year round. In a couple of days, we'll make an announcement on the changes. Currently, the requirement is all importers will have to go to BIR and get a clearance by end of May. But that will change and we're still getting the amendment so you will have more time to get a clearance from BIR but definitely you have to get a clearance. The deadline will just move, it's going to be a whole year round thing with BIR and Customs.

8. *Santos of \_\_\_\_\_*

Re: **Pre-Shipment Inspection.** When it was implemented a few years back, there was a problem applying for pre-shipment inspection. There's a lot of confusion with regards to suppliers who do not know the offices of the inspection company doing the inspection for their country. And there was also a problem on valuation wherein the valuation of products became alerted much higher. If a shipment arrives, how much time do we importers need to wait for us to clear the shipment? What is the minimum valuation that pre-inspection company will value on the product that we are importing?

**DC Uvero:** Valuation will be Customs function. Surveyors in any of the country or port of import or export provide for certificate. But then, we'll be doing the consultation, draft will be given to the public and it will be open for comment

9. *Representative of PLASTIC INDUSTRIES ASSOCIATION*

Re: **CMO on the minimum value of 1.5.** There are several categories in the plastic industries wherein some of the materials like PV and PVC are below 1.5. So you promise us that there will be a review every three months. And we come out as we suggested and have a meeting with them and present the true value of material based on the plan.

Sana magkaroon din ng stricter law on the finished plastic products coming in na undervalued.

**Comm. Sevilla:** Reviewing the reference value every month is too long an interval. Please understand our limitations. Kulang din po kami sa tao. But I think in the same way that we're going to have a discussion with PCSI on steel, if you want to have a similar discussion with the

other industry players in a room to show us the upswing on both for the \_\_\_\_\_ and the finished product, we'd be happy to do that. Look, *inaamin namin, hindi kami industry expert* so we'll do the best we can with our limited information. Like when we reviewed the reference value for steel, *nakita namin talagang mataas* so we changed that. We're always open to the exchange of data.

10. *Fr. Albert Alejo, Jesuit from EHEM Anti-Corruption Movement*

Re: **On X-Ray Machines.** You said that by June 2014, BOC wants to maximize the use of X-ray. Regarding X-Ray in Davao, which has been closed for almost four years. It is one of the 30 X-Rays bought by the Philippines during the previous administration. At 7.395 Billion, I got an information that Argentina bought 9 units at half the price per unit. We bought 30 units and doubled the price. According to audit report from COA, it's something like only 14%. It could have been garnered at no cost to the government if you took the US offer. Now, I know how much we're spending for the repair and maintainance. And how are we going to pay the 7.395 billion? I don't know if you need to answer it. I'm just expressing my concern.

**Comm. Sevilla:** When pre-shipment Inspection is in place, then the need for X-Ray or the need for physical examination might go down to zero. We need to review under what circumstances we still need to do it. For example, *kung walang* available na surveyor sa port of origin, then our examination people shall be ready to do that. Our first priority right now is we have multiple current operating issues. I have no idea of what happened in the past with this contract. But we need to fix what's going on in Customs today first. Now, if some of you wants to make *ungkat* what happened in the past, we have no problem, we'll disclose whatever information we can give you. But please understand that we have problems today that we need to worry about. The accountability of people in the past doesn't change. But we have problems that we have to fix first and that's our priority.

11. *Bert Lina, former BOC Commissioner*

Re: **What can be done** at the end of this forum, as action man of the Bureau.

*Ang layunin din naming bilang mga Commissioners noon hanggang ngayon ay taasan ang suweldo ng ating mga naninilbihan sa gobyerno. Sabi mo nga as Commissioner, ikaw ay tumatangap ng 68,000 pero ako ay noon ay 32,000 lang.*

I always dream and pray to all even our Senators to look into the salary of our people. The private sector is here so we would rally our people to help you make a proposal to Congress to elevate the salaries of our people.

You said that you ran out or shortage computers and internet connection, I'm so glad that Globe is here and also PLDT. Maybe they could help us install a very efficient internet 24/7. And as far as shortage of computers is concerned, marami kami rito Mr. Commissioner, we can help you have the computers you need at the Bureau of Customs.

You said there's a lot of overstaying containers. It's because of the truck ban. *Ang binabayad namin* from 9,000 it's now 17,000 per container.

Customs should be open 24/7 to expand our import and export.

Move the overstaying cargoes to general store to remove the congestion of cargoes at the POM and MICP at the expense of port operators.

Make it “paperless” in 2014 instead of in 2015.

**Comm. Sevilla:** Thank you for the support in raising the salary of our people, but we have a problem on credibility so *magpakitang gilás muna tayo*. Show us your performance first. We need to show that we’re meeting our targets, we have to show that we can do it.

Thank you for the offer of computers and internet but thought I’m glad about it, it’s gonna be a conflict of interest because all of you are either importer or CBW operator, brokers, and some point we suspend the accreditation. So the issue for internet and computers is not that we don’t have money. Money is usually not the issue. It’s just that nobody has bothered to take up *kung ilan ba ang kailangan, ano bang specs na kailangan natin*. There’s going to be a procurement for this. I already gave targets and we intend to meet for that to happen.

The truck ban? *Hindi kami ang promotor niyan at hindi rin kami ang* behind those problems. So please don’t rely on Customs to resolve the issue on the truck ban because we don’t have the control on that.

We want to move 24/7. We want to do it in the middle of the year. But what happened last time? Nung nagkaroon ng truck ban, we opened until nine, we opened until Saturday, and we announced it many times. How many people actually file entries to our offices during extended hours? *Mabibilang mo sa dalawang kamay*. You know very well that we want to pay people overtime, it’s not as easy as pointing a finger and say, *‘sige mag-overtime kayo’*. There’s an extremely cumbersome process to be followed, we are doing that right now, I mentioned earlier, we’re going to try to request exemption from the very strict rule given by Malacañang. It’s not even a DOF rule it’s an OP rule. Because it’s not fair to demand from our people on a systematic way that they work long hours if we’re not able to give them an assurance that they get paid for overtime. And under the current stringent rules we cannot do that. So I’m not going to make the assurance that we can have 24/7 until ultimately there will be reasons to need more people, I’ve explained earlier that we’re going to hire those people. In a short term, we’re going to work on getting overtime, and I’m hoping that we can hire starting May or June.

I’m not familiar with what you mean by “moving to general stores.” So to that question, I don’t have the answer to right now. Okay, ano ba ang dahilan kung bakit nag-ooverstay iyan? Are we not processing fast enough? Are we having failed bidding? We’ll be happy to look into the potential solutions to remove the congestion in our ports. I want something more doable. How can we move those cargoes faster? *Kasi kung ililipat mo sa ibang lugar, andyan pa rin yan eh*. You haven’t solved the problem with congestion. I don’t know what the reason why there’s so many overstaying cargoes---kasi hindi na claim or na-clear, naka-sealed. Ultimately everything should be disposed of. Why it’s not being disposed of? That’s a piece of the puzzle I don’t know right now, and until I know that I won’t be able to do it.

12. Chan, president of \_\_\_\_\_

**Re: Accreditation of Importers.** We’ve finished all the documentation and the accreditation and our expectation is after this, the next renewal should be easier and faster. Because previously and even today, we see a lot of redundancies, like 7 copies that could be done 3 copies, so the focus how to eliminate these redundancies and remove the steps that are a lot either.

Re: **X-ray of containers:** I would like to share with you our situation as a meat importer. Our meat comes from country and it is pre-inspected by the health inspector of that country. So for example, the United States, their food tasting inspection service will issue a health certificate. And this health certificate is supposedly recognized by our Philippine Department of Agriculture. They have an agreement here of equivalency agreement. However, what really happens is that when this certificate is presented, it is not accepted, it is cancelled out, so we need to get x-rayed, and after the Bureau of Customs to we need to go to a cold store wherein our local inspector will have it re-inspected. So these redundancies are cutting across the Customs rule and we hope that something can be done to eliminate some of these things.

Re: **Overstaying containers:** You mentioned about the overstaying containers. I believe they are overstaying containers of meat and one of the reasons why they cannot be touched is because some of the regulations of the Philippine DA say that under certain circumstances you can't touch them, not even sell them to another importer who are willing to buy these products. So there should be a lot of dialogue even between your departments of the government.

**Comm. Sevilla:** Once we have issued an inspection, then there would be, by definition, a lot less x-ray. It's not gonna be zero but it should be less.

13. \_\_\_\_\_

The Commissioner might think that this is no longer necessary, but I like the idea of donating computers to help you. Like last year there's an orphanage school without support. I asked my supplier if they have any computers there and I got more than enough to supply that school. Because corporations upgrade more quickly to adapt to modern technology changes. But I agree with the Commissioner that to have these is perhaps there's the humiliation that you're going to have. So the solution I think is to have a third party that has nothing to do with Customs. And accept anonymous these donations and pass it over to Customs as anonymous donations. You think that would be helpful?

**Comm. Sevilla:** I would like to tell you that we have the resources. It's not a question of lack of budget. But the fact that we only have 900 computers for 3,600 people, so we need to identify who the guys out there, and could have been done now. But we'll get it done by September. In time we will have all the computers with internet access.