

CMTA Consultative • Series

17 August 2016

• **The Challenge**

The Big Picture

The Challenge

- The total revenue loss of **P12,352,888,500,000.00 (\$267B) from 1960 to 2011** from trade misinvoicing in import *and* export activities
- Does not include outright smuggling into *and* out of the country

Source: 2014 Study of Global Financial Integrity: Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011

The Big Picture

- Trade misinvoicing includes
 - lowering the commercial price of the good imported or exported
 - false certification of origin to take advantage of the zero or lower tariffs

Source: 2014 Study of Global Financial Integrity: Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011

The Big Picture

- declaring an item to be something else than it actually is (technical smuggling through misdeclaration)
 - to subject it to a lower tariff rate; or
 - to avoid compliance with import or export permits for regulated items

Source: 2014 Study of Global Financial Integrity: Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011

The Big Picture

- 25 percent of the value of all goods imported into the Philippines – or 1 out of every 4 pesos
- Over the period of 1960-2011, trade misinvoicing relative to total trade **increased by 3 percent per annum on average**

Source: 2014 Study of Global Financial Integrity: Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011

The Big Picture

- Since 2000, illicit financial flows have cheated the government of an *average* of Php 67,532,300,000.00 (\$1.46B) in tax revenue each year.

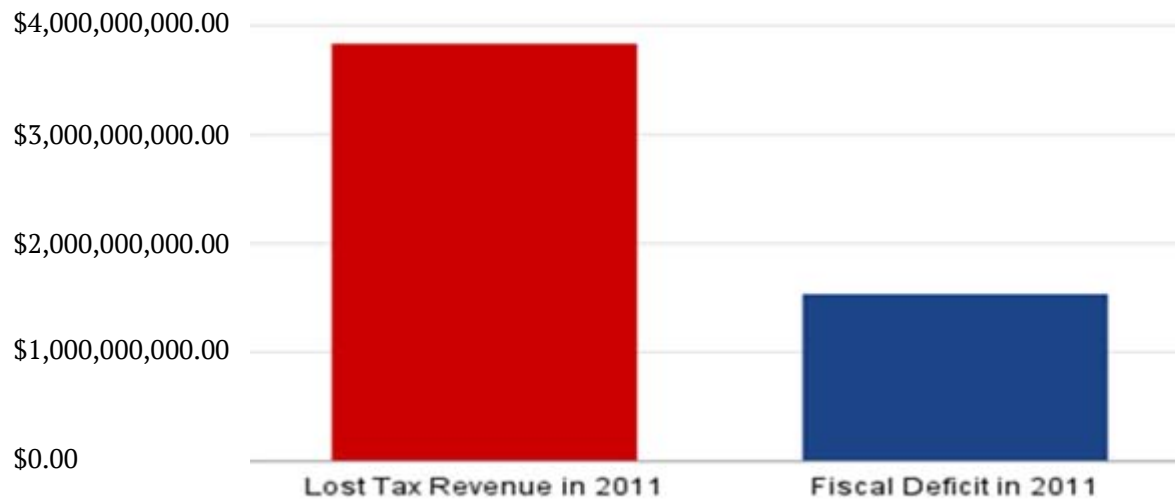
Source: 2014 Study of Global Financial Integrity: Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011

The Big Picture

To put this in perspective, the \$3.85 billion in lost tax revenue in 2011 was **more than twice the fiscal deficit**

Source: 2014 Study of Global Financial Integrity: Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011

Cost of Trade Misinvoicing 2011



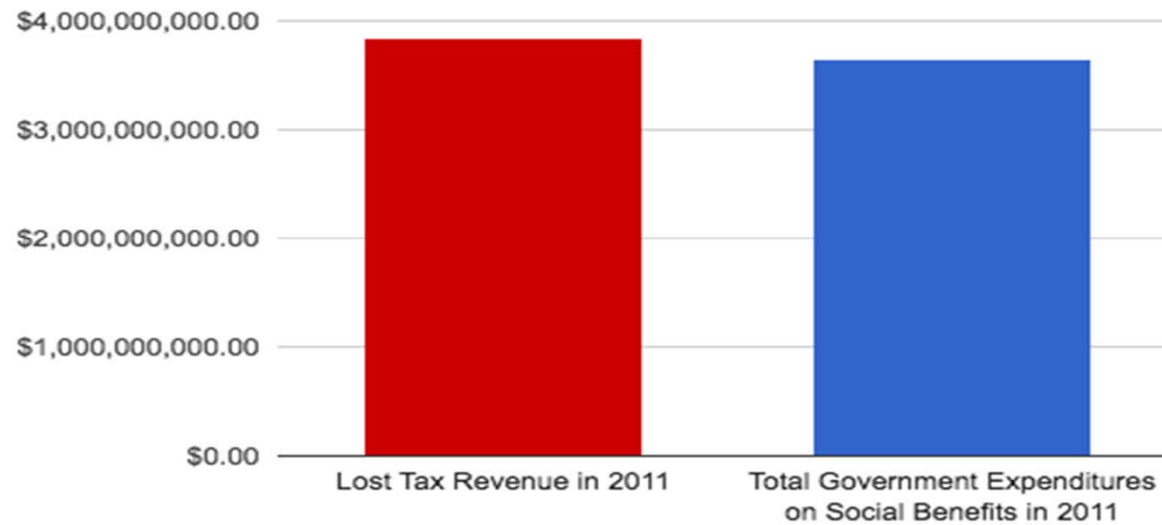
Source: 2014 Study of Global Financial Integrity: Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011

The Big Picture

To again, put this in perspective, the \$3.85 billion in lost tax revenue in 2011 was equal to **95 percent of the total government expenditures on social benefits** that same year.

Source: 2014 Study of Global Financial Integrity: Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011

Cost of Trade Misinvoicing 2011



Source: 2014 Study of Global Financial Integrity: Illicit Financial Flows to and from the Philippines: A Study in Dynamic Simulation, 1960-2011

_____ • **What you can do**

What you can do

1. Acknowledge that you are part of the problem
1. Act on that knowledge and be part of the solution
2. Think of the greater good --- not just your own private interest
1. Provide stakeholder input while avoiding regulatory capture

• **CMTA**

Highlights

● Why the CMTA was enacted ●

- To overhaul and modernize the bureau which has long been perceived as one of the most corrupt and underperforming government agencies in the country.

● Why the CMTA was enacted ●

- To comply with the country's legal commitment to be bound by the terms of the *International Convention on the Simplification and Harmonization of Customs Procedures* or the Revised Kyoto Convention (RKC)
- The Philippines acceded to the RKC on May 25, 2010

General Policy

• Highlights

Bureau of Customs

- Significant shift of function from revenue generation to trade facilitation and border control
- Trade Facilitation: to make valuation and classification more transparent and predictable and to implement automated procedures

Bureau of Customs

- Border Control: Enhanced Risk Management - pre and post clearance; Rationalize list of regulated products; Biosecurity and WMD Protocols
- Change of mindset and culture – not only within BOC but with, *you*, the people interacting with the BOC

Varying Impact on Existing and Amendatory Provisions

The amendatory and the new provisions have varying impact on customs systems and processes, both manual- and electronically-based.

Existing Systems and Processes

For existing systems: there is a requirement to redesign existing business processes and reconfigure current computer programs, such as the E2M, or design and develop new ones. These include -

- import clearance
- entry lodgment
- examination of goods
- assessment
- dispute settlement and appellate remedies
- enforcement control
- customs audit
- abandonment
- seizure and forfeiture proceedings
- customs bonded warehousing, transit to another customs or to non-customs territory
- others

● **New System and Processes** ●

For the new provisions in the CMTA: there is a need to draw up a complete set of policy and procedural infrastructures to define and establish its organizational, operational, administrative features.

Then what?

- Continuing evaluation of new policies - impact of the modified and new systems and processes on the organization of customs and on the supply chain
- Regular mandatory training within BOC - ground officers and personnel
- Regular stakeholders' orientation to ensure informed compliance

_____ • **Thank you**