NOTE
from: Presidency

to: Working Party on Collective Evaluation

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Subject: Risk analysis
- Establishment of a central risk-analysis unit (centre of expertise): proposed basic design

The Customs Cooperation Working Party has approved the present basic plan for the establishment of a central risk-analysis unit (centre of expertise) and requests the Working Party on Collective Evaluation to incorporate this document into its proceedings.

INTRODUCTION

The Joint Action of 9 June 1997, adopted on the basis of Article K.3 of the Treaty on European Union, for the refining of targeting criteria, selection methods, etc., and collection

The draft Council Resolution adopting a strategic action programme for the customs administrations of the Member States of the European Union (third pillar) makes provision, as a priority measure, in order to improve the efficiency and effectiveness of third-pillar customs controls, for a study of the feasibility of setting up in each of the Member States a central service or, failing that, reference services for assessing risk and threats. Those services should be responsible for collecting, storing, analysing and using information and for passing on information to the relevant sections. They are also to exchange information with other Member States.

The following first-pillar instruments include among their objectives greater use of risk analysis by Member States:

- the Declaration by the Heads of the Customs Administrations of the Member States of the European Union concerning a framework strategy for customs in the year 2000, adopted in December 1993 (the "Customs 2000" Declaration);

The efficient performance of customs tasks (first and third pillars) requires closer cooperation between EU Member States’ customs authorities and between them and the Commission and also third-country customs authorities. National customs checking and inspection points need to be supplied with information enabling them to apply selective checks and inspections targeting the highest-risk traffic. Risk analysis is the tool to be used for this purpose.
The aim of risk analysis is to focus checks on high-risk areas so that the bulk of goods movements and transactions are not unduly held up. Risk-oriented checks improve overall customs efficiency in the various areas of customs work, with systematic action being taken against breaches of customs rules and of bans and restrictions. The supply of analysis findings to operational units makes it possible to guide preventive and punitive customs action, thereby in turn allowing staff resources to be concentrated on the highest-risk areas.

The targeted application of preventive and punitive measures should ideally mean that, in the long term, high-risk areas become low-risk.

In order to put such a system into practice, the following basic requirements can be identified:

- information flows should as far as possible converge on just one unit;
- that unit must be equipped with facilities for electronic processing of such data;
- staff trained in analytical work and having the requisite customs expertise must be available;
- a system for the targeted, coordinated passing on of analysis findings to operational customs units concerned needs to be in place;
- there has to be a system for passing feedback from operational units to the central unit or other reference units.

The Presidency therefore considers that the implementation of successful risk-oriented checks in customs clearance and control within the context of the external-border strategy requires the establishment as far as possible of a single central unit, based on a comprehensive risk-analysis approach, in each Member State. In some Member States the planned central unit is supplemented by reference units, which can take responsibility partly for strategic but above all for operational risk analyses and measures. Such a central unit might function as follows:
A. Basic tasks of the central unit
   A.1. Gathering information
   A.2. Processing information
   A.3. Analytical work
   A.4. Distribution of information
   A.5. Feedback and evaluation

B. Types of risk analysis to be carried out by the central unit
   B.1. Operational risk analysis
   B.2. Strategic risk analysis

C. Assistance with the planning and coordination of joint operations

D. Coordination of information flows within customs authorities

E. Exchange of analysis findings and cooperation with central risk-analysis units in other Member States

Conceived in the abstract, a central unit could be organised on the following basic design:

Establishment of a central risk-analysis unit

A. BASIC TASKS OF THE CENTRAL UNIT

The prime task of such a central unit must be to gather information, process it and then analyse it. The central risk-analysis unit must disseminate the analysis findings to the operational customs checking and inspection services, collect feedback from these services and evaluate it.
A.1. Gathering information

Growing international cooperation and information flows between various bodies to combat fraud, together with increasing computerisation, are continually giving rise to new sources of information usable by the central unit for risk-analysis purposes. The central unit should accordingly be allowed suitable access to databases, subject to national data projection rules. The sources of information listed below could be drawn on for analysis.

National databases

Where customs authorities have databases providing information and statistics on, for instance, clearance of goods or infringements, they could be used for analysis purposes.

International databases

The following examples can be given:
- AFIS (anti-fraud information systems: Comext, Lloyds, PIERS, Dun and Bradstreet, Celex and MAR-Info);
- the CIS;
- the WCO Electronic Bulletin Board;
- Balkan/Cargo Info.

Other customs information sources

In the course of their duties, the customs authorities become aware of a wealth of information (e.g. results of checks on evidence of origin, business inspection reports, etc.) which may be of use in risk analysis.
Other domestic information exchange (domestic administrative assistance)

On the basis of legal provisions, customs authorities can cooperate and exchange information with other authorities – for example, the police. Cooperation with those authorities can in turn provide information usable by the central unit.

International administrative assistance

International information exchange between EU Member States’ customs authorities and with the Commission (AM messages, Community early-warning system, etc.) and third-country customs authorities under relevant administrative assistance clauses is to be regarded as an essential source of information assuming considerable importance in combating international organised crime in particular.


The conclusion of memoranda of understanding with interest groups representing particular business sectors or with individual firms engaged in cross-border goods or passenger traffic should also provide information from those sources for use by the central unit. Examples coming to mind are reports of developments at firms, specific commercial and transport practices, and general market observation.

A.2. Processing information

The information received from various sources is processed by the central unit so as to be amenable to further analysis. This requires various databases to be organised in line with commonly used and hence compatible programs. Before being entered in a database, unformatted data must be converted to a standard format. For information gathering by subordinate authorities, the central unit will develop and make available standard recording methods (forms, or direct computer input to certain specifications).
A.3. Analytical work

The analytical work to be carried out by the central unit consists of a number of overlapping steps as follows:

A.3.1. Principles of the risk-analysis process

Risk analysis is not static; in order to work, it requires an ongoing, coordinated cycle of information flows, leading in turn to assessments and adjustments both in the risk profile itself and in checking and inspection strategy.

The risk analyses to be carried out at the central unit concern both punishment (detection and prosecution of infringements) and prevention (forestalling infringements).

The basic idea of any risk analysis is to identify risk areas and the risk indicators found in them.

The building up of a risk profile is based on the gathering, processing, systematic linking up and analysis of data. Only then can the degree of risk probability be arrived at.

Customs put risk-analysis findings into practice by means of the risk profile.

A.3.2. Risk management

The risk management to be guided by the central unit serves to assist and improve the efficiency of the customs authorities as a whole in their various areas of work. The supply of analysis findings by the central unit to operational units is designed to guide preventive and punitive customs action so as to concentrate staff resources on the highest-risk areas and raise the standard of results.
A.3.3. Application of the risk profile by operational units

The customs unit to carry out customs clearance or make a check decides, by means of the risk profile, whether particular goods should be subjected to a check or any other risk-management measure. Selection is thus targeted on those areas involving the greatest risk.

A.3.4. Feedback

Results and details of detected or suspected irregularities are first compiled by operational units and reported back to the central unit.

A.3.5. Risk analysis cycle

At the central unit, the reports received then feed back into risk analysis, causing the risk profiles to be either maintained or adjusted. Where a risk profile is adjusted, other risk-management decisions may also be called for.

A.4. Circulation of information

Once the central unit has collected, processed and analysed information, it circulates directly to the operational customs checking and inspection services. The relevant procedure is described in detail in section D ("Coordination of information flows within customs authorities").
A.5. Feedback and evaluation

As stated in points A.3.4 and A.3.5, feedback and evaluation are two further key steps in the risk-analysis process. It is therefore essential that the operational customs checking and inspection services report back to the central unit on the results of applying information emerging from risk analysis and on other findings with respect to suspected or detected irregularities. For its part the central unit evaluates these reports and takes the results into account in the risk analysis process.

B. TYPES OF RISK ANALYSIS TO BE CARRIED OUT BY THE CENTRAL UNIT

Under the comprehensive risk-analysis approach, the central unit should carry out the following kinds of risk analysis:

B.1. Operational risk analysis

The starting point for operational risk analysis is information pointing to the possibility of a discrepancy or relating to discrepancies already detected elsewhere.

The idea then is to assess the likelihood of:
- either a specific discrepancy, or
- other, as yet undetected discrepancies in addition to a discrepancy already detected.

Operational risk analyses should in any case be carried out by units which have access to the necessary operational information.

B.2. Strategic risk analysis

From the body of information and data available to it, the central unit produces analyses designed to be of particular assistance in customs prevention work in forestalling infringements of the rules to be enforced by customs authorities.
Such analyses do not need to be prompted by any particular incident, but are rather planned by the central unit.
As strategic analyses are very extensive, both in the requisite preparatory work (gathering and processing information) and in the analytical assessments themselves, a project plan is drawn up. This clearly defines the objective to be pursued by a strategic analysis. That specification shows the information to be produced by the analysis and the way in which information is to be gathered and processed. The project completion time is also set.

**Types of strategic risk analysis:**

- **target group analysis**
  Particular firms or a group of firms are subjected to thorough comparative analysis of their general data.

- **trend analysis**
  Developments regarding imports or exports of particular goods, fraud methods, etc., are examples of trend analyses.

- **legislative analysis**
  Analysis of legislation may pinpoint risk areas incurring greater checking and inspection cost in enforcing the rules. Legislative analysis is also of relevance for prospective legislation, as it can help avoid provisions which, once in force, would in practice make infringements more likely.
C. ASSISTANCE WITH THE PLANNING AND COORDINATION OF JOINT OPERATIONS

In matters within the national sphere of EU Member States' customs authorities (in particular, anti-drugs action), they engage in joint operations. Such operations are approved by the Council and assisted by the Commission as regards facilities for AFIS/CIS use. On the basis of sets of criteria and operating plans drawn up by participating customs authorities, such operations gather, analyse and exchange information on specific traffic or goods movements over a set period. If appropriate, surveillance and controlled transit are also arranged, in cooperation with law enforcement agencies. Targeted checks are carried out, designed to trace not just first-hand offenders but also instigators of illegal activities.

Central units could play the following role in joint operations:

- participating in a support capacity in international joint planning and preparations;
- domestic coordination with the relevant units;
- acting as a national information centre (coordinating information flows and gathering and analysing information during an operation);
- exchanging information with other customs authorities or an international information centre set up specially for the operation;
- participating in the international debriefing.
D. COORDINATION OF INFORMATION FLOWS WITHIN CUSTOMS AUTHORITIES

Details of risk-analysis findings are to be circulated in such a way as to reach those units for which they are in fact relevant (avoidance of an information overload for staff). Risk-analysis findings are therefore passed on to the units concerned according to the circumstances of the case, preferably in the form of risk profiles, but if necessary in the form of notices or news flashes, sets of criteria, profiles or checklists.

Information sent out is systematically recorded by the central unit so that the information can also be properly filed at operational units. Lest out-of-date information continue to be held, all information is assigned a limited validity.

On-going cooperation with operational units is an important factor in producing powerful, comprehensive risk analyses. They need to contribute to risk analysis at regional or local level by adapting central risk-analysis findings to specific regional or local conditions. Risk analysis at these levels is conducted in addition to the central unit’s analysis and contributes significantly to operational risk analysis.

In order to keep information up to date, operational units need to supply the central unit with regular feedback on the results of applying risk analysis.

E. Exchange of analysis findings and cooperation with central risk-analysis units in other Member States

It is essential that the central risk-analysis units in the individual Member States cooperate with each other and provide mutual support. Risk-analysis findings can be exchanged within the framework of existing legal provisions, in particular those on administrative assistance. Duplication of effort can be avoided in this way and a
uniform assessment made of different forms of customs fraud.
It will also help to improve the quality of risk analyses if the central risk-analysis units exchange information on positive experience they have had with using new analytical software.

Analytical techniques which a central unit has used to particularly good effect in a specific risk area should also be a matter of cooperation between the Member States, central risk analysis units (best practice).