

BENCHMARKING OF IMPORT CLEARANCE PROCESS OF US AND PAKISTAN TO FIND POTENTIAL IMPROVEMENTS



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Supervisor: Dr. Kamran Khalid

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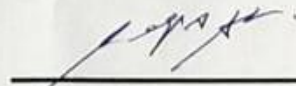
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I hereby state that no portion of the work referred to in this dissertation has been submitted in support of an application for another degree or qualification of this or any other University or other institutes of learning.

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Abstract

Efficient customs clearance has a grave impact on the trade of a country. Importers may incur huge losses in meeting the orders if their incoming cargo is stuck at the port due to a delay in customs clearance. Pakistan faces phenomenal delays in the import customs clearance process that marks the overall time to 3-4 days minimum. Using the Benchmarking technique, flow diagrams and value stream mapping, import customs procedure of Pakistan is compared against the United States import customs process. Using value stream mapping, non-value time is identified in Pakistan is much greater than that of in the process of US. Main reasons are established as no scrutiny or homework before the cargo arrival, human interaction, and delay at bureaucratic level. In this report, recommendations are provided to be shared with policy makers in Pakistan to improve the import customs clearance time.

Freight Forwarding Industry

The world being a global village interconnects communities across diverse regions. Sharing communications, culture, and technology. There is a colossal data of goods moving through international borders. Numerous countries are exporting their food, medical equipment, household items, crockery and we name anything. To understand how processed meat – butchered at any local market in Karachi, served at Burger King, Downtown, NY, this is where freight forwarding comes into play. Let us have a formal definition of what is freight forwarding all about.

Allied Market Research defines freight forwarding as the process of organizing, shipping, and coordinating of goods from one place to another across the international borders through a single or multiple carriers. The corporation which manages the operations and coordination between stakeholders is labeled as Freight Forwarders. The modes that are used in freight forwarding are air, ocean, and land. There are series of tasks and processes that are executed in a planned fashion to execute the smooth delivery of cargo from exporting country to the importing one. Risk and benefits are the factors that play between roles to ship the cargo both nationally and internationally. Sometimes, original freight forwarders take more risk for the movement within the country as we can see crime rates, interstates movement legalities, fines, permits etc. Hence, they bear more fruit as benefit. However, their tasks are confined to the ports and the rest of the movement falls on the shoulders of import/exporter.

Globally, a freight forwarder performs a series of tasks not only comprised to, but formally, freight rate negotiations, freight consolidation, transportation to the ports or rail ramps and customs clearance. The goods then undergo phenomenal scrutiny of customs and then depart from the exporting country. The cargo reaches the port of the importing country, customs would be cleared with respect to rules and regulations of the importing country. Forwarder comes in the scene again and cargo reaches the importer facility through inland mode of transportation. The entire process includes a rigorous density of documentation, legalities, contracts, third-party services, state institutions and their compliances and much more.

Principles of Freight Forwarding

It is pertinent to understand the basic principles, in other words, the objectives freight forwarders are striving to achieve, cost reductions and time efficiency. Everything moving within international borders is time sensitive. Hundreds of cargos are already sold at their destination even if they are in transits, or ready to be sold, dealt with by wholesalers or retailers even they are on waters. Businesses in destination countries have calculated and stringent supply chains which are direly dependent on availability of goods at their ports. Even though the cargo reaches ports, there are various operations, legalities, protocols that are meant to be adhered to move the cargo from port. During transit from port to end facilities, truckers and their dry world have handsome troubles that may lengthen the timespan of deliveries.

Hence, reaching the cargo timely from a warehouse in Vietnam to Port Haiphong, routing through water and reaching NY port, and then a final delivery to some NY address; time management can only be possible through smoothest level of operation executions. As it is said in Farrow, to accomplish efficiency, freight forwarders become experts in managing the goods through national and international borders necessary to ensure the goods arrive in time.

Cargo moving within a country, crossing the cities and states, freight forwarders are facing phenomenal problems including transport infrastructure issues, as stated in Boss Magazine. Not all roads and areas within the city have the same smoothness. Highs and lows, regardless of roads, vehicle accessibility and much more are the items on the plate. However, a major one that hits so hard comes when the cargo is intended to either leave the country or enter from any port. There comes the customs part. Freight forwarders ought to endure and comply with customs regulations to ensure their entry and exit of the cargos from borders. Every country has different rules to be compliant with. Freight forwarders at both ends of pipeline must observe the regulations of their operating country. The complexity or ease level of rules in host countries are reflexive of business trade of two countries. One of the factors that play a significant role in the requirement for duties, traffic, import, and export is the trade relations between the countries of import and country of export (Ashok Dhakal, 2020).

International trade is bound by the business relationships of countries. Duties implementation, tariffs calculations, subsidies and relaxations are to destiny on the level of business friendship between origin and destination countries. Freight forwarders of Pakistan and China, let us take an example, are observing a healthy collaboration improvised by their governments. As said by Umbreen, Pakistan and China as “all-weather strategic partners” have had a history of ‘glorious journey.’ Both countries have been able to develop a multidimensional relationship and a good example of peaceful coexistence despite different social, political, and economic systems (Umbreen Javaid, 2015). We receive surety through such ambitious standards and involvement of trade unions between countries that allow the governmental institutions to provide relief in accepting cargos as well. Thus, it can be processed easily that friendly countries trading through freight forwarders have more orientation, ease of processes, flexible cross-country regulatory machineries, and easy to deliver shipments moving through.

All such ingredients highlight the importance of clearance at the ports of countries between exporting and importing countries. Freight forwarders must achieve their target by efficiency in time management. Meanwhile, governments are facilitating their ports with friendly business partners. Therefore, delivery time of a whole shipment has a huge sensitivity area longitude over the customs clearance. Let us discuss in detail customs clearance, the core processes, and its impact on the time frame of a cargo moving through this step.

Customs Clearance

Goods moving through the international border between any two countries must be checked for multiple reasons ranging from security perspective to revenue collection. A range of principles that are governing customs globally are modified as per each country’s need. Before exploring the rulings and regulatory side of this domain, let us first have a theoretical definition of customs. As a general understanding, customs clearance is the allowance of goods or cargo to move in or out of a country under the obligations imposed by that country. From books, we do have some formal definitions of customs clearance stated as follows. Customs clearance is a responsibility for activities that are determined and undertaken by customs officers (Umbreen Javaid, 2015). Another definition provided by Management Study Guide says, Customs

clearance work involves preparation and submission of documentations required to facilitate export or imports into the country, representing client during customs examination, assessment, payment of duty and co taking delivery of cargo from customs after clearance along with documents. Likewise, another famous source of knowledge, Law Insider, dictates customs clearance as Customs clearance means documentation of the customs declarations for the imported, exported and transit goods according to the procedures provided for herein. process of getting permission from the associated government agency to either move goods out of a country (export) or bring goods into the country (import) – quoted by e-Commerce Industry tycoon, Alibaba.

Core Functions of Customs

Customs departments have their own course of action to formulate processes that help them to achieve their goals. This may vary from country to country. However, as a rule or a global functional task for custom institutions are somehow quite common. They might be practiced differently but the objective destination is quite resemblant. Four principal areas are covered ubiquitously: revenue collection, regulatory compliance, trade facilitation and security (Wulf and Sokol, 2004). To explore more about these functionalities, it is necessary to understand the scope of these functionalities. The core functions of customs are implemented on both imports and exports. Ashok said it this way, customs clearance consists of both import and export procedures. Import is a process of delivering goods from one country to another country. Before taking into use or being resold, goods must be cleared through Customs. Export is a process when goods that are in free circulation within the country are taken to another country (Ashok Dhakal, 2020).

Economic changes appearing every next moment urge to keep the customs update their functionalities and keep revising their tasks. Understanding more about the roles of customs, these are ranging from economic stability, protection of customers and environmental protection. As described by laon Popa, a chart was developed that identifies the core functionalities of customs and a little description of what those means as reported in figure 1 below.

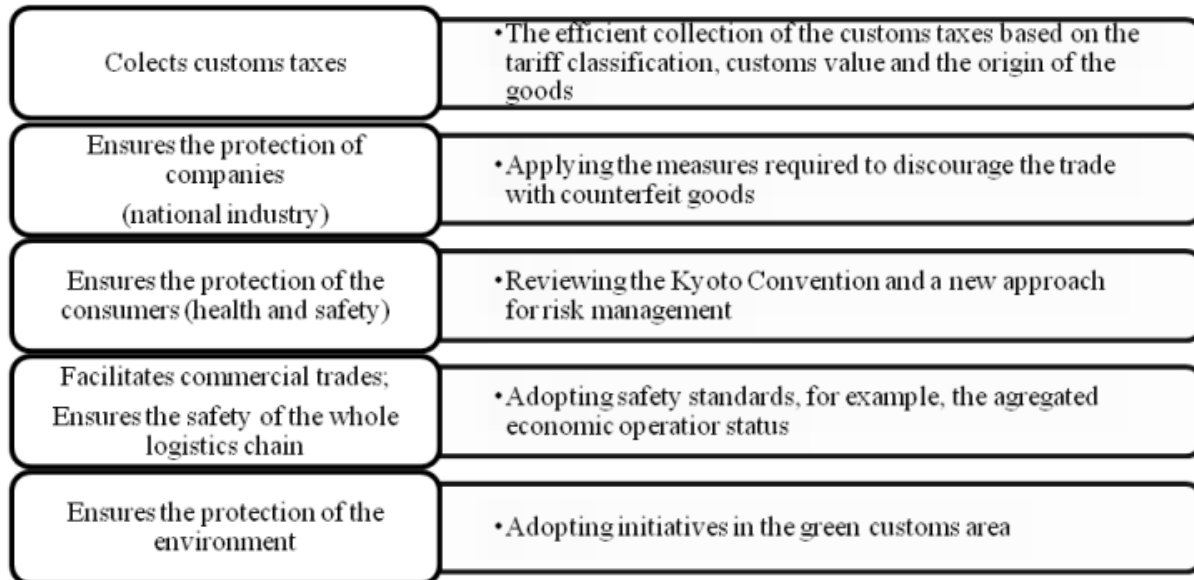


Figure no.1: Functions of customs authorities

Figure sourced by (Popa, 2015)

Also referred as collecting tariffs, customs department globally have a major task to collect duties on the items that are either being imported or exported. Every government earns a substantial number of foreign reserves on movement of goods across the borders. This runs as an earning source of the whole country. Hence, customs lay a giant responsibility on their shoulders to broaden their scope and to optimize their operations that help them to collect legit duties.

Collection of taxes directly depends on the origin of goods. The country that is producing the products, not the country that is exporting (European Commission, Taxation and Customs Union). Hence, tariff classification, value goods and origin are the factors that will impact the customs tariff. Trade war also influences customs taxes. As an example, US has increased average tariff for China exports in 2020 up to 19.3 percent which records to six times more than before the trade war (Peterson Institute for International Economics). This is how, US counts for more customs taxes from a specific country.

Customs departments may administer trade remedy measures, such as anti-dumping duties, countervailing duties, or safeguard measures. These measures are implemented in response to

unfair trade practices, such as dumping (selling goods below fair market value), subsidies, or sudden import surges that cause harm to domestic industries. Moreover, a big savior to national industry would be the Intellectual Property Rights of local manufacturers. Customs departments work to combat the infringement of intellectual property rights by seizing counterfeit or pirated goods at the border. This helps protect national industries that rely on intellectual property, such as technology, pharmaceuticals, and creative works.

The next one is facilitating commercial trade where customs departments play a crucial role by ensuring the smooth flow of goods across borders while maintaining regulatory compliance. Customs departments implement various measures to simplify and expedite trade processes. This includes implementing streamlined clearance procedures, adopting electronic documentation and customs systems (such as Single Window systems), and offering pre-clearance programs for trusted traders. These initiatives aim to reduce administrative burdens, minimize delays, and enhance overall efficiency in customs procedures.

Customs departments ensure the protection of the environment through various measures, including the prevention of illegal wildlife trade and trafficking, enforcement of regulations on hazardous substances and waste management, requiring environmental impact assessments for certain goods and projects, regulating ozone-depleting substances, promoting sustainable trade practices through incentives, and collaborating with environmental agencies and international organizations to exchange information and combat environmental crimes. These efforts contribute to safeguarding biodiversity, minimizing environmental risks, and promoting sustainable development.

Project Objective

The main objective of this project is to examine the import customs clearance process for Pakistan and the US to study processes, the entities involved and time limit to clear the customs as per current practice and procedure. Based on the acquired knowledge, establishing the comparison to explore the potential process flaws and identify the improvement slots. Lastly, to redesign the improved import customs clearance process of Pakistan and to advise

suggestions/recommendations to policy makers that helps in the overall improvement of customs clearance process of Pakistan.

Literature Review

Customs departments of all the countries shared some similar early jobs. Over the period, they have been through tough times and gradually numerous developments established. We are taking a brief picture of the backgrounds and recent tasks of Pakistan and US customs since their establishments.

Background of Pakistan Customs

Pakistan Customs, the governmental organization responsible for regulating and facilitating international trade, enforcing customs laws, and collecting customs duties and taxes in Pakistan, operates under the administrative control of the Federal Board of Revenue (FBR), which oversees revenue collection efforts in the country. Established after the partition of British India in 1947, Pakistan Customs inherited its customs administration system from the British Empire. However, the department faced challenges in establishing its own governance structures and infrastructure.

In early years, Pakistan Customs played a crucial role in organizing and streamlining trade operations to support the country's economic growth (Sanaullah Abro, 2022). The Customs Act of 1969 provided the legal framework for customs regulations, procedures, and enforcement. During the 1970s, Pakistan underwent economic reforms and liberalization, and Pakistan Customs took on the task of reducing tariff barriers and simplifying customs procedures to attract foreign investment, promote trade, and foster economic development. To adapt to changing trade dynamics and embrace technological advancements, Pakistan Customs underwent significant transformations and modernization. Automation of customs procedures, introduction of electronic data interchange systems, and implementation of risk management techniques were undertaken to enhance efficiency, transparency, and trade facilitation.

Besides trade regulation and facilitation, Pakistan Customs actively combats smuggling, safeguards national security, and prevents illicit trade. Specialized units such as the Anti-

Smuggling Organization (ASO) were established, and collaboration with international organizations and foreign counterparts strengthened border security and promoted regional trade integration (Carter, 2023). Pakistan Customs is actively involved in implementing international trade agreements and initiatives, including the World Trade Organization's Trade Facilitation Agreement (TFA), aimed at simplifying customs procedures, reducing trade barriers, and enhancing transparency (Hors, 2001). Recent efforts by Pakistan Customs have focused on trade facilitation initiatives like the development of single-window systems and digital platforms to streamline cross-border trade processes, aligning with the government's goal of promoting trade, attracting investment, and fostering economic growth.

Pakistan Customs has evolved over time through modernization and reforms, adapting to changing trade requirements. It plays a crucial role in trade regulation, customs compliance, and protection of national interests. Pakistan Customs' efforts in trade facilitation, revenue collection, enforcement, and international cooperation contribute to the economic development and prosperity of Pakistan.

Efforts to evolve Pakistan customs processes

Like every other country, Pakistan customs administration also suffered a lot of shocks since last 2 decades. Technological advancement in the world creates opportunities for Pakistan customs to address its loopholes and make their systems efficient to facilitate trade movements. Technological use started in Pakistan customs in 2000 and a risk management system was introduced in 2002 to screening the shipments. Third phase was started in 2003 to reform the Tax administration with the help of World Bank under Customs Administration Reform (CARE) (Haider, n.d.) Different task forces was established to review and analyze the impacts on transparency, customs operations, self-assessments and risk management protocols. They also identified the paperless environment.

Though, these changes have made remarkable results, there were still open opportunity areas that tried to manage through Pakistan Customs Computerized Community System (PaCCS) that was introduced in 2005-06 (M Tahir Masood et al., 2016). Targets to be achieved under this were not limited to user management, goods declaration, customs valuation, audits, and

payment etc. The paperless customs process must have been a pain point for the importers. Bureaucratic crises and hindrances made the Pakistan customs clearance process so lengthy as to be said as 10 days in 2010 as reported by World Bank. (Haider, n.d.) Hence, WeBOC was developed running electronic filing, working 24/7 and end to end integration. Payments were integrated through banks in WeBOC as well that makes the process of imports easier. WeBOC has been covering 80-90% of cargo handling since 2013 when its scope was extended to air movement as well. (*Compliance Risk Management System (CRMS) Transforming Trade Facilitation and Customs Controls*, 2022)

Multiple initiatives and reforms were adopted that culminated in process efficiency, transparency, and accountability. Pakistan Single Window (PSW) is now the most pacing integrating system by Pakistan Customs that is becoming one point contact for the importers. It has been integrated with different ministries and it is estimated that in coming years, PSW will be replacing the WeBOC. This will strengthen the trade facilitation steps taken at national and international level with a collaborative effort from all the stakeholders.

Logistics Performance Index

World Bank data explains the logistics performance index against the efficiency of customs clearance process for all the world economies. The Logistics Performance Index is described as the benchmarking tool established to recognize the opportunities and challenges on trade logistics and how they can be improved. (*Logistics Performance Index (LPI)*, n.d.). While comparing the LPIs of Pakistan and U.S., U.S. logistics performance is better than that of Pakistan. As per World Bank Logistics Performance Index for 2022, against the efficiency of customs clearance process, Pakistan is standing at 2.12 out of five being highest. Whereas U.S. ranks on 3.70 being closer to the highest mark of five. This indicates the logistics processes of the cargo coming into Pakistan are facing challenges in daily routine operations. Customs clearance would be at higher way of handling as crossing the international borders have the more complexities and procedural stops. Improving the customs clearance would really help Pakistan Customs to improve its place in international records which would strive for more trade facilitation and ease of clearing cargo.

Country	Most Recent Year	Most Recent Value
Pakistan	2018	2.12
United States	2022	3.70

Figure 2. Logistics Performance Index, World Bank

Background of U.S. Customs

U.S. Customs, now known as U.S. Customs and Border Protection (CBP), has deep historical roots in America's past and plays a crucial role in controlling borders and regulating trade.

Origin

In the late 1700s, when the U.S. was young, the Constitution gave Congress power to oversee trade with other countries. This led to the birth of U.S. Customs in 1789 as the nation's first federal law enforcement agency under the Treasury Department. They focused on enforcing trade laws, collecting taxes on imports, and stopping smuggling. With time, they expanded to protect borders, make trade, and travel easier.

Changes and Growth

As the U.S. traded more and people moved around, U.S. Customs faced new challenges. In 1913, the Tariff Act modernized customs laws to control imports and protect local businesses. After 9/11, Customs changed a lot for better security. In 2003, it merged with other agencies and became CBP, one of the largest law enforcement groups in the U.S. government.

Crucial responsibility

Today, CBP is crucial for keeping the U.S. safe from terrorism, illegal immigration, drug smuggling, and banned goods. They work at entry points and in-between areas, checking documents and making sure rules are followed. They use technology like biometrics and advanced tools for inspections. CBP also works with other countries and joins trade deals to make global business safer and smoother.

Over time, CBP has grown and changed a lot to handle new border and trade challenges. Now, it is a vital part of keeping the country safe and making trade and travel easier.

Methodology

In this project, the data was extracted by conducting interviews and some secondary resources like rule books of Pakistan customs, resources, and articles from official data hub of Customs Academy established by Pakistan Customs. Moreover, information was acquired by podcast of Pakistan Single Window that is working directly under Pakistan Customs to replace the WeBOC software. Interviews conducted with industry experts of specific domains from Pakistan customs clearance process and US brokerage firm Trade Expeditors.

The first interview is conducted with Saad Rafique, Head of Customs and Brokerage, working with Trade Expeditors USA. This is a US based customs brokerage and freight forwarder firm that is extensively working with CBP and other US agencies in clearance of customs and providing forwarding services all over the US. Interview transcription attached as Annex A. The second interview is conducted with Zeeshan Khan, Head Nominations and Booking, working with Trade Expeditors USA. He is a distinguished professional working in US customs brokerage for more than 8 years and has a remarkable experience in freight forwarding connected to Pakistan from US. The third individual is Mr. Majid Ali, Manager Imports at Kundi Services. This is clearing agent company licensed with Pakistan Customs and doing customs brokerage for Pakistan imports cargo for 15 years. Interview transcription attached as Annex B.

We will be using value stream mapping as primary tool to identify the value added and non-value-added activities for imports in Pakistan and U.S. The nonvalue items for Pakistan imports will be taken under consideration and they will be compared against US customs process. A formal revised import process will be rebuilt for Pakistan custom process. We will also be using the entity diagrams, process flow diagrams to describe the flow of goods when they are intended for imports.

Customs clearance processes using Flow Diagrams

Pakistan Customs - Flow Diagram

The import process in Pakistan starts with an arrival of vessel carrying the containerized cargo. The shipping line (shipping company owns the vessel) sends pre alert notifications to the consignee (the owner of goods as per documents) and/or notify party (any freight forwarder/clearing agent or any company responsible for taking care of goods on behalf of consignee). Usually, shipping line sends notification namely Arrival Notice 3-5 days prior vessel arriving at destination port (Gerrit Poel, 2022). Once the vessel arrives at the port, it gets discharged and the containers that are destined to that specific port are unloaded. Before arrival of the cargo, the carrier, or their agent submits the Import General Manifest (IGM) with the Pakistan customs. This IGM includes the necessary details about the parties involved as shipper, importers, cargo details, destination etc. (*Import General Manifest (IGM)*, 2023)

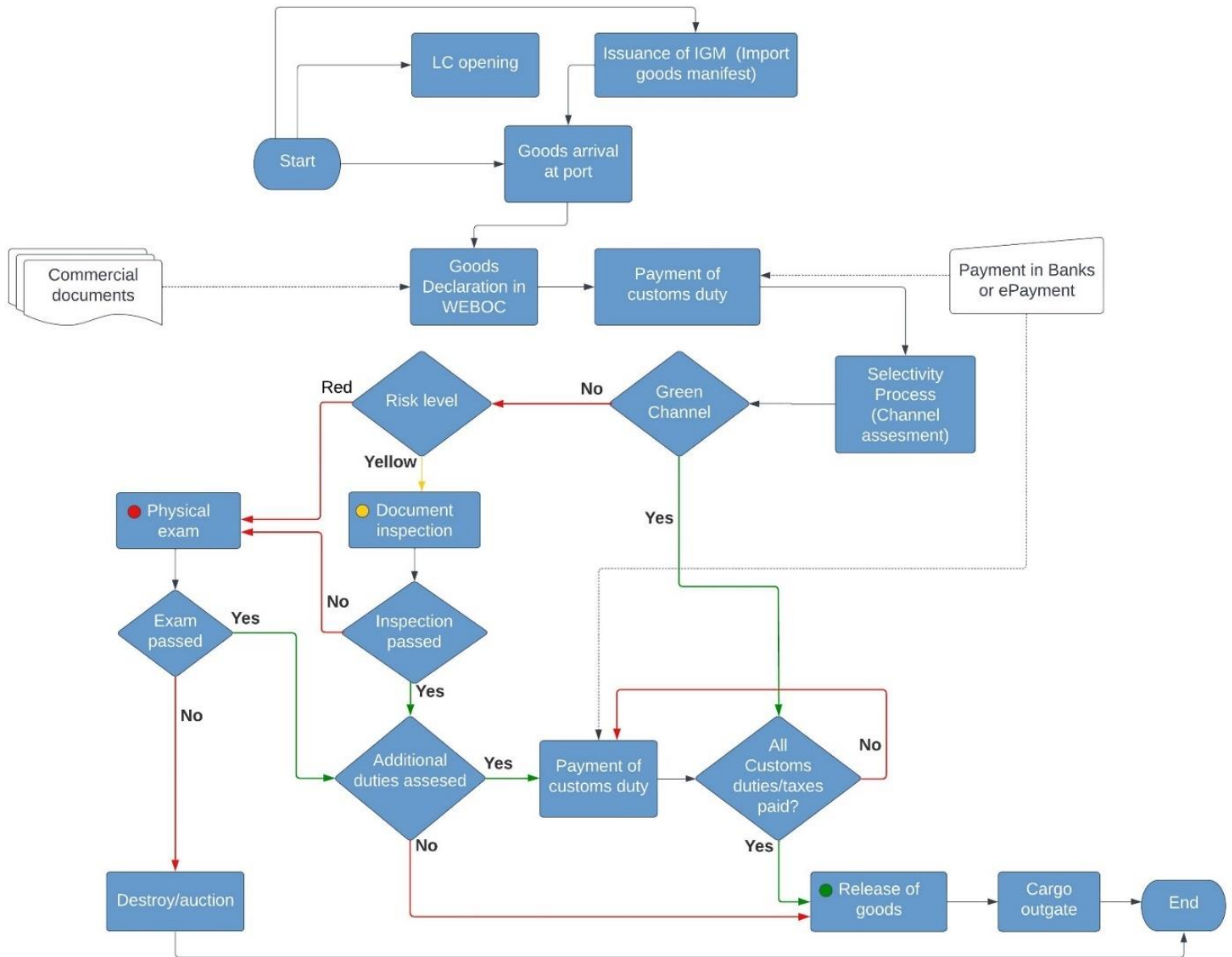


Figure 3. Flow diagram of Pakistan customs clearance process

A letter of credit (LC) is a letter authorized from a bank that guarantees the shipper that the buyer will make the correct payment against the purchase. This is a form of legal documentation to secure payment received from buyer end to shipper. There are chances in the transaction that the buyer receives the good and does not respond back on the payment reminders from shipper. Banks get in the scene here to secure the business loss of shipper in such scenario. LC is all about the freight release side of international logistics. The power or control must be given to the shipper to withhold the handling of goods to the buyer until they receive their payment. LCs are also added in the GD to the customs. As freight release is not the scope of this project, we are moving towards the further customs clearance process.

With the IGM, Pakistan customs gets the information about a specific cargo coming into the country. Cargo cannot be released and would not be able to pick up until customs knows if they do not have any information regarding that container in their system. IGM is the way by which the shipping line sends detailed information of the cargo to customs. This information is lately compared against the information that importer/agent sends to customs through good declaration (GD). Listed down are the most common details about the cargo covered in IGM.

1. IGM number
2. Vessel name and voyage
3. Importer name and address
4. Exporter name and address
5. Description of goods
6. Port of loading

After the goods arrive at the port, the importer or clearing agent, on behalf of the importer, is responsible for gathering the required documents and filing the Goods Declaration (GD). GD is an electronic form that needs to be filled out and submitted to Pakistan customs. GD can be submitted via WeBOC and Pakistan Single Window (PSW). Both are the custom commercial interfaces that help the importers to share the information on various checklist items.

Regarding GD, below are some of the fields to be filled out while submitting.

1. Exporter details
2. Declaration type
3. Valuation method
4. IGM number
5. Declarant details
6. NTN of consignee
7. STR/Passport number
8. LC details
9. Exchange rate
10. Payment terms

11. Port of discharge
12. Container details
13. Package details

And a few more. Sample GD form is attached as Annex C. GD is submitted online to WeBOC. This also includes the duties/taxes against the declarant product that is being imported. Tariff books authorized by Pakistan Customs are used and tariff classification is performed against the products. This defines the exact duties calculated against the imported product. Those duties are finalized along with confirmation from the importer (as they know their product best). After the duties assessment, duties are paid to the banks against specific GD. Previously, importers must go to banks to pay the duties. Now, they have online payment methods to pay their duties without hassle. As Majid Ali, Manager Importers at Kundi Services Pvt Limited – a licensed clearing agent company working at Karachi Port, shared his thoughts in an interview as:

Nauman: Next, my brother was in the Trade department in Bank for 10 years since 2016, the importers must go to Bank to pay the fee. Then they get the documents from the bank and then importer needs to go to port. Is this being the process?

Majid: No, there isnt such a thing. Previously, banks were not involved. If you are importing something, you need to pay the amount directly at customs counter. Now, customs and banks are linked via WeBOC and PSW. You just submit the remittance, and the bank creates FI, as financial instrument, and approves it. The access of FI is only with bank. Bank approves the FI, and it automatically sends electronic messages to customs. And GD can only be approved after the payment received against a submitted shipment.

As Majid mentioned, now, WeBOC or PSW, whatever option importer is using, the payments are integrated online or in banks. Once payment is processed against a specific GD, banks create the FI (financial instrument) against the GD and send a message to customs that payment is received, GD will only then be proceeded further. GD is assigned to a specific customs officer who can see it in their system.

From here, pure manual working starts as the officer would plan to see this GD. They will check the products and assess duties paid for the products. They consider the quantity of goods and duties paid against them. Based on their own manual metrics implementation, they finalize if to either release the goods or examine the container physically. The decision is based on whether the duties assessed do not seem abnormal or different than previous duties against the same items. Customs may have their own database that helps them to identify the differences between the submitted shipment amount on GD and duties against it. This is an assumption that clearing agents and everyone working in the customs clearance domain make as Majid Ali said:

Majid: Initially, we must add the declaration and we need to pay the duty accordingly. For example, the duty is Rs 10,000,00 and we pay this amount as per our side. Now, the customs officer will check the duty. If they find out the duty is wrong, they may increase it to let us say Rs 12,000,000.

Pakistan customs has defined three assessment channels whether to examine the goods or not. These channels are defined as Green, Yellow and Red.

- Green channel – is assigned to the importers who have a giant inflow of shipments AND very transparent, correct submission of cargo values and duties paid. Customs keep auditing the green channel shipments to see if they are consistent with their good records. As per Majid Ali, green channel shipments are released even on the same day as there are no examinations conducted for the containers.

Customs assign this green channel to the big industries. Like, Amrelli Steels, and other pharma industries that even have ten or more shipments per day.

- Yellow channel – is assigned to the shipments with minor risks or doubts. Customs officers may ask for more documents and proof to inspect that GD values are correct or not. If they find it satisfactory, they mark the shipment released and if they are not satisfied, the exam is marked for that container.

- Red channel – examination of the container is necessary. Based on the importer profile, their past non-compliance actions, inconsistent duty declaration etc., can flag the shipment for red channel. After examination, the officer can decide to either release the shipment or assess new duties against the goods. Importer/clearing agent is communicated about these extra duties that were previously wrongly assessed. Importer pays the extra bucks, and the same process will be completed by bank to sharing the FI with customs. Once the system identifies the extra duties paid, it releases the shipment.

In the process, when GD is submitted to customs, the system automatically assigns the GD to either channel based on the pre-set metrics. If the channel is green, importer pay the duties and system automatically releases the shipment shortly as Majid Ali shared his thoughts on this as:

The green channel importers even pay the duties and release the freight due to SSL; customs system automatically releases their shipment even within 5 minutes and they can pick their cargo and go.

In case of yellow or red, customs officer makes the decision to either inquire more documentation to support the decision or directly mark the container for exam. Once the system marks the container for exam, it sends the details of cargo to port authorities to make the container available for exam. This is based on the schedule set by customs officer as per their own ease. Usually, it takes one day for the port personnel to make the box available. This is purely human oriented scheduling as the system does not impose deadlines for officers/port authorities for exam completion. Majid said like this,

Now, as the containers are stacked one on another, the port authorities will know that this specific container is on exam. It normally takes one day for the container to be available for exam.

On the availability of containers, the customs officer examines the container. Inspect the cargo and assess the real duties based on their experience and system data. If the cargo against filed

GD is fine, they mark it clear. Port authorities put the cargo back in container, add seal and container is now ready for movement from their end. Custom officer flag the shipment as released and same is shared with port electronically. Importer/clearing agent is also notified as well of their cargo been released. A formal document containing the customs release is also available to be printed out and must be in the possession of the person who is going to pick up the cargo from port.

When port processes any service on the container, like making it available for exam, reloading the cargo back to container after exam etc., they charge their fees. This fee is easily payable via online payment modes. The container cannot be picked up until all the port fees are cleared.

The importer themselves or clearing agent, on their behalf, needs to show the port authorities the following documents: SSL freight release document, customs release document, and port charges paid receipt. Port personnel verify the document with their system and gate pass become available on terminal. Containers can be taken out while showing the gate pass at terminal exit. In the case of trucker picking up the cargo on behalf of importer/clearing agent, along with required documents, they also need delivery order. DO is a document containing necessary details of container, items, pickup and delivery locations, and trucker company name printed. This is a sort of authorization by the owner to allow a specific company to pick the cargo on their behalf.

The containers that are examined and found not complied with the standards, under invoiced, contains smuggling elements, etc., are subject to seizure by Pakistan Customs. They either destroy them or auction them for the public at low cost. There are specific protocols for the destruction/auction that are out of the scope of this study.

US Customs – Flow Diagram

The Customs clearance process of the US is governed by Customs and Border Protection (CBP). Their role is to protect the country from incoming malicious cargo that is either non-conforming to their standards or may potentially be harmful for their people on consumption. CBP starts the customs clearance process from the exporting country where the goods are either manufactured or being exported from. The stakeholders that are involved in exporting the cargo from their country to the US are under the

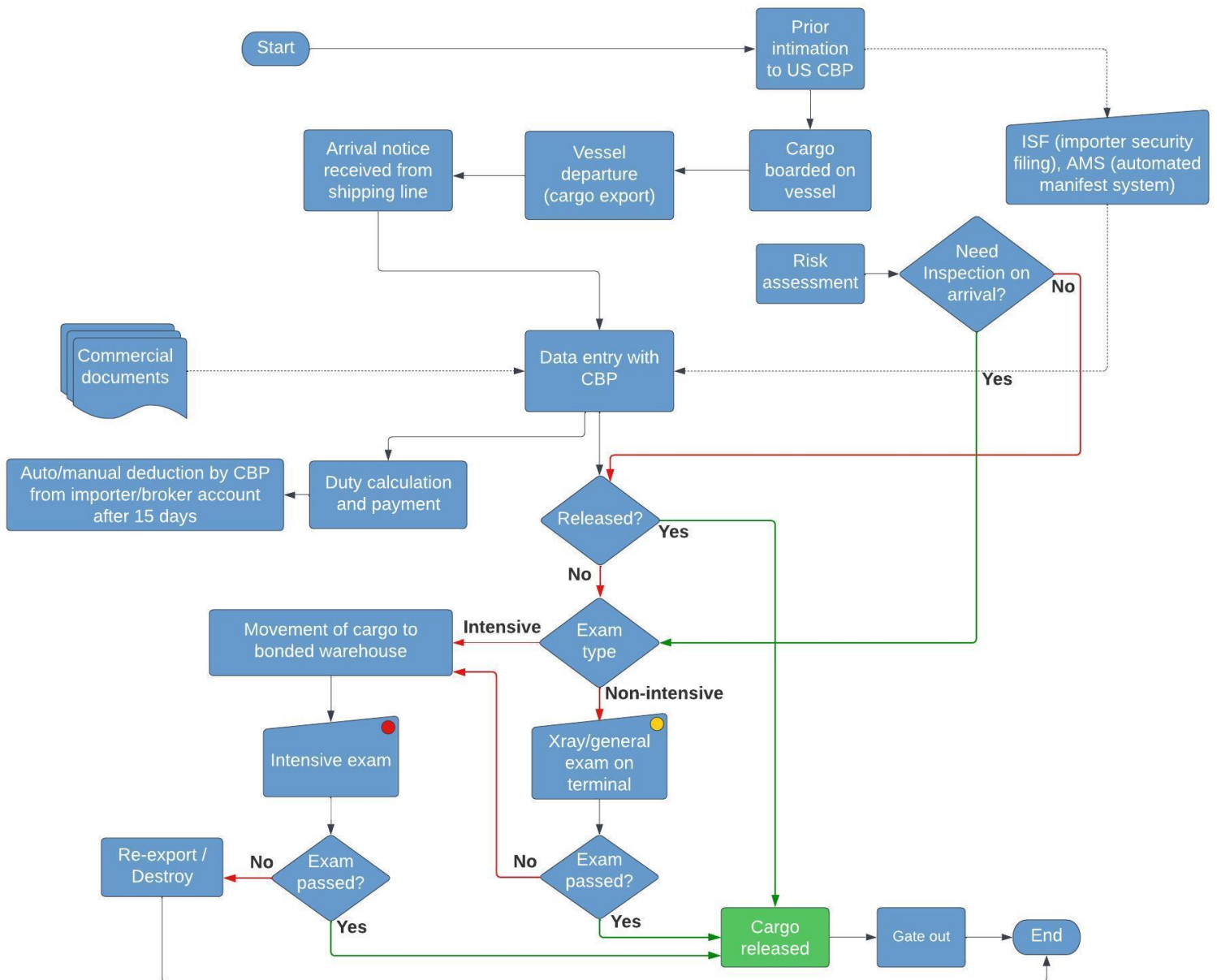


Figure 4. Flow diagram of US customs clearance process

umbrella of CBP. To ensure CBP knows these stakeholders, they made it mandatory for importers to tell them about this information at the time of exportation. Let us discuss the import customs process of US in detail.

The process starts from the exporting country where the manufacturer starts production and later the cargo is stuffed in the empty container either in manufacturer warehouse or in third-party warehouse. Once the container is stuffed, the exporter or agent on behalf of exporter moves the container from stuffing warehouse to port of exporting country. Unlike customs process of Pakistan, where customs get the cargo credentials one day before the arrival of goods in form of IGM, CBP asks for the stakeholders' details 24 hrs. before the cargo is loaded on vessel in exporting country to sail. A set of mandatory information is shared with CBP in the form of Importer Security Filing (ISF 10+2).

Importer Security Filing

ISF is submitted by importers themselves, or their agents on their behalf. This is an electronic submission of a set of information to US CBP before the cargo is even loaded on the vessel. This step was taken in 2009 following increasing momentum of terrorism in US as side effect of 9/11. Before 2009, when the cargo reaches US ports, they were screened and inspected for any sort of vulnerability. However, as the US is the world's biggest importer, the giant volume of incoming cargo could not be managed once it reached the footsteps of the country. CBP then extended the inspections and checks over the waters and made it mandatory even 24 hours before the vessel leaves the exporting country. This inspection coverage was implemented in the form of ISF. It was brought in with the sole purpose of identifying the risk associated with incoming shipments. To segregate elevated risk shipments and minimal risk shipments, ISF plays a vital role. Below is the information that CBP makes mandatory while filing ISF.

1. Importer of record – US or foreign based company that is responsible for importing the cargo in US.
2. Ultimate consignee – Must be US based company that will take possession of the goods when cargo reaches US.
3. Buyer – party who purchases the goods coming into US.

4. Seller – party who sells the goods going to US.
5. Manufacturer – company that manufactures the goods.
6. Ship to party – first physical location in US where goods will go after leaving the discharging port.
7. US HTS 10-digit tariff of importing goods.
8. Country of origin
9. Container Stuffing Location – physical location where the cargo is loaded in the container.
10. Consolidator – the company/entity responsible for stuffing the container.

(CBP Importer Security Filing, 2009)

CBP maintains aggressive data against the incoming cargo. Starting from manufacturer, moving to who held responsible for dumping the cargo into the container and sealing it. Furthermore, even the warehouse or any physical place where this loading to container activity was performed. The actual buyer within US premises, the actual shipper in the foreign country. In case the importer is a foreign entity, let us say, sitting in UK and importing goods in US, a US based company must be assigned by foreign importer and must be informed to CBP before the cargo leaves exporting country. In addition, the first physical location in the US where the cargo will go after leaving the US port. All aforementioned information in form of ISF is shared with CBP before 24 hours of loading the cargo in vessel in exporting country.

The database that they maintain allows CBP to check the potentially threatening parties involved in any transaction throughout the shipment process. Their strong database systems help them know the risk of threat associated with any party. Sensation of risks made them decide to either examine the container when it reaches US or release it without examining. In fact, CBP does not examine every container. The cargo that either has threatening element identified via ISF filing or wrong data entry that leads to suspense of misdeclaration marks the exams for container. Moreover, CBP does hold random exams to keep the profile of importer updated. If the exam finds any anomaly, importer profile is flagged and the chances for next container to go on exam increases.

Returning to import process, when ISF is filed, CBP gets to know that a specific container is coming into US from specific port of exporting country. As aforementioned, ISF is filed by party importing the cargo, likewise, the vessel that will physically move the container from exporting country to US must share like ISF information to CBP. This submission of information is called Automated Manifest System (AMS). It is particularly same as IGM in Pakistan customs clearance process where incoming vessel shares the container information one day before arrival. AMS is also a mandatory step at shipping line end. CBP imposes high penalties and fines of \$5000 to \$10,000 per shipment to importer or SSL if either ISF or AMS is filed late (not before 24 hours of cargo loading on vessel), or with inaccurate information, or not filed at all. Such penalties are imperative as importers always try to avoid this fine. Correct, and timely information is shared by both sides (importer and SSL) even if the cargo did not leave the exporting country.

Once the vessel is sailed and ISF and AMS are filed on both sides, CBP has the eye on the container's event through Stowage plan and Container Status Messages. These are two points that are covered in ISF part (10+2). Via these two, SSL continuously informs the CBP of any event on the container e.g., transshipment, loading to a new vessel, unloading from prior vessel, change of physical location in Stowage Plan etc. CBP can track down the container since it was loaded on the vessel. These two points also serve the purpose of CBP for combatting the smuggling as well.

Usually, 4-5 days before the arrival of SSL at the destination port, SSL sends arrival notice (AN) to the importer who is the owner of goods on Master Bill of Lading. AN share the information of Firms Code for this container. Firms code – a physical location on the port where the container will be placed for dispatching. 'Terminal' is also a word used for specified premises on port where the truckers can easily access the container to pick up. Firms code is mandatory information that must be submitted to CBP at the time of customs clearance. Firms code is CBP assigned four letter SCAC (Standard Carrier Alpha Codes) that represents physical location of goods retrieval whether it is a terminal or any warehouse (for Less than container load cargo).

The next core step is to share the complete, correct information of incoming cargo with CBP for customs clearance. CBP has allowed importers to clear customs on their own. They can simply

share the necessary information with CBP office at designated port of incoming cargo. The basic mandatory documents required for clearing customs for any type of cargo are listed as.

1. Bill of lading (regular, master, house)
2. Arrival notice
3. Commercial invoice
4. Packing list

Along with these mandatory docs, a range of additional/supportive documents are required based on the product nature. For an example, if the product is plant originated food, country of origin, phytosanitary certificate etc. are required along with general documents. In case, importer themselves are clearing the cargo by taking these documents and meeting CBP assigned officer at cargo designated port, there is no additional step and CBP officer will file an entry for this cargo.

In other case, if importer has hired a customs broker to do this service on their behalf, broker will prepare the set of required documents beforehand and submit the data entry with CBP via ACE systems. ACE is Automated Commercial Environment, a platform where software companies are licensed by CBP to create software that brokers use for customs clearance. This software acts as a layover where brokers are on one side and CBP is on other. Broker and CBP exchange messages, clearing statuses, rejections, errors etc. via this ACE software. The broker fills up the information of each line item of commercial invoice in ACE and once finalized, they submitted a simple form on ACE (just as filing GD on WeBOC). Generally, below listed information is shared with CBP at time of customs clearance via ACE.

1. Import of record details
2. Ultimate consignee details
3. Transportation type of cargo (vessel name, voyage, carrier)
4. Arrival dates
5. Port of entry, exam, unloading
6. Bill of ladings
7. Package details (total number of biggest packaging, type of packaging)

8. Commercial invoice values, currency
9. HTS codes, gross weights, total quantity, price, importer, shipper, manufacturer, sold to party, country of origin, country of export, commercial description of each line item.
10. Partner Government Agency (PGA) filing

PGAs are the government institutions or agencies that work collaboratively with CBP to share the burden of responsibility and to ensure their domain related cargo is aggressively monitored. As the US is world's top importer, it isn't possible for CBP only to check every general and sensitive cargo efficiently, at same time. There are big standard and quality checks on food products, let us say fish. Contrarily, empty plastic bottles do not carry that many big risks. Hence, diverse industry products are assigned to each PGA and they only control and check their own products. As an example, food, medical, drugs and food contact products are regulated by Food and Drug Administration (FDA). Every import shipment containing either of this category must be checked by the FDA agency. At the time of customs clearance, FDA information must be filed with CBP, and the data is shared with FDA for scrutiny.

Based on information shared with CBP at the time of ISF and entry filing, customs database helps CBP to assess the risks associated with shipment. This risk assessment defines if the shipment will go under exam or will be released right away. The mechanism of assessment isn't known to the public. It is pertinent to understand that criteria on which CBP makes decision on exam conduction are highly classified information that is secret to commercial environment. However, based on the experiences and interactions which CBP officials on numerous shipments, Mr. Saad Rafique, Head Customs Brokerage and Compliance at Trade Expeditors USA, shared his remarks as,

What happens is, as we have seen the trends, that they do exams for the shipments of new importers and one reason behind this is to check the goods as they declared. Second, they can profile that this guy is legit. Things they are importing are fine. Let us say 2,3 exams have been done and the goods were fine then they will not touch that company for a while, other shipments will arrive and release within a few seconds as we already discussed. Then, randomly, they will

do exam later as a surprise test, if those tests end up fine, things will go smoothly.

For every importer, CBP makes it mandatory to fill out the 5106 forms. This form asks for detailed information about the company that wishes to be an importer of record. Hence, a profile is made with CBP and based on above random checks, the profile is maintained. Moreover, risk assessment with products and all their stakeholders also plays a key role in assessment. Just as an example, see below as FDA notes down the incidents recorded against certain products. They formulated a body to regulate those products and since onwards, importers need to provide special certifications and licenses to import them. The importers, shippers, consolidators, stuffing locations, which participated in import of such vulnerable products must have been flagged. Once CBP sees any new shipment with any of the flagged parties involved, the system will trigger a warning and there are hefty chances that shipment will be counted for exam.

Overview of Medical Device Reporting

Each year, the FDA receives several hundred thousand medical device reports of suspected device-associated deaths, serious injuries, and malfunctions. Medical Device Reporting (MDR) is one of the postmarket surveillance tools the FDA uses to monitor device performance, detect potential device-related safety issues, and contribute to benefit-risk assessments of these products.

Mandatory reporters (that is, manufacturers, device user facilities, and importers) are required to submit to the FDA certain types of reports for adverse events and product problems about medical devices. In addition, the FDA also encourages health care professionals, patients, caregivers and consumers to submit voluntary reports about serious adverse events that may be associated with a medical device, as well as use errors, product quality issues, and therapeutic failures. These reports, along with data from other sources, can provide critical information that helps improve patient safety.

Figure 5: US Food and Drug Administration, Medical Device Reporting (MDR): How to Report Medical Device Problems

After importer or their customs broker performs data entry in ACE software, and finalizes the necessary documentation as aforementioned, it is submitted to CBP. As it is submitted, the automated system assesses the information, evaluates the stakeholders, tariffs, PGAs filing, cargo manifest vs the added values, system shows the immediate response on the release status of this shipment. Based on previous discussion, if there is a vulnerability in cargo details, or a random check, or a threat associated, shipment goes on exam. Otherwise, within 1 minute, as an average, shipment is released. ACE software provides detailed logs of the entry submission process. Attaching below the status showing the release of entry within same minute.

The screenshot displays the Descartes Customs release interface. At the top, there are tabs for General, Manifest, Parties, Invoices, 7501, Cargo Release, Payment, Selectivity, Status, and Notes. The 'Status' tab is active, showing 'Last Submission' as 11/24/2023 11:54 AM (Accepted) and 'CBP Version' as 1.00. Below this, there are fields for 'From Customs', 'Entry Date' (11/26/23), 'Team' (HBV), 'Invoice Request' (No), 'TIB Expiration', and 'Liquidation'. The main area is divided into 'ABI Activity' and 'Current Selectivity Status'. The 'ABI Activity' table lists various actions with their times and statuses, all marked as 'Done'. The 'Current Selectivity Status' section shows 'OneUSG (12/01/2023)', 'Released (11/26/2023)', 'Bill Arrived (12/01/2023)', and 'PGA May Proceed (11/24/2023)'. A sidebar on the right contains several utility links like 'Entry Summary Query', 'View Entry Summary Query Results', 'Document Requests', 'Notifications', 'DIS Activity', 'Quota Status', 'PGA Status', 'Courtesy Notices', 'Census Warnings', 'TIB Extensions', 'Event Tracking', and 'Print ABI Activity'. At the bottom left, there is a summary box showing 'Manifest Quantity: 4,335 CAS', '11/24/2023 11:54 AM 94 - BILL DEPARTED', and 'Release Disposition: 11/24/2023 11:54 AM 98 - RELEASED'.

Time	Description	Status
<input type="checkbox"/> 10/24/23 4:39PM	Importer Security Filing	Done
<input type="checkbox"/> 10/24/23 4:40PM	ISF Status Advisory	Done
<input type="checkbox"/> 11/24/23 11:53AM	Entry Summary Create/Update	Done
<input type="checkbox"/> 11/24/23 11:54AM	ACE Cargo Release Response	Done
<input type="checkbox"/> 11/24/23 11:54AM	ACE Cargo Release Status Notification	Done
<input type="checkbox"/> 11/24/23 11:54AM	ACE Statement Update	Done
<input type="checkbox"/> 11/24/23 12:01PM	ACE Cargo Release Status Notification	Done
<input type="checkbox"/> 11/24/23 12:01PM	ACE Statement Update	Done
<input type="checkbox"/> 11/27/23 8:35AM	ACE Cargo Release Status Notification	Done
<input type="checkbox"/> 11/27/23 8:35AM	ACE Statement Update	Done
<input type="checkbox"/> 12/01/23 8:03AM	ACE Cargo Release Status Notification	Done
<input type="checkbox"/> 12/01/23 8:03AM	ACE Statement Update	Done

Figure 6: Customs release interface of CBP software Descartes for an import shipment showing the logs of data submission to CBP and CBP showing release of the cargo.

In case of shipment release, CBP is deeply connected with all the terminals (for FCL cargo) and bonded warehouses (in case of LCL cargo). Within 1-30 minutes max, CBP sends the release message to the FIRMS facility where the cargo will be handed over to the importer. The process

responds very quickly so that, usually, even after 2 3 minutes, the cargo becomes ready for pickup and the driver picks up smoothly.

The shipments that are marked for CBP exam are easily identified. On port websites, exam type is mentioned, and it is clearly shown that cargo cannot be picked up. The same information is available with ACE software where the broker can easily see the exam status. Though there are several types of exams, let us discuss below the common CBP exams conducted on cargos.

Overall, the exam types can be categorized in two common levels, documentation, and physical exams.

- Non intensive exams – CBP conducts documentary exam and holds the container at port. The purpose is to identify vulnerability in the values shared with CBP via ACE software. As an example, the manifest CBP receives via SSL says the total cartons under a BL are one thousand. However, broker files entry and adds number of cartons as 1050. The mismatch will be identified by CBP abruptly at the time of clearance and the document hold will be placed. In such cases, commercial documents as evidence are shared with CBP. Furthermore, passing the sealed containers through x-rays tunnels is also a non-intensive exam where containers are not opened. These are simply moved through Xray beam, and the experts are examining for any vulnerability. Following are types of non-intensive exams,
 - Manifest hold
 - Non-intrusive inspection (NII) – x-ray exam

- Intensive – CBP randomly checks the containers to keep the profiling of importer. Not limited to this, to eradicate smuggling or if the imported product is itself suspicious or coming from a red list country, CBP decides to exam the container. Physical exams range from opening the container door, and randomly picking few boxes in front of officer, detailed inspection by unloading the container. These exams are referred as,
 - Tailgate exam – randomly picking front boxes near door.
 - Intrusive exam – detailed inspection

When a system identifies the level of risk associated with a shipment, as discussed above, it is either moved to non-intensive or intensive exam. For non-intensive exams, cargo is held and not released until supportive documentation is shared with CBP. It is then decided to either release the cargo or to move for intensive exam if found anomaly is found. In case of release, the same process will happen and with time of few to 30 mins, cargo release is posted on the relevant terminal and goods are good to go for pickup.

On failure of satisfaction of officer in non-intensive inspection, cargo is set for intensive examination. Else, the system can be set for intensive examination as soon as CBP receives the information via customs data submission. In both cases, the relevant officer who will be taking care of the exam and the CBP port director contact information is shared via ACE software and email to customs filing party. Commercial documents along with additional supportive information is shared via ACE software to CBP and direct communication via email or phone is carried out with an officer. Five workings' days are allowed for each officer to respond to the inspection. If five business days are completed and no response found, broker can directly email CBP port director assigned on the port of unloading of container. CBP provides an option for their licensed warehouses near the port. One of them must be selected and the container will be moved from the port to that bonded warehouse. Inspection is conducted and cargo is either released or detained. The detained container must be either re-exported to another country or destroyed in the presence of CBP assigned officer so that it must not be used or sold in the US market.

Like every other country, CBP has also a significant task to collect taxes/duties on the import cargo. CBP does not hold the container on port for duties. Rather, 30 days after the date of customs clearance are allotted for every shipment to pay the duties. Importers can explicitly set up their bank account with CBP and duties for each shipment is automatically retrieved from the importer bank account. IOR is intimidated with details of duties via email w before the duties are deducted. Secondly, if the importer does not have an account with CBP, the broker sets up the account on behalf of the importer and the broker pays duties against each shipment directly to CBP via different but amazingly simple online payment methods. The duty payment step is performed to CBP even after the container is empty returned and the imported goods

are even distributed to the retailers. Hence, reducing the looping in of bank and then providing verification on duty payment.

It is pertinent to discuss that CBP cannot allow any importer to import goods until they have surety bonds. CBP provides licensed companies list from whom importer of record must obtain surety bonds for importing goods. Surety bond is explained as a surety that importer gives to the licensing company that they will abide by all the regulations of CBP and will pay the duties to CBP within restricted time limit. This trio makes importers of record liable to pay the duties to CBP. If IOR would not pay the duties within time frame, CBP will penalize the surety company and in return, the surety company will penalize the IOR. The penalties for not paying the duties are even three times the commercial invoice value. In worst case, if IOR still does not pay even being penalized, surety company will terminate the bond of importer which will disable the capacity of importer company to import anything in future. Alongside, surety companies give the recovery task to Collection companies set by government who legally persuade the importer and consequences becomes very worst for the importer. This practice makes the importer liable and punctual for paying the duties to CBP.

Entity Diagrams for Import process

A diverse group of stakeholders play their role in shipping of goods from origin to the destination. Taking example, a supplier who provided raw coffee beans collected from farmers of a village from Brazil. These beans are processed and made edible in a manufacturing plant. They are packaged with compliant labels and usage instructions. A freight forwarder would be involved to place booking of the cargo with SSL and this forwarder arranges the trucker to pick up the empty booked container from nearby port and make it dock in manufacturer warehouse. The container gets stuff and consolidates and now this trucker will have to deliver the container back to port. Port loaded the container on scheduled SSL. Broker at destination filed ISF via ACE software. Customs got to know through broker ISF and SSL AMS that specific cargo coming from specific countries with specific products. This story undergoes an involvement of customs brokerage who files the customs entry with CBP, and cargo is cleared.

If take an exam, CBP officer will be involved too. All goods, and trucker will pick the cargo from port and deliver to the final warehouse.

It can be stimulated from above mentioned general import scenario from Brazil to US that how many independent and unknown parties need to connect, schedule, and do a job to flow the movement from one side to another. Information sharing is the significant tool that provides the room to plan proactively. Hence, let us discuss below how each entity contributes information flux to mainstream and how gravely there are involved.

Pakistan Customs

Import process for Pakistan Customs starts with SSL arrival at Pakistan port. SSL plays an initiation role to trigger Customs that it is bringing a batch of cargo. SSL also informs port about the concrete information of every container. This helps port authorities to manage the spacing and allotment of container locations on different terminals on a port. This tri-sectional information of SSL, port and Customs finalizes to start preparation of receiving, reviewing, and processing an incoming container. SSL, as already discussed in the import process, also broadcasts the incoming container information to each importer owning the containers. Now, either importer or clearing agent, receives the arrival notices from SSL which allows them to also start preparing for release of cargo.

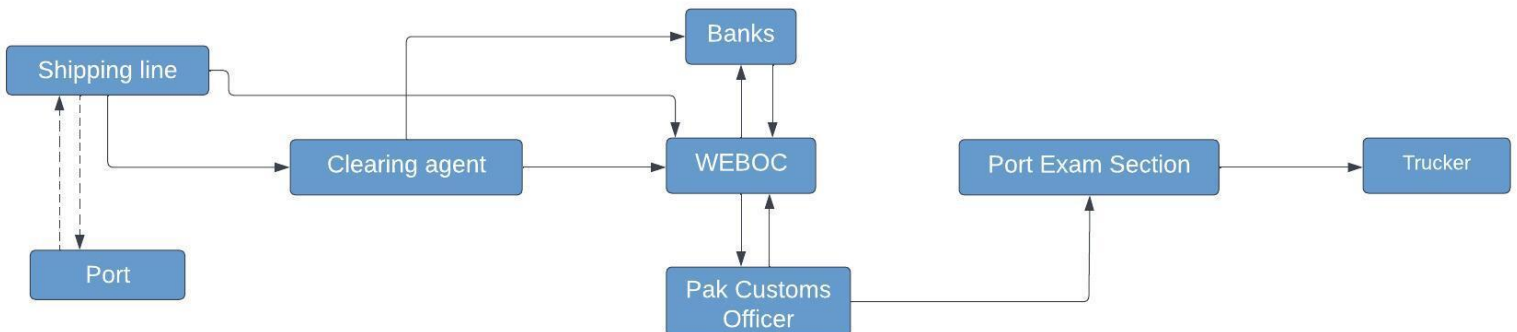
Here comes the WeBOC, an official software from Pakistan Customs for all commercial activities of import and export. All stakeholders are linked with each other via WeBOC like Banks, Customs, FBR, Importers, Inspection, and security agencies. It serves as the central hub for broadcasting, trafficking the information within departments. Importers/clearing agents directly use WeBOC for GD filings, tracking shipment statuses, tracing inspections or exams etc. Banks pinned WeBOC for import operations. As we discussed in the import process section, importers pay duties, fines, port fees to banks (online or via other mode) and banks issue financial instruments (FI) against a transaction that is directly published on WeBOC. Customs officers can see the FI and can start working on it further.

Pakistan Single Window (PSW) is a commendable effort by Pakistan Customs and other related institutions to replicate WeBOC with more enhancements and with aim to provide one window services. However, as Majid said, PSW may replace WeBOC over the time.

Nauman: All Right. What are your remarks about PSW? Is it good or bad? How did the importer benefit from this?

Majid: Look, there is no specific benefit from this system to importers. The process of customs would remain the same. Only the implementation of that process is different. WeBOC was created by some company and PSW was established by another with a bit more advanced feature. Like, banks are integrated, FBR is added.

Customs officers interact with WeBOC or PSW and then a whole Exam section as department operates to screen out the incoming cargo. The Ports and Exam section take their time and based on their findings; they respond back to WeBOC by updating the statuses against



inspected cargo. Based on their results, port authorities are intimidated via WeBOC, and truckers retrieve the cargo.

Figure 7. Entity diagram of stakeholders involved in Pakistan customs clearance process

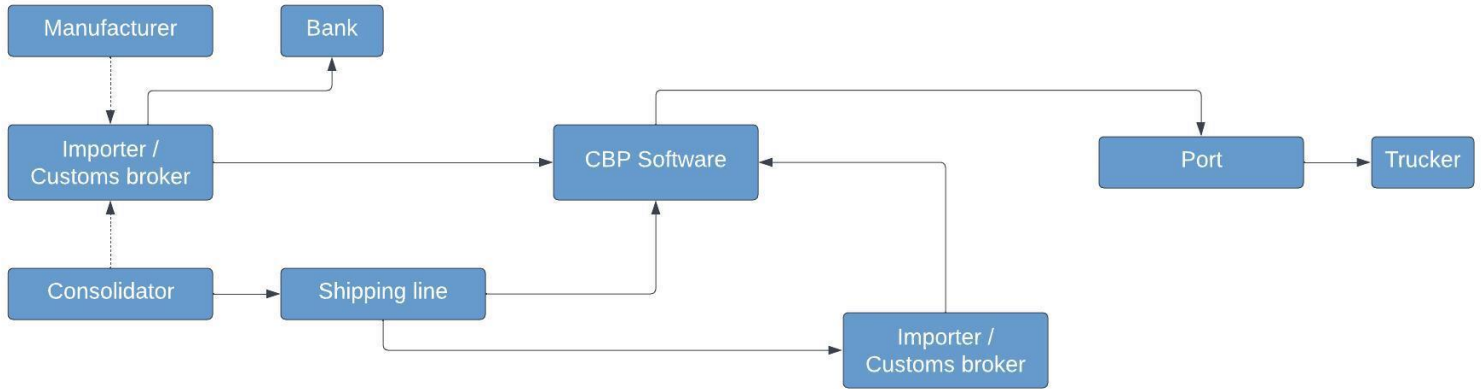
US customs

Manufacturer and consolidator are additional entities that are added in US import customs clearance process. Normally, as in Pakistan, customs clearance process starts when cargo arrives at national port. However, US import customs clearance process starts even though the cargo is in exporting country. ISF needs to be filed as pre-information sharing with CBP of what is coming. Consolidator stuffs the container at a specific warehouse (stuffing location) and this information is shared with the party filing ISF. It may be importer themselves, or customs broker in destination country or the freight forwarder in origin country. Licensing with CBP for filing ISF is required to submit the ISF information with CBP. Once this info is submitted via CBP software, CBP starts tracking the cargo.

Meanwhile, consolidator hands over the cargo to SSL on which SSL submits the AMS (prior information of cargo) to CBP via CBP software. CBP now is fully informed of some information provided by the carrier and importer through CBP software. Cargo is exported by SSL and SSL is sharing the event-based information with CBP via Container Status Message. In this way, origin-based information that is transmitted to CBP is through a one window software and data is being collected against a particular shipment. This data will be used to assess the risk associated with incoming cargo of either inspecting or releasing it once it reaches the US.

SSL sends the arriving information to the importer. This party will now be responsible for submitting detailed information about the cargo via CBP software. Mandatory and associated data is transmitted again to CBP to request for release. CBP software is fully equipped with assessing this data along with the information it has for a specific shipment at time of ISF. Information set will be used to finalize the inspection status of the shipment. No human intervention and no delays. Moreover, ports are fully integrated with this software. As soon as CBP releases the shipment, within a matter of minutes, the cargo becomes released on the port and trucker can pull it out. Banks are involved later when IOR/broker pays them duties on a specific shipment.

Hence, we can see the entire process moves around the software domain used by CBP to gather all the data. For inspection, releasing, risks assessment, information of exam ports in case of exam are directly shared with relevant stakeholder via this software. It makes the



processes extremely quick and responsive that makes the customs release time less than a minute, on average.

Figure 8. Entity diagram of stakeholders involved in US customs clearance process.

Value Stream Mapping

VSM is defined as the lean flowchart that describes every step in the process. This is also considered as the fundamental tool to identify importance and waste within the steps. This leads to spot what special activities are adding value in the process and which steps are the wastes. The nonvalue steps are objectified and become under consideration to revise, re-vamp or rearrange so that this waste either turns to value addition or removed completely. Hence, the overall process time, efficiency or any factor that is targeted can be improved.

Let us discuss in detail the value stream mapping of Import process for Pakistan Customs. As we have already described in detail the import process via flow charts, this diagram will identify the value and non-value-added steps.

Pakistan Customs

Sixty percent cargo goes to exam in Pakistan annually (Newspaper Staff Reporter, 2021) We have learned that arrival of the vessel and issuance of IGM initiates import customs process in Pakistan. Each step of this process involves value and non-value stops and the below figure depicts value stream mapping of a typical import clearance shipment.

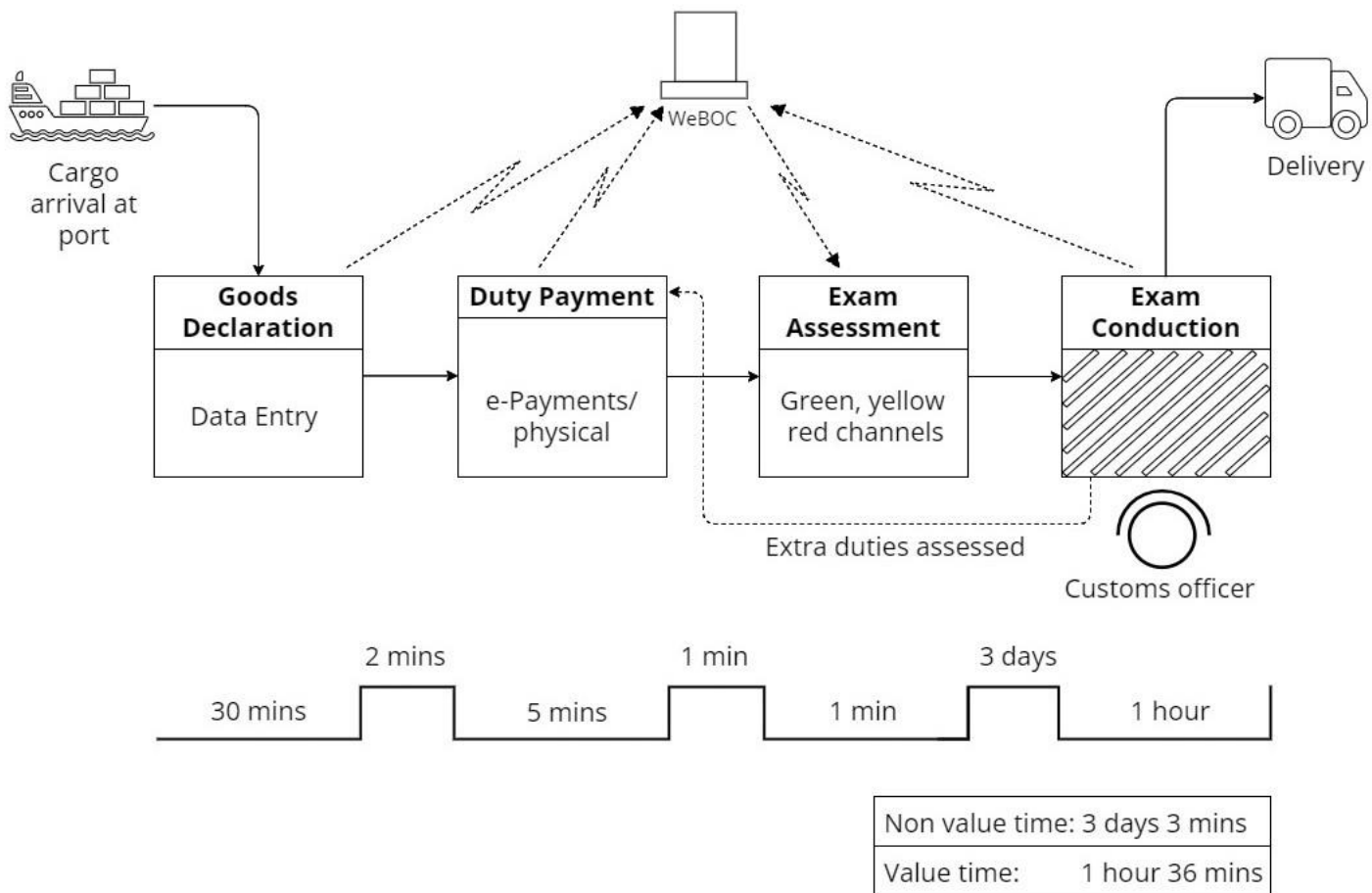


Figure 9. Value stream mapping of Pakistan Customs import process.

After vessel arrival and issuance of IGM, Pakistan Customs learns about an incoming shipment. Necessary documents are collected by clearing agent and on behalf of importer, GD is filed. Based on the interview of Majid Ali, Manager Import Operations of Kundi Services, a clearing company working on imports in Karachi, the average time for each step is identified and depicted in figure 7. Typically, it takes an average 30 mins to file the GD for a shipment (only necessary data entry is required). Once the GD is ready, the system shows total duties and

taxes incurred based on the tariff applied and a specific payment ID related to this GD is displayed, importer or clearing agent makes online payment using the ID provided. 2 mins is the non-value time as noting the payment and copying the ID for online payment and moving to opening the application. Usually, a person who is habitual to making online payments, takes around 5 mins to make a specific payment. As this is just an ID to be entered and payment can be made directly, 5 mins are considered on an average basis.

Once payment is made, as per Majid Ali, the system notifies the importer or clearing agent the update of shipment status. Payment received is confirmed and the system displays that the shipment is now assigned to a Customs officer for exam. Majid Ali considers it 1 min task for the backend confirmation of payment and notification of status change. The channels are already assigned based on which the exam conduction is decided, it takes around 1 min at average to see the status changes for the container (green to post release, yellow to check for more documents, red for direct exam). We are considering the bigger chunk of containers that go on exams, either yellow or red, that takes minimum of 3 days for the exam to be completed until clearing agent or importer see the status changes in the WeBOC. Based on the interview with Majid Ali, he emphasized that 3 days is minimum time frame that is added as non-value. As this all depends on the customs officer and his schedule and mode as well, things may be speed up squeezing to 1 hour and it may linger on to more than 3 days. Human involvement is the actual delay causing the non-value to increase this long.

The actual time to exam a container physically takes an average of 1 hour. This is a valuable addition in the import process that cleanses the good and bad cargo. Duties are assessed against the records and experience of customs officer. Once the exam is complete, the trucker is notified, and they pull up the cargo. This last step is not related to the clearance process, but rather the movement of goods, which is why we are not considering it as a value or non-value step.

Total value-added time in the import process of Pakistan Customs considering the customs clearance is 1 hour 36 minutes as an average. However, non-value-added time is a phenomenal 3 days and 3 mins. This nonvalue addition is the reason for customs clearance time frame to

cross an average time of three days for a container. That is why importers suffer big hurdles in meeting their orders. Bureaucratic level hindrances cause these big delays that containers are then retrieved by using bribes and referrals. This dents the normal flow of the first come first serve rule and hence, delays become colossal.

US Customs

CBP manages customs clearance in import process of the US. As it is described above, CBP starts noting the stakeholders involved in exporting country and buyer in the US, value addition step starts even before the vessel departs from the last foreign port. Let us see below the value stream mapping of US customs clearance.

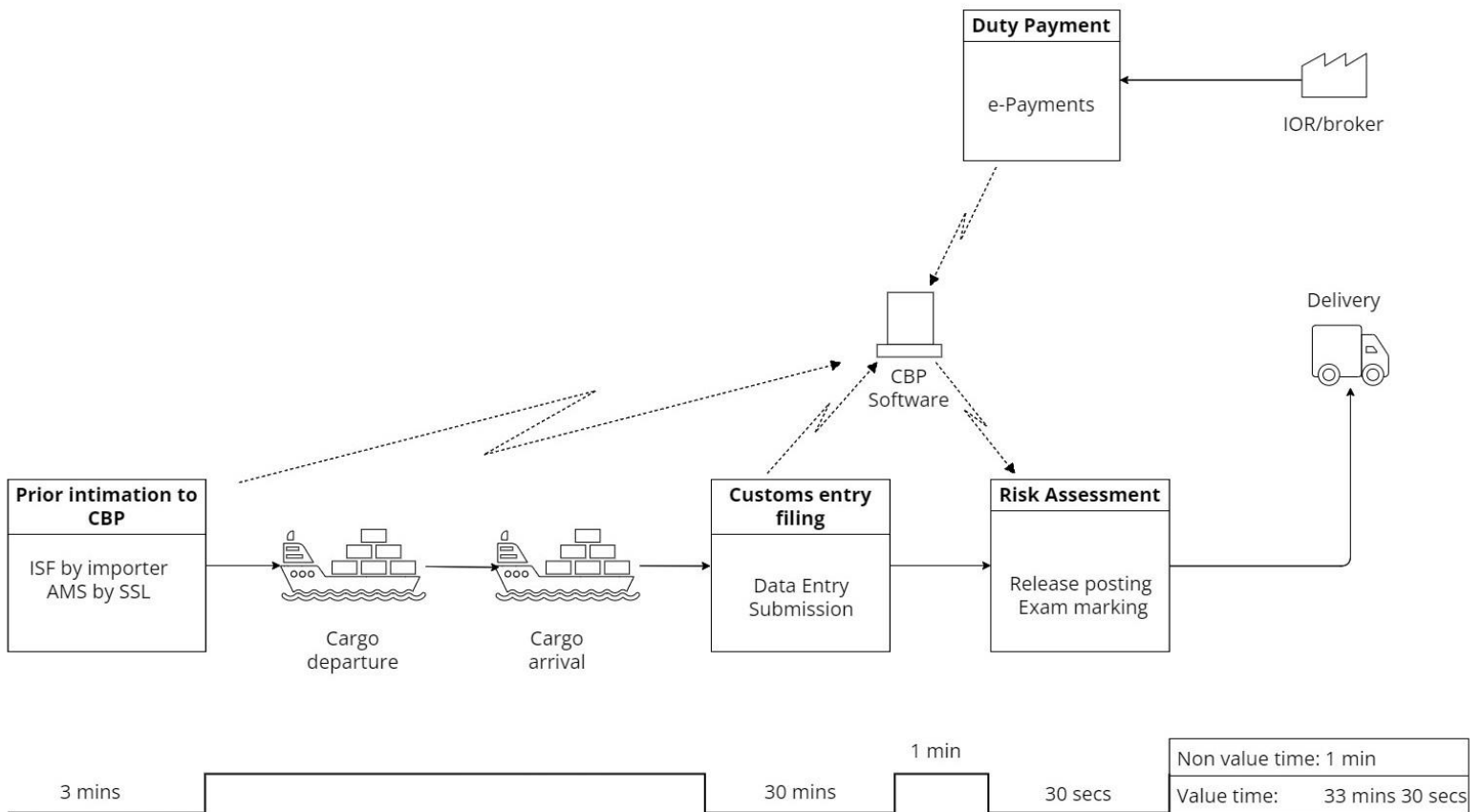


Figure 10. Value stream mapping of US Customs import process

Information about the parties involved in transporting the goods from any country to the US are shared with CBP in the form of ISF filing. This information is shared by the importer and on the other hand, the SSL also informs CBP about every container they are bringing to US. That is

how the first process starts in the import of US. Typically, it takes an average of around 3 mins to file the ISF. Once ISF is filed, customs know what exactly is coming from where and which parties are involved. This helps them to identify and assess the risk associated with a specific shipment. The next nonvalue added part is the physical movement of goods from loading the cargo on the vessel, vessel departing the exporting country and then the whole haulage over the waters. On cargo arrival, customs clearance process starts. The movement of container over the water is nonvalue, though, independent of the customs clearance process. Hence, we do not take this time into consideration in our value or non-value addition steps.

Just like in Pakistan where GD is filed with data entry, US customs clearance process cannot be completed without customs data entry. The broker or the importer files the necessary correct information via ACE software and submits the data to CBP. This usually takes an average of 30 mins for a person to submit the entry. As soon as entry is submitted with CBP to release the cargo, it typically takes an average of 1 min for CBP system to decide the fate of shipment to either release or exam. Then, within a timespan of average thirty secs, CBP system via ACE software displays the release information or the exam status. After the release is posted, this message is transmitted to the concerned port where container is parked, and trucker can fetch the box without any issue.

Later, the custom duties and taxes will be paid by the importer themselves or the broker on their behalf to CBP. There are strict deadlines of 30 days after the date of customs clearance to pay the duties.

Value Stream Mapping of exam shipment in US customs clearance process

US CBP does not exam every shipment. Only 3-5% cargo goes on exam annually (Dewitt, 2021) There are also no channels or green checks for specific importers that their shipments will be released on spot and rest of those who do not have bigger import volumes suffer exams. Rather, they have profiling systems. Based on the intelligence of different departments and checks like ISF and prior inspection at exporting countries, CBP finalizes the exam status. Otherwise, shipments will be released as soon as they are submitted to CBP for release. Seeing below the value stream mapping of US Customs clearance process of shipment going under exam.

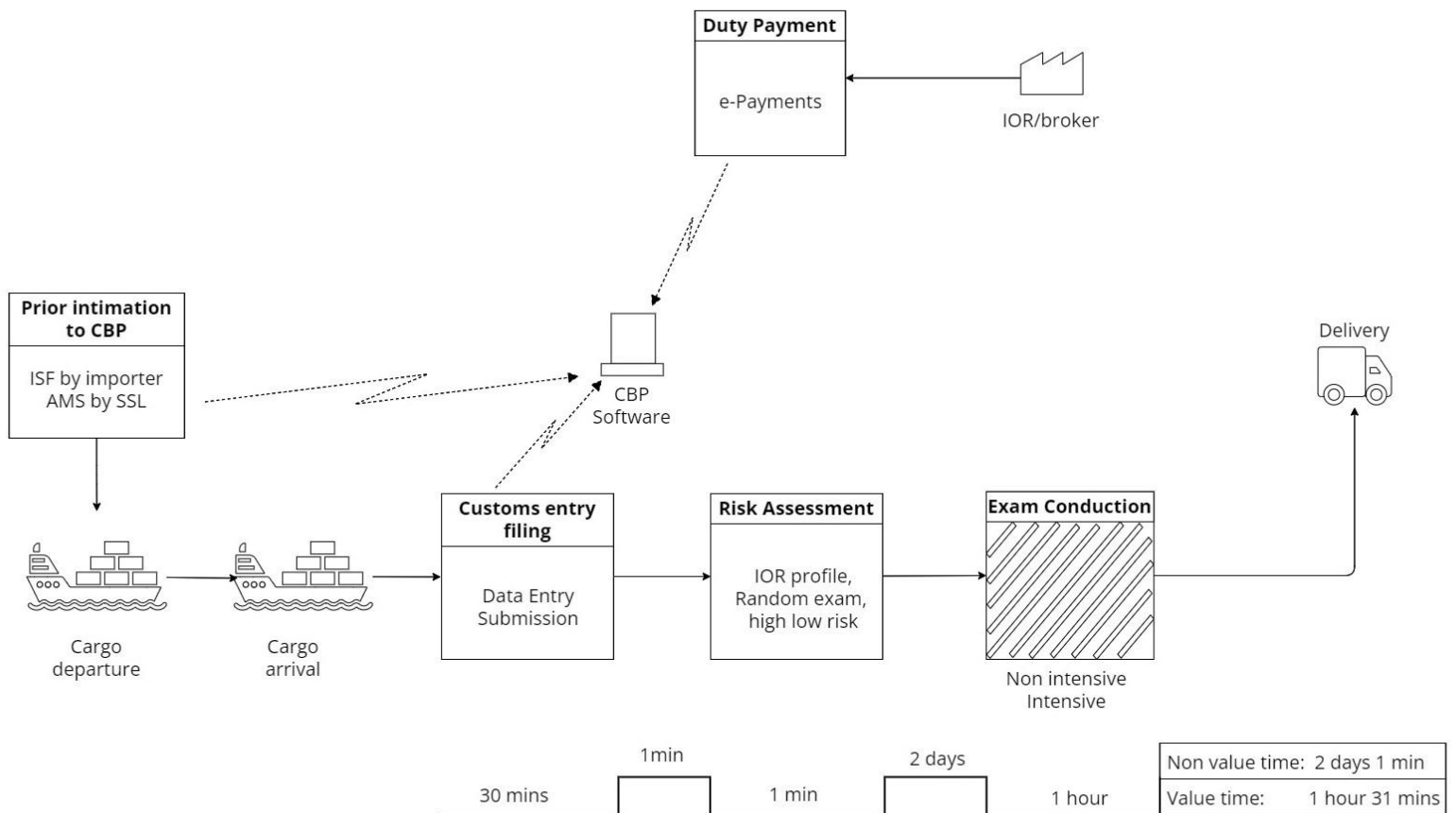


Figure 11. Value stream mapping of exam shipment in US customs import process.

Exam shipment has remarkably similar process to filing ISF and AMS at the origin country and then cargo departing the loading port. Once the cargo arrives in the US, importer, or broker files the customs entry and submits it to CBP via ACE software. Here, based on the data

collection of US CBP via their own governmental resources, the exams are marked for the shipment. As we already discussed the types of exams, non-intensive and intensive, these statuses and the place where these exams will be conducted are shared with brokers via ACE software. Brokers can contact the relevant assigned officers for further updates. Once the exams are completed, the final release or detain statuses are also shared on ACE software.

Once the assessment is completed within an average time frame of 1 minute, exam status is displayed on ACE. It usually takes 2 days for a non-intensive exam or intensive exam to be scheduled. In a non-intensive exam, the cargo is moved from the port yard to a specific screening area within the port premises. Typically, 1 hour is time in which Xray exams, tail exams and general documentation exams are conducted and based on the findings, cargo is either released or marked for intensive examination. If cargo is released, the same process will be executed, and truckers will be able to fetch the cargo. In the case of intensive exams, the days can go up to 5 to 7 days. In this scope of study, we are not considering the detailed intensive exam and its impact on customs clearance process. Duties payment will be as per regular procedure as discussed above.

Hence, overall, the value-added time of this variation of exam shipment counts to 1 hour and 31 minutes. Nonvalue added time ranges to an average of 2 days and 1 minute.

Issues identified in import custom clearance process of Pakistan

Customs

Custom clearance process in Pakistan suffers exceptional delays based on the current structure of steps and parties involved. Pakistan Customs is fully integrated with Federal Bureau of Revenue (FBR) who is taking care of import and export processes of Pakistan. Business entities always wish to have a speedy process as they are to meet their orders by importing products. As we already discussed, 3-4 days is the minimum period for custom clearance as of today. We need to spotlight the hurdles and main structural issues that are the real cause of such big delays. Let us discuss the issues in detail.

No prior intimation

Pakistan Customs does not know about the container arriving at their port till one day before the vessel arrives. This strategy initiates the working of identifying, scrutinizing, and assessing the products one day prior to vessel arrival. It means scrutiny starts at the time when there would have been the results of scrutiny. Customs does not have enough time to prepare their judgments to deal with the containers. Hence, all efforts are initiated now when the cargo is already in country boundaries. All the further processes will take their standard or tail time. Cargo needs to sit at port until the processes are completed and release is posted. No homework and no prior scrutiny of the incoming cargo is the reason containers suffer long sittings at the port and custom clearance process to go till 3-4 days or even crosses this bracket to get cleared from customs.

Frequent customs exam on shipments

Pakistan customs inspects all the yellow and red channel shipments. As we know, 60% cargo goes on exam till 2021. After 2021, imports have remarkably increased and we suspect this rate would have increased, though no exact figure can be found. Importers are assigned green, yellow, and red channels as discussed above. The latter two channel shipments need to be examined by the customs officer. All the importers are assigned red channels as they start import business. Over the time, based on the volume and authenticity, very few importers are assigned green. This counts for the rest of the whole diaspora of shipments to go under exams. No specific criteria are set to reduce the exam ratio for the shipments. Human resources cannot meet the number of shipments going for exam. This causes a delay in handling the actual matter of 1 hour to 3 to 4 days of inspecting the cargo.

Duties payment during process

Paying the duties in banks or via online payment methods has become a minor but a genuine hurdle. Though, via PSW, payment methods have been integrated into the system and even via WeBOC, importers can pay online. Still, this is a significant 5-8 mins value and non-value activity. Importers who are not willing to equip with modern fast methods, still go to banks to pay the import challans and duties. Moreover, in Pakistan, bank online systems are seldom

down, and it becomes hard to communicate any message with them. In such cases, crucial shipments at port may face another scheme of delay as the bank does not process payments in that scenario. Moreover, in case when officer assesses more duties on the cargo, this process needs to be done again to get release from customs. Regarding revision of duties, if importer does not accept the revision, dispute goes on higher channels to Deputy Collector and Collector (Dispute committee) which takes long time to process the dispute as bureaucratic culture is very well known. Till the resolution, customs cannot be released.

Human intervention in process

Unlike US customs clearance process, Pakistan customs procedure involves humans in form of Customs officers to interact with each shipment going to exam. These officers have their own schedule and additional responsibilities too. As we already described above human resources cannot be made adequate to meet every shipment on exam. Hence, this causes a backlog for every officer who must deal with everything. The volume of shipments to the number of officers available is paramount unjustifiable. US Customs made their system so equipped that there is no human involvement for each shipment. The system assesses the risk of shipment and if it goes on exam, a CBP officer gets involved with severe short deadlines and be accountable and transparent. Emails of whole chain of command above the officer is made public so the grievances can be addressed very quickly.

More shipments and few officers mean low focus and low focus results in low productivity. The data that we collected above depicts an unambiguous picture of low productivity in the form of long inspection times by officers. Bureaucratic culture in Pakistan is one of the biggest problems. Late arrival in the office and early leaving, not attending work, external visits, no accountability, no transparency, non-accessible chain of commands, bribery etc. and many more to count leads to malfunctioning. In case of bribery, an officer may leave the top GD and can pick up last GD to exam and the whole flow would be disrupted.

Importers/public educational resources

Pakistan customs does not have a website. In this fast-paced era of digital world, every startup, even retail shops have their presence on digital world in form of social media pages and

websites. Import process is a sea of domain knowledge with numerous new questions arising every day. Importers may have a burden of queries to find the solutions. However, basic knowledge of Pakistan Customs is integrated to FBR website. A prospective importer or a student who wants to learn the processes of importing or someone who wishes to learn the technical aspects of customs processes cannot find a single authentic resource on the internet.

All responsibility lies on Pakistan Customs

Factor of responsibility in any import in Pakistan lies on Pakistan customs. May it be the duties and taxes on phones, smuggling of heavy-duty vehicles, misdeclarations for household items, everyone blames Pakistan customs. The reason is that they made themselves on front foot to curb such acts. The performance of this challenge is out of the scope of this report. Limited resources cannot tackle unlimited influx of diverse course of shipments ranging from needle to aircraft parts and much more. Hence, an effort is made to behold the situation and results in long queues for inspections. Importers bringing stuff from multiple manufacturers and shippers do not scrutinize them as they know the loopholes in the customs system and even caught, the effortless way to get out of situation is very well known and easy for them.

On contrary, US Customs in 2016 amended Customs Modernization Act and imparts all the responsibility on importer to sharing correct information, bringing fine and standard products etc. CBP will only check the random shipments of importers to know if importers are doing good or not. Hence, Importers have to scrutiny every single order they are bringing must meet US standard laws and regulations. They do make sure that shippers and manufacturers must meet the requirements because if shipment is caught and manufacturer would be guilty, responsibility lies on the importer to bought products from vulnerable manufacturer.

No heavy fines and penalties

Importers doing under invoicing, bringing low quality stuff, duties payment issues, misdeclarations, involved in any uncompliant task are not fined or penalized heavily. The penalties that they hold are very minimal and take a long time to implement. The US, on other hand, has high value penalties that shock the importers and their budgets if they are found in any suspicious activity. Involvement in any criminal or illegal activity causes a maximum of more

red channel duration that even does not make an impact. Reason, every importer knows their shipment would go in exam. Chances for malpractice are not jailed enough. Pakistan customs then move on the line of examining every shipment as this has become a catch twenty-two situation.

Kaizen – the improvements needed in import customs clearance process of Pakistan

Value stream mapping of the Pakistan customs clearance process for imports demonstrates the non-value activities that have a considerable weight in the complete process. Benchmarking the customs clearance process of the US with that of Pakistan results in a nominal number of improvements that are structural and can be set as typical reforms to revise the whole spectra of clearance process. The results would be a push to ease doing business and timely meeting the responsiveness and expectations of the supply chain. Below is shared the Kaizen diagram with notable improvements that would be a path to rescheming the whole import customs clearance process.

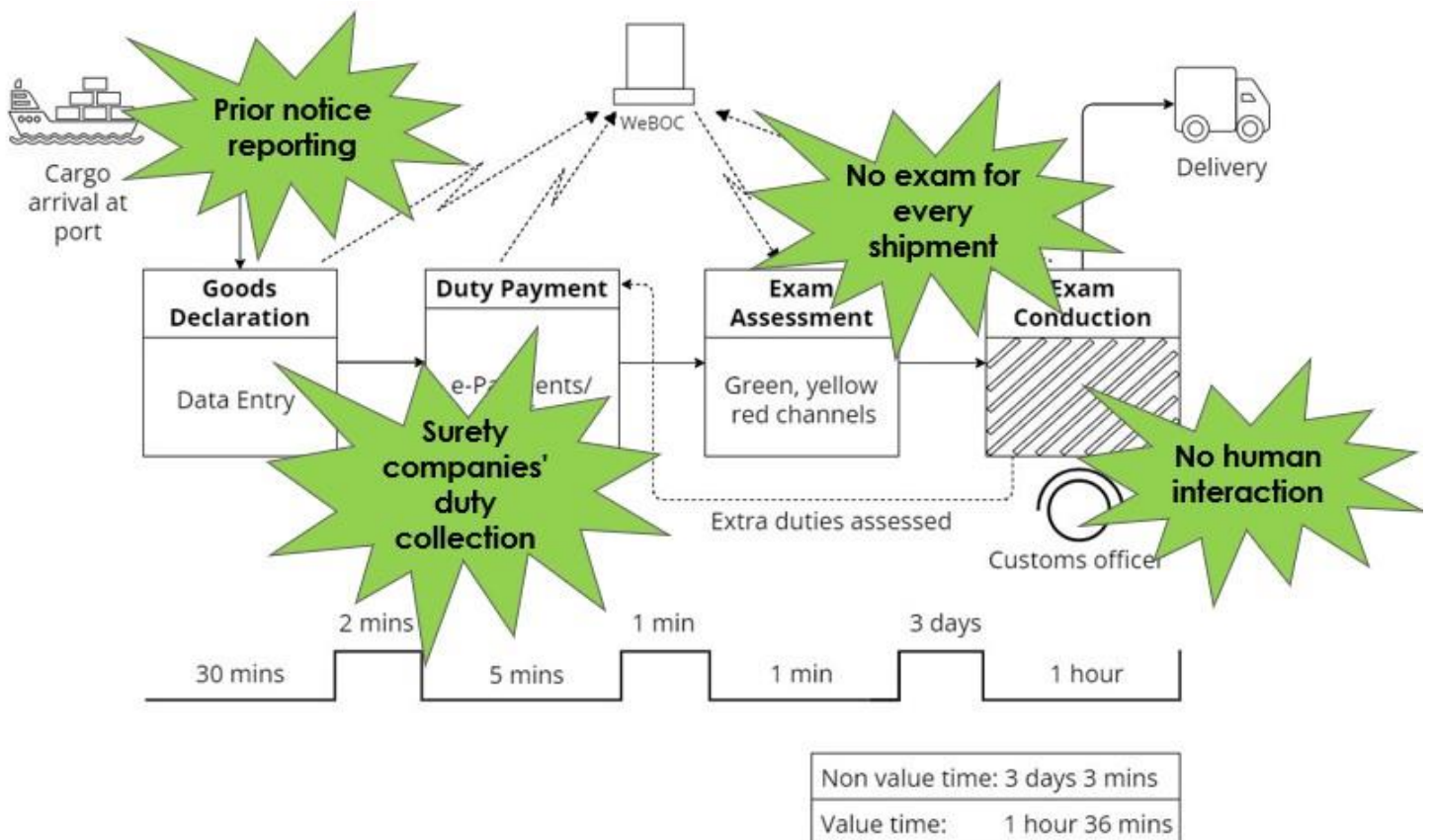


Figure 12. Kaizen diagram for highlighting the improvement spots in Pakistan customs clearance process

Prior notices for incoming shipments

Homework is mandatory for customs to be prepared for the container that is incoming after a certain period. Customs must know every container, the parties involved in transporting this container, the manufacturers of the products and the rest of the necessary details. Profiling must be maintained for the importers. In this way, customs can assess the risk associated with the incoming container. If any of the manufacturer or shipper that are transmitted via prior notice filing are found faulty in any previous shipment to some other importer, customs may have good stake to hold the container to check if those faulty manufacturer or shippers do not defraud this time.

Moreover, prior notice filing would give customs a hefty time to judge how to treat a specific system. Every customs department of any country do maintain profiles and they flag the importers, shippers, manufacturers. Pakistan customs can utilize all the intelligence-based resources to identify if the shipment would be released or to exam. Hence, the process would be started at the time container is leaving the exporting country. Meanwhile the cargo is on the water, Customs can scrutinize and later get ready to deal with the container as soon as it arrives. The process step of assessing and then sending every container to exam because there was no preparation to handle this, can be minimized. Not every container then goes to the exam and a major chunk of import shipments will be released directly.

Addition of surety companies for duty collection

Pakistan customs is mostly concerned about the duties and taxes and their collection. Import bills have a remarkable impact on the economy. Maintaining the flow of duties and taxes and making sure no one ditches customs by under-invoicing, picking up the cargo without paying the duties etc., that is why it is mandatory to pay the correct duties for a shipment to get release. The improvement would be to take this step. Importers must pay the legal duties and taxes to the customs for importing anything in the country. This step can be moved at the end of shipment so that the delay of around 7 minutes that is recorded for payment, can be

removed. This step will also eliminate the revised duty payment in case the customs officer assesses more duties on the GD. Moreover, another round of steps would also be eliminated in case the importer files dispute on reassessed duties from the officer to the higher ups like deputy collector or collector of that port.

To make sure importers pay the duties even after the cargo is picked up and to obey the customs laws for imports, a legal bond must be signed between importer and customs. Surely companies provide these bonds. They will be the intermediary between customs and the importer to make sure importer pay the duties. If an importer misses the duty payment after the shipment is closed, customs will post heavy fines to surety company which in turn would be legally able to penalize the importer under the rule. These fines must be enormous enough to even cross the invoice value of the shipment. Moreover, it must be made mandatory to pay the fine to surety companies and importers must not be given any leak from the crack to avoid and run. State machinery in the form of financial fraud intelligence units of FIA, CIA and other related agencies must be integrated to capture and punish the importers who ditch surety companies. Therefore, the rule must be to pay the duties if the importer wishes to do business again.

No exam for every shipment

The third improvement would be to reduce the number of exam ratio. As we discussed above, 60% of cargo in Pakistan goes to exam. This number might increase in seasonal trends and would even reach a sizable 80% or greater. Such exam ratios put burden on officers, and they must manage a remarkable number of shipments to exam. Big delays are observed in this regard, which finally increases the timeframe of customs clearance.

Mitigation of the delay can easily be implemented if we reduce the number of shipments going to the exam every day. Based on the prior notice information received before the cargo departure from exporting country would give an enough timeframe for system to do the homework of risk associated with the shipment. If the risk is identified, shipment may go to exam. If not, shipment must be released as soon as necessary data is shared with customs via the software. Random exams must be conducted on such importer shipments to keep the

history fresh and updated. If an anomaly is found, the exam ratio can be increased based on risk factor. The ultimate result would be the release time reduction from more than 3 days to 1-5 mins bracket for Pakistan customs if this improvement is implemented in the system. Furthermore, scrutiny would be efficient, and human resources now have more time to scrutinize small number of shipments. The IOR profiling and tracking the data would become more stringent and correct.

No Human Interaction

Human involvement in a scrutiny system may lead to a disaster based on the human intention to deal with a tight deadline situation. As officers at Pakistan customs are easily accessible on ports and they are all-in-one authority to decide the fate of cargo, disruptions and mishandling of the rules are observed as witnessed by Majid Ali in his remarks. Moreover, officers arriving late during office hours and leaving earlier their commitments with other official tasks, managing legal matters in courts during their officer hours mark the dent in regular task completion. All of this and much more finally impact the release time.

Digital transformation to the fullest extent can improve the situation. Human interaction must be minimized to ensure the system is working at its pace and no disruptions are caused by humans involved. The fate of the cargo is decided by the system, not the human. Once the system marks an exam for a shipment, the assigned officer under the tight schedules administered by the system should complete the tasks within the given timeframe and report to the system. This will ensure the delay controlling and timely completion of the scrutiny. Corruption, bribery, and nepotism would also be discouraged and the first in first out (FIFO) rule implementation would be ensured.

Process Redesign of Pakistan Customs (based on Kaizen)

The improvements suggested above in the process of Pakistan Customs clearance are potentially important in reducing the time for customs clearance process. See below the redesign of business process of customs clearance for imports in Pakistan and let compare the timeframe for value and non-value activities for a good-to-go shipment and for exam shipment.

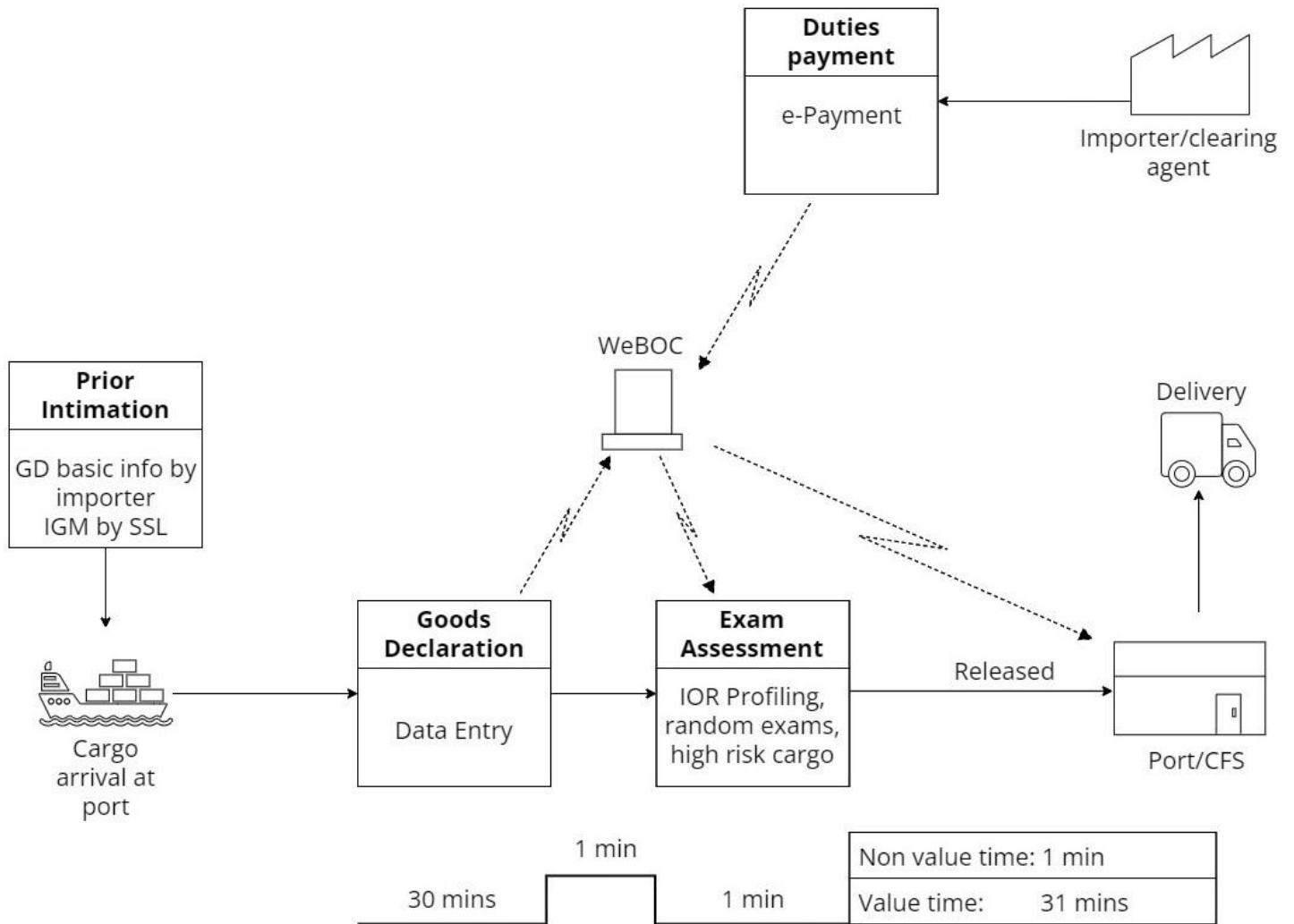


Figure 13. Redesigned customs process of Pakistan Customs based on kaizen

Redesigned customs clearance process of Pakistan starts with prior notification to Pakistan Customs about what is coming to Pakistan. In this notification, information like the importer, exporter, seller, buyer, manufacturer, consolidator, and stuffing location may be shared with Pakistan Customs. This information will help the customs to profile the importer with these stakeholders and to see if any of the stakeholder participates in any criminal activity in repository of Pakistan customs. Based on this and other risk factors, the decision can be made to either exam the shipment or to release it once it arrives.

After loading the cargo, it starts moving over the sea and reaches its destination. Customs data entry would be filed as per practice and submitted to customs. Based on the second

improvement of removing the duties payment step during the cargo release, the next step would be customs directly assessing whether to exam or to release the shipment. The duties payment has been moved to the last step in shipment with fix days like within 15 days of customs clearance or decided by the importer. The assessment will be made, and the cargo will be released. The release is posted directly on the port or container freight station (CFS) in case of Less than container load (LCL). Truckers may be notified of the release and cargo is pulled up.

The overall timeframe for value addition reduces to 31 mins from 1 hour and 36 mins. The non-value time reduces from a sizable 3 days and 3 mins to 1 min. This one minute is the only time taken by customs software to finalize the assessment of the shipment based on the already done homework. Hence, this reduction marks a significant importance in terms of overall customs release time.

Now, below is the value stream mapping for a process for an exam shipment for Pakistan customs clearance process. As we discussed the major volume would be cleared based on IOR profiling and prior notification, a reduced number of shipments would go to exam having potential threats. The exam shipment in Pakistan customs clearance process looks like below.

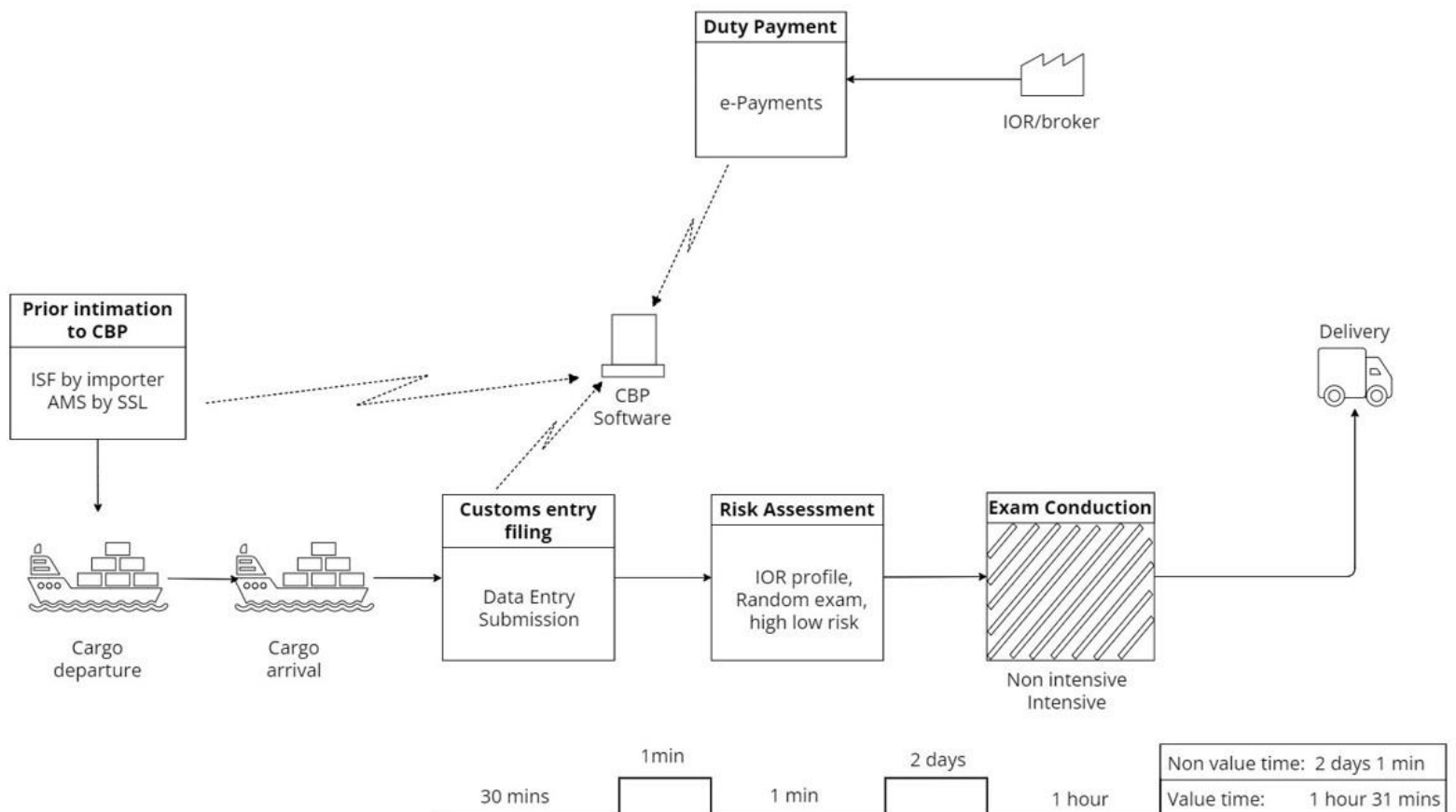


Figure 14. Redesigned customs process of an exam shipment of Pakistan Customs based on kaizen

Based on the improvements, it is estimated that 90% of the cargo will be released and only 10% will potentially go to the exams. However, the kaizen will be impacting in a wonderful way to reduce the non-value time to 2 days 1 min instead of 3 days 36 mins. The decrease in time is due to the officer having a lower volume of shipments to be inspected. They take their focused approach to examine each shipment and the overall time is reduced.

Implementation framework of the redesigned and improved version

The changes suggested and redesigned version of the import customs clearance process for Pakistan customs will be a game changer in the release time domain. It not only reduces the time but will ease the process of customs clearance too. The additional back and forth movements of information and steps will be removed. See below how each suggested step would be implemented in the current process and how the process will be adjusted to remove the extra steps.

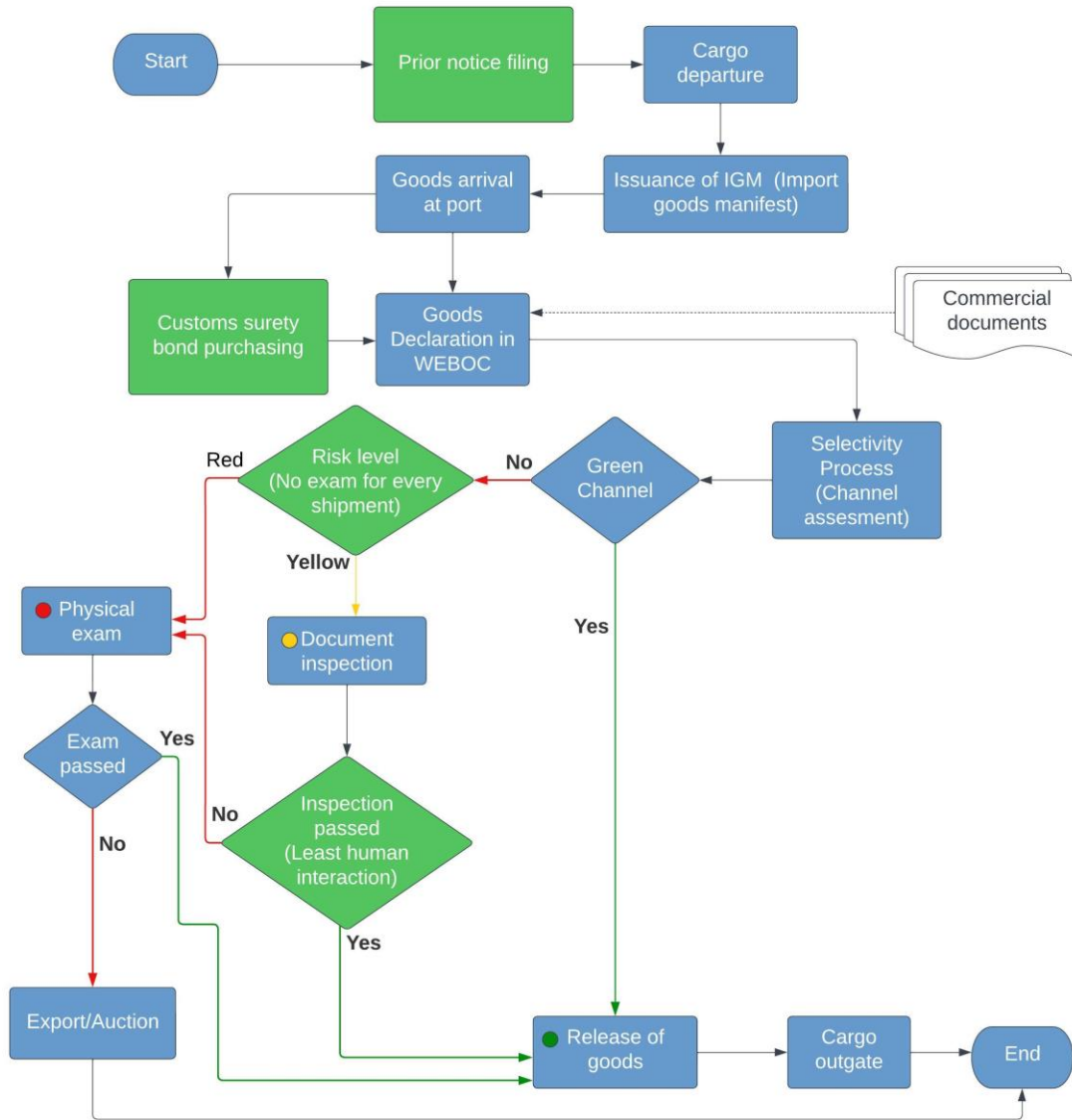


Figure 15. implementation guideline of suggested practices in current customs clearance process of Pakistan

The framework shows green steps as the introduced ones in the process. Starting the overall flow of process, prior notice filing will be initiated at the start. Moving forward, the general steps will be followed of cargo departure and cargo arrival at the destination. During the GD submission, the surety bond will be taken to submit the data to customs. This surety bond will remove the step of payment of the duties during the process. The surety of the company is

enough for the customs to give a go ahead to the shipment to process without the collection of duties. These duties will be paid after the shipment is completed.

The next step is to assess the fate of the cargo. Risk assessment will be enhanced by use of IOR profiling and other intelligence-based inputs to either let the shipment float through gate belt or to examine it. As we discussed about no exam for every shipment, most of the cargo will flow through the green channel and it will be simply released. The rest of cargo that is flagged for threats or any risk associated with it will go through the red channel. Ninety percent of potential cargo will go through green, and it is released without an exam. During the exam, the less human interaction thing will take its place and system will perform the first scrutiny membrane to see how the exam will be taken place. Either the problem should be solved by the documentation provision, or a detailed inspection is needed. A few percent of the cargo will follow the yellow exam and the rest will go through the red exam. The red exam will fully have human interaction.

Conclusion

Customs clearance process plays a magnificent role in the supply chain of the cargo. Importers may suffer huge losses due to administrative or any delay in customs clearance in terms of losing customers and meeting the deadline. Moreover, additional expenses at the ports and logistics costs may suffer the preplanned budget of shipment, shrinking the profit margins of the importers. Digital media has enabled ecommerce shopping experience for the customers globally. Hence these short packages movements in a timely manner are very crucial. Not constrained to this only, the containers and big cargo inflow and timely reaching to the destination without sitting too much on the ports is also important.

Pakistan customs clearance for imports takes too much time in comparison to the good economies of the world. Import customs clearance process of US is set as standard and benchmarking is used to study the import process of US and Pakistan. Pakistan customs clearance process takes around 3-4 days to complete the clearance, on other hand, US only takes 1-2 mins to release the cargo. Examining every shipment based on the duties assessment is the major cause identified for delay in customs clearance. Pakistan government and all

institutions working to regulate the customs clearance need to revise the policy and procedures to enhance the customs clearance process and to reduce the time.

Prior notification of the cargo being imported to Pakistan would be a major step to reduce the number of shipments going to exam. The IOR profiling will be backed up by this step. Moreover, the human interaction in Pakistan working culture must be minimized and replaced with digital interaction. Such steps must be taken by policy makers to identify the bottleneck of the whole cargo movement and must be addressed at earliest to rectify the process. This will make the customs clearance process speedy and effective and provide more revenue in terms of duties to Pakistan.

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Annexes

Annex A

Nauman: Assalam o Alaikum, this is Nauman Arshad. I want to take guidance about our project about US customs from customs and brokerage head in Trade Expeditors to get to know about customs, what are the features and how are they working why their processes are strong and then we will map these with Pakistan as well. So, we are having an informal meeting with Sir Saad Rafique. Sir, kindly tell me a little bit about you and your experience.

Saad: As Nauman said my name is Saad, I have been doing customs and customs related things with Trade Expeditors for 4 years and some change. I am responsible for any matter related to US customs clearance being done by our company and ensuring compliance with US customs guidelines. So, this is my brief intro so you can further ask questions.

Nauman: Sir Saad we are trying to compare the improvements in US customs and Pakistan customs as we are doing customs clearance it takes an average of 1 and half minute and custom is cleared as well as posted on terminals as well however if we see Pakistan customs, according to my readings it takes 7 to 10 working days. According to your experience what do you get to know about such a substantial difference and how US customs get cleared in such brief time what are good things as compared to Pakistan's customs. Please explain in a little detail about our customs.

Saad: Most interesting thing is if we compare import volumes then Pakistan's import is nothing in front of US imports and despite that as you mentioned customs clearance is game of just 1 or 2 minutes, leave behind hours or days. Core for this is automation, they have automated everything this due to this within few seconds or maximum 1 to 2 minutes shipment gets released. Talking about automation is an easy thing but behind this there is challenging work for years, and few factors are there on that basis they have become able to do this. Most important thing is their profiling; they have profiles of their current importers, repeat customers who import every now and then and the ones who just import for one time their profile is with US customs. You already know customs form 5106. What is this form you must register your company with all details now they have your profile. Also, they have multiple

options to flag and give remarks, we do not know exactly the system, but we have hints. What happens is as we have seen the trends that they do exams for the shipments of new importers and one reason behind this is to check the goods are as mentioned and second so they can profile that this guy is legit, things he is importing are fine. Let's say 2,3 exams have been done and the goods were fine then they won't touch that company for a while, other shipments will arrive and release within a few seconds as we already discussed then randomly they will do exam later as a surprise test if these are find things will continuously go smoothly, if there is something wrong it will go with its profile now he is acceptable to more exams, he is acceptable to more scrutiny. By this firstly they have differentiated good eggs from bad eggs and secondly, they have focused the efforts of their actual physical workforce. We have discussed that it takes 8 to 10 days why is this so because actual men must do inquiry in Pakistan customs, now limited workforce mean limited availability, limited productivity. In US their man power does not have to see every shipment, they only have to see shipments that are flagged for exam it would be 200 out of 1000 or 300 out of 1000 or may be 500 out of 1000 but not all 1000 so that's giving them efficiency, that giving them more time focus and pay attention, that also giving importer a chance that importer is doing things in a right manner so the things go smoothly. There is not just a loss to customs but also to the person who is importing things you have noticed first hand there will be extra charges for physical exam, cargo also gets delayed, most of the time you have made commitments to your buyers to get cargo on certain dates but due to exam certain date reach and cargo is at exam site then you gets bill backs or have to give discounts that kind of stuff is not feasible if it happens. This was all about profiling, so automation is only possible because of profiling and prior notice as well. After 9/11 customs have introduced a concept that is ISF (importer security filing) what that does is telling customs before even shipments departure about the basic information related to shipment. Based on that information customs judge whether an exam or inquiry is required for that shipment or not. The basic information included is that tells the character of parties involve in shipment, if importer is good his profile is good but the manufacturer who have exported products to another party in the past and had scammed then from ISF customs will get to know so exam is posted from start, sometimes you have not submitted the shipment but there is exam hold

already this is on the base of ISF it gives them time to scrutinize. In Pakistan if it takes 8 to 10 days is because they open the shipment after arrival to know what product is there. In contrast 24 hours before shipment's departure, they get to know so customs get 15 to 30 days to scrutinize and identify.

Nauman: I want to add one thing that we had studied, and I have also researched about that is when goods arrive to Pakistan then there is a goods declaration form in Pakistan in which they declare what thing is in shipment. It means scrutiny is starting by now.

Saad: Scrutiny starts when there is time to see scrutiny results, when the product has arrived scrutiny declaration would give benefit if you had prepared beforehand and do your homework, so this thing was important. After this they have taken another good step as before US customs was like Pakistani customs, paper filing was done so they introduced a new act in which customs shifted responsibility from them to importer, initially anything get caught people used to say what is customs doing, customs said no we trust importer, customs work is to educate importer, any information you need we will provide by any means and our work is to only check, product is good or not importer has to ensure that. Benefit of that was when the responsibility turned to importer, they made sure whatever they were bringing in was agreeable, was importable and they never did anything shady, they have not done misdeclaration as they knew if responsibility is mine then if there is any problem whether manufacturer has done any scam, or my seller has done scam I would be caught. Their deterrence is so strong that 80 percent of importers are doing the things right way because of this. For remaining 20 percent there are other measures like profiling, prior notice, exams so its benefit is that when responsibility is on you then you do scrutiny more than anything as you will get caught if there is some other person's mistake so I will more scrutiny someone. So, customs have done this thing after this everything happens as it should however still something slips through the cracks if there is some problem, they have placed heavy penalties. We have talked about prior notice, ISF if we say it is extraordinarily little thing that you file as it is not a work of 5 hours but if you not filed how much is the penalty?

Nauman: 5000 dollars.

Saad: 5000 dollars, it's shocking first time you hear but this is because of that they have given prior notice that much value on the basis of that they are deciding everything after that if there is problem with your shipper they will get liquidate damages of full invoice value, if you have imported products of \$50000 and from this \$5 value of product is not good, illegal or mis-declared or there is any copyright issue they will place penalty of \$50000 on us. They have set penalties exceedingly high that if anyone gets caught, they know that they will have to bear heavy fines. Then there are ways to enforce that heavy fine: bonds. We do not know there would be bonds in Pakistan too but in US surety system is strong customs gets their money. In Pakistan my personal experience to pay PTA for my phone but they were making it difficult for me, I went to six different people this is my personal experience, so I do not be optimistic how other things go. In the US whatever customs owe they get it, it is also not the case if there is heavy penalty and you will be saved no you have to pay, if you want your business there you must pay. If you don't pay they place you in sanctions list, I have seen instances where client was owing \$17, 17 dollars 80 cents, didn't paid 17 dollars it was by mistake as he changed address and didn't receive that notice he went to sanctions list he couldn't do any import based on that small price.

Nauman: But their system is dot connected and they block you from all SSLs.

Saad: Automation is there.

Nauman: SSLs do not allow you to get container.

Saad: because SSLs must register on the same system as you, SSLs must file AMS and data base is owned by customs. So, customs tried to cover as many bases as they could they thought about everything. They did not only think that we must make imports difficult, or we must earn money from that, or we must annoy people. So now further details about Pakistan's customs you know better about them I am just talking from US perspective. This was sufficient detail if you have any other questions, please?

Nauman: Just my last point is as you said that you brought your phone, we don't have access to enough information that which things are required to get cleared our product, as we see in case of US there is website of US customs on which everything is elaborated in such detail that you

don't find any need to go to someone else. You can take it as one window operation that if you submit anything and there is no issue, what do you think about that these things are easy in US system and for Pakistan these things are tough.

Saad: Its relation is with that act when customs took responsibility to educate they made it so easy to learn things, we don't have to do PhD to do customs filing if we don't know anything we get to know new things every so off, we go to customs website and if someone ask that thing from us after half an hour they will think we are doing this from 10 years, how? Because they elaborated in such an effective way that we understood in half an hour. When I was traveling back then I bought new laptop and thought I will give old one to my brother but it took me 4 days in searching whether 2 laptops are allowed or not and when I came to Islamabad airport customs told me there would be duty on this and funny thing was when I told him that rule he said no, however that rule was written on a wall behind him so lack of education was also there in that particular case. But it is exceedingly difficult to figure out how to transact or do business with Pakistan's customs. It seems.

Nauman: Thank you very much Sir, I have important points, I will explore more about that and if any guidance is required, I will let you know. Thank you!

Annex B

Majid: Look, import from India is banned. If there is something coming and that has any tag of Made in India, so customs would detain that product.

Nauman: All Right.

Majid: As this is against the import policy and we must follow the policy.

Nauman: it means, what I informed is right. Now, there are some questions I have written down. First, when you people start working, is it from vessel leaving the US. Normally, AN is sent 5-7 days before arrival on port to the importer or parties involved on bill. Do you people get the same thing?

Majid: Yes, see, what happens here is that the customer informed us about a month ago when they loaded the cargo on port of loading. They share the documents with us. That becomes our responsibility that we track it with SSL tracking to check the expected arrival. Before 24 hours, the shipping line files the manifest. Until SSL does not file AMS, we would not be able to file GD.

Nauman: Just to confirm that SSL does file AMS before 24 hours of the arrival at port in Pakistan, right?

Majid: Yes, that is true.

Nauman: All Right.

Majid: Before 24 hours to the port, SSL files manifest. SSL informs the details about the cargo to customs. Customs update that information in their system and save it.

Nauman: I understood. After that, the goods reach port. What about the GD, I have heard it many times and even searched but no sufficient information is on the internet about the exact contents of GD.

Majid: GD is the goods declaration. There are different forms of GD, around 5 6 types. Normal GD is about the details of the shipment. This includes the invoice value, importer, exporter, BL, currency and whatever our documents say, we must enter data in WeBOC. The duties, tariff

and everything related to it, and we fill that information in GD. Also includes, the origin and manufacturer.

Nauman: All Right. In this GD, does not it include the information of manufacturer of origin country.

Majid: It includes the exporter, port of loading and container number. And that is it.

Nauman: Does it include the information of consolidator or the container stuffing location on the GD.

Majid: No information on the GD about this consolidator thing.

Nauman: Next question, what I have read is, the duty payment is the problem here in Pakistan. Many things are manual. There are books of tariff to check the duties to importer. When you add duties in GD, do you add that tariff in GD?

Majid: Yes, we do add it in GD. Tariff is the Harmonized Tariff. It is different for every specific product. Like Jacket, so it can be of varied materials. Tariff contains every material of a product. We find out the exact according to our product and that tariff identifies the actual item and duties on it.

Nauman: You added the duty, and now irrespective of the channel, do you make the payment earlier or you wait for the customs officer to check the product.

Majid: Initially, we must add the declaration and we need to pay the duty accordingly. For example, the duty is Rs 10,000,00 and we pay this amount as per our side. Now, the customs officer will check the duty. If they find out the duty is wrong, they may increase it to let us say Rs 12,000,000. Then we have the option to claim that the customs officer did not identify the duties correctly. We file this claim with the Assistant Commissioner or Director. The decision from these authorities is final.

Nauman: Let us say, you made the review, it may delay the customs process. The goods cannot be picked up until the final decision from Customs is made.

Majid: Yes, that is true. We cannot pick up the goods until the decision is made. Delay is there.

Nauman: Next, my brother was in the Trade department in Bank for 10 years since 2016, the importers must go to Bank to pay the fee. Then they get the documents from the bank and then importer needs to go to port. Is this being the process?

Majid: No, there isn't such a thing. Previously, banks were not involved. If you are importing something, you need to pay the amount. Now, customs and banks are linked via WeBOC and PSW. You just submit the remittance, and the bank creates FI, as financial instrument, and approves it. The access of FI is only with bank. Bank approves the FI, and it automatically sends electronic messages to customs. And GD can only be approved after the payment received against a submitted shipment.

Nauman: It means the news about people going to banks and getting documents, there is no such thing, right? It might happen before but not now.

Majid: That is true. Yes, it was all manual thing before. Remittances were sent previously too. But it was manual. You sent the payment or not, customs do not have to do anything. Now, customs do not accept GD until the FI isn't issued.

Nauman: All Right. Next question...

Majid: Sorry for cutting you, you said, there are some documents to be shown at ports to get the cargo. Let me add here, only two documents are required at the time of pickup, the goods declaration (released order) and House or MBL that is submitted to SSL and SSL provides the Delivery Order. This means, customs have released the shipment (released GD), and SSL also released the shipment (Delivery order). So, all good as both parties released the shipment.

Nauman: Okay. So, who does this document handling thing here in Pakistan? Do truckers do this or the importers themselves?

Majid: Look, clearing agent do this. In Pakistan, the importer can do the clearance themselves and does not need to include any agent.

Nauman: So, you people do this on their behalf?

Majid: Yes.

Nauman: Is there any delay in this process (handling over the documents). Majid, my aim is to identify the pain points that let us say ABC is something that causes the delay and some XYZ thing that makes the time extended. Let us say, the person who is taking print of the releases and then going physically to submit the documents. Why isn't like this that customs post the release and ports get it right away and say, you are good to pick up.

Majid: Look, there is delay and as we are in Pakistan environment, there are delays. Let us say, the customs officer is like Pharaoh. Recently, my shipment has been examined and now it has been 2 days since that entry is in the folder of appraisal officer. I do not know but they are engaged in some other chores of deputy commissioner that they are not opening the folder to clear it.

Now, even if you go to that appraisal officer and ask him to please clear it. He might say, I am busy, I will do this by evening or tomorrow etc. These sorts of delays do exist.

Nauman: it means that is the person who will manually release your shipment but only when he comes and wishes to do to.

Majid: Yes, that is true. Moreover, as you know, most of the government officials come around midday to the office. And they leave at 4 pm. So, nobody is questioning them about their times. They are king in Pakistan. If there is discrepancy or problem in declaration, then there is more delay.

Nauman: I will ask about this in detail on the way. Next question, as you mentioned that exam assessment is based on the channel of importer. How this is assessed that a specific importer has green channel or yellow.

Majid: Customs assign this green channel to the big industries. Like, Amreli Steels, and other pharma industries that even have ten or more shipments per day. They even pay the duties and release the freight due to SSL; customs system automatically releases their shipment even within 5 minutes and they can pick their cargo and go. Even if freight is released and they pay the duties at 8pm, they can pick up the cargo right away in a few minutes.

Nauman: Impressive. This means there would be corruption because every importer wishes to have this green channel, no?

Majid: This is given to the big importers as I said who have many shipments. This depends on the declaration and their mismatches with the real record. Those importers who have green channels mostly have good records. Let us say, if they cleared fifty shipments and forty went on exam and no under invoicing is identified. This makes their profile a potential candidate for green channel. Though, the system does audit their shipments even when they pick up without exam. If found an anomaly, they are served with recovery. If there are, let us say, 3 4 recoveries, their green channel status becomes vulnerable.

Nauman: It means that the focus of customs department is to check on revenues.

Majid: That is true. They make sure there is no loss of revenue.

Nauman: Means, they do not focus on the security or smuggling of the goods. They only see the duty thing. Let us say, if something is coming from Mexico or Afghanistan, that might have drugs or something so customs do not see that as their primary task. Duty is premium.

Majid: Yes, those who have green channels are privileged. Though, as I am telling you that green channel is not assigned to everyone. Importers must spend much time like more than 6 months with regular good reputation to get entitled for green channel. Nobody can get that on the first day of import.

Nauman: Please tell me how the duties are paid. Are they online now?

Majid: Payments are online now. So, now, there are two options. Customs provide a specific account for importers, and you can pay through that. Or you can pay through your mobile on PSID. Customs share the PSID, and you can pay directly. Those who are not comfortable with online payments still go to banks and make pay orders and pay through them, all depends on the customer.

Nauman: Customs has started the PSW (Pakistan Single Window). You people are working on WeBOC, or have you shifted to PSW?

Majid: Our 40 to 30 percent of the shipment is handled through WeBOC. They (customs) told us to use WeBOC for specific shipments. Hence, both PSW and WeBOC are being used. In future, WeBOC will be screened out and PSW will work.

Nauman: All Right. What are your remarks about PSW? Is it good or bad? How did the importer benefit from this?

Majid: Look, there is no specific benefit from this system to importers. New systems are made over time. In the start, there were issues that caused the delays. Then we do face bugs. But after some time, the system gets better.

Nauman: Have you used PSW?

Majid: Yes, we used it.

Nauman: Can you tell me the process of PSW?

Majid: The process of customs would remain the same. Only the implementation of that process is different. WeBOC was created by some company and PSW was established by some other with a bit more advanced feature. Like, banks are integrated, FBR is added.

Nauman: For the PSW, this is only for customs clearance. You file the GD through PSW and pay the duties. Rest, the process is same as you print the BL and submit it to port. That manual thing is still there, PSW did not automate that, right?

Majid: Yes, see, now the port has also given an online payment facility. You pay the payment, release the shipment from SSL, get that BL and Whatsapp it to the trucker. He will go and pick up the cargo. You even do not need to go there personally. But normally, we do it ourselves.

Nauman: All Right. What are your opinions on the first option? As soon as customs is released through PSW, customs send signal to port that this subject shipment is now released. Likewise, SSL needs to relate to port and that sends the message as well. So that makes it all good to go. Just go and pick up the cargo, no documents handling to port.

Majid: This is online. We just need to pay the amount, and the port authority gives a gate pass. Now, whether the importer goes themselves, the clearing agent goes or even trucker. Just need to show them payment proof, go to gate, show them gate pass, and pick up the cargo.

Nauman: Do we have the port payments online?

Majid: Yes, port payments are online too. The thing is, there is no relation between the port and the customs. Small terminals that do not have online payment still ask for pay orders to clear the dues.

Nauman: Last two or three questions left. Okay, now the exams, as you said that if some cargo goes on exam on yellow channel and later, they found that it needs to be checked so red channel, who is the person that decides the exam statuses. Is it the customs officer all alone?

Majid: The process goes like the GD is marked for the officer and goes it in its folder. He now knows that GD is here, and I must see this container. He will check the details of your GD and will compare it to the real cargo and if all set, he will draft the same report. And if some discrepancy is found he will add that discrepancy in the system, and this is moved on to port.

Now, as the containers are stacked one on another, the port authorities will know that this specific container is on exam. It normally takes one day for the container to be available for exam. If GD is marked for exam in the morning, port personnel will ground the container at night. Next day, the customs officer will go, check the goods randomly and put the seal back on container. So, the exams usually complete in 24 hours and they mostly do it within this time.

Nauman: This is what I was asking, what do you think is the average time for exam of one container, 24 hours?

Majid: Yes, 24 hours.

Nauman: Does this time affected by something like if the officer takes more than 24 hours, or he is on leave, does this affect the exam?

Majid: This depends on the shipment. Let us say, an officer has much to do someday and if there is only one item in shipment containing ghee, the officer may complete it in 15 mins. If

the shipment contains, let us say one hundred items, he will say I will do it later and leave that GD. That may take 2 to 3 days then. In this way, he might complete another 10 15 one item containers instead of one.

Nauman: Perfect. Second last crux question, what is the average time of Pakistan customs (import).

Majid: 3 to 4 days, for yellow and red channel. Green channel shipments can be cleared the same day.

Nauman: All Right. As you said, things are automatic (electronic), why 3 to 4 days then?

Majid: It depends on the workflow. And if we wish to, we can clear the container on the same day. Let us say, we pay the duties in the morning at 10am. We went to port personnel and asked him to ground the container for an exam. We further ask the customs officer to leave everything and exam the container on the same day. This is all based on speed money. You know the processes (laughing).

Nauman: One more thing on this 3-4 days' time.

Majid: (Adding) this is normal time.

Nauman: Okay. The 3–4-day bracket starts right away when GD is submitted, right?

Majid: Yes, it starts from submitting GD. Normally, this takes two days. The third day is for exams. If GD is marked today the container will be grounded tomorrow. It takes one day to only ground the container. He can check the container on same day, but normally it does not happen in Pakistan. Officer roams around the port to see the containers grounding. When he gets back to his office around 6-7pm, he sees all the GDs and adds the reports. The rest of the day was spent on this task.

So, at 6pm, he starts working on the GD and he comes to know the assistant commissioner has left the office, so it is now pending till the next day. As I said, it depends on the number of GDs with an officer. If he has less number, that might be your turn gets on the within 2 hours. If the queue is long, you are not sure when is your turn. You get to know that officer went to court.

They are also charged with other responsibilities, and you get to know that he did not see the GD for the entire day. If he sees the GD, it is hardly a 10-minute task for him, but it does not happen. Hence, normally it is 2 3 days period or 3 4 days.

Nauman: You are telling me this about those shipments that will be examined, right? Green channels are not examined so let us say 30% of the shipments are green channelized. In your opinion, what is the ratio of green to other channels, 10-90%?

Majid: I cannot share the percentage as I do not know how much the import volume is and how much is the industrialized volume. For that, we need to check the overall Pakistan's import.

Nauman: All Right. What about food shipments, do they consume the same time as normal shipments?

Majid: Food shipments have the same customs process. However, it involves some offices like PSQCA and PP (Plant protection) and NOC is required from them, so it takes 1 or 2 days in that. They will come, inspect the goods, and give reports. So, it will take one or more days for food shipment.

Nauman: Thank you for all the information. One last question, I would like you to please answer this very clearly so that this can be helpful for me, what are the pain points. What you think that the process can be completed within one day let us say, you submit the GD, payment online and what else so that the process can be completed in 30 mins. As you told me about the customs officer's behavior etc.

Majid: Actually, the shipment can be cleared in same day. Normally, our customers tell us that I need the same day delivery when I pay the duties. In that case, we clear it on the same day, providing there is no problem. We tell the officer that this is our regular item imported many times with correct duties. In this way, he would neither mark this Appraisal officer nor the District Collector. A Customs officer usually marks it to senior Appraisal Officer and he will in turn marks the GD to District Collector. This may take 2 to 3 days more. If you provide evidence that this is our old regular customer, then there would be no extra time.

Nauman: This means the GD should be correct. In such a case, there would be no delays. Other than this, do you think there is any other issue in the process? Things like bureaucratic process that can be corrected. Or do you think there is anything that if can be adjusted, would reduce the time.

Majid: There is no such thing. Normally it takes 2 to 3 days. Minimum 2 days and maximum 3 days.

Nauman: How many shipments that you manage goes to exam. Just asking.

Majid: Let me tell you this, we deal with industry customers. If we file, let us say twenty GDs in a day, a very minimum would go to exam. We deal mostly with Pharma. Some clearing agents deal with vehicles. Now, in that case, every shipment would go to an examination. It all depends on the product and customer profile.

Nauman: Thank you very much Majid for such help. I am very delighted to see that you shared the information. Here in the US, the process is quite simple. You have GDs, here we have entry submission. We gather invoice, packing list and BLs and we submit the entry on Descartes, as you have WeBOC. Within 20 to 30 secs, the entry is submitted and within 2 3 minutes, the release is posted on port as well. We only need to send the delivery order to trucker for pickup, simple.

Majid: I know all the problems are here in Pakistan.

Nauman: I wish to replicate the US customs process over here. Though, it is not like replicating, but I am trying to work in real time and to implement that. As Pakistan customs is working with technology as Pakistan Single Window. If we eliminate the customs officer element, then I think we can come in a few hours' clearance time.

Majid: That is true.

Nauman: Thank you very much for the help. Bye.