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## CUSTOMS AND TRADE SECURITY POLICY

**Abstract.** *The aim of research is to identify the most significant and the most risky areas of the business activities' assessment and to create a new model of the customs audit. In the article the role of customs seeking to facilitate legitimate trade has been revealed. The influence of customs on the public interests' protection and social as well as economic development was analysed. After analysing the customs activities monitoring and managing the international flow of goods, customs contribution ensuring the increased security of goods supply network was revealed. The concepts of the business activities' assessment have been examined, a comparative analysis of the business activities assessment's models has been conducted, the areas of business enterprises activities' assessment suitable for the customs audit's model have been identified. After studying the business enterprises activities assessment's models and the customs audit's models of various countries – pointing out the key areas of business activities' assessment – a theoretically reasoned and empirically based customs audit's model which complemented the existing customs audit's theoretical and methodological basis has been introduced. The importance of AEO (Authorised Economic Operator) customs model – being a tool of enterprises activities' assessment – was investigated.*

**Keywords:** *customs; enterprises activities' assessment; trade security; AEO concept.*

**Statement of the problem.** In the global economic conditions customs activities remain of a great importance. In the European Union customs deal with the policy of duties and the international trade. They are also responsible for the efficient security of the EU financial interests. The global trading system is not secured against the terrorism which can cause a serious damage to the global economy. Being a part of the governmental organisations that monitor and manage a cross-border movement of goods, customs administrations appear in a unique position, as they ensure an increased security of the global supply network as well as contribute to the social and economic development through the revenue collection and the trade facilitation. With the growth of the international terrorism and the increased threats of the weapons, counterfeit and pirated goods as well as hazardous materials to enter the country and thus endanger the international trade and public security, customs are confronted with new challenges.

Recently, the customs of the EU countries began appreciating the activities of the business enterprises, seeking to gain the status of the authorised economic operator (AEO). In order to implement this, the need of the exploration of business enterprises activities' evaluation appeared, at the same time paying attention to the aspects of the international trade supply network.

It is obvious that customs audit's activities, while assessing business enterprises' activities, bring positive results both to the business itself and to the overall national economy. At the same

time, the customs audit provides the assumptions to go deeper into the assessment processes of the business activities and learn about new phenomena influencing a successful development and evolution of this process. The assessment processes of the business activities performed by the customs are a multiple process that involves more than just the field of customs matters.

An appropriate identification of the indicators to be evaluated is an extremely important thing that should be taken into consideration while assessing the activities. Comparing the process of the activities' assessment in different fields, its differences on the applicability and use become clear. The phenomenon of the business activities' assessment in the area of customs is relatively new. For this reason, it is necessary to examine and analyse this process of activities. The assessment of business activities itself is associated with the application of simplified customs procedures. Therefore, it contributes to the formation of the new business environment, encourages businesses enterprises to take advantage of customs provided benefits and to create a competitive advantage in an integrated market.

The research problem is often being formulated by the question about the research phenomena and their interactions. It is often being caused by the contradictions appearing in the development of any process or phenomenon. The question-problem of this paper could be formulated as follows: does a created customs audit's theoretical model, aiming at gaining the AEO status, make a proper assessment of the business enterprises activities? In order to solve this problem and to analyse the ongoing changes in the business environment as well as to look for the effective models of the business enterprises activities' evaluation, the attention of researchers and practitioners must be concentrated.

**Analysis of recent research and publications.** There are not a lot of researches in the scientific literature analysing the matters of customs procedures. Therefore, the focus was made on the analysis of the legal acts regulating customs activities – in particular, on the legal acts regulating the provisions of the global trade liberalization and the security of the international supply network. It is important to point out that until 1990 there was almost no information concerning the aspects of the supply network, and the lack of the information concerning the solutions helping to overcome the logistical barriers that inevitably arise during the international trade process. Customs procedures and time required for the inspection - are extremely serious logistical barriers for the enterprises. Later the number of activities in this area has grown rapidly (Heide, John, [18]; Hendrick, Ellram, [19]; Ganesan, [14]; Lambert et al., [23]; Pearson et al., [29]; Whipple, Gentry, [37]; Ellram et al., [11]; Bourne et al., [4]; Halachimi, [17]; Gutierrez, Hints, [16]; Saiz, Bas, Rodriguez, [34]; Morgan, [27, 28]; Bento, White, [2]).

After analysing the works of scientists from different countries on the topics of the issues on business procedures evaluation, it is clear that theoretical and practical aspects have been analysed by a number of Lithuanian scientists (Slatkevičienė, Vanagas, [35]; Boguslauskas, Jagelavičius, [6]; Gimžauskienė, [15]; Vidickienė, [36]; Galinienė, [13]; Rupšys, [33]; etc.) as well as other scientists from around the world (Deming, [10]; Keegan, Eiler, Jones, [22]; Lynch, Cross, [25]; Kaplan, Norton, [20, 21]; Brown, [5]; Atkinson, [1]; Bourne et al., [7]; Marr, Schiuma, [26]; Bititci et al., [3]; Morgan, Dewhurst, [28]; Liebowitz et al., [24]; Pongatichat, Johnston, [30]; Saiz, Bas, Rodríguez, [34]; Bento, White, [2]; etc.). All of them emphasized different aspects of business procedures' evaluation in their works. The concepts of the procedures evaluation are very different. As a result, nowadays there is a relatively wide range of the procedures evaluation models in the field of the enterprises activities evaluation.

A comprehensive analysis of the scientific, practical and methodological literature was carried out in this paper. The analysis of the scientific literature is based on the scientific studies, researches and papers of foreign as well as Lithuanian authors. The analysis of the legal acts (Council Regulation (EEC) No 2913/92; Framework of Standards to Secure and Facilitate Global Trade, [9]; Regulation (EC) No 648/2005 of the European Parliament and of the Council, [31]; Commission Regulation 1875/2006, [8]; Ruka declaration on the Future of Customs 2013-2020, [32]; etc.) was carried out in accordance with the legal acts of the World Customs Organization, the European Union, the institutions of the Republic of Lithuania and the customs administrations legal

acts, regulations, decisions and other documents adopted by different countries. The main sources used are: monographs, published results of the empirical studies that reflect the latest aspects of international trade supply network's and enterprises procedures' evaluation, treatises, conference material, e-information.

**Task formulation and research methods.** Research object is AEO model of the customs audit used for the assessment of business enterprises' activities. The aim of research is to identify the most significant and the most risky areas of the business activities' assessment and to create a new model of the customs audit.

In order to achieve the set aim, the following tasks are met: (1) to reveal the role of customs for the protection of the interests of the society and the socioeconomic development as well as to assess the influence of the customs procedures on the business processes; (2) to introduce the assessment of the EU customs audit's model; (3) to identify the link between the current and target business aspects of the business enterprises activities' assessment; (4) to prepare a new model of the business enterprises activities' assessment.

In order to achieve the aim and goals of this research the analysis and sistematization of the scientific literature and legal acts, the data analysis and the comparison were combined.

The scientific novelty of the paper indicates the fact that the assessment of business enterprises' activities, performed by the customs, have not been analysed by other authors. This is reflected in basic results of the scientific researches. This work is of a theoretical applied format. The assessment of business enterprises' activities is being analysed in the context of the customs activities.

**Main material exposition with scientific results.** Each country's economy is influenced by the ongoing international trade, the volume of which depends on the efficiency of logistical operations - from the modelling and management of the logistics process, helping to control the flow of goods crossing national borders. The process of the worldwide transportation of goods is very long and complicated. After analysing the flow of goods, it can be stated that a long time required for the customs procedures can be named as one of the international trade's barriers.

The World Customs Organization (WCO), which owns 177 customs administrations, representing 99 percent of the world trade, has established the Frameworks of Standards to Secure and Facilitate Global Trade (SAFE Framework) [12] to global security and trade facilitation.

The System of SAFE Framework consists of 4 essential elements. The System harmonizes the pre-electronic cargo information about shipments. In order to be against the security threats, each country joining the System is obliged to apply the comprehensive approach of the risk management. The System requires the inspection of the high-risk containers and the cargo inspection. The System also defines benefits that customs will provide to the business enterprises matching the minimum supply network security standards and the best practices. The System, based on four essential elements, is focused on two equal principles: "customs to customs" and "customs to business enterprises". The principles are composed of series of standards that must be implemented at the international level and that are presented as minimum requirements obligatory for WCO members to carry out.

The legal framework of customs activity being regulated by of the Community Customs Code [9]. One of the main elements of the security amendment of the Community Customs Code (Regulation (EC) 648/2005) is the creation of the AEO concept. On the basis of article 5a of the security amendments, member states can grant the AEO status to any economic operator meeting the common criteria.

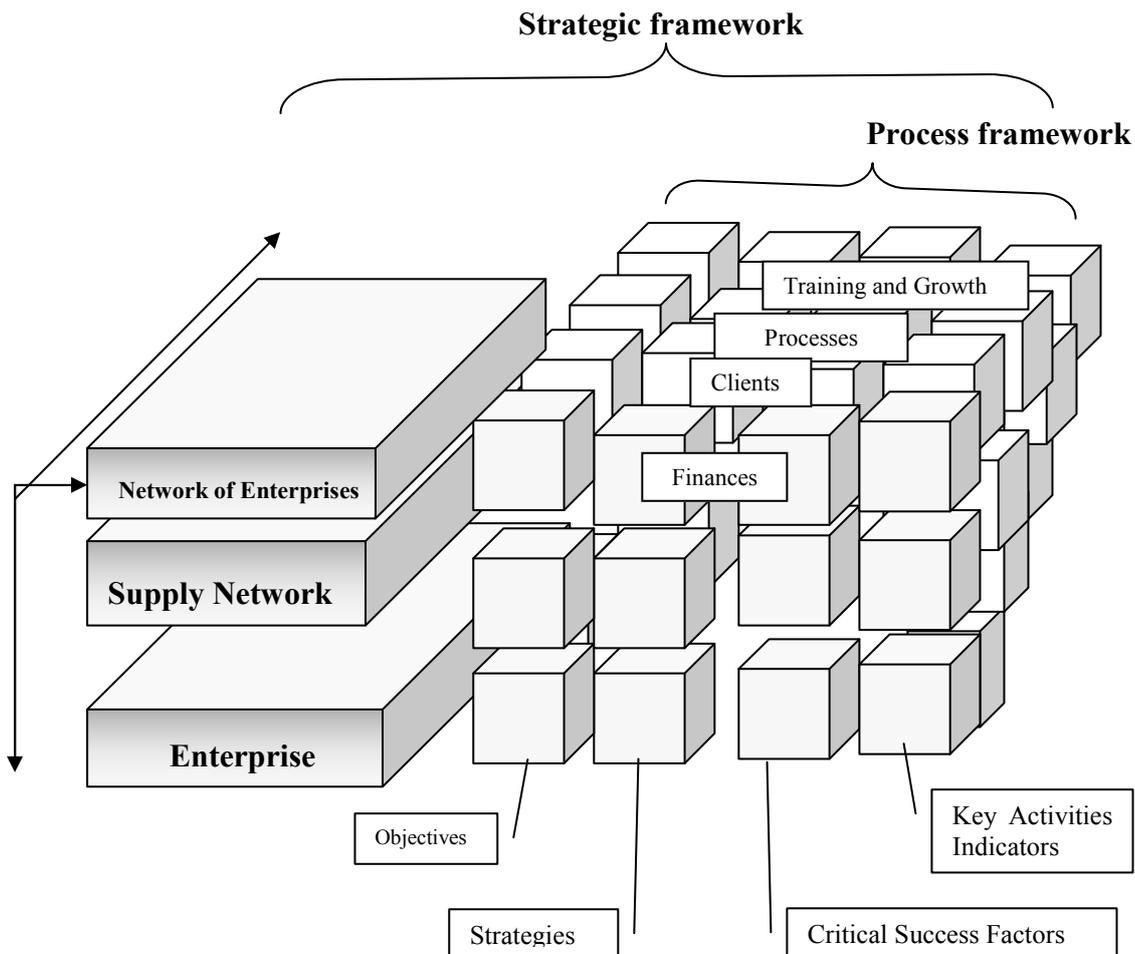
The customs' conducted assessment process of the business enterprises' activities has a number of procedural aspects, coming from the particularities of the activities themselves, and the assessment itself may have different specific objectives. The result of the implementation of the activities' assessment targets at the measuring of the achievement of those objectives that are taken into consideration carrying out the assessment activities. The assessment of the enterprises' activities can also be referred to the pre-audit. During this assessment the enterprise submits an application to customs asking for receiving the AEO status and the AEO certificate.

The process of the business enterprises activities' assessment analysis was carried out. It was found out that modern activities' assessment systems include and evaluate the policy issues of organizations. Therefore, in order to carry out the evaluation of activities, the organization's mission, policies and objectives should be combined together. Most of the authors creating the models of activities' assessment emphasize the importance of enterprises' strategy and long-term goals.

It was found out that the greatest influence in the process of business' assessment is done by the use of non-financial indicators. This has the greatest effect on business results. One of the activities' assessment models, including the assessment of the supply network, is a model of J. Saiz, A. Bass, R. Rodriguez [34] (Fig. 1).

After analysing this model it was found out that the process of activities' assessment is also characterised by the fact that it includes not only the evaluation criteria of a business unit but also of the supply network and the business network. An essential feature of the model is a particular requirement: first of all to consider and assess the organisation's strategy and only then to evaluate the ongoing processes.

In the customs a tool of enterprises activities' assessment is the customs audit. The assessment process of the customs audit of business enterprises' activities can be made on the basis of this model. The authors of this model stressing the importance of the strategy's implementation have identified its two components: a strategic framework and a process framework.



**Fig. 1. Structure of Business Activities' Assessment Process**

*Source: compiled by the author on the basis of J. Saiz, A. Bas, R. Rodriguez [34].*

After carrying out the analysis of the customs activities in various countries, it has been defined that the models used for the assessment of business enterprises' activities were started to be created only at the beginning of the 21st century. The first ones were the Swedish customs officials raising the ideas of the modern customs system. In 2001 they developed a model of the quality assurance and the simplification of the customs procedures. The model was called "Stairway". According to this model, another model of the assessment of business enterprises' activities – "AEO" – was developed and from 2008 implemented in the EU customs. Customs administrations of other countries have also developed a number of different programmes to define the business enterprises' activities. On the basis of these programmes specific activities' assessment models have been designed: programmes of Customs-Trade Partnership against Terrorism (C-TPAT) and Containers Security Initiative (CSI) in the United States, AEO Programme in Japan, Partnership in Protection Programme in Canada, Secure Export Programme in New Zealand, Frontline Programme in Australia. Customs audit models used for the business enterprises activities' assessment in the European Union, the United States, Sweden and Japan have been analysed.

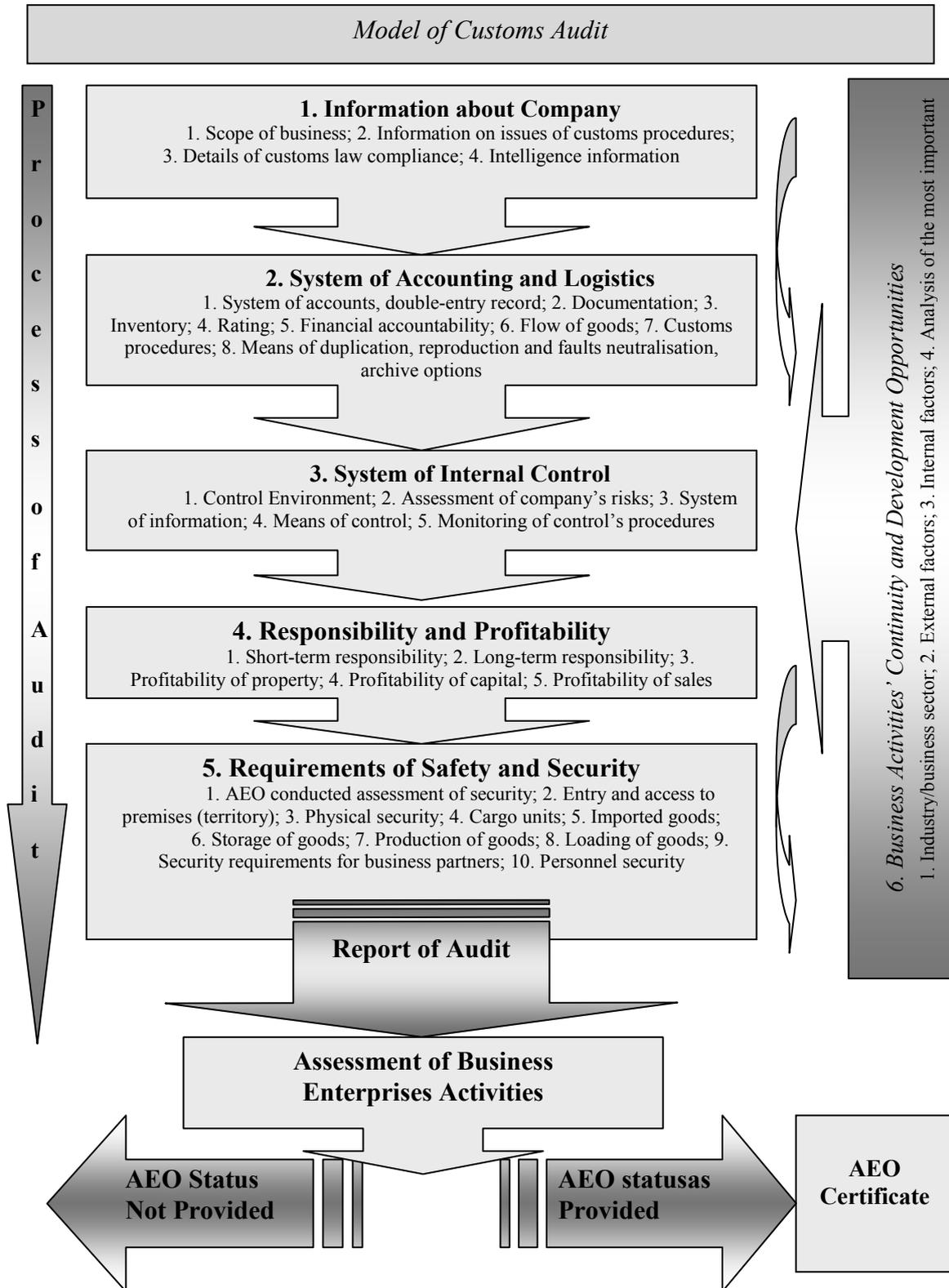
Under the competitive market's conditions, it is important to evaluate the business enterprises' activities. Customs conducted process of the business enterprises activities' assessment has a number of procedural aspects arising from the activity's particularity. The assessment of business enterprises' activities in EU customs is carried out taking into consideration the issuing/non-issuing of the AEO status – when the customs audit assesses the activities of the economic operator and its compliance with the established criteria. After analysing the enterprises activities quality's AEO certification process of the EU customs, it can be affirmed that this is a positive phenomenon, which can be considered as a first customs' step towards the positive assessment of the enterprise, taking into consideration its reliability. This process of certification provides a competitive advantage over other companies.

The EU customs audit model, assessing the activities of business enterprises seeking to gain the 'AEO' status, include the following fields of enterprise's activities: (1) evaluation of the available information about the company, (2) details about the requirements met, (3) company's accounting and logistics system, (4) company's financial solvency, (5) safety and security requirements. After the customs audit carried out the evaluation of business enterprise's activities and defined that the enterprise met the fixed criteria, a decision was made to grant the "AEO" status and to issue a certificate.

After analysing theoretical models of the business activities' assessment and after carrying out the analysis of the models of the business enterprises activities' evaluation – used in various countries – it is clear that the EU customs audit's model does not include one of the most important elements of the assessment - the company's vision, goals, strategy and related to these elements business risk's assessment. While assessing the company's activities, the analysis of external factors is very important. This helps the customs authorities to better assess possible risks and business perspectives. In this case, after identifying the external factors, it is extremely important to assess potential threats and possible changes in the enterprise.

The author's developed and recommended customs audit's model is depicted in Figure 2. The model is supplemented with new assessment areas: 1) business activities' continuity and development opportunities (indicators to be evaluated: an industry/a business sector, external and internal factors, the analysis of the most important financial indicators, a bankruptcy prediction, the analysis of the company's development); 2) the internal control system (indicators to be evaluated: the control's environment, the business risk's assessment, the system of the information, control's activities, the monitoring of the control's procedures). An assessment area "Responsibility and Profitability" is added by the new indicators of the property profitability, capital profitability and sales profitability. The analysis of the assessment's indicators in the model is carried out by connecting these indicators with the company's vision, goals and the implementation of the strategy. This additionally evaluated information provides the customs auditor with the opportunity to view the evaluated enterprise wider and in a more detailed way. It has also been found out that the segmentation of business enterprises activities assessment's models - according to the parties of

the supply network - has crucial advantages. This advanced experience is being applied by Japanese customs in their procedures. The author suggests adapting this to Lithuanian customs, developing activities assessments' models for each party of the supply network.



**Fig. 2. Recommended Model of Customs Audit for Assessment of Business Enterprises' Activities**

Source: compiled by the author

**Conclusions and recommendations.** In the global economic conditions customs activities remain of a great importance. With the growth of the international terrorism and the increased threats of the weapons and thus endanger the international trade and public security, customs are confronted with new challenges.

In most cases the main problem related to the activities' assessment, lies in the identification of the appropriate activities assessment's indicators. After analysing the models of the business activities' evaluation, it has been found out that the majority of them include the enterprises strategy's aspects. Therefore, in order to carry out the evaluation of the activities, the organization's mission, policies and objectives should be combined (Kaplan, Norton, [21]; Pongatichat, Johnston, [30]). It has also been found out that today's models of the business activities' assessment are characterised by the fact that the activities' assessment includes not only traditional business activities assessment's indicators but also the assessment of the entire supply network and inter-operational procedures. The supply network is influenced by a broad set of environmental factors. That is why, this assessment area is quite tricky and complicated, requiring a broad understanding of the importance of a global context.

It has been found out that various countries' customs administrations, assessing the activities of business enterprises, use different models of the activities' assessment. After analysing theoretical models of the business enterprises activities' evaluation and after carrying out the analysis of the models of the business enterprises activities' assessment used by the customs of various countries (EU, USA, Japan) as well as with reference to the personal practical researches, the author has developed a model of the customs audit, recommended in the evaluation of business activities. The author supplemented the model with new assessment areas: 1) business activities' continuity and development opportunities (indicators to be evaluated: an industry/a business sector, external and internal factors, the analysis of the most important financial indicators, a bankruptcy prediction, the analysis of the company's development); 2) the internal control system (indicators to be evaluated: the control's environment, the business risk's assessment, the system of the information, control's activities, the monitoring of the control's procedures). An assessment area "Responsibility and Profitability" is supplemented with the new indicators of the property profitability, capital profitability and sales profitability. The analysis of the assessment's indicators in the model is carried out by connecting these indicators with the company's vision, goals and the implementation of the strategy. This additionally evaluated information provides the customs auditor with the opportunity to view the evaluated enterprise wider and in a more detailed way.

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