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**Briefing: DTI mandates for combating
illegal and non-compliant imports**

**Presentation by the Industrial
Development Division of the dti to the
Portfolio Committee on Trade and
Industry**

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Background

- The illicit economy is growing incrementally all-over the world.
- Customs fraud & illegal imports is a key component of the broader illicit economy.
- Illicit trade, characterised by illegal imports, undervaluation, false declarations, rerouting and misuse of duty rebates and credits and custom fraud
- This erodes the country's manufacturing capacity and competitiveness and its revenue base as well as legitimate formal employment creation. Illegal activities of this sort give illegal and unfair advantages to companies in other jurisdictions competing against SA manufacturers
- The **dti's** work in this area is mainly advocating effective policy interventions – specifically that **trade facilitation should include a strong element of safeguarding SA manufacturing from unfair trade practices.**
- The **dti** is not the operational department on customs issues. SARS has a constitutional mandate for customs matters with **the dti** playing only a supportive function
- The dti's operational mandate is limited to the National Regulator for Compulsory Specifications (NRCS)
- Emphasis remains strongly on regulating compulsory specifications in support of industrial development to 'lock out' unsafe and non-compliant products and 'lock in' compliant products, including production for export markets.

National Regulator for Compulsory Specifications

- The NRCS was established through the National Regulator of Compulsory Specification Act No. 6 of 2008
- The NRCS is tasked with the administration of technical regulations including compulsory specifications to safeguard human health, safety and environmental health
- The dti through the NRCS develops and administers compliance with compulsory specifications.
- Imported goods with compulsory specifications, require Letters of Authority (LoA)
- NRCS works with SARS to ensure compliance with the requirements of Letters of Authority
- Working closely with other government agencies, especially Customs, the NRCS conducts port and post border checks and inspections
- Non-complaint goods are confiscated and destroyed.

Challenges: non-compliant imports

- Noticeable rise of non-compliant imports against the backdrop of increased LoA applications and intensified and unreasonable 'push-back' by importers including in high-risk sectors
- Post border NRCS inspection, including retailers has not significantly improved compliance to compulsory specifications in the marketplace
- Specifically difficulties with respect to the volume of inspections required for all outlets across the country selling NRCS regulated products.
- There are finite resources to carry out a traditional inspections approach.
- There is also an increase in industry and consumer complaints with respect to non-compliant products

Strengthening policy tools

- **Border Enforcement approach:**
 - Locking out non-compliant products at port of entry/borders in addition to enforcement and inspection at manufacturers' premises.
 - NRCS has established operational capacity to enforce at 19 ports of entry: 5 sea ports, 2 airports and 12 inland ports of entry bordering Botswana, Zimbabwe, Namibia, Mozambique, Swaziland and Lesotho.
- **Risk Based Approach:**
 - Due to the wide scope of products covered by the NRCS mandate set against limited resources; the intensity of the inspections is based on three risk classifications; high, medium and low,
 - These are profiled according to three main risk factors categorised into country of origin, company/importer and product.
 - The model is subject to refinement with the intention of dedicating more resources to the high risk areas.

Supportive DTI initiatives

- SARS implemented a Customs Modernisation Programme, which includes a real-time electronic system; an electronic reference pricing system and risk engine for search and seizure
- **the dti** work has focused on a reference price system with the Clothing and Textile sector as a pilot
- Ongoing engagement with the Port of Entry Control Centre (PECC); a pilot project to maximise co-ordination of state agencies at the ports of entry
- Partners at the PECC include: South African Revenue Services(SARS)/Customs; Department of Agriculture, Forestry & Fisheries; Department of Home Affairs; Department of Health; the South African Police Services (Border Police & Crime Intelligence) and State Security Agency
- **the dti** participates in the Customs Operations Key Industries Forum (CO-KIF); a platform for strengthened; aligned policy and programmes to enhance trade facilitation; voluntary compliance and attention to customs and excise fraud issues. Trade facilitation must go hand-in hand with stronger enforcement against illegal and non-compliant imports.

Achievements

- Over three years, R1 billion worth of illegal or substandard goods have been confiscated. This progress has been registered against the background of the SARS Modernisation Programme and stepped up work by the NRCS
- The reference pricing system has grown from 17 items to 131 items
- Joint conformity assessments between SARS and NRCS and related regulatory departments reside under the Border Control Operational Coordinating Committee (BCOCC).
- SARS implemented the new automated customs management system in August 2013.
- It was reported that the system has proved successful with close to 39 000 import declarations and more than 55 000 export declarations processed since its introduction.
- Increased LoA applications and intensified 'push-back' by importers including in high-risk sector

CONCLUSION

- IPAP is focused on 'locking out' non-compliant products and 'locking in' compliant manufactured products to protect SA manufacturers against illegal trade practices.
- Key actions include:
 - Closer and more detailed cooperation between Customs Division of the South African Revenue Services (SARS), the dti, NRCS, SABS, the Department of Justice and manufacturers, including through multi-lateral forums
 - Scaled-up targeted port and post port inspections and raids critical
 - Prosecutions must be secured
 - Steady and incremental strengthening and alignment of the Standards, Quality Assurance, Accreditation and Metrology (SQAM) institutions, including NRCS is critical.

Thank you