

KEYNOTE ADDRESS BY COMMISSIONER EDWARD KIESWETTER

International Customs Day Celebration

24 January 2020

Distinguished guests,

My colleagues senior officials from other Government Departments,

Representatives of the Private Sector & Civil Society,

Esteemed SARS colleagues,

And specifically today our Customs Officers and colleagues,

Ladies and gentlemen,

I welcome you, Good Morning,

(I would like to express the apology of the Minister Trade and Industry, who would have loved to be here. He had texted us this morning wishing us well for the day as he is representing South Africa at the World Economic Forum (WEF) at Davos. The Deputy Minister of Finance, scheduled to be here, has apologized as well. Last night, he was assigned to attend to an urgent matter on behalf of the Minister who is currently at the WEF in Davos.)

Thank you for joining us this morning, pausing for a moment and reflecting on the important work that we do at SARS across Tax and Customs for the moment we always seem to be bias to Tax. Today, we have a strong bias to Customs as we celebrate International Customs Day. More than 180 countries across the globe mark this day.

This year the World Customs Organisation (WCO) has chosen the theme: “**Customs fostering Sustainability for People, Prosperity and the Planet**”. The first two elements of this theme – security and prosperity largely reflect on the challenge faced by all governments; of providing safe borders to interdict the movement of harmful

goods and services on the one hand, whilst creating favourable conditions for economic growth and social development which requires naturally the free movement of goods and service. These two factors seems to be at tension with each other and our work is to reconcile it in a way that provides the ideal conditions. This requires the South African Revenue Service, as well as all partner Cross Border Regulatory Agencies (CBRAs), to strike a fine balance between stringent enforcement of compliance on the one hand, and service and trade facilitation on the other.

The third element contained in the message from the World Customs Organisation invokes a concern for the sustainability of the environment. We increasingly see that we have become irrelevant in this generation, it is now the twelve and thirteen year olds that correctly chastises us for being less than desirably conscious of our impact on the planet. By the way, we are the only species that consumes more than what we need and the rest of nature consumes what they need.

Particularly, to maintain the stable interglacial temperature conditions that we have enjoyed for the past 17000 years, which has allowed our civilisation to develop and blossom. We should take heed of the activists voices who remind us of the impact of reckless and selfish behaviour of human beings on our planet. Each one of us should do more to protect the environment which we have borrowed from our children and grandchildren. We ought to be better stewards to ensure that we bequeath a legacy better than what we have inherited. We know so much more. More is expected of us.

The theme recognizes that the role Customs plays is central to the wellbeing of society. The functional mandate of Customs is firstly, the facilitation of trade across our borders and our ports of entry, and secondly, it is a defining work, along with the Department of Trade and Industry and the Competition Commission to protect the integrity of our domestic economy. The higher purpose of this work is about the ultimate wellbeing of our people. In particular the worst impacted always being the poor and most vulnerable in society when industries are compromised, jobs are destroyed, as well as the domestic economy is damaged, it impacts the livelihood of ordinary South Africans. Factors which negatively impacts on economic growth and thus the stubborn challenges of poverty, unemployment and inequality.

Climate change remains a growing risk. It's devastating impact can only be slowed down and reversed through conscious continuous effort.

I would like to turn to another aspect in the theme for International Customs Day, namely Prosperity. We continue to live in an extremely unequal world. Sadly South Africa is one of the most unequal societies. We cannot in good conscience accept that the 26 wealthiest billionaires in the world own as much as the poorest 3.8 billion people on this earth. It is a gross injustice, and I remind myself at all time of the profound message from Martin Luther King: "*An injustice anywhere is a threat to justice everywhere*".

Poverty is in fact an act of violence. Inequality will eventually erode the wellbeing of those that live in relative privilege and so, ignoring it ultimately undermines the wellbeing of society. To build bigger gates and fences is the wrong approach to lower those fences and share what we have with our neighbor is a far more sustainable approach.

With this in mind I wish to place a spotlight on the importance of the work we do at SARS and in particular within Customs, along with our partner agencies.

I focus on a few salient aspects.

Firstly I discuss the issue of balancing service, security and enforcement - and its impact on the erosion of integrity within the domestic economy and loss of tax revenues.

A big concern remain the proliferation of the criminal and illicit economy. It presents a huge headache for Customs, as well as partner Cross Border Regulatory Agencies. Despite our efforts in counteracting the adverse social, security and economic impact associated with the movement of illicit goods and persons across our borders, these appear to be ineffective – we are not winning. Criminals have become brazen. Sadly, the broad culture of corruption across society, including the public and private sector has handed a hard blow to compliance. Criminals feel morally justified to break the law and thieve the fiscus from taxes and duties due to the state. As they see the very

state and broad prominent members of society themselves being guilty of corrupt behaviour and we need to call it out unapologetically.

In South Africa, the public has often heard us refer to this as “the illicit economy”. This is to demonstrate that in almost all the cases, transactions that take place clandestinely away from regulatory controls are usually illegal in nature, and seek to avoid paying the applicable taxes. Such activities are carefully constructed to be outside the reach of regulators and not subject to tax collection and appropriate regulatory treatment. This is an area of serious concern as it threatens not only the safety and economic development of our people, but our country’s fiscal sovereignty.

The rampant tax evasion associated with the illicit economy in South Africa causes a loss of a significant amount of tax income annually. This means that our government is deprived of the opportunity to narrow the budget deficit, decrease borrowing, or reduce the spending on interest repayments (expected by National Treasury to reach 13% of total expenditure in 2021/22), this also threatens our financial independence. I often remind people when I talk that sovereignty is not in the national flag or anthem whilst we endure this with great love and affection, our sovereignty rest in financial stability and independence. If we had to approach other agencies and borrow money, we give away our sovereignty.

This is something that South Africa cannot afford in this period of constrained global trade conditions, muted domestic economic growth, contracting Gross Domestic Product (GDP) – a decrease of 0.6% in the third quarter of 2019. This has reduced company profits, lowered domestic spend, and consequently, fewer and lower taxes we collect (tax revenue has increased by only 6.9% per annum during the last five years compared to growth of 10.5% in the preceding five years).

The illicit economy has many faces, but it is the smuggling of non-prohibited taxable goods, which poses important questions to us as a society relating to our tax morality, and the apparent ease with which we contemplate criminal behaviour.

As a result, SARS has embarked on a multi-pronged strategy to address the illicit economy. Allow me to share some of this with you.

In the short term we are improving our internal Organization within SARS as well as our Collaboration with our partners in government.

We have reconstituted a dedicated and focused capacity within SARS to deal specifically with Criminal and Illicit Economy Activities. We have established the capability for multi-disciplinary enforcement teams to conduct integrated investigations and audits. We are collaborating with partner agencies, including the National Prosecuting Authority (NPA).

In the past year, we have begun to work directly with the Minister, Director General and senior officials of Department of Trade and Industry and the Competition Commission to establish an inter-agency working group to address the phenomenon of illicit trade and economic activities collaboratively. The challenges are systemic and our response equally, have to be more strategic, coherent and address the entire ecosystem of which this scourge feeds daily.

These actions focus on areas of well-known illicit activity such as tobacco smuggling, illegal imports - particularly those that threaten jobs through unfair and illegal trade practices, counterfeit goods, etc. Our interventions are supported by data analytics, legal services and debt recovery actions. These efforts have begun to bear fruit but we need to step up significantly, and to date we have recovered R 2.6 Billion in taxes since 1 April 2019.

While the recovery of revenue is critical in responding to the illicit economy, we have also doubled our efforts in seizing and removing illicit products from circulation, thereby disrupting operations of those who continue to undermine our laws and regulations without regard to the devastating effect it has on our economy and the lives of all South Africans.

To effectively deal with the illicit economy in the longer term and on a sustainable basis, we have to work hard; better understand the behaviour of these criminal syndicates; increase our ability to detect and analyse risks; and develop specific responses where instances of non-compliance are detected.

To this end, we are in the process of conducting evidence-based research to better comprehend the illicit economy in South Africa by quantifying its size, identifying the various illicit activities taking place (in both the formal and informal sectors), examining the ways in which it manifests itself, and understanding the circumstances, or the reason for its propagation within various industries.

The research study is expected to be completed by March 2020.

In the medium to longer term, In line with our Vision 2024, to build a smart modern SARS, with unquestionable integrity, trusted and admired, as well as our strategic intent of Voluntary Compliance, we are reviewing a number of factors:

1. Addressing Institutional Capability and Integrity

This covers three areas:

1. Expand and increase the use of data
2. Exploit the emerging technology to disrupt our conventional business model
3. Evolve our human capability towards greater strategic and knowledge work and reduce the extent of manual work

These three vectors work in concert to enable us to build a more intelligent organization in our quest to build a “Smart, Modern SARS”. Allow me to explain how we are responding.

2. Big Data, Predictive Analytics and Machine Learning Algorithms takes us on a path where we will deploy artificial intelligence to derive better insights, highlight relevant risks, ensure more intelligent responses, and improved outcomes. To step up the focus on this work we are:

- a. Recruiting a Lead Data Scientist to help build data science as a professional discipline within SARS for envisioning and executing enabling strategies that is insight driven and evidence based in order to improve our overall business performance. Expanding and increasing the use of data is central to our risk analysis and case selection work. This will allow us to work more intelligently and not necessarily in a outmoded way which we sometimes do.

- b. Work harder to ensure the seamless transfer of data from third party sources like employers, banks, insurance companies, deeds register and asset registers, the company register and population.
- c. Institutionalize the use of socially available data.
- d. In Customs in particular work with other governments to Implement existing MOU'S that allow for exchange of trade information to help reconcile their export data with our import data and address data asymmetries. In many instances we already have MOUs in place but it is not properly implemented.
- e. Expand our capability to process structured and unstructured data through supercomputers and machine learning algorithms. No humans being can match or compete with a computer in this regard.

3. Data is the new gold. In the future data becomes a critical resource without which we will not achieve the balance between service and trade facilitation on the one hand, and enforcement against criminal and illicit activities on the other hand.

This brings me to another risk we face.

Data security is vital for SARS. Not only is data critical to us. It is also critical to criminals and those who seek to undermine our work. Whilst we have had no security breaches through our systems (touch wood), we are still exposed because human beings still present the weakest link. Some of our own employees still succumb to temptation to collude with taxpayers and traders. We have investigated a few matters and have convicted and imprisoned some of our employees in the past year. We will continue to monitor and speak out and address such matters by our own employees that we regard as a *“red card of fence”*.

Just late last night, I was informed that one of our Auditors have had their car broken into and a bag with a computer and SARS confidential information was stolen. Whilst this may simply be common break in and theft, we also cannot rule out deliberate sabotage to undermine our important work. This specific matter has been reported to the South African Police Service and we are conducting our own internal investigation. This incident has also initiated an urgent review that we initiated last night and a

communication will go out today to review our processes, systems and ways of working in this context. With a more mobile and agile workforce who at times work “on the go”, we have to have a greater assurance of data integrity and security. As our datasets enriches, it is also an opportunity for the thieves.

2. Emerging disruptive and innovative technologies allow us much more. Gone are the days when technology experts in organizations only run mega, multi year complex technology projects with a big reveal at the end. Emerging technologies allows for modular development with rapid deployments of minimum viable products. Digitally delivered taxpayer and trader experiences can be deployed rapidly and easily add value. Our aspiration to build a smart modern SARS include a reconceptualization of our technology modernization journey. But technology serves whatever purpose we can imagine. This includes greater capability for streamlined digital systems with seamless straight through processing. We will therefore accelerate the move away from physical documentation and manual processing towards dematerialization of all forms and submissions as well as straight through automated processing in real time.

To drive this technology modernization we are recruiting an experienced Technology Innovation Officer to help us re-imagine a new business model that will effectively disrupt our current business model.

Technology and Data Science becomes indivisible partners of our success, but will also impact our people. We cannot compete with computers and should not even try.

3. This brings me to how we develop and deploy people. Increasingly the unprecedented power that big data and innovative emerging technologies allow us will impact the work of people.

Too much of our work is still too manual and process intensive. This is cumbersome and of necessity is a trade off between our service and facilitation role on the one hand which as a result compromises our enforcement role. Our risk analysis and case selection should increasingly be based on the deep insights and trends that data provides us to detect the behavioral profile of high risk travelers and traders better. This allows better case selection, a more accurate assurance for advanced clearances, and a response more appropriate to the risk and offense.

If we succeed in the quest to build a more intelligence system, our modernization journey must also ensure that we invest in our Customs officials to provide them with the skills to do more strategic and knowledge work as well as a more effective at providing a level of service which is far more facilitative and supportive of honest travelers, traders and taxpayers.

If we do these three things well we will advance in our strategic objectives:

1. Expand and increase the use of data,
2. Deploy emerging technologies faster with more agility, but within a reimagined future and not accelerating inefficiencies of our own business model.
3. To develop and deploy our people to knowledge and service works.

In other words:

1. Clarifying the obligations on taxpayers and traders and provide greater certainty
2. Make it far easier and wherever possible seamless for those who wish to comply, and
3. Improve our ability to more accurately detect and enforce non-compliance and especially criminal activities of individuals, companies and syndicates.

The theme also highlights Prosperity

Customs administrations play in sustainable economic development environment, it is imperative that the Customs regulatory function performed by SARS on cross-border supply chains is engineered in a manner that best supports economic growth through trade facilitation.

Not only is the tax revenue derived from cross-border trade that is inherently dependant on efficient border processes, which create an enabling environment for legitimate business to prosper and flourish, but as a developing nation, we are equally dependent on that area of economic activity to foster increased trade volumes and attract investment into our economy - both domestic and foreign.

The African Continental Free Trade Agreement (ACFTA) is set to come into effect in July this year, ushering in one of the most transformative events in African trade relations. The ACFTA will bring together fifty-four African countries with a combined population of more than one billion people and a combined gross domestic product of more than US \$3.4 trillion.¹ South Africa, given its value added export basket into the African Continent, stands to reap tangible benefits that can have a substantial impact in enhancing economic growth and creating jobs. The ability to move goods faster through borders is one of the critical requirements to fully realise the benefits promised by this exciting development in the history of African integration.

The data, however, shows that we are failing South Africans in this regard. We have collectively allowed our borders to become significant obstacles to legitimate trade due to the addition of unnecessary costs and delays in the supply chain. Together with other relevant government agencies, a significant amount of work is afoot in this regard to implement the WTO Trade Facilitation Agreement (TFA) in a coordinated and coherent way, using the WCO tools and instruments as a guide.

When it comes to trading across borders, businesses in South Africa spend about 96 hours to comply with documentary requirements to import, versus 3.4 hours in OECD high-income countries.

Our cross-border performance is clearly evident from the 2019 edition of the World Bank's "Ease of Doing Business" report², which ranks 190 countries on their attractiveness to foreign investors using ten (10) measures to do so, including border efficiencies measured within the "Trading Across Borders," segment, which relates to the time and money it takes to document and clear imports and exports crossing the border.

On this measure, South Africa ranks a lowly 145 out of 190 countries, maintaining the same score from 2018, thus not recording any measurable improvement.

Looking at the performance of our BRICS partners, however, it is clear that we have a lot of work to do to reposition South Africa on the global map as an attractive trade

¹ African Union

² <https://www.doingbusiness.org/en/rankings>

and investment destination. In the 2019 “Trade Across Border Index”, China ranks at 56, India 68, Russia 99 and Brazil 108.

SARS cannot improve this ranking alone, or by merely introducing more Customs reforms. A deliberate collaborative effort by all stakeholders, including the private sector, is key in turning this situation around.

Whilst we, admittedly, have some lost ground to make up following the termination of the Customs Modernisation Programme, from which our last significant border improvements stemmed, data from the World Bank’s Logistics Performance Index shows that Customs administrations globally are responsible for approximately one-third of the delays that traders encounter at the borders.

To a trader, it matters little whether Customs is fully automated, if he/ she must still comply with manual and time-consuming processes at other Cross Border Regulatory Agencies. Likewise, what benefit is it to the trader if Customs employs sophisticated risk management techniques to limit the number of burdensome physical inspections it performs at borders, if other agencies continue to require containers to be opened for routine inspection, or agencies, including Customs, do not collaborate to ensure a single inspection event to avoid multiple inspections of the same container.

Also, it serves no purpose if trusted clients in the form of Authorised Economic Operators (AEOs) – a programme we will be launching early in the current year - with a demonstrated compliance record, are afforded expedited Customs treatment only to be randomly stopped by another agency.

Focusing exclusively on Customs reform is therefore unlikely to realise the sort of breakthrough that South Africa requires as a nation to significantly improve the competitiveness and efficiency of cross-border trade, in pursuit of economic growth and investment.

What is needed is a wider and more comprehensive approach, incorporating all partner agencies, through the Single Window mechanism.

A cross-border Single Window brings out the highest standard of public service excellence, as cross-border processes are transformed into new arrangements that

best serve the needs of travellers and business through a single interface, without regard to any internal separations within government.

Whilst there are many obstacles to face and overcome in such an endeavour, I believe that we are duty-bound to collectively act in the nation's interest, and to set ourselves the challenge of working together – SARS, partner Cross Border Regulatory Agencies, as well as the private sector – to achieve sustainable Single Window borders within the next five (5) years.

SARS is fully committed to working with other agencies alongside the Department of Home Affairs, in transforming our border crossings from being perceived as porous stumbling blocks to economic growth, to points of seamless integration with other countries, to ensure the flow of legitimate trade whilst also enhancing infrastructure and deploying technology to effectively target and disrupt illicit activities.

I wish to return to the environment

As part of its sustainability message for 2020, the World Customs Organisation suggests that Customs also contribute to enhanced environmental stability, and the fight against climate change by effectively collecting carbon taxes.

The last time carbon dioxide levels reached current levels (2019) was 2.6 million years ago, during the Pliocene era. No matter what we individually believe the cause for such high levels to be, scientific consensus is that the tipping point for irreversible climate change is a rise of 2 degrees Celsius above pre-industrial levels. We are approaching that at a rapid rate - in many regions, warming has already surpassed 1.5 degrees Celsius above pre-industrial levels³.

The impact of run-away climate destabilisation on the global economy will, by all accounts, be severe. Depending on the rise in temperature, Global Gross Domestic Product (GGDP) is estimated to fall between 15 and 30%, eclipsing the 25% brought about during the Great Depression, but this time, it will not just be temporary, but will have a lasting effect.

³ <https://climate.nasa.gov/news/2865/a-degree-of-concern-why-global-temperatures-matter/>

Climate shocks will be particularly acute in Sub-Saharan Africa due to the region's heavy reliance on the agricultural sector, not only for employment, but also for everyday livelihoods - a situation that places many lives at risk of increased poverty and food insecurity⁴.

The World Bank⁵ estimates that climate change will transform more than 143 million people into "climate migrants", forcing them to move within their own countries to escape crop failure, water scarcity, and sea-level rise. Most of this population shift will take place in Sub-Saharan Africa, South Asia, and Latin America – an area that represents 55% of the developing world's population.

When cross-border climate migration is factored in, the UN International Organization for Migration (IMO) projects a climate-induced migration figure of between 200 million and 1 billion people by 2050 – at the 1 billion mark, this would represent roughly a tenth of the 2050 population forecast of 9.8 billion people (current population figure is 7.6 billion)⁶.

This is a message that should deeply concern all of us. Mr Ban Ki-moon, the former Secretary General of the United Nations, perhaps summarised it best when he said, *"We are the first generation who can end poverty and the last generation that can take steps to avoid the worst impacts of climate change."*

SARS must therefore play its part in ensuring that government's measures to mitigate climate change under the 2015 Paris Climate Accord⁷ is met through the efficient collection of carbon taxes, in terms of the Carbon Tax Act, which came into effect from 1 June 2019.

The Carbon Tax Act gives effect to the polluter-pays-principle for large emitters, and helps to ensure that firms and consumers take the negative adverse costs

⁴ International Labour Organisation – World Employment Social Outlook: Trends 2018 - https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_615594.pdf

⁵ Groundswell : Preparing for Internal Climate Migration - <https://openknowledge.worldbank.org/handle/10986/29461>

⁶ <https://www.un.org/development/desa/en/news/population/world-population-prospects-2017.html>

⁷ South Africa ratified the Paris Agreement in November 2016

(externalities) into account in their future production, consumption and investment decisions. Firms are thus incentivised to adopt cleaner technologies over the next decade and beyond⁸.

Furthermore, the illegal trade in endangered species, more pointedly, the rhino horn, ivory and other protected species and products, is of concern for the developing world, and South Africa in particular. Together with other law enforcement agencies, SARS will continue to work tirelessly to curb the illegal trade and smuggling of these protected species, to ensure the safety, preservation and sustainable human interaction with the natural environment in general. Thus SARS, will continue to support efforts aimed at driving the national green and blue agenda, that seeks to create a society that lives in harmony with its environment and natural resources.

Conclusion

What is my key message today?

It is simply that all Cross Border Regulatory Agencies needs to realise that:-

- we have a common responsibility to do all in our collective power to help grow economic activity in the interest of our people, the alleviation of poverty and our continued fiscal sovereignty;
- this requires a paradigm shift in our thinking, attitude and our actions towards cross-border traders and travellers, a more systemic approach and greater collaboration;
- we need to collectively re-engineer our cross-border arrangements, at a process level through Single Window, to implement an aligned, seamless and efficient solution that best serves the needs of traders and travellers; and
- we need to do this sooner rather than later - while we still have the opportunity to do so – just like the climate challenge facing us all.

⁸ <https://www.gov.za/speeches/publication-2019-carbon-tax-act-26-may-2019-0000>

We need to make the difference now, in both cross-border Single Window and environmental protection – and not make the mistake of thinking that we can still carry on as before, that we can leave it for others to do later.

Remember, *“Someone's sitting in the shade today because someone decided to plant a tree a long time ago.”*

Let future generations enjoy the sustainable economic growth, safety and environmental fruits of our combined efforts – and not be subjected to the failures brought on by our procrastinations.

In conclusion, I would like to wish everyone here, as well as our Customs officials across the country, and the rest of SARS that support your work, a happy and inspirational International Customs Day.

To our Custom officers here and across the country who performs a privileged worked.

We appreciate your work and thank you!

END.