

# Follow-up of the evaluation of supervisory activities at free ports and open customs warehouses

## Federal Customs Administration

### Key facts

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The Swiss Federal Audit Office (SFAO) examined the follow-up to the recommendations of its report on the supervisory activities carried out by the Federal Customs Administration (FCA) at free ports and open customs warehouses.<sup>1</sup> These warehouses are used to store goods temporarily before they are sent to their final destination. Customs duties and other taxes are not collected until the goods are cleared through customs. In 2018, 194 open customs warehouses and seven free ports were in operation, while there were 245 open customs warehouses and ten free ports in 2014.

The FCA issues directives, defines provisions and issues operating licences. It ensures compliance with the conditions and rules through its control activities. In 2014, the SFAO considered that customs supervision was not sufficient to ensure the proper use of customs warehouses and to limit irregularities and the risk of illegal activities.

#### **Genuine desire to improve the situation**

The Federal Department of Finance and the FCA took these results seriously and committed themselves to a coherent approach, even though it took four years to implement concrete measures. The Federal Council set out the main thrusts. The FCA's new legal bases and internal rules came into force in 2016.

On this new basis, the FCA revised all free port and open customs warehouses operating licenses and then developed tools to improve risk analysis and controls.

#### **Changes that are heading in the right direction**

The FCA's strategy, developed in 2017, integrates current and future risks and challenges, including issues such as tax evasion. Subject to regular adaptation, the FCA now has a monitoring instrument at its disposal to take additional measures if necessary. This meets the SFAO's expectations and shows the FCA's willingness to manage this issue.

Among the new requirements, the FCA has defined minimum standards for maintaining inventories of stored goods. The name and address of the owner of the goods must appear on inventories. Free ports are required to provide an up-to-date list of their tenants and sub-tenants. Operating licences are limited in time, five years for open customs warehouses and ten years for free ports. The FCA set a minimum number of goods movements per year; 200 for the open customs warehouses and 5000 for free ports.

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<sup>1</sup> "Free ports and open customs warehouses – An evaluation of licensing and inspection activities" (PA 12490), available on the website of the SFAO ([www.sfao.admin.ch](http://www.sfao.admin.ch)).

### **More rigorous practice but some exceptions**

The SFAO noted the progress made during its visits to the customs offices at Geneva airport, Genève-Routes, Pratteln and Zurich airport. The quality of inventories has improved. Customs offices have information on free port tenants and use this for their risk analysis.

The review of the operating licenses led to a reduction of about 50 open customs warehouses and three free ports. The main reasons are related to the too low number of goods movements, as well as the deficiencies in the IT systems. In most cases, the operators themselves have decided not to pursue the process. This reflects FCA's greater rigour in applying its own rules.

The FCA takes more systematic measures and sanctions if operating conditions are not respected (incomplete or not updated inventories, lack of traceability of goods, security breaches, etc.). In 2017, the FCA issued 30 administrative measures against customs warehouses, including work to secure access to the Geneva airport free port to prevent the disappearance of goods.

The FCA tolerates exceptions to the minimum number of movements. This concerns about 45 open customs warehouses storing agricultural products and high-value goods. The changes in the operating conditions of free ports do not go as far as the SFAO would like, in particular with regard to the requirements and prior controls vis-à-vis tenants.

### **Significant improvement in risk analysis and controls**

Since the end of 2017, the FCA has been in possession of a risk analysis by open customs warehouse and tenants of free ports, multi-year planning and traceability of controls. This is a real improvement compared to the situation in 2014. During the first two months of 2018, the FCA carried out 109 checks at open customs warehouses and free ports, 30 of which reported results indicating that not all the required conditions were met.

The results of the checks are integrated into a database which is linked to other internal databases. The various levels of the FCA have access to this information. The Directorate General of Customs has ensured that customs offices have a common database. The customs offices have created more specialised teams. The training incorporates these specific issues and experiences are shared.

### **Good level of implementation of recommendations**

The FCA has made great efforts to eliminate the weaknesses. It has the necessary tools to meet its obligations and ensure that customs warehouses are used properly. New risk analysis and control practices are too recent to assess their effectiveness. Adapting risks and targeting controls is an ongoing task. The results of customs control activities will provide indications on the need for additional measures, depending on the evolution of the political and economic context.

**Original text in French**