

< Provisional translation >

SMART Customs Initiative 2020

— Working toward being the world's leading customs
for sound development of trade, a safe and secure society,
and a prosperous future —

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Customs and Tariff Bureau, Ministry of Finance, Japan

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Introduction

Japan Customs works to fulfill three missions: to realize a safe and secure society, to collect appropriate and fair customs duties and domestic consumption taxes, and to promote further trade facilitation, thereby ensuring the sound development of trade and a safe and secure society.

The global context of customs has changed significantly, and a comparison of the situation over the past 30 years (1988–2018) bears this out. Trade volume has increased by about 2.8 times, the number of import and export permits has increased by about 5.5 times, the amount of collecting customs duties and domestic consumption taxes has increased by about 5.7 times, and the number of foreign visitors to Japan has increased by about 13.2 times. In addition, trade is growing in various ways, such as the signing of a 17th Economic Partnership Agreement (EPA) in 2018, which did not exist in 1988.

Following the change of era from Heisei to Reiwa and the continued expansion of trade, there has been the worldwide outbreak of the novel coronavirus (COVID-19). The Japanese government declared a state of emergency from April 7 to May 25, asking people to refrain from going outside and restricting the use of facilities. Following the lifting of the state of emergency, requests for self-restraint have been gradually eased, and levels of socioeconomic activity are incrementally increasing. However, to prepare for the possibility of another outbreak, we continue to monitor the status of the infection and take basic control measures, such as ensuring social distancing. With the Tokyo 2020 Olympic and Paralympic Games next year and the Expo 2025 Osaka, Kansai, Japan in 2025, the context of customs is constantly changing.

The structural context of customs is also expected to see significant changes in the future, such as the further expansion of cross-border e-commerce and shifts in the makeup of society.

Given these circumstances, the Customs and Tariff Bureau and Japan Customs must work to improve the sophistication and efficiency of our customs operations, improve convenience for our users, and meet the expectations of the public 20–30 years from now.

We also believe that to adapt to future changes in the context of our work, it is important to foster a culture wherein each and every staff of the

Customs and Tariff Bureau and Japan Customs is encouraged to come up with their own ideas, to consider ways to improve procedures, and to think about the future.

To this end, the Customs and Tariff Bureau has drawn up a medium- to long-term vision of customs administration, the SMART Customs Initiative 2020. Through the introduction of AI and other cutting-edge technologies, this initiative aims to being the “world's leading customs”, which will bring about the sound development of trade, a safe and secure society, and a prosperous future, through fulfilling our three missions as a customs authority, and through initiatives such as improving the convenience of customs procedures with the viewpoint of citizens.

This summary is the first step in a medium- to long-term vision of customs administration. Thus, we will ascertain any changes in the context of our work and conduct reviews as necessary, taking initiatives in other countries as a reference.

I. Predicted Changes in the Context of our Work in the Medium- to Long-term

1. The Flow of Goods

(1) Expansion of cross-border e-commerce

The global cross-border e-commerce market is expanding because of the proliferation of inexpensive devices such as smartphones, as well as the growing population of Internet users. This market is also expected to see further growth in the future.

Cross-border e-commerce is heavily reliant on SP cargo¹, the use of which is growing rapidly.

Further expansion of cross-border e-commerce in Japan is expected in the future, and with the increasing miniaturization and individualization of imports and exports due to factors such as SP cargo, customs will be required to ensure more appropriate and prompt customs clearance.

A report² by the Ministry of Economy, Trade and Industry (METI) states that only 6 percent of the Japanese population of Internet users uses cross-border e-commerce. Reasons for this cited in the report included people's belief that domestic e-commerce is sufficient, language barriers, high shipping costs, and long delivery times. If this situation changes, cross-border e-commerce is expected to increase further.

(2) Conclusion of EPAs and growth of the FTA ratio

The Growth Strategy Follow-up³ lists economic partnership negotiations as one of the ways to build a free and fair rule-based economic order that supports the international expansion of Japanese companies, and a number of EPAs are being negotiated. In the future,

¹ "SP cargo" refers to small-lot express cargo, known as international express cargo and international courier service, which is essentially end-to-end transport from the doorstep of the exporter (shipper) to the doorstep of the importer (receiver). SP stands for "small package." In addition, the growth of SP cargo has been particularly strong as global trade has undergone "parcelization," with the unit of transport shifting from traditional containers to small parcels.

² METI, "FY 2018 Infrastructure Development for a Data-Driven Society in Japan (Market Survey on e-Commerce)"

³ Growth Strategy Follow-up (Cabinet Decision of June 21, 2019)

new EPAs and the expansion of the FTA ratio⁴ are expected to further expand trade with countries with which EPAs are concluded.

(3) Increase in the size of ships and the construction of marine transport networks

The ocean freight market has seen a global trend toward larger container ships and bulk carriers. In addition, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT)'s medium- to long-term policy for ports and harbors⁵ calls for strengthening direct services from major ports, bolstering the functions of international strategic container ports (Keihin Port and Hanshin Port), and building marine transport networks through initiatives to collect cargo from Japan and overseas. Accordingly, in the future, there could be significant changes in sea cargo trends, including the ports of call for cargo ships.

2. The Flow of People

(1) Increases in the number of foreign visitors to Japan

In its “Tourism Vision to Support the Future of Japan,” which aims to turn Japan into a “developed nation of tourism,”⁶ the government has set a goal of increasing the number of foreign visitors to Japan to 60 million by 2030. Other initiatives include strengthening the ability of regional airports to act as gateways, promoting LCC operations, and further expanding the number of cruise ships received. Consequently, the number of people entering the country is expected to increase further, as is the number of airports and seaports that they use to do so.

Regarding cruise ships, the MLIT's medium- to long-term policy for ports and harbors calls for the creation of a “Northeast Asian Cruise Hub”

⁴ FTA stands for “Free Trade Agreement,” the aim of which is to liberalize trade in goods and services by eliminating tariffs and regulations in the services sector. EPA stands for “Economic Partnership Agreement,” a comprehensive economic partnership that, in addition to elements of an FTA (liberalization of trade in goods and services), also includes investment, movement of people, and bilateral cooperation.

The “FTA ratio” refers to the amount of trade, as a percentage of Japan's total trade, with countries with which EPAs/FTAs have entered into force or been signed (51.6% in 2018).

⁵ MLIT, “Medium- to long-term Policy for Ports and Harbors ‘PORT 2030’” (July 2018)

⁶ Council for the Development of a Tourism Vision to Support the Future of Japan, “Tourism Vision to Support the Future of Japan” (March 2016)

in Japan and for the entire Japanese archipelago to evolve into a “cruise island.”

According to the United Nations World Population Prospects⁷, by 2050 the world’s population will increase by 26% from the current 7.7 billion to 9.7 billion, with particular growth in countries such as India and Nigeria, which are expected to become major economic powers. It is therefore possible that the number of foreign visitors to Japan will continue to increase beyond 2030.

(2) Increases in the number of Japanese travelers overseas

The number of Japanese people traveling abroad has also been on the rise in recent years. The Tourism Nation Promotion Basic Plan⁸ seeks to make it easier for Japanese people to travel abroad and promote international exchange, setting a target of 20 million⁹ Japanese people traveling abroad by 2020. Therefore, the number of Japanese citizens entering and leaving the country is expected to increase going forward.

3. The Flow of Money

(1) Emergence of crypto-assets

The generally assumed means of payment has been legal tender issued by a central bank, but recently, what are referred to as “Crypto-assets”¹⁰ (assets with a payment function based on digital information technology) have emerged, and it is reported that more than 1,500 types of crypto-assets are in circulation worldwide. If the use of crypto-assets to pay for goods in place of legal tender becomes more common in the future, we may face challenges such as those of how to evaluate crypto-assets as a tax base and how to demonstrate proof of payments in criminal investigations.

⁷ United Nations, “World Population Prospects 2019”

⁸ Tourism Nation Promotion Basic Plan (Cabinet Decision on March 28, 2017)

⁹ This number reached 20.08 million in 2019 (Source: Japan National Tourism Organization (JNTO))

¹⁰ Crypto-assets (virtual currency) are defined in Article 2, Paragraph 5, Item 1 of the Payment Services Act (Act No. 59 of 2009) as “property value which can be used in relation to unspecified persons for the purpose of paying consideration for the purchase or leasing of goods or the receipt of provision of services and can also be purchased from and sold to unspecified persons acting as counterparties, and which can be transferred by means of an electronic data processing system.”

(2) Promotion of cashless systems

At present, the government is promoting cashless payment systems with a view to improving productivity for businesses by reducing cash processing costs and improving convenience for consumers to make payments, and it is aiming to double the ratio of cashless payments¹¹ to about 40% by June 2025¹².

Consequently, there will be a growing need to establish a cashless environment. This will allow, for example, payment of customs duties and consumption taxes at customs clearance using credit cards or smartphones with two-dimensional codes.

4. Changes in Social Structure/Disaster Risk, etc.

(1) Change in the total population and the labor force

Japan's total population is expected to continue to decline over the long term, and according to the National Institute of Population and Social Security Research, it will fall below 100 million by 2053 (birth median estimate). It is predicted that between 2020 and 2030, the total population will decline in 45 prefectures (all those other than Tokyo and Okinawa) and that between 2030 and 2035, it will decline in all prefectures¹³.

The institute also estimates that the working-age population (aged 15 to 64) will decline from 75.16 million in 2018 (59.6% of the total population) to 59.78 million (53.9% of the total population) in 2040 (birth median estimate) owing to a decline in the birthrate and demographic aging.

At the same time, various measures¹⁴ have been taken to cope with the declining number of children, such as improving early childhood education, childcare, and child-rearing support in accordance with the

¹¹ Credit, debit, and e-money payments as a percentage of private final consumption expenditure; 24.1 percent in 2018

¹² Growth Strategy Follow-up (Cabinet Decision of June 21, 2019)

¹³ National Institute of Population and Social Security Research, "Population Projections for Japan" (2017 Estimate)

¹⁴ Cabinet Office, "FY 2019 Report on the Declining Birthrate and related Countermeasures (2019 White Paper on Measures for a Society with a Declining Birthrate, 2019)" (June 2019)

local situation and creating conditions that enable people to realize their wishes for marriage and childbirth. Thus, there is a need to keep a close eye on future trends in total population.

There have also been moves to raise or abolish the retirement age, and the composition of Japan's labor force is likely to change accordingly.

Future changes in regional economic conditions due to changes in total population and working population could affect ports and airports used for cargo import and export, as well as foreign trade ships and aircrafts that use these ports and airports.

(2) Work-style reform

The work-style is also undergoing change. With the growing awareness of work-life balance, both sectors, public and private, are working to create an environment that enables various work styles that extend beyond time and location, such as flextime and telework (working from home, working at satellite offices, etc.). In addition, the use of advanced technology to automate and streamline desk work, known as Robotic Process Automation (RPA), will further change the way we work by reducing the amount of time spent on simple tasks and expanding the scope of staff activities to include other tasks.

(3) Preparation for disaster risks, etc.

Japan is prone to disasters such as typhoons, heavy rainfall, floods, earthquakes, and volcanic eruptions. Thus, it is important to continue to prepare for disaster risks.

According to the Headquarters for Earthquake Research Promotion, there is a greater than 70% chance that an earthquake with a magnitude of 7 or greater (in the Kuril-Kamchatka Trench, the Japan Trench, the Sagami Trough, or the Nankai Trough) will occur in the next 30 years¹⁵.

The spread of COVID-19 in Japan and abroad has had a significant impact on international logistics and the number of foreign visitors to Japan. At Japan Customs, it is important to carry out our duties properly in such situations while ensuring the safety of our staff, and we must be prepared for these kinds of infectious diseases.

¹⁵ Headquarters for Earthquake Research Promotion, "Results of the Evaluation of Major Trench-Type Earthquakes (Earthquake Probability)," published February 26, 2019.

5. Progress of Cutting-edge Technologies

(1) Application of AI and other cutting-edge technologies

The government is aiming to achieve Society 5.0¹⁶, a new society wherein economic development and solutions to social issues can be achieved at the same time by incorporating AI and other cutting-edge technologies such as robotics, big data analysis technology, and distributed ledger technology (blockchain) into every area of industry and social life.

We believe that it is important for Japan Customs to make active use of cutting-edge technologies to help bring about sound development of trade, a safe and secure society, and a prosperous future.

(2) Launch of 5G services

Significant progress is expected to be made with regard to communications technology. In the Growth Strategy Follow-up, the government has set a goal of launching fifth-generation (5G) mobile communications systems in all prefectures by the end of FY 2020. In addition, if the technical characteristics of 5G—"ultra-high speed, multiple simultaneous connections, and ultra-low latency"—are made a reality, large amounts of data would be amenable to simultaneous exchange, and smoother and more accurate communication between multiple locations at the same time be possible through, for example, ultra-high resolution video transmission. The introduction of 6G is expected to take place around 2030, and efforts are being made in the public and private sectors to introduce it.

(3) Application of distributed ledger technology to trade

Distributed ledger technology (blockchain) is an emerging technology that makes data difficult to tamper with and enables transactions to be

¹⁶ "Society 5.0" refers to a human-centered society that combines cyberspace (virtual space) and physical space (real space) to a high degree to achieve both economic development and the resolution of social issues. It follows on from the hunting society (Society 1.0), the agricultural society (Society 2.0), the industrial society (Society 3.0), and the information society (Society 4.0) and was proposed in the Fifth Science and Technology Basic Plan (approved by the Cabinet on January 22, 2016) as a new society to aim for.

tracked and information to be shared between parties. Thus, we have seen a trend at overseas ports and companies toward using it in trade.

As the use of this technology in trade evolves, it could be useful if it is used in trade procedures between companies in the supply chain and that data is shared with customs.

6. Changes in the International Security Situation

(1) The ongoing threat of international terrorism

According to the Public Security Intelligence Agency's "Review and Prospects of Internal and External Situations" (January 2020), international terrorism continues to be a threat. With terrorist incidents occurring on the occasion of major international events overseas and the ongoing uncovering of terrorist plots, the situation will continue to require attention. In addition to terrorism aimed at killing or injuring people and damaging property, cyber terrorism (cyber-attacks) aimed at interfering with business operations and exploiting confidential information is said to have become an everyday matter in Japan and abroad.

To achieve a safe and secure society, Japan Customs must continue to keep a close eye on the situation regarding terrorism.

(2) Growing sophistication of smuggling by North Korea

Japan Customs plays the vital role of upholding the ban on North Korean-flagged vessels from entering ports at the waterfront, that on imports of all items from North Korea, and that on the export of all cargo destined for North Korea, which have been imposed as a response to North Korea's nuclear tests and ballistic missile launches, among other things. There are also reports¹⁷ that even as these sanctions are being maintained, North Korea continues to procure goods and foreign currency through increasingly sophisticated methods, such as smuggling petroleum products and other goods by ship-to-ship transfer at sea. Japan Customs must continue to keep a close eye on these developments.

¹⁷ Public Security Intelligence Agency, "Review and Prospects of Internal and External Situations" (January 2020)

(3) Increased activity among international criminal organizations and increased sophistication of crimes

The National Police Agency's "White Paper on Police 2019" identifies that drug trafficking organizations, that is, drug cartels with international networks, have been active in the trafficking of stimulants in the Asia-Pacific region, and that trafficking routes involving foreign visitors to Japan are deeply rooted. It has also been reported that criminal organizations composed of foreign visitors to Japan have become multinational in nature, with members of various nationalities playing different roles to carry out their crimes more skillfully and efficiently, and there have been cases of their collaboration with Japanese organized crime groups. In addition, with the changes in Japan's economic and social structures brought about by its internationalization, it may become easier for international criminal organizations to infiltrate into and penetrate the country. This will make Japan Customs' role of border control even more important.

Cutting off the flow of funds to international criminal and terrorist organizations can weaken these organizations, and so, combating money laundering and terrorist financing has become an important task for the international community.

Japan Customs must continue to work with the relevant organizations to monitor the situation regarding these international criminal organizations.

II . Responding to Increased Diversity and Complexity in Customs Operations

Even as the context of customs changes, it is vital that Japan Customs properly carries out its three missions: the realization of a safe and secure society, the appropriate and fair collection of customs duties and domestic consumption taxes, and the promotion of trade facilitation.

However, even though the three missions themselves may not change, the increased diversification and complexity of operations in light of the changes in context discussed in Section I. may require new approaches in addition to those emphasized in the past.

From this perspective, we have examined these increasingly diverse and complex customs operations in the order in which they are likely to require new approaches: the promotion of trade facilitation, the appropriate and fair collection of customs duties and domestic consumption taxes, and the realization of a safe and secure society.

1. Promotion of Trade Facilitation

Currently, the Customs and Tariff Bureau and Japan Customs are striving to promote trade facilitation. This involves further streamlining and speeding up customs clearance procedures by implementing AEO (Authorized Economic Operator) Program and the use of IT, thereby improving convenience for users while maintaining security in international logistics. We are also contributing to the growth of the Japanese economy by maintaining and strengthening the multilateral free trade system through EPA negotiations and other means. Possible approaches in light of the changing context described in Section I. are given below.

(1) Ensuring trade facilitation in response to changes in the context of our work

Various measures have been taken to date to promote trade facilitation, such as the Pre-arrival Examination System, the AEO Program, and the liberalization of customs office to which import/export declarations are submitted¹⁸. This will remain important even if the changes described above in “1. The Flow of Goods,” “2. The Flow of People,” and “4. Changes in Social Structure/Disaster Risk” take place.

Therefore, it is important to consider necessary measures over the

¹⁸ “The Pre-arrival Examination System” is a system that allows a preliminary declaration to customs and an examination prior to cargo arriving in Japan to be made.

The “ AEO Program” is a program under which Customs recognizes and accredits businesses that have a well-developed system of cargo security management and legal compliance, and provides the businesses with relaxation and simplification of customs procedures.

The “liberalization of customs office to which import/export declarations are submitted” is a system that allows AEOs to make import and export declarations at any customs office, while in principle making import and export declarations to the customs office that has jurisdiction over the location where the cargo is stored.

medium to long term, taking into account the use of technologies such as those mentioned in Section I-5. “Progress of Cutting-edge Technologies.”

(2) Improving user convenience in the application of EPA rates

As mentioned below in Section (1) of “2. The Appropriate and Fair Collection of Customs Duties, etc.,” the application of EPA rates to imported goods is expected to become more common practice than ever before. Thus, it is necessary to take measures to further improve convenience for users, such as providing necessary information for the application of EPA rates to importers and exporters in an appropriate manner.

In addition, the government has taken the opportunity of the TPP to encourage not only large corporations but also small- and medium-sized enterprises to participate in exports with EPAs. The aim is to become a “new exports powerhouse” by actively developing exports of not only industrial goods but also agricultural and food products, and other goods, as well as content and services¹⁹.

As Japan Customs has amassed a wealth of expertise, particularly regarding rules of origin, it is important to actively contribute toward promoting the use of EPAs (support for exporters), which, in turn, will lead to industrial growth.

(3) Contributing further toward making the country a tourism nation

As mentioned in Section I-2. “The Flow of People,” it is important to take measures to further facilitate the flow of people into and out of Japan in preparation for an increase in the number of foreign visitors, thereby contributing further toward making the country a tourism nation. In addition, as mentioned above in Section I-3. “The Flow of Money,” it will be important to work on establishing the environment for a cashless society.

¹⁹ Comprehensive Policy Framework for the TPP and Other Related Policies (decided by the Comprehensive Task Force on the Trans-Pacific Partnership on December 5, 2019)

2. Appropriate and Fair Collection of Customs Duties, etc.

As the revenue authority that collects a total of about 9.1 trillion yen in customs duties, consumption taxes, and other taxes, an amount equivalent to about 14.2% of national tax revenue, Japan Customs collects customs duties and other taxes in an appropriate and fair manner. Possible approaches in light of the changing context described in Section I. are given below.

(1) Handling the confirmation of applicable rates for EPAs

In recent years, mega-EPAs, such as the TPP11 Agreement and the EU-Japan EPA²⁰, have come into force, and others, such as the RCEP²¹, are under negotiation. As mentioned in “The Flow of Goods” section, with the conclusion of new EPAs and the expansion of the FTA ratio, the application of EPA rates to imported goods is expected to become more standardized than ever before, and we can expect the range of items for which the applicable rates should be checked to expand further.

In particular, in confirming the applicable rate, checks are performed to confirm whether the goods to be imported originate in the exporting country. This involves inspection at the time of import customs clearance, a follow-up check by requesting information in writing after import customs clearance, and/or a follow-up inspection by visiting the importer's place of business. Thus, we expect these operations in particular to increase.

In addition, some EPAs have provisions to the effect that Japan Customs may request information from the customs authorities of the exporting country to confirm whether the product originates in that country, and work dealing with these requests is also expected to increase.

(2) Further strengthen measures against tax evasion and fraudulent tax refunds

In recent years, there have been numerous cases of gold bullion

²⁰ The “TPP11 Agreement” refers to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which came into effect on December 30, 2018. The “EU-Japan EPA” refers to the Japan-EU Economic Partnership Agreement (EPA), which came into effect on February 1, 2019.

²¹ The “RCEP” refers to the Regional Comprehensive Economic Partnership.

smuggling to evade consumption tax, and with the hike in the consumption tax rate in October 2019, our role as a tax collection agency is expected to become even more important.

It will also be necessary, in conjunction with the National Tax Agency, to continue appropriate measures against the abuse of consumption tax refunds at the time of export.

3. Realizing a Safe and Secure Society

Japan Customs is committed toward realizing a safe and secure society by preventing the smuggling of illicit drugs, guns, and other illegal substances as also preventing terrorist acts in Japan, thereby making Japan the safest country in the world. In addition to fighting goods that infringe on trademarks and other intellectual property, Japan Customs also stands at the border to check for goods, the import and export of which are regulated by laws and regulations other than customs laws, such as the Food Sanitation Act and the Act on Domestic Animal Infectious Diseases Control. Possible approaches in light of the changing context described in Section I. are given below.

(1) Ensure the effectiveness of counterterrorism measures and North Korea sanctions

To prevent the flow of terrorism-related goods and ensure the effectiveness of the North Korean sanctions at the borders, it is important to pay attention to trends in the international security situation and other issues and to fulfill the role of customs with precision in cooperation with relevant domestic and foreign agencies.

(2) Respond to increasingly sophisticated smuggling tactics and international criminal organizations

With regard to stimulants and other illicit drugs, the volume of seizures in 2019 exceeded 3 tons, while the number of import suspensions for goods that infringe intellectual property has remained at a high level. In addition, as mentioned above in Section I-6. “Changes in the International Security Situation,” given the increasing sophistication of smuggling methods and the trends among international criminal

organizations, the role of customs is expected to become ever more important in achieving a safe and secure society. In addition, the requirement for a more effective and efficient control at the border is expected to be felt as more illegal goods other than illicit drugs and goods that infringe intellectual property are uncovered. These include plants and animals subject to the Washington Convention and counterfeit resident cards.

(3) Strengthen controls on exports

In addition to illicit imports, there have been cases of illicitly exported stolen vehicles and illicit exports to North Korea made by falsifying the country of destination. Given increased awareness of the importance of measures against money laundering and the financing of terrorism, it is necessary to respond appropriately to public demands for strengthening border controls in cooperation with relevant domestic and foreign agencies.

III. Medium- to Long-Term Vision and Measures

Considering the changes in the global context of customs and the responses to the increased diversity and complexity of our operations discussed above, we have set out a medium- to long-term vision for bringing about sound development of trade, a safe and secure society, and a prosperous future under the following four keywords.

- Solution

Aim to ensure more appropriate and prompter customs clearance by providing solutions to improve compliance and convenience in customs procedures for trade-related businesses, travelers, and others.

- Multiple - Access

Aim to expand and strengthen information-sharing with relevant agencies and trade-related businesses to further implement both facilitating trade and strengthened border control.

- **Resilience**

Aim to maintain and develop customs administration while ensuring the convenience of customs procedures in preparation for changes in social structures and disaster risks.

- **Technology & Talent**

Actively incorporate AI and other cutting-edge technologies into our customs operations and aim to enhance operations by finding new ways to make customs procedures convenient and to implement more effective, efficient, and sophisticated enforcement. Alongside the use of cutting-edge technologies, we aim to train personnel, review our operations, and improve the work environment.

For each of the four keywords, we have also identified the measures that we believe should be taken to realize the aforementioned four-pronged medium- to long-term vision.

We define short-term measures as those that can be implemented over a period of 1–3 years, and medium- to long-term measures as those that can be implemented over a longer period (up to 10 years).

1. Solution

Aim to ensure more appropriate and prompter customs clearance by providing solutions to improve compliance and convenience in customs procedures for trade-related businesses, travelers, and others.

(Medium- to long-term measures)

(1) Further digitization of customs procedures

- ① In the field of commercial cargo, customs procedures have been systematized to provide a “one-stop, once-only” service to all customs procedures, including those of related ministries and agencies.

Similarly, in the area of customs inspections on entry, the introduction of E-Gates (The Electronic Customs Declaration Gates) is proceeding alongside the digitalization of the personal effects declaration forms, which were previously required to be submitted on paper.

As we work to further digitize customs procedures relating to inbound passengers, we will continue to seek cooperation with the Immigration Services Agency and other relevant ministries and agencies by strengthening cooperation and information-sharing as necessary.

② We will work tirelessly to digitize, to the fullest extent possible, procedures that involve written applications and notices of disposition (e.g., procedures for tax reduction and exemptions, and unaccompanied personal effects on entry).

③ In addition, with a view to improving convenience for right holders, etc. we will consider further digitization of the Verification Procedures for goods suspected to infringe intellectual property.

(2) Further improve the convenience of responding to inquiries

The customs consultation service is a point of contact between Japan Customs and its users. To further improve convenience for users, we will investigate using automated response programs as a channel for inquiries that can operate at any time, including providing support on weekends and at night.

(3) Handling cross-border e-commerce

In view of the further development of cross-border e-commerce and the expected increase in imports of SP cargo and international mail, which require rapid customs clearance, we are aiming to improve convenience for users by ensuring ever more appropriate and prompt customs clearance while maintaining effective and efficient border control.

In view of the need to strike a balance between border control and prompt customs clearance, we will consider implementing a wide range of measures. These could include improving and streamlining inspections by automating the cargo inspection process at customs inspection stations, using specialized declarations for small shipments (such as SP shipments), and obtaining and applying advance electronic information.

(Short-term measures)

(1) Improve the E-Gate app and communicate information for improved use

As users of the E-Gate will be required to download an app for making declarations, we will make further efforts to publicize the app and improve it to make it easier to use.

Passengers who do not have access to the app will also be able to use the E-Gate after completing the declaration process electronically using the Electric Declaration Terminals located at the customs checkpoint at the arrival airport.

In addition to expanding the number of airports covered by the E-Gate, we will actively promote awareness among foreign visitors and contribute to the development of a stress-free environment for their entry into Japan.

(2) Implement cashless payment of customs duties

The government is currently working to promote a cashless society. To improve the convenience of users in paying charges such as customs duties and consumption taxes, we will examine ways to accommodate cashless payments by, for example, allowing payment using credit cards and smartphones with two-dimensional codes.

(3) Support the use of EPAs

Under the self-declaration system, importers verify the origin of goods by themselves. Thus, they must be familiarize with proper knowledge required to apply EPA rates. Furthermore, as the conclusion of EPAs progresses, an increase is expected in the number of cases wherein Japanese exporters respond to certifications from their export partners. On the basis of the extensive knowledge of rules of origin and other related matters that we have accumulated at Japan Customs, as well as the advance ruling we have been providing, we will contribute to smoother trade by supporting the use of EPAs through providing assistance on the request of importers and exporters.

In particular, we will work to understand their needs for support, put in place appropriate frameworks, providing information, and enhance our response to questions and consultations.

(4) Improve the Japan Customs website

We will improve the content and functionality of the Japan Customs website, which provides information on topics such as tariff rates and customs clearance procedures, making it easier to view so that users can easily search for and obtain the necessary information.

2. Multiple - Access

Aim to expand and strengthen information-sharing with relevant agencies and trade-related businesses to further implement both facilitating trade and strengthened border control.

(Medium- to long-term measures)

(1) Further cooperation with relevant agencies

① As well as implementing the policies outlined in “1. Solution” above, we will share information more proactively than ever with the Immigration Services Agency, the police, the Narcotics Control Department, the National Tax Agency, and other relevant agencies, while also striving to enhance information-gathering. This will be done with a view toward tightening control of terrorism-related goods and illicit imports and exports, as well as strengthening countermeasures against tax evasion and fraudulent consumption tax refunds. In relation to the control of goods infringing intellectual property and the identification of goods, the import and export of which is governed by other laws and regulations, we will also continue to cooperate with the ministries and agencies with jurisdiction over the said laws and regulations.

② We are considering the further use of E-Gates, and when collaborating with the Immigration Services Agency and other relevant ministries and agencies in relation to these procedures, we will consider ways to share information while taking into account the Act on the Protection of Personal Information Held by Administrative Organs and other laws.

Improvements to the E-Gate app that can be made in the short term

and awareness-raising efforts to improve its use will be conducted as necessary (see the short-term measures (1) in “1. Solution”).

③ One emerging trend is the use of trades on the so-called “Dark web” for drug-related crimes, including smuggling. Japan Customs will also share information on increasingly sophisticated smuggling tactics with the police, the Narcotics Control Department, and other relevant ministries and agencies and will collaborate with them in conducting joint investigations.

④ In recent years, there have been cases of high-volume smuggling of stimulants and other substances using shipping containers. Accordingly, there is a need to tighten controls on marine cargo, such as by means of active use of large-scale X-ray inspection equipment, while also striving for smooth customs clearance. To this end, we will strengthen cooperation with the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), which has jurisdiction over ports, and investigate advanced applications of large-scale X-ray inspection equipment in accordance with the development and progress of each port.

(2) Further cooperation with businesses

① We will take the following measures with a view toward realizing a safe and secure society and ensuring appropriate and prompt customs clearance.

a. While respecting voluntary efforts by AEOs to ensure legal compliance and cargo security, we will strive to expand the use of the AEO program by improving its convenience of use and promoting transparency in its operation. We will also strengthen our partnerships with AEOs, considering examples of initiatives abroad.

b. It is important to take advantage of the self-management system for customs bonds and to conduct accurate controls in this regard. We will make efforts to ascertain the status of physical and personnel compliance in trade-related businesses, including those involved in bonded operations.

c. Japan Customs has also established certain partnerships with

various industry associations in the transportation and travel industries, and we will further strengthen these partnerships through regular exchanges of ideas.

② Of the various businesses involved in cross-border e-commerce, we currently have partnerships with carriers and customs brokers. In the future, however, in view of the need to improve convenience for users, we will consider forming partnerships with e-commerce platform operators to further expand the range of advance information available and facilitate customs clearance without being slave to the current frameworks.

(3) Cooperation with universities, etc.

In the past, we have cooperated with universities and other research institutions by dispatching staff through university-commissioned training programs. Going forward, however, this cooperation could include initiatives such as joint research to investigate applications for cutting-edge technologies.

(4) Further cooperation with foreign customs authorities, etc.

① To provide a seamless environment for the legal flow of people, goods, and money in international trade, we will deepen our cooperation with not only the partners in (1)–(3) above but also foreign customs authorities, other relevant law enforcement agencies, etc.

② International cooperation and measures for the future of customs, such as the use of cutting-edge technologies, are also being considered in other countries and in international frameworks such as the World Customs Organization (WCO). We will continue to collect information, explore international cooperation, communicate Japan's policies, and contribute to discussions.

③ With regard to challenges faced in the development and application of cutting-edge technologies such as AI (e.g., challenges in dealing with crypto-assets, securing learning data, and human resource development for the technologies) in particular, we will share Japan's

experience to the greatest extent possible and obtain information on the experience of partner countries and their efforts to overcome challenges.

(Short-term measures)

(1) Enhanced information-gathering

Japan Customs is redoubling its efforts to obtain and use advance information on cargo and passengers and to gather information for counterterrorism purposes. We will strive to obtain and use this information more quickly and appropriately and will continue to expand the range of the information. For example, we will cooperate with the relevant countries and regions to obtain advance information on air passengers. Further expansion of advance information on ship passengers is expected, and we will participate in discussions on cruise ship control at the WCO.

(2) More efficient information-gathering

As well as testing web crawling to automatically collect information on the Internet, we will also consider the use of new technologies. Furthermore, to further improve the efficiency of information-gathering, we will strengthen cooperation with relevant ministries and agencies on information-sharing (improving information-sharing methods and sharing new information).

(3) Put in place an environment for closer cooperation

We are actively holding meetings, exchanging opinions, and engaging in technical cooperation to strengthen cooperation between customs authorities. Because of time and budgetary constraints on meetings and opinion exchanges that involve physical transportation, a videoconferencing system and other measures will be introduced to further strengthen cooperative relationships.

3. Resilience

Aim to maintain and develop customs administration while ensuring the convenience of customs procedures in preparation for changes in

social structure and disaster risks.

(Medium- to long-term measures)

(1) Investigate systems resistant to disasters and other emergencies

Japan is prone to natural disasters such as earthquakes and typhoons. Hence, constant preparation is required. At present, almost all import and export declarations are processed through the Customs clearance system. Although measures have already been taken to minimize the impact on the Customs clearance system in the event of a disaster, we will also keep a close eye on trends in new technologies and continue investigating ways to make the system more resilient.

(2) Implement cutting-edge technologies for monitoring and control of coastlines, etc.

Future changes in the local economies of regional cities due to changes in total population and working population will affect the movement of foreign trade ships and aircraft that regularly travel to and from these regions. This will require local ports and airports to ensure more efficient and effective enforcement by better utilization of limited resources.

To respond flexibly to such changes in the context of our work, we will continue to come up with ways to monitor the coastline and other areas. We will also monitor the progress of cutting-edge technologies, such as unmanned aerial vehicles (e.g., drones) and satellite information, as well as their use by the relevant domestic and overseas agencies, investigating ways to use these technologies in order to improve the sophistication and efficiency of monitoring and control.

(3) Review of examination and inspection methods

It is important to ensure uniform customs operation and proper and prompt customs clearance even in the event of major changes to trends in import and export declarations or a disaster affecting logistics. Thus, it will be necessary to investigate ways to achieve this.

Therefore, we will continue to monitor changes in the context of our work and examine measures to deal with them.

(Short-term measures)

(1) Preparation for disasters, etc.

- ① We will examine the possibility of using an AI-based information-gathering service to collect in real time the latest information on damage caused by earthquakes, typhoons, and other unforeseen circumstances, thus enabling a quick response.
- ② The Customs and Tariff Bureau and Japan Customs have been sharing their experiences in dealing with earthquakes and typhoon, other disasters in the past. Each customs office has already drawn up a Business Continuity Planning (BCP), and these will be updated in a timely manner, including responses to the spread of infectious diseases such as COVID-19.
- ③ Periodic drills will be conducted to prepare for a manual response in case the system is brought down by a disaster.
- ④ As some of the documents stored at customs offices are not saved electronically, we will try to digitize them as much as possible so as to reduce the risk of loss because of a disaster.

(2) Create an environment for flexible working styles

We have already introduced flextime and telework in reforms of working styles; however, the experience of the COVID-19 outbreak suggests that we should make it possible to work more flexibly than ever before, even in times of disaster. To allow more staff to connect to the systems customs have from their home devices with remote access (i.e., thin clients), we will improve this feature and enhance the telework environment by increasing the number of devices that can be connected. We will also strive to improve the operational efficiency of telework by digitizing documents that are not stored electronically and making it easier to access necessary information from home and other locations.

4. Technology & Talent

Actively incorporate AI and other cutting-edge technologies into our

customs operations, and aim to enhance operations by finding new ways of making customs procedures convenient and implementing more effective, efficient, and sophisticated enforcement. Alongside the use of cutting-edge technologies, we aim to train personnel, review our operations, and improve the work environment.

(Medium- to long-term measures)

(1) Proactive deployment and use of cutting-edge technologies

- ① The Customs and Tariff Bureau and Japan Customs are conducting research for deployments and uses of various kinds of cutting-edge technologies.

It is not only a matter of replacing operations with the technology but also one of reviewing and optimizing them. In addition to optimizing operations, we will also consider reallocating human resources and budgets, paying close attention to the expected further increase in import and export declarations because of the expansion of cross-border e-commerce and the further increase in the number of foreign visitors to Japan, in accordance with government policy.

- ② AI is expected to increase the sophistication and efficiency of work operations with its ability to process and analyze large amounts of data such as images and text at high speed. Therefore, in addition to the following efforts (short-term measures (1) ① and ②), we will explore a wide range of other fields in which AI can be applied.

- ③ A WCO report²² mentions the possibility of using various cutting-edge technologies in customs operations, as shown below.

We will continue to monitor research on cutting-edge technologies by the WCO and their application and testing by other countries' customs authorities while also exploring the possibility of applying them to Japanese customs operations.

(a) Distributed ledger technology (blockchain)

The use of blockchain in customs procedures may help to ensure legitimate procedures, facilitate trade, and detect fraud.

²²WCO, "Study Report on Disruptive Technologies" (June 2019)

However, application of this technology will require investigating the extent to which it can prevent illegal transactions and tax evasion. Some drawbacks have been noted, such as the fact that if false information is entered into a blockchain network, it will be recognized as legitimate.

(b) Internet of Things (IoT)

In international logistics, the IoT is used by, for example, logistics companies to track the number and status of goods in transit in real time and trade-related businesses to track the whereabouts of goods.

The participation of Japan Customs in this IoT network will enable us to access a variety of information on the supply chain, enabling us to respond to any irregularities, such as by knowing in advance if there is an excess or shortage of a shipment.

It is also possible that the information collected and stored by the IoT could be used as big data for analysis.

(c) Drones

The customs services of the US and Dubai already use drones for investigative and surveillance purposes, and they are also said to be effective for border and sea monitoring. Drone-based smuggling has been occurring in other countries; hence, measures to prevent this are also being considered.

(d) Virtual, augmented, and mixed reality

Virtual, augmented, and mixed reality technology could be used in various ways, for example, to provide footage of a customs officer's inspection of personal belongings or cargo to other officers or to project an environment in which a container or vessel is inspected and use it to train customs officers.

- ④ There are reports that some private companies are using AI to judge the authenticity of trademarks as an anti-counterfeiting measure. We will keep a close watch on these kinds of applications of cutting-edge technology and consider ways to use AI that would be useful for control by Japan Customs of goods that infringe intellectual property.

One of the services that demonstrate the potential of the IoT is Mobility as a Service (MaaS)²³, which makes it possible to make reservations and payments for multiple vehicles (car rentals, trains, buses, airplanes, etc.) from smartphones and similar devices in a single operation. For example, if customs procedures for passengers and cargo are incorporated into these services in the future and information on the movement of people and goods is shared between the public and private sectors, the movement and transportation of goods may become even smoother. We will continue to monitor trends in these new services accordingly.

⑤ Moving forward, the introduction of cutting-edge technologies, such as AI, may be considered with an eye to increasing operational efficiency and implementing diverse work styles for staff. However, we will also consider the extent to which the current work should be carried out by humans and that which should be outsourced to technology.

“Social Principles for Human-Centric AI”²⁴ prescribes a number of points to be considered in the appropriate use of AI, including that we should not be overly reliant on AI, that AI should not be misused to manipulate human decision-making, and that privacy should be ensured. The freedom, dignity, and equality of individuals should not be infringed upon in the use of data on their behavior. We will pay close attention to these issues when using AI in customs.

(2) Infrastructure provision

① When applying cutting-edge technologies, cost issues are expected to arise when procuring servers and other equipment to ensure data

²³ In countries such as Finland, Germany, and Sweden, these services have been introduced in the private sector alone or as public–private sector partnerships, and the breadth of services provided ranges from intra-city to inter-city and international transportation.

²⁴“Social Principles for Human-Centric AI,” decided by the Council for the Promotion of Comprehensive Innovation Strategy (March 29, 2019)

This is a set of principles that relate to the framework of Japanese society as a whole, including national and local governments as well as multilateral frameworks, and consists of seven items: (1) Human-centric, (2) Education/Literacy, (3) Privacy Protection, (4) Ensuring security, (5) Fair Competition, (6) Fairness, Accountability, and Transparency, and (7) Innovation.

security; however, the use of cloud services may be able to reduce the operational burden and costs.

In addition, based on the fact that the use of cloud services is increasing in many areas of society and that the "Digital Government Action Plan"²⁵ states that government agencies are to make thorough use of cloud services, we will consider how cloud services should be used alongside these cutting-edge technologies.

② As some offices have introduced X-ray CT scan inspection equipment²⁶, it is also important to expand the use of such cutting-edge technology in enforcement and in inspection equipment. Alongside using equipment more effectively, we will continue to study and examine the introduction and application of equipment based on these cutting-edge technologies while keeping a close eye on trends in customs authorities in other countries.

(3) Consider Business Process Reengineering (BPR)²⁷

With the introduction of new technology, it is necessary not just to replace operations with technology but also to review the current workflow to optimize operations.

For example, when introducing cutting-edge technologies such as RPA or systematizing work operations, it is necessary to break down and write out the workflow. A side effect of this process is that it enables operations to be visualized. Therefore, in the process of replacing work operations with cutting-edge technology, we will review our workflow as necessary.

(4) Technical support for AI and systems

If AI is implemented in Japan's customs-related systems in the future, it would be possible to provide systems support based on this technology to developing countries' customs authorities, which may lead to further

²⁵ "Digital Government Action Plan" (Cabinet Decision of December 20, 2019)

²⁶ X-ray CT scan inspection equipment is a device that uses computed tomography (CT) technology to obtain transmission and cross-sectional image information from all directions.

²⁷ BPR, standing for Business Process Reengineering, is a method of reviewing workflows to restructure them. It involves disassembling the workflow and reevaluating the necessity of each process.

efficiency and convenience improvements in the customs services of these countries. In addition, because the development of personnel capable of using AI is essential to its effective use, we will investigate what technical support is required.

(Short-term measures)

(1) Proactive deployment and use of cutting-edge technology

① AI Analysis of Big Data

Japan Customs has accumulated a vast amount of information on past import and export declarations. We will start using this big data on trial basis by having AI study and analyze it toward supporting customs inspections and selecting targets for post-clearance audits.

② Support inspection by AI analysis on X-ray image

It is hoped that, by having the AI study a large amount of data from X-ray images of cargo, it would be able to assist in reviewing X-ray images from inspections. Before making actual use of the system in the field, we will continue to investigate, improve the system's accuracy, and aim to use it to make our operations more sophisticated and efficient.

③ Robotic Process Automation (RPA)

Using RPA for routine and repetitive tasks such as data entry and reprinting is expected to improve the efficiency with which these tasks are performed. Thus, RPA will be introduced in all customs offices across the country, and the range of operations to which it can be applied will be expanded.

④ Nuclear Quadrupole Resonance (NQR) device (for stimulant concealment detection)²⁸

In many cases where illicit drugs have been detected, stimulants have been concealed in or around the bodies of passengers entering Japan. To deal with such concealment, we are conducting research on the practical application of inspection device that uses radio waves to

²⁸ NQR, standing for Nuclear Quadrupole Resonance, which is a device that emits radio waves and measures the electric waves that resonate with and are reflected back.

detect stimulants, and we aim to deploy it as soon as possible.

(2) Digitizing operations

To maintain an environment that makes use of cutting-edge technology, we also need to digitize our operations to the fullest extent possible.

In international mail, for example, electronic information is obtained and applied in advance, and the number of countries and regions covered by the system is gradually expanding. Digitalization of air passengers' personal effects declaration forms is also progressing with the use of E-Gates.

Going forward, we will continue to advance the digitization of our operations and investigate the use of these data in the application of cutting-edge technologies.

(3) Development of the system for consideration, Human resource development, and securing staff resource

① To conduct customs operations effectively and efficiently in the future, we must actively make use of cutting-edge technologies such as AI. To this end, we will establish a “Council for the Promotion of AI and Other Cutting-edge Technologies in Customs” (provisional title), in which external experts will participate in addition to Customs and Tariff Bureau and Japan Customs staff, with the two bodies working as one to carry out their investigations.

② In addition to considering the employment of external experts and the use of private-sector technologies and services, Japan Customs will also develop its own framework, possibly including fusion with and customization of private-sector technologies and services on its own initiative as there may be cases where it is necessary to respond in accordance with the individual requirements of customs offices.

③ To develop personnel who are well-versed in the field of data science, which is necessary for understanding and mastering cutting-edge technologies such as AI, we will teach all staff on what they need to know and give trainings to provide staff who require such knowledge in their work with practical expertise. Simultaneously, we will

proactively recruit individuals with grounding in cutting-edge technology, and we will secure personnel who can bridge the gap between business and systems when deploying cutting-edge technologies and systematizing operations.

— For Japan’s future —

- (1) In the ever-changing context of international trade, we have drawn up the “SMART Customs Initiative 2020” as a medium- to long-term vision for customs administration.

Amid the current pandemic of the novel coronavirus infection, the Customs and Tariff Bureau and Japan Customs are taking a flexible approach to assist all concerned. This involves giving priority to the clearance of goods to secure relief supplies and essential utilities; allowing import and export declarations at customs offices that are most convenient for importers and exporters; submitting documents that require original copies in electronic form; and omitting the affixation of seals to documents that require them.

With regard to the business continuity of Japan Customs, in addition to the BCPs that we have reviewed as necessary, we have also promptly taken necessary measures against COVID-19.

However, the current pandemic not only has had a significant impact on economic activity but also a global impact on how we live our lives. Major changes in the flow of goods, people, and money, as well as in people’s behavior and attitudes toward working styles, are expected to take place after the end of the outbreak.

Going forward, it will be necessary to make our work operations more sophisticated, efficient, and convenient from a new perspective that looks at the structural changes in the economy and society caused by the spread of COVID-19. We will reconsider the way of customs consultations, which mainly involve face-to-face communication, as well as the use of flexitime and telework, which have been introduced to create a better working environment.

Paying close attention to these new perspectives, the Customs and Tariff Bureau and Japan Customs will continue working to investigate matters from the perspective of the public, taxpayers, and also future generations.

- (2) In the future, as customs operations become more sophisticated and efficient with cutting-edge technologies, the importance of checking goods directly (operations requiring physical confirmation of goods) and

post-clearance checks (operations that involve on-site inspections of trade-related businesses) by staff will remain the same. However, it will be important to reduce the workload of these tasks through the application of cutting-edge technologies, to design and develop work methods that consider work–life balance, and to plan, maintain, and manage the application of these technologies appropriately. Therefore, as we continue to make customs operations more sophisticated and efficient, we will investigate the need for training the necessary personnel to enable us to focus on this work.

(3) We also believe that to adapt to future changes in the context of our work, it is important to foster a culture in which each and every staff of the Customs and Tariff Bureau and Japan Customs is encouraged to come up with their own ideas, to consider how to improve procedures, and to think about the future. Consequently, as we work on the various measures set forth in the SMART Customs Initiative 2020, we will do so with an organizational mindset of “three I’s.”

① Innovative

- By ensuring that all staff members are literate in AI and other cutting-edge technologies and are creative in their use of data and information (intelligence), we aim to use these technologies to enhance the sophistication and efficiency of our operations.
- We will foster an organizational culture in which each and every member of staff can approach their daily work with an innovative mindset.

② Inclusive

To flexibly respond to changes in the context of our work, we will create an environment in which each and every member of staff, regardless of personal characteristics such as age or gender, can make the most of their abilities while improving their “human skills.” In addition to trade-related businesses, such as importers and exporters, we will work with a wide variety of other organizations and individuals to resolve a wide range of issues.

③ International

- Customs serves as the gateway to foreign countries. Thus, we have an awareness of being connected to the rest of the world. We not only pay

attention to international affairs and pass on technology through technical cooperation but also learn from customs authorities around the world with an open mind, aiming to be the world's leading customs.

- (4) We will steadily implement the various measures required to realize the SMART Customs Initiative described above while also conducting necessary reviews of the operational and institutional aspects of our work. Furthermore, if the flow of goods, people, and money can be made even faster and stress-free while giving due consideration to the safety and security of society, it will make it possible for new materials, products, and other goods, as well as people from different industries and cultures, to interact more widely and profoundly than ever before. In this kind of context, we believe that new industries and values will be created and that a vibrant economy with a diverse and abundant society will also emerge.

We at the Customs and Tariff Bureau and Japan Customs will strive to achieve a safer and more prosperous society and to ensure a happy future for each and every citizen.