

AEO and paperless procedures: a great opportunity for companies

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With the entry into force of the ‘Union Customs Code’ in the European Union, and the still all too real terrorist threat, obtaining the status of an Authorized Economic Operator is even more vital than ever for companies in the world of logistics. However, guaranteeing and optimizing the process of obtaining this status calls for the use of tools essential to paperless procedures, also known as dematerialization, which in turn have been rendered vital by the need to control costs and the stiff competition in the field of international transport. Never before has a convergence of interests led to such a happy marriage.

BORN IN 2005 out of the terrorist attacks in New York (2001) and Madrid (2004), it was under the shadow of the 13 November 2015 terror attacks in Paris that the European Union (EU) status of Authorized Economic Operator (AEO) celebrated its 10th anniversary. In fact, the term AEO first made its appearance on 13 April 2005, at the heart of European Regulation (EC) No 648/2005.

Specifically, this European text, then those which would follow, lays down that economic actors holding AEO status may benefit from facilitations and simplifications in Customs matters, while being categorized as trustworthy companies, guaranteeing a certain level of safety. Three types of AEO status were initially instituted: security/safety; Customs facilitations; and ‘full’. The Union Customs Code (UCC), which

applies from spring 2016, will allow a slight reform of the provision.

This new Code, whose watchwords are risk management and a paperless environment, will be a genuine source of opportunities for companies with AEO status. The UCC reserves exclusive access to new Customs authorizations for AEOs: centralized clearance; entry in the declarant’s records waiving the obligation for goods to be presented; self-assessment; and a reduction of the comprehensive guarantee on debts incurred.

It will also allow new facilitations, in regards to Customs controls for instance. Conversely, the criteria for awarding AEO status will be tightened up; a ‘levelling up,’ or raising of standards, will therefore be seen in the world of Customs clearance.

Ten years after its birth, with over a thousand AEO statuses issued by French Customs, and around 15,000 in the EU as a whole, this article examines what lessons can be learned by companies, how paperless procedures represent an opportunity for AEOs, and what opportunities still remain.

A responsible stakeholder in Customs clearance

With the UCC and the planned phasing out of Customs brokers, what was announced in 2005 will in future become a reality: AEO status will become the main instrument of clearance. The AEO status requirement will fully justify the trustworthiness of the operator, and a Customs representative approved as an AEO could, by right, provide services in an EU Member State other than that in which it is established.

It is worth pointing out what is at stake for companies: those which do not have AEO status will have to justify their competence and their relationship of trust with the Customs administration by other means, which are inevitably less reliable and less relevant. Conversely, AEO operators will benefit de facto from such trust, and will be able to clear goods through Customs on behalf of others without any additional constraints. Inevitably, all this will lead to a ‘levelling up’ of the profession, and those who cannot adapt will be subject to natural selection – and will disappear.

For companies involved in logistics, there will be no fall-back option: it is the case of ‘to be or not to be.’ Obviously, as they have been doing for several years, authorized companies will use their AEO status in marketing to promote the quality of their service. The approach is commendable, and undoubtedly consistent. It should not, however, mask the reality of what is at stake: to be put to good use, AEO status

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cannot be a passive logo on an Internet site – it must be a component of the actual product.

Very few companies awarded AEO status seem to have understood this: to be an AEO means to claim a privileged partnership with Customs. However, above all it means the assertion, *urbi et orbi*, of the most demanding compliance rules in matters of clearance and of security/safety. This conformity, certified by Customs itself, is a very strong requirement of international calls for tender for logistics services, and constitutes a key element of the logistics product. To optimize it, it must be structured.

Constraints and advantages of AEO status

Obtaining ‘full’ AEO status, i.e. Customs facilitations and security/safety, requires a company to deploy, and above all control, four series of processes: pure Customs processes; security/safety processes; internal operational processes (not including Customs); and outsourced processes. Not forgetting the responsibility, management and accountability of collaborators, as well as their necessary flexibility. Together, this deployment and regular control represent, it cannot be denied, a workload which may turn out to be extremely burdensome. It is difficult to build up an AEO status, and above all maintain it, without dedicating

one or more personnel members to the task.

Controlling subcontractors, for whom the AEO is constantly responsible, is without a shadow of a doubt the most binding task. Because the security chain is only as strong as its weakest link, any break in the chain makes the whole process invalid. Clearly, being an AEO and subcontracting some of the logistics work to a company which is not an AEO, and not under control, boils down to negating the very principle of AEO status and of safety.

Again, marketing cannot be simple packaging. And so subcontractors need not only to be approved, but also audited and controlled regularly, to ensure that their claims are, and remain, valid. All this under the shadow of a ‘sword of Damocles’ that few stakeholders have acknowledged: potentially extremely heavy civil liability in the event of a breach of the legal obligations. Extremely heavy, and extremely difficult to insure.

Paperless procedures: better risk control

Yet this is the path of history. Those who fail to follow it will fall by the wayside. If the risk cannot be insured – for example, what insurance company would insure the civil consequences of an attack resulting from radioactive or chemical materials imported with impunity into EU territory



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by an AEO – we need to channel it, limit it and structure it. Even though prudence is called for, an AEO whose processes were structured and controlled in accordance with European laws could hardly be found liable, as it would be necessary to prove its gross negligence.

This is where paperless procedures come in: a fully automated operational chain, that is dematerialized and controlled by managers, would, for instance, help to ensure that subcontractor X, approved two years ago, has actually been audited since his integration, that he has actually sent in his up-to-date AEO certificate or a copy of his safety declaration, that his premises are still secured, and that his staff are being monitored, etc. Human intervention is certainly not eliminated, but is limited to steering and monitoring.

Paperless procedures: optimizing the advantages of AEO status

Paperless procedures first and foremost reduce the risk of errors, be it incorrect data entry or ‘routing’ errors, or errors in transferring documents or parcels. Letting companies calculate, each year, what operational errors cost them, will lead to a better understanding that an investment in paperless procedures and automation is cost-effective!

The audits carried out by ALIS International on a number of freight forwarders are clear: on average, out of 20 disputes or litigation files, representing a total of close to two million euros, 90% of the risk could have been averted by dematerializing documents and procedures. Failure to request certificates of insurance, inversion of the content of trailers, loading instructions not transmitted to the subcontractor, poor ‘routing’ of a parcel with compensation for damages, clients not guaranteed financially, loss of a document resulting in incorrect payment of duties and taxes, failure to take account of Customs quotas, etc. – the list is long, but the evil is not without remedy.

Certainly, dematerializing documents without automating processes only solves part of the problem. Although it is impossible to achieve ‘zero errors,’ the

expected benefits are manifold: significantly reduce the number of disputes and litigation; guarantee and update client and supplier contracts; meet compliance requirements; reduce arrears; reduce the risks of theft, loss and delay; eliminate all or some Customs fines and recoveries of duties and taxes; and reduce the amount of insurance premiums, because you can only negotiate with an insurance company if you have limited and perfectly managed operational and financial risks.

But what about the AEO in this process? Why is the AEO indispensable to paperless procedures? Is it not possible to launch a process of dematerialization of the supply chain without being an AEO? Without descending into caricature, you can also mount a Ferrari engine into a Citroën 2CV! It is clear that an AEO certificate, with the already mentioned operational constraints, including the control and audit obligations, is the perfect canvas for successful paperless procedures. A process of dematerialization for which it will act as a catalyst and which will, naturally, find its own way and ideally use European Community (EC) tools.

In particular, such EC tools include the systems known as ‘Cargo Community Systems’ (CCS), which allow the perfect handling of Customs acceptance (tracking of goods), the automation of Import Control System (ICS) and Export Control System (ECS) procedures, and, last but not least, the granting of new Customs facilitations, most often local, due to the complete transparency of the information held by operators. Moreover, this dematerialization, and the deployment of CCS, should go hand-in-hand with the deployment of new information systems by national Customs administrations. Thus, in France, a number of electronic procedures, such as DELTA C and DELTA D, need to migrate, to give birth to DELTA G.

With the UCC and the continuing terrorist threat, having AEO status is now more than ever indispensable. Not to be an AEO means to disappear. However, guaranteeing and optimizing the process of obtaining AEO status calls for the use of tools essential to paperless procedures,

which in turn have been rendered indispensable by the need to control costs and the stiff competition in the field of international transport. Never before has a convergence of interests led to such a happy marriage!

At the end of the day, paperless procedures optimize all the benefits of AEO status:

- Better process management (up-to-date procedures and management of malfunctions while targeting the causes, updating of contracts, commitment and information on the risk of fraud vis-à-vis staff, etc.);
- Better knowledge of the constraints and requirements specific to the company (security plan, information panel, key performance indicators, human resource (HR) polyvalence tables, wearing of personal protective equipment, etc.);
- Reduction in the number of work accidents, and of social risks for the company;
- Lower insurance costs due to better internal management;
- Heightened awareness of the company as a whole and its associates as regards safety/security.

There still remain a number of questions, without which the world of logistics would be too simple: how to analyse the processes which ought to be rendered paperless; how to properly secure this dematerialization and prevent external attacks; how to encourage small and medium-sized enterprises (SMEs) and micro-enterprises to enter into a measure which, on the face of it, does not seem adapted to them; and, last but not least, how to accelerate international harmonization and mutual recognition of AEO statuses.

There is, therefore, much which remains to be done, and it must be tackled without delay. Above all, however, this should not be used as a poor excuse for not investing in the very interconnected fields of paperless procedures and AEO status.

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