

# AEO programmes, the benefits for supply chain companies and MRA preparations

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THIS ARTICLE DISCUSSES Authorized Economic Operator (AEO) programmes and AEO Mutual Recognition Agreements/Arrangements (MRAs), in the context of recent research and consulting work carried out by the author, in Thailand (Thailand Europe Cooperation TEC-II, PDSC) and in the European Union (FP7-CAS-SANDRA).

More specifically, the article considers the following two issues, namely how to make an AEO programme more popular among supply chain companies in a country, and how to prepare for an AEO MRA between countries/regions.

## Increasing the popularity of the AEO programme

Thailand introduced its own AEO scheme in 2011, initially for exporters only. It was subsequently expanded to include importers and Customs brokers on 1 February 2013. The benefits for supply chain companies are similar to those of the 'Gold Card' programme, Thailand's previous trade facilitation scheme, which was terminated as of 1 October 2013.

Royal Thai Customs is currently considering different options and approaches to increase the popularity of the Thai AEO

programme both among and beyond those companies which participated in the former Gold Card programme.

Below is a list of six key actions – most of which are equally relevant to many other countries across the globe – that should be considered by Royal Thai Customs to enhance AEO application and participation rates in Thailand:

### 1. Make the AEO application process for economic operators, as practical, low cost and fast as possible-

- Expand the current Thai AEO guidelines with more detailed content on what is expected from economic operators, including concrete examples on how to comply in a cost-effective and security-efficient manner; consider using the European Union (EU) AEO guidelines as a 'source of inspiration', as they include some of the EU's 'core wisdom' on AEOs since the launch of their AEO Programme in 2008.
- Recognize existing governmental and business certifications, authorizations and standards as part of the AEO approval process, and encourage companies to exploit their existing security poli-

cies, guidelines and work instructions during the process. Examples include the Transported Asset Protection Association (TAPA) and ISO 28000 certifications, among others.

- Consider exemptions to AEO requirements for small- and medium-sized enterprises (SMEs) due to the nature of their business and operations, which can differ significantly to those of large – and especially multinational – companies. The EU AEO guidelines have a number of concrete examples which can be used as a reference point.
  - Encourage companies to ensure that they have effective and efficient supply chain security measures and procedures in place and that they understand and appreciate the value of the programme during AEO application and monitoring processes; consider crime prevention and security management training within an administration, including the organizational management aspects of supply chain security, while discouraging purely checklist-based approaches.
- ### 2. Invest in the systematic design, implementation, monitoring and continuous improvement of an AEO benefits scheme-





- Construct a broad portfolio of benefits and incentives for AEO companies, in particular, company-level benefits and shipment-level benefits granted directly by an administration; consider exploiting an AEO benefits categorization model during this process, such as that presented in the next section of this article, namely the 'CBRA 4 bucket model'.
  - Analyse carefully AEO benefit suggestions by key international organizations, such as the WCO and the International Chamber of Commerce (ICC), as well as by other Customs administrations, while considering their economic, legal, procedural, and operational feasibility in the Thai AEO context. Pay detailed attention to which suggested benefits are still on the 'drawing board', and which ones have already been implemented in practice.
  - Ensure that AEO companies are explicitly recognized within the administration's risk management, assessment, profiling and other relevant procedures, especially in the context of risk management IT systems and tools.
  - Establish a system for continuous measurement and improvement of AEO benefits granted to AEO companies in Thailand. This should be done in close cooperation with Thai industries, in particular the key Thai industry associations.
- 3. Promote multi-agency cooperation under the 'Thai AEO umbrella', potentially as part of a coordinated border management agenda-**
- Study current worldwide developments, for example, in the EU and in the United States, including cooperative developments between Customs and aviation security authorities, as well as between Customs and food inspection agencies, and learn from their experiences, particularly their successes and failures.
  - Get together with one or more other Thai agencies – for example, food safety and/or aviation security – and start exploring cooperation options and requirements, including the legal frameworks required. Consider the first steps in operationalization, such as the avoidance of duplication and 'non-synchronized approaches' in company AEO (and similar) application and certification processes, audit visits, shipment inspections, laboratory tests, and so forth.
- Launch a first pilot project with one selected agency and a handful of Thai companies. The pilot should subsequently be extended, based on lessons learned and in a broader framework of intra-agency collaboration, to see how economic operators and governmental agencies can benefit further in the future.
- 4. Consider extending the AEO scheme to additional actors eligible for AEO status, while fostering active collaboration with Thai industries-**
- Develop a plan to extend the scheme to the logistics sector, including freight forwarders, transport carriers and warehouse keepers; first study examples from across the globe, such as those of Costa Rica and Korea.
  - While extending the scheme, especially for the logistics sector, consider the specific business characteristics, as well as the risk factors, and their implications for security requirements per type of actor, for example in the postal logistics sector.
  - Hold regular discussions on, for example, security requirements and if

they make sense for the variety of economic operators, on procedures throughout the AEO lifecycle and if they can be further streamlined, and on AEO benefits and if they can be expanded and made more concrete.

- Use models and tools from literature to facilitate discussions and opinion sharing, and as a basis to discuss differing stakeholder interests and constraints. Several helpful models and tools are available in the public domain, including from the CBRA.

**5. Consider complementing and/or replacing transaction-based approaches with systems-based and audit-based approaches in the future, focusing in particular on AEO companies. Good practice examples can be found, for example, in the Netherlands.**

**6. Contemplate the possible conclusion of AEO MRAs with one or more countries/regions; proactively manage AEO company expectations regarding the schedule and ultimate benefits of future MRAs. The last section of this article provides a proposal for a Thai-EU MRA roadmap.**

#### Potential AEO benefits categorization model

It goes without saying that the benefit scheme lies at the heart of how to make an AEO programme more popular among economic operators in a country. Both governmental and non-governmental literature includes a vast amount of examples of potential AEO benefits – unfortunately expressed mostly in a non-structured manner, which causes difficulties, for example, in Customs-to-business communications about which benefits would be most desirable; which

ones are legally or operationally feasible; and so forth.

Following the research and consultation work done for the Thai project, as well as for the FP7-CASSANDRA project, the ‘CBRA 4 bucket model’ below presents examples of potential AEO benefits under four categories, together with background and characteristics, observations on measurability, and the challenges and peculiarities.

The purpose of this model is to support the systematic design, communication, implementation, monitoring and continuous improvement of AEO benefit schemes across the globe (A preliminary version was presented at the second WCO Global AEO Conference in Madrid, Spain, in April 2014).



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CBRA 4 bucket model on AEO benefits for supply chain companies				
Main category	(1) Benefits with explicit/direct government/Customs participation		(2) Benefits without explicit/direct government/Customs participation	
Sub-category	(1a) Customs-granted benefits – company level	(1b) Customs-granted benefits – shipment level	(2a) Company benefits – network certificate-driven	(2b) Company benefits – security measure-driven
Characteristics and background information	<p>This bucket of benefits is about 'traditional trade facilitation and simplifications', focusing largely on the administrative aspects of the supply chain – Customs interaction.</p> <p>In most countries, these types of benefits already existed during the 'pre-AEO era', as part of national trade facilitation and simplification programmes.</p>	<p>This bucket of benefits is about 'fast cross-border flow of goods' through (physical) fast lanes, fewer inspections (than the country average), various priorities in the event of inspections and high alert situations, etc.</p> <p>In most countries these benefits did not exist in the 'pre-AEO era'.</p>	<p>This bucket of benefits is about companies choosing to buy products and services from AEO certified parties – somewhat analogical; quality certifications were often expected or required since the 1990s.</p> <p>This bucket of benefits did, by definition, not exist during the 'pre-AEO era'.</p>	<p>This bucket of benefits is about having an 'adequate set of security measures and procedures in place', in order to minimize negative incidents and disruptions in the supply chain.</p> <p>This bucket of benefits already existed in full during the 'pre-AEO era'.</p>
Examples of potential benefits from governmental literature/sources (e.g. the WCO SAFE Framework of Standards, the European Commission's AEO Guidelines, Royal Thai Customs' regulations, etc.)	<p>Reduced data set for entry and exit summary declarations.</p> <p>Self-management of bonded warehouses.</p> <p>Tax privileges to be granted, such as speedier tax refunds and compensation.</p>	<p>Minimum number of cargo security inspections.</p> <p>Priority use of non-intrusive inspection techniques when examination is required.</p> <p>Priority treatment of consignments if selected for control.</p>	<p>Improved customer service.</p> <p>Lower inspection costs for suppliers and increased cooperation.</p> <p>Improved security and communication between supply chain partners.</p>	<p>Reduced security and safety incidents.</p> <p>Improved inventory management.</p> <p>Improved employee commitment.</p> <p>Fewer delayed shipments.</p>
Examples of potential AEO benefits from non-governmental literature/sources (e.g. the WCO Private Sector Consultative Group's AEO benefits paper, the Korea MRA study, the CBRA-BASC study, etc.)	<p>Financial guarantee waivers, reductions or rebates.</p> <p>Establishment of economic operator-based profiles, and audit-based controls, as opposed to transaction-based controls.</p> <p>The obtaining of assistance from Customs AEO and security experts.</p>	<p>Notification of intention to release goods prior to their arrival, i.e. pre-clearance.</p> <p>Priority Customs processing during a period of elevated threat conditions.</p> <p>Preferential treatment at border crossings in post-disaster/post-attack situations.</p>	<p>Reducing the overall vulnerability of the supply chain.</p> <p>Improving company image and credibility.</p> <p>Maintaining existing customers.</p> <p>Gaining new customers.</p>	<p>Anti-theft: preventing/reducing the amount/value of stolen goods.</p> <p>Enhanced tangibility and stability of the supply chain.</p> <p>Reduced lead times and increased predictability in the supply chain.</p>
Measurability	<p>This bucket of benefits is normally stable, predictable and easy to measure – in general terms, you 'either have these benefits or you don't; in a yes/no fashion'.</p>	<p>This bucket of benefits can be quite challenging to monitor and measure in a robust manner, due to several dynamic factors in logistics flows, as a result of multi-agency involvement, etc.</p>	<p>One enjoys this bucket of benefits – and measurement is quite straight forward – in case AEO status is either required or it helps to maintain a current customer base and/or win new business.</p>	<p>This may be the most difficult bucket of AEO benefits to measure, as the realization of such benefits (e.g. less theft incidents) is normally not per se dependent on having or not having AEO certification.</p>
Challenges and peculiarities	<p>As many such benefits existed before the AEO era, companies which have enjoyed such pre-AEO benefits may see this bucket as an 'upside down one'; i.e. a potential reduction in existing trade facilitation, instead of the introduction of new benefits.</p>	<p>Due to the dynamics in the cross-border flow of goods, outcomes might vary considerably over time – 'seeing is believing'.</p> <p>The benefits linked to 'elevated threat' and 'post-incident recovery', may appear quite theoretical until the situation actually emerges.</p>	<p>Some could also consider that the AEO system may become a technical trade barrier – the 'become an AEO or die' scenario.</p>	<p>Some might think that an AEO programme deters crime, as criminals would rather choose an easy target (i.e. a non-AEO target), for example in the case of warehouse theft.</p> <p>Alternatively, some might think that an AEO programme attracts criminals, as they know there are likely to be fewer Customs interventions – the smuggling of narcotics, for example.</p>

It should be noted that the benefits listed in the 'CBRA 4 bucket model' are just a few examples from governmental and non-governmental literature – while complete benefit tables from around 10 source documents are included in the full report of the Royal Thai Customs AEO-MRA study (Copies available on request).

### Roadmap for the AEO MRA process: Thailand and the EU

One potential way of increasing participation by supply chain companies in AEO programmes is to pursue MRAs with one or more countries. In the case of the Thai AEO MRA study, the mandate was to focus on the Thai-EU MRA. However, the ten-step roadmap proposed below should be able to be applied by most countries and regions around the world:

1. Ensure clear high-level commitment to building a cooperative partnership between the Thai government and Customs administration. This should include the allocation of adequate human and financial resources to cover all stages of the MRA negotiation process.
2. Establish a legal framework for a binding MRA between Thailand and the EU; check early on if this requires any changes in legislation or any type of involvement from the 'political establishment'.
3. In line with the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade, demonstrate the implementation of a Customs-to-Business programme, along with the five main elements of the Customs-to-Customs pillar.
4. Provide detailed guidance on what would be recognized as appropriate security measures to counter and combat different risks and threats; examine the possible alignment of the methodology used for risk assessment of AEO applicants with that of the EU's AEO COMPACT Model for risk assessment.
5. Consider whether the Thai AEO reference/identifier structure might be aligned with that of the EU's EORI in order to aid the identification and sharing of benefits offered to Thai AEO exporter companies trading with EU Member States.
6. Provide more details on revocations and suspensions, in particular the appeals process and timeframes for the AEO to remedy any deficiencies which give rise to the need for a suspension of the status, and the intended process of timely communication of revocations and suspensions to the MRA signatories.
7. Make preparations to receive EU Customs officials (authorities) visiting Thai Customs and selected AEOs and applicants; select AEOs and applicants in Thailand for EU Customs officials to visit (to show how an audit is carried out, in different conditions, and for different types of businesses; to see what security measures AEOs have in place and how they are being maintained, reviewed and improved as required; and to examine the management structures, contingency plans, etc.).
8. Prepare to be fully transparent about all AEO processes and procedures, such as the application and authorization processes and procedures, auditing, validation, monitoring, AEO status refusal/removal, data requirements, storage, data monitoring and data security, and the approval process for trade facilitation benefits and Customs simplified procedures.
9. Ensure that Thailand is fully prepared for the signing of a Thai-EU AEO MRA.
10. Make resources available to maintain adequate representation of Royal Thai Customs within the Joint Customs Cooperation Committee (JCCC) – the Thai-EU body responsible for overseeing the implementation and proper functioning of the AEO MRA, and consisting of representatives from the Parties' Customs authorities – and to ensure that communication channels with EU Customs officials function well.

### Conclusion and future research

The purpose of this article has been to share concrete suggestions on how to make

the AEO programme more popular among economic operators in Thailand, and to indicate what steps are important to take while preparing for an efficient AEO MRA negotiation process – the author believes that following such actions and steps will be beneficial to the Thai economy as a whole.

Regarding the potential adoption of such suggestions across the globe, each Customs administration should consider which of the actions and steps are most relevant in their country, for Customs itself and for economic operators – which of them are feasible to implement in legal and operational terms – and then to set priorities for those actions and steps, instead of trying to "do all at once".

Future research on AEO programmes, benefits, MRAs, etc. will be carried out as part of the new supply chain security demonstration project, known as 'CORE' ([www.coreproject.eu](http://www.coreproject.eu)), which will run from May 2014 - April 2018 in collaboration with the WCO, INTERPOL, DHL, P&G, the European Shippers Council, CBRA, and over 60 other partners.

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Further information, including copies of the mentioned full reports and presentations, can be requested from the CBRA research team by sending an email to the address below.

### More information

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