



Collaborative partnerships, the next phase of AEO programmes

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The WCO SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE), and specifically the creation of the Authorized Economic Operator (AEO) programme, is undoubtedly among the most significant achievements in securing borders in the last decade. Since the adoption of the SAFE in June 2005, one needs to ask a critical strategic question – why is there not greater demand for AEO participation, given its potential security and economic advantages?



WHILE OTHER EFFORTS to engage with the trade community were underway, such as the United States' Customs-Trade Partnership Against Terrorism (C-TPAT) programme, the SAFE and its integral AEO concept marked an important step towards forging a global bond between government and business. That bond is built upon a growing trust and confidence between international trade partners.

As the lines of communication become more open and frank, both Customs and the trade community should become more trusting in the ability of companies to comply with supply chain security standards, and confident that those obligations would continue to be met in the future. Customs would rely on companies to protect their supply chain from adulteration, and improve it in this respect, and traders would be free from regulatory interference and increased

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costs. This model simply makes good sense, because:

- for Customs administrations, it is a model for success for those charged with protecting their national borders; and
- for trade enterprises, it establishes profitable businesses, thereby building a robust global economy.

Unfortunately, the original excitement and acceptance of this innovative approach to supply chain management has plateaued, as indicated by the number of participating companies enrolled in AEO programmes. The most recent statistics show that there are over 30,000 operators worldwide enrolled in an AEO programme, and over 80% of those operators are part of the United States or European Union programme.

Also, while there is almost universal commitment by the 179 Members of the WCO to implement this critical approach to supply chain management, only 56 AEO programmes are operational and another 10 are in development. With these statistics in mind, and given that there are millions of companies worldwide that participate in international trade, we need to ask ourselves if the economic potential of AEO programmes is clearly understood.

Shared interests, shared missions

There are, of course, at least two sides to every story, and some would suggest that there has been a rise and fall in the relationship between Customs and business. According to Vidar Gundersen, Chief Executive Officer (CEO) of KGH Cus-

toms Services, the “AEO project started out as an open book relationship built on trust where Customs would try to support and facilitate processes for companies that intended to be compliant.”

Gundersen goes on to say that “Throughout the years this mindset has been lost and today, in most AEO programmes, it is quite the opposite. Customs has gained a lot of information about AEO-certified companies and instead of facilitating their shipments, they now get more frequent and thorough control than non-AEOs. When errors are found, the AEO companies get fines even if the intention and effort has been put into being compliant. This gives no incentive to becoming an AEO.”

In the end, the interests of Customs and business are quite closely aligned as both are looking to minimize risk. Customs looks to reduce the risk of possible weaknesses in the supply chain, whether from intentional adulteration or weak controls. Business has precisely the same interest, as corruption of the supply chain can have a dramatic impact on growth, and a devastating impact on the value of their brand and credibility. Traders have an additional objective: to minimize escalating costs throughout the supply chain.

Two independent studies in the United States have demonstrated that the C-TPAT is not a significant cost burden on participants. However, these studies are unable to show that there are significant business incentives to participate, aside from complying with the requirements of Customs.

The principal challenge for both Customs and business is to find ways to treat AEO programmes as an investment, and not simply as a cost centre (an additional cost). This investment must have the potential for greater returns than just greater border security. There are, however, many thoughts and ideas on how to make the programmes more financially attractive – some are more progressive than others, and most assuredly should be considered for mature programmes and companies.

Principles for AEO growth and returns on investment

There are five principles for growth that can be considered to provide greater opportunities for enrolment in AEO programmes, whilst still presenting Customs with greater certainty in the most trusted of trading partners.

First, SAFE established the first set of standards for Customs’ use in securing the global supply chain. Over time, the standards have become more integrated into business models, to the point that many contracts now being written require business partners to be AEO compliant. However, there are also many supply chain security companies, non-profit organizations and associations that establish safety standards that apply to supply chain security.

Keith Williams, CEO and President of Underwriters Laboratories (UL), believes public and private partnerships play an important role, stating “UL works closely with our customers, members of the global law enforcement community and organizations such as the WCO, including Customs worldwide, to understand and mitigate the risk in the global supply

chain. As a global leader in establishing standards for safety and security protocols, such as alarm and video security systems, we welcome the opportunity to partner with law enforcement agencies to leverage those standards in order to help them build a more secure supply chain environment.”

Several organizations around the world have become experts in supply chain management and provide these services to businesses to help build a better supply chain. Customs should actively work with these groups to build on the mutual security expertise in both the private and public sector. Leveraging these efforts provides significant potential for business and Customs, giving greater predictability in the area of standards certification, and identifying more potential AEO partners.

Second, the current process of validating supply chains provides an opportunity for leveraging business practices. Many companies that specialize in developing supply chain protocols and standards also provide validation processes to ensure these standards are actually being met. Although the traditional approach to AEO validations has been through Customs working directly with the participant, scant Customs resources and the tremendous volume of global traders simply makes this untenable as the only approach.

Validations by third parties are a commonly accepted practice in many areas of product and transportation requirements, and these third party processes are based upon the establishment of

trust and confidence in the public-private relationship. While Customs must retain control of final certification for AEO participants, the global AEO programme will only grow to its full potential once Customs begins to leverage outside expertise to assist with standards and validations.

Third, a positive development in AEO programmes is the fact that there is continued exploration of ways to integrate other supply chain issues into the security protocols. Understandably, each programme was initially developed to address the individual risks and concerns of each country, but the variance between those priorities is quite wide. Protecting the supply chain from terrorists and terrorist weapons, from revenue losses to a country, even from the theft of intellectual property – all have become a focus of supply chain oversight.

These disparate approaches create an unintended barrier to global supply chain management, as companies try to accommodate the variety of interests and demands on a country-by-country basis without a more clear appreciation of a global approach. For developed AEO programmes and participants, a more holistic approach to partnership that addresses all risks along the global supply chain provides more consistent approaches from country to country, and greater incentives for participation.

Fourth, the application of third party certifications and standards could also apply to other agency controls. When Customs validates and certifies an AEO partner and provides facilitated ‘Customs’ clearance for participation, other agency requirements could still lead to delays and detention of shipments, and diminishing returns on the AEO investment.

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riers, just to name a few. Customs should consider adopting security protocols for trade sectors that have a proven track record of success. These controls promote stringent supply chain security programmes while establishing profitable business models.

Finally, providing a more direct financial benefit to AEO participants is a common request. Answering this has been a challenge for Customs, with the most important incentive provided to date being the facilitated clearance of compliant cargo. This benefit is quickly forgotten, however, as companies will be looking for a direct offset to the investment they have made in order to meet AEO requirements.

Without question, the responsibility for making financial decisions rests with business, but Customs can entice participation by relaxing fees and taxes whenever possible. For example, in the United States there are user and merchandise processing fees collected for processing transactions, and there is some merit to the idea that AEO participants should pay a smaller fee than non-AEO companies. Creating a direct financial advantage for AEO companies could be the most effective recruitment tool available to Customs.

Full potential of AEO is close

The WCO has been very active in improving and further developing SAFE over the years, making enhancements as new risks and challenges arise. The impor-

tance of having Customs administrations work in tandem with global business interests to secure the supply chain cannot be overstated.

While Customs and business have worked together on these issues, many opportunities still remain to establish a premier integrated partnership. The full potential of the AEO programme, from both a security and an economic standpoint, will be achieved once both sides become partners dependent upon one another for success.

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