



Second WCO Global AEO Conference under the spotlight

IT IS NOW widely acknowledged that building collaborative relationships with trusted traders is advantageous for governments facing the challenge of growing trade volumes and increased security requirements on the one hand, and the need to develop efficient cross-border processes that allow businesses to be more competitive on the other hand.

Over the past decade, specific programmes have been put in place, opening up a new chapter in traditional Customs-business partnerships, namely Customs compliance programmes and Authorized Economic Operator (AEO) programmes.

Customs compliance programmes focus on traditional Customs requirements, such as the payment of Customs duties, while AEO programmes include security requirements as prescribed in the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE). Under these programmes, economic operators who demonstrate that they meet minimum standards and best practices receive trade facilitation benefits.

Given that these programmes all share similar challenges, although they may differ in terms of scope (import/export), types of operators and requirements depending on the country, the WCO launched its Global AEO Conference two years ago, to serve as an open platform for business, Customs and other border agencies to exchange ideas and share views on each other's expectations, and how to enhance the partnership.

Highlighted below are just some of the many issues discussed and experiences shared during the second Global AEO Conference, which took place in Madrid, Spain from 28-30 April 2014, with more than 800 delegates from more than 90 countries in attendance.

Implementation of the TFA

The event started with discussions around Article 7.7 of the World Trade Organization's (WTO) Trade Facilitation Agreement (TFA), which provides for an 'Authorized Operator' scheme, similar to the WCO's AEO concept.

As the TFA encourages WTO Members to develop Authorized Operator schemes on the

basis of international standards, where such standards exist, the WCO pointed out that it may be appropriate to use its AEO model as a standard to develop the TFA Authorized Operator scheme, as the use of AEO criteria to implement the Article will assist in ensuring a harmonized approach and enable countries to achieve seamless mutual recognition agreements/arrangements (MRA).

"The TFA expressly states that supply chain security is one element of an AEO programme, but is not mandatory. In the US the primary focus is on security, that is to say not only terrorism, but also concerns around corruption and contraband, for example. We believe AEOs programmes should have security of the supply chain as a foundation," explained a representative of US Customs and Border Protection (CBP).

He also pointed out that "MRAs will be negotiated only with countries having implemented a fully-fledged AEO programme, which includes security requirements as described in SAFE. Moreover the US will support the expansion of these programmes."

Communication

“We have to make it as easy as possible for those trying to comply and make it as hard as possible for those trying to avoid paying their fair share or to undermine our country’s security. The Key to this approach is ensuring that taxpayers and traders understand their obligations,” said a South African Customs representative.

Communication was on everybody’s lips. There can be no trusted traders or AEO programme unless Customs knows its customers and engages with them. “There are five main modes of stakeholder engagement,” explained a WCO expert during one of the Conference workshops, “namely informing, consulting (asking for input from stakeholders), involving (get stakeholders to participate), collaborating (actively partnering with stakeholders to consider options and make decisions), and empowering (placing final decision-making in the hands of stakeholders).”

“When we launched our AEO programme in 2011, we realized that we needed to communicate our message to all traders. We engaged with the media and consulted companies directly after undertaking a mapping exercise of national stakeholders, identifying their needs according to the different categories of business”, explained a representative of Uganda Customs.

Communication is also important when incidents occur. “It is important to adopt the right approach on how you solve issues” stressed a representative from New Zealand Customs. “To err is human. You should not blame, but understand and of course take proportionate action”.

“When we implemented our trusted trader programme, we realized that some companies needed training in Customs matters,” said the representative from South African Customs. “Some did not even understand their errors at times. We developed a guide containing basic knowledge, and we started offering training, enabling us to pick up issues and thereafter sit down and discuss them with companies.”

The WCO took the opportunity to present its capacity building project, which aims to provide advice on improving the communication, consultation and negotiation skills within Customs administrations,

and to support the formulation of a stakeholder engagement strategy, as well as the establishment of dialogue platforms and structured consultation mechanisms.

The Conference was also the ideal venue for business and government representatives to discuss how they each perceive and manage risk. Some companies explained how they formulate their Customs policies to ensure compliance, as well as how they secure their supply chain, while some Customs administrations described how they identify high-risk cargo, and how they integrate the trusted trader/AEO element into their risk management policy.

Practical guidelines for securing shipments were provided to companies, with one presentation focusing on seal integrity for example, and another focusing on container inspection presented in the form of a live exercise; participants were shown how to control the integrity of a container and what to be on the lookout for, during the 7-Point inspection techniques demonstration.

A US Customs and Border Protection (CBP) expert reviewed seal affixing procedures in great detail, and explained what a seal inspection process entails, insisting that seals should be implemented throughout the supply chain, at all foreign and domestic locations.

Success evaluation

After more than decades of implementing trusted trader/AEO programmes, we should be able to measure their success. But how do you measure success? As the programmes are voluntary in nature, counting the number of participants may seem relevant, however as Customs representatives explained, it makes more sense to look at their share of import and export volumes.

For example, AEOs in Europe only represent 0.37% of the total number of operators, but are responsible for 50% of the volume of trade entering and leaving European territory, and are the source of 50% of all import and export declarations.

In China, in December 2013, after almost five years of implementing the Chinese AEO programme, there were 2,910 certified companies, representing 0.5% of

the total number of operators, but they are responsible for 15.92% of all Customs declarations, and in terms of value, their imports and exports represent 27.95% of all transactions processed. These percentages are rising with more and more companies getting what is called ‘Class AA’ certification level.

The fact that few companies have a predominant place in trade activities is also true for South Africa, where 70% of all import declarations and 80% of all export declarations are submitted by 10%, i.e. 4,000 of the active traders.

But it seems the older programmes are reaching a plateau in terms of the number of participants. “The question is how AEO programmes can further develop, and what innovations can we add so that they can flourish,” said a representative of United Kingdom (UK) Customs.

Benefits and incentives

“Our economy will not survive a security incident and we need to make sure our exports are safe. We are selling predictability” explained the representative from New Zealand Customs whose AEO programme is aimed at exporters. “But it is a lot of hard work to convince companies to join our programme, as the risk of an incident may appear quite theoretical until the situation actually emerges”.

The SAFE states that benefits for AEOs should be ‘meaningful, measurable and reportable’. It also gives an indicative list of benefits, which include a reduced data set for cargo release, expedited processing and release of shipments, a minimum number of cargo security inspections, priority processing following an incident requiring the closing and re-opening of ports and/or borders, and increased paperless processing of commercial import and export shipments.

Benefits, said private sector representatives, should be meaningful to the extent that they should justify the additional costs sustained by economic operators in meeting prescribed AEO requirements, and provide real improvements and facilitation gains for AEOs above and beyond the normal benefits enjoyed by non-AEOs.

“Internally, we have to up our marketing game, as the first thing our top management will ask is “what will I get for becoming an AEO”! “Convincing senior management is not an easy task” explained a representative from a global express mail service provider.

Asked whether they had seen benefits in action, business representatives were divided. Most of the freight forwarders and logistics sector representatives were seeing benefits in terms of being an AEO, considering it as a market requirement.

Regarding expedited processing and release of shipments, all pointed out that in many countries inspection levels were already so low and border procedures so effective that they saw little benefits in terms of clearance time. “Countries where there is already a lot of facilitation may run out of benefits, but developing countries may have more benefits to offer to their trusted traders or AEOs,” said the representative from Uganda Customs.

“We are not an AEO,” said a representative of a UK company, “but we are considering joining the programme to benefit from the guarantee waivers that will allow us to defer payment of some Customs duties. That’s the only real benefit that we have identified so far.”

Other participants highlighted that being allocated with a dedicated AEO account manager at Customs was one of the main benefits of becoming an AEO. Implementing an AEO programme enabled many Customs administrations to change the culture of their staff, and private sector representatives recognized that this can be seen in practice.

“What is most important for us,” said a representative of a French AEO, “is the relationship of trust which we have now established with the administration. We appreciate the fact that if we encounter

an issue with the automated online Customs clearance system for example, we just need to pick up the phone to get it resolved.”

“You have to see the global picture. In Europe, if you do not have the right process in place and if you do not embrace the right logic of process control, you will not be able to enjoy the dematerialization of documents, which will constitute a seam for cost savings in the future,” he continued.

Other benefits that are not very well known have to do with the internal structure of a company; traceability and sound management of procedures impact positively on cost reduction. For example, some AEOs have enjoyed lower insurance premiums for the same rate of damages by implementing security requirements.

A representative from a Jamaican company highlighted another positive impact of going through the AEO application process. “We were one of the pilot companies used by Customs to test its new AEO programme. We had to get everyone involved, to get the ears of our management and the support of our key staff, such as the security department personnel. The whole project had a very positive effect on the staff, as we all got together, sat back and looked at our supply chain. We consider that we own this programme.”

Border coordination

“We hear a lot from the trade that we have to improve how we cooperate with the 23 other agencies in the UK. This is high on their wish list. Regarding AEO implementation, we still have quite a long way to go in building cross-government programmes,” said the UK Customs representative.

All Conference delegates contended that determining how operational coopera-

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tion, coordination and communication can be optimized between different border enforcement agencies responsible for matters of safety and security, human and animal health, and the economy and the environment, is of utmost importance.

“In the UK,” explained the UK Customs representative, “one of the things that we started to have a conversation on is how we can use the concept of a trusted trader with our own internal agencies, whatever those agencies may be, for all the licensing and regulatory requirements, i.e. to apply the trusted trader concept across the board.”

“One government clearance and one government clearance for AEOs through all of our different organizations can be achieved technically through a Single Window environment, but we have to think about how we do that through better, joined up processes,” the UK representative added.

Colombia adopted a ‘whole of government’ approach when designing its AEO programme. The certification process is managed through an inter-sectoral commission consisting of Customs and several other national actors, such as the police – in charge of container security, the Colombian Institute for Surveillance of Food and Medicines (INVIMA) – handling the sanitary aspects of the processed food trade, and the Colombian Agricultural Institute (ICA) – responsible for issuing sanitary import permits for non-processed products.

In Jamaica, a public sector inter-agency committee had been created in order to coordinate the activities of all agencies with responsibilities at the border. Issues related to the AEO programme are discussed within this forum. On a day to day basis, the AEO account manager at

Customs acts as an intermediary between AEOs and other agencies. “If our shipments are being inspected, let’s say by the food security agency, I can call our account manager and enquire about the status of our goods,” explained a representative of a Jamaican certified company.

SME participation

Another issue of particular interest was the participation of small- and medium-sized enterprises (SMEs) in AEO programmes. It was agreed that SMEs should be given more attention as they play a driving role in national economic growth, and in generating and sustaining employment.

Governments should use every available opportunity to educate and inform SMEs about the value of participating in AEO programmes, as well as provide adequate assistance to SMEs wishing to enter the validation process.

In the UK, a private company developed, in partnership with UK Customs, a learning programme for potential AEOs/company auditors, to ensure that a linked set of resources and processes are in place for the safe handling and delivery of goods, and related services within the supply chain.

In France, ‘Business Advisory Offices’ have been created in every Customs regional division, offering potential applicants personalized support. The local advisory team approaches companies about the AEO programme and what AEO status means, assisting interested companies to prepare themselves, including the filling-in of the ‘self-assessment questionnaire’.

Another interesting initiative is the sponsorship project developed in France by the Customs administration together with the Union des entreprises de Transport et de Logistique de France, or TLF, an association representing transport and logistics companies, in order to assist their SMEs to become AEOs.

As companies in the logistics and freight forwarding sector use many subcontractors, it is critical for them to ensure that all transporters in the supply chain are certified. However, for many, especially small trucking companies, becoming an AEO is time-consuming and tedious. Under the project, large certified companies provide free support to SMEs, offering them training and helping them to review their process according to the AEO programme requirements, if needed.

For its part, Jamaica Customs decided to grant flexibility to SMEs having difficulties to fulfil the new requirements put in place following the revision of the administration’s AEO programme. “Since we implemented our trusted trader programme in 2009, we thought that we had an AEO programme, but we realized that the security elements were missing, so we decided to revamp the programme in order to align it to the SAFE,” explained the representative from Customs.

“We did not want to pull the rug from under the feet of our SMEs, so we allow those that cannot fulfill all the requirements yet, to keep some of the benefits they enjoyed before during a transition period; such benefits now only being granted to AEOs. We gave them two years to comply with all the requirements. If they do not make it, we will withdraw all their benefits,” she added.

Technology and transparency

“You may compare an AEO certification with a driving licence, it does not stop you from speeding,” declared a representative from a technology provider. “There are always high-risk situations. To use the same analogy, people may know where the radars are located.”

Some benefits entail more risks than others. Time is a predictor of change, but not the best one, and some data needs to be checked more regularly than other

data. Guarantee waivers, for example, are seen as a high-risk benefit by most Customs administrations, requiring careful watch and regular checking of a company’s financial situation on a continuous basis.

Some technology solutions enable Customs authorities to better monitor AEOs in this area, such as those using ‘big data’. These systems collect open information on companies in order to create as realistic a picture as possible of their financial situation. The idea is to be able to predict future behaviour, and take action accordingly. Dutch Customs is using such a system to monitor the solvency of its 1,400 AEOs as a means to mitigate financial risk.

It was also clear from the discussions that high-risk shipments can become low-risk shipments when using the right technology, such as track and trace systems for example, by creating transparency and building trust.

Conclusion

Schemes like that of the AEO or trusted trader, which provide Customs administrations with some degree of certainty around the actors in the supply chain, are seen as being part of the solution that enables Customs to lessen controls on legitimate businesses, thereby offering these businesses a transparent and predictable trading environment, and facilitating their sustainability.

By implementing such programmes together with sound data management – getting the right data at the right time and in the right quality, and ensuring the integrity of both the data and the providers of the data – and improved coordinated border management, Customs should be able to provide what businesses are looking for in the least burdensome way.

More information

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