



WORLD CUSTOMS ORGANIZATION

The Authorized Economic Operator and the Small and Medium Enterprise

FAQ

May 2010

1. What does Customs do.... and the World Customs Organization (WCO) ?

Customs has a major role to play in the administration of trade. This includes the collection of duties and taxes, the preparation of foreign trade statistics, trade compliance, supply chain security and trade facilitation, the protection of society, the environment and cultural heritage. As international trade has developed within the global economy, outdated, incompatible and inefficient customs procedures have been recognized as a costly constraint.

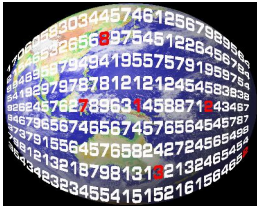



Customs modernization and harmonisation therefore represent a key objective to facilitate international trade (See the Revised Kyoto Convention on the Simplification and Harmonization of Customs procedures). Customs must also continue to maintain effective controls to combat cross-border crime and terrorism, which have grown and become sophisticated as a result of the new possibilities offered by world markets.

The WCO is the only intergovernmental organization competent on Customs issues and promoting the national economic and social well being of its 171 Members by advocating an honest, transparent and predictable Customs environment. This helps legitimate trade to flourish while at the same time making it possible to take effective action against fraudulent activities.

2. What is SAFE ?

The SAFE Framework of Standards will revolutionise Customs operations to meet the challenges of the 21st Century and vastly improve its ability to secure and facilitate global trade. It was developed by the WCO and its Member states in close consultation with international organizations and the world's business community. Implementation of the SAFE Framework will contribute positively to economic and social development, act as a deterrent to international terrorism, secure revenue collections and promote trade facilitation world-wide.

The SAFE Framework of Standards consists of four core elements. First, the SAFE Framework harmonises the advance electronic cargo information that Customs needs on inbound, outbound and transit shipments. Second, each country that agrees to implement the SAFE Framework commits to employing a consistent risk management approach to use the advance information to identify high risk consignments and address security threats Third, the SAFE Framework requires the outbound examination of high risk consignments preferably using non intrusive detection equipment such as large scale X-ray machines and radiation detectors. Finally the SAFE Framework defines benefits that Customs will provide to businesses that meet minimal supply chain security standards. It is this latter point that will concern in particular the SME community.

FOUR CORE PRINCIPLES			
			
Advance electronic information	Risk management	Outbound inspection	Business partnerships
Harmonise the advance electronic information requirement on inbound, outbound and transit shipments.	Commit to employing a consistent risk management approach to address security threats.	Outbound inspection of high-risk consignments being exported, preferably using non-intrusive inspection methods.	Customs will provide benefits to businesses that meet minimal supply chain security standards and best practices.

The SAFE Framework, based on the four core elements described above, rests on two pillars of Customs – to - Customs Network arrangements and Customs to Business partnerships. This two pillar strategy has many advantages. The pillars involve a set of standards that are consolidated to guarantee ease of understanding and rapid international implementation.

TWO PILLARS	
Customs-to-Customs Pillar	Customs-to-Business Pillar
<p>Consisting of 11 Standards:</p> <ol style="list-style-type: none"> 1. Integrated Supply Chain Management 2. Cargo Inspection Authority 3. Modern Technology in Inspection Equipment 4. Risk-Management Systems 5. High-risk Cargo or Container 6. Advance Electronic Information 7. Targeting and Communication 8. Performance Measures 9. Security Assessments 10. Employee Integrity 11. Outbound Security Inspections 	<p>Consisting of 6 Standards:</p> <ol style="list-style-type: none"> 1. Partnership 2. Security 3. Benefits 4. Technology 5. Communication 6. Facilitation

The SAFE Framework also contains a detailed inventory of the requirements and conditions for Customs and the Authorized Economic Operator (AEO) to assist both Customs and businesses to implement the requirements of the SAFE Framework.

In return for demonstrably applying the laid down security standards Customs will in turn offer facilitation benefits to the AEO such as faster processing rates for example through reduced examination of their goods translating into savings in time and costs

3. What is an Authorized Economic Operator AEO ?

We mention above the importance of a partnership between the business community and customs in the operation of the SAFE framework. The Authorized Economic Operator (AEO) is defined as ‘ **a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national customs administration as complying with WCO or equivalent supply chain security standards.**’ The security standards in question are detailed in the SAFE Framework and cover the following areas:

- **Demonstrated compliance with Customs requirements:** requirements specified for the AEO and taken into account when Customs considers qualifications of an AEO applicant.
- **Satisfactory system for Management of commercial records:** recognizes the importance of maintaining accurate commercial records by an AEO and their ready availability to Customs
- **Financial viability:** recognizes the critical role to be filled by good financial standing in allowing an AEO to fulfill its commitments under the SAFE Framework
- **Consultation, Co-operation and Communication:** Establishes measures for both Customs and the AEO aimed at fostering mutually beneficial working relationships
- **Education, Training and Awareness:** recognizes the importance of reinforcing in employees (both Customs and the AEO) the necessity of learning proper procedures and dealing with anomalous situations.
- **Information Exchange, Access and Confidentiality:** Provisions to secure information and to prevent its misuse or unauthorized alteration
- **Cargo Security:** Seeks to ensure that cargo integrity and access controls are maintained at the highest levels.
- **Conveyance Security:** Encourages Customs and the AEO to work together to secure and maintain transport conveyances
- **Premises security:** Requirements to implement programmes to secure buildings and to control and monitor perimeters.
- **Personnel security:** Elements for both Customs and the AEO regarding recruitment , security checks and personnel procedures
- **Trading Partner Security:** Encourages the AEO to conclude contractual provisions with partners in the Supply chain to bolster their level of security commitment.
- **Crisis Management and Incident recovery:** Encourages advance contingency planning for recovery from adverse incidents
- **Measurement, Analysis and Improvement.** Seeks to foster consistency, security integrity and the identification of security system requirements

4. Does this affect me ?

Yes, if you are involved, even indirectly in the international movement of goods. The above definition of AEO, which is very broad, is intended to embrace all those entities involved in the international supply chain from manufacture right through to release of the goods at their destination. The intention is that in time there will be entire secure supply chains. The Small and Medium Enterprise (SME) community represents a vital part of these chains, in some cases the vast majority of a supply chain may be composed of SME economic operators. At the time of writing 149 of the WCO's 171 member Customs administrations globally have undertaken to introduce the SAFE Framework as described above. We continue to encourage all our Members to make this commitment.

5. What are the challenges ?

The position of SMEs vis-à-vis AEO has been recognized as a special case. Challenges exist with respect to reaching and educating the SME Community. It is a fundamental tenet that benefits are at the core of considerations regarding the potential for success of AEO programmes. Without clear, tangible and demonstrable benefits the trade has no incentive to make the kind of commitment necessary for AEO authorisation by Customs.

There is also the issue of costs. Unquestionably the proportionate cost impact of security investments on SMEs is greater than on larger companies. However this may be attenuated by the fact that some security measures can be less burdensome for SMEs than for larger companies. For example the requirement for personnel screening might be met more easily because an SME has fewer employees than a large company. It is clear that a small company consisting of 3 family members will have to comply with the same security requirements but they will implement them at a different level than a large international company. For example, the integrity of cargo can be ensured by placing them under permanent monitoring using video surveillance cameras, but it can also be ensured by keeping them in a safe, locked area.

6. What are the benefits ?

Undoubtedly a primary benefit for AEOs will be the status of AEO itself. Increasingly potential customers will see this status as an important factor in choosing their business partners. For SME importers/ exporters the type of benefits that they may expect are more concrete and may include, for example: a reduced data set for cargo release, expedited processing and release of shipments, a minimum number of cargo security inspections, priority processing by customs during periods of elevated threat conditions or following an incident requiring the closing of a port and/or borders. etc. Mutual recognition of AEO authorizations between Customs authorities is also widely considered to be one of the principal benefits. Already a good number of Customs administrations are working on bilateral mutual recognition arrangements. A longer term goal is a global system of mutual recognition. However the benefits for AEO membership for the SME may be more difficult to demonstrate to entities that operate from positions which are remote from the process portion of a cargo movement. It is in this middle ground in a cargo movement, somewhere between the manufacturer and the consignee, where a large number of SMEs are employed.

A study conducted by the Cross Border Research Association on behalf of BASC (Business Alliance for Safe Commerce), an organization with about 60% SME membership in South America, concluded that there is no positive linear relationship between security cost investments and effectiveness. In fact many low cost investments produce high level improvements in security effectiveness.

This Study confirmed that certain low cost security investments produced the following kinds of benefits:

- Improved oversight of the shipping process and activities
- Clearer and more transparent organizational roles and responsibilities
- Better employee hiring and exit processing policies and practices
- Enhanced internal security management practices
- Greater accuracy in shipping information and recordkeeping
- Increased precision in the qualitative evaluation of business partners

The Study also concluded that many high cost security investments, such as high cost technical solution to cargo inspections, physical access control, and cargo/conveyance tracking, actually produced relatively low levels of security effectiveness.

Of interest too in this connection is a study carried out by researchers from Stanford University on behalf of the Manufacturing Institute. The study found that many companies are reluctant to engage in investment for security enhancement. This is because the focus of their attention has been on the direct expenses involved and not on what are now recognized to be the collateral benefits which may be gained from such investments. The Report concludes that supply chain security investments may not only be offset, but actually be outweighed by benefits, such as improved product safety (38% reduction in theft , loss , pilferage), improved inventory management (14 %reduction in excess inventory,(12% reported on-time delivery) improved supply chain visibility (50% increase in access to supply chain data, 30 %increase in timeliness of shipping information), speed improvement (29% reduction in transit time, 28% reduction in delivery time window); higher customer satisfaction (26% reduction in customer attrition and 20 % increase in the number of new customers.)

These findings may have particular relevance for the numerous SMEs who cannot benefit directly from accommodations which customs may offer the AEO carrier or consignee regarding arriving cargoes. There are numerous SMEs operating in the middle of the supply chain to which the fate of the merchandise is unknown once their task in the series of supply chain transactions is completed. A typical example of such an SME may be seen in the role played by a small, foreign based freight consolidator.

7. How do I become an AEO ?

The WCO Customs administrations that have undertaken to implement SAFE are currently working towards developing national AEO programmes based on the WCO Standards and guidance. Whilst of course the pace at which an administration introduces an AEO program will vary according to its capacity, already programmes are coming on stream. In the European Union for example the AEO will become a reality on 1/1/08.

The potential AEO will need to conduct a self-assessment of his/her ability to meet the security standards as outlined in Question 3, register with their appropriate Customs authority after which the Customs, or in some cases an authorised third party, will validate adherence to the security practices in these areas in accordance with the national AEO programme. If they are satisfied that the economic operator complies with these standards then authorization will be granted by Customs. This authorization will be subject to periodic review.

8. What if I do not become an AEO ?

It has to be acknowledged that not every SMEs will become an AEO. In such cases the WCO regards as important that any facilitation benefits already enjoyed, for example simplified Customs procedures, should remain.

9. The future ?

The WCO is aware that there is a need to promote the SAFE Framework widely within the SME Community and this information sheet is a first step. In the WCO we are actively engaging with both Customs administrations and the business community in respect of the implementation of the SAFE Framework. We are working with trade representative bodies that represent SMEs on such issues as pilot projects and capacity building initiatives and we see an important continuing role for the WCO in raising awareness in particular amongst Customs administrations as they implement SAFE and to the position of SMEs in respect of AEO status.

10. Further information

National Customs Administrations

Trade Organisations (International Chambers of Commerce, Business Alliance for Safe Commerce (BASC) etc.).