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ON THE WTO
TRADE FACILITATION
AGREEMENT

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CAPACITY BUILDING
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-
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ACCOUNT-BASED MANAGEMENT: A PARADIGM FOR ENHANCED FACILITATION

(Item IX on the Agenda)

I. Account-based management approach

1. When discussing the topic of effective and harmonized implementation of the SAFE Framework of Standards (FoS) at the 20th Meeting of the SAFE Working Group (SWG) in October 2018, some delegates noted the importance of account-based management and wished this concept/approach to be further elaborated. It was indicated that, for example, Authorised Economic Operators (AEOs) who meet the required criteria would enable account-based management. To this end, the SWG requested Members' experiences and best practices on account-based management be collected.
2. The approach of account-based management is a process-oriented approach based on an economic operator, their practices, compliance etc. rather than on traditional transaction-based processing.
3. The account-based border management approach has been described in Article 7.7 of the World Trade Organisation (WTO) Trade Facilitation Agreement as well as in various WCO instruments and tools.
4. Article 7.7 of the TFA comprises trade facilitation measures for Authorized Operators (AOs). AOs in this context are specific traders who comply with certain criteria and may therefore benefit from additional trade facilitation measures. The Article requires WTO Members to provide very specific additional trade facilitation measures related to import, export or transit formalities and procedures for 'Authorized Operators' who meet specified criteria that may include:

- an appropriate record of compliance with customs and other related laws and regulations,
- a system of managing records for necessary internal controls,
- financial solvency; and
- supply chain security.

The Agreement provides that these AOs should enjoy at least three of the following trade facilitation measures:

- low documentary and data requirements, as appropriate;
- low rate of physical inspections and examinations, as appropriate;
- rapid release time, as appropriate;
- deferred payment of duties, taxes, fees and charges;
- use of comprehensive guarantees or reduced guarantees;
- a single customs declaration for all imports or exports in a given period; and
- clearance of goods at the premises of the authorized operator or another place authorized by Customs.

5. With regard to WCO tools and instruments, transitional Standard 3.32 of the Revised Kyoto Convention (RKC) stipulates that for 'authorized persons', the Customs shall provide for, among other benefits, the following:

- allowing a single Goods declaration for all imports or exports in a given period where goods are imported or exported frequently by the same person; and
- allowing the lodgment of the Goods declaration by means of an entry in the records of the authorized person to be supported subsequently by a supplementary Goods declaration.

6. The SAFE FoS (2018 edition) outlines one of the benefits for AEOs as: "Account-based processing rather than transaction-by-transaction clearance".

7. This concept, particularly the deferred payment of duties and taxes, has also been elaborated in the RKC ICT Guidelines and the Single Window Compendium from operational and IT perspectives.

II. Key considerations of account-based management

8. Some of the key considerations for account-based management include the following (but not limited to) :

- Extended to traders and intermediaries having a good compliance record, robust internal record management and controls, and good financial solvency (e.g. Authorised Economic Operators, Authorized Operators, and Trusted Traders).
- A consolidated declaration for all imports/exports over a period of time.
- No need to pay duties and taxes on each import consignment. Instead, Customs duties and taxes on imports cleared during a defined period can be paid in a consolidated manner periodically.
- Normally, deferred payment is allowed subject to certain conditions :

- The nature of duties and charges whose payment can be deferred is specified (e.g. payment of dues arising out of assessment notices, additional duty notices or interest liability may not be deferred)
 - The maximum period for which deferred payment is allowed (e.g., a week, 15 days, or a month) is specified
 - A maximum credit limit up to which deferment is allowed.
 - A financial guarantee may be required depending on the type of trader/intermediary, nature of goods and origin of goods.
 - Deferral may be withdrawn or suspended for a late payment or non-payment; suspension may be revoked after a prescribed time-limit if all dues are paid.
- Establishing an account-based management system may entail business process reengineering and necessary adjustments to IT systems.
 - It also requires close coordination with other relevant government agencies (e.g., product safety, treasury) and other stakeholders (e.g., banks).
 - An account-based system normally delinks payment of duties and taxes from clearance of goods and works on the principle “Clear First, Pay Later”, resulting in an expeditious release/clearance of goods and a cost savings for traders and governments. An account-based system can also help Customs and other border agencies to carry out holistic risk management.
 - That said, risk management, especially related to safety and security would still need to be carried out for each transaction, based on potential risks and related parameters.
 - Account-based management focuses on traders and intermediaries’ internal compliance controls and processes to provide them with greater trade facilitation benefits, relying on an entity account model. Additional trade facilitation benefits may include consolidated Customs declarations for all transactions over a specified period and deferred payments of duties.
 - For micro, small and medium enterprises (MSMEs), who may not have the necessary capacity and wherewithal to meet the requirements of account-based processing, the approach could be expanded to them by leveraging the role of trusted intermediaries (e.g., Customs brokers) acting on behalf of the MSMEs.
 - For such traders, Account Managers could be appointed; they can focus on improving a company’s compliance and internal controls in order to help reduce transaction-based examinations.
 - In this context, the ICC Guidelines¹ on a modern, efficient and effective Customs administration recommends that account management: “...replaces *transaction-by-transaction treatment by account-based, post-entry procedures for importers with proven compliance histories and consistent import patterns (e.g., types of goods and origins)*”.

III. **Members and stakeholders’ experiences**

¹ <https://iccwbo.org/content/uploads/sites/3/2003/06/ICC-Customs-Guidelines.pdf>

9. In the context of enhanced Customs-Business partnerships and a greater interest in additional facilitation benefits, the approach of account-based management has been gaining traction in recent years.
10. Some Members have already implemented and some others are actively considering introducing such measures. These Members have specifically included 'deferred payment of duties of taxes' as one of the benefits for AEOs, for example Colombia, India, Indonesia, Malaysia, and Saudi Arabia. Further details can be accessed at:
<http://www.wcoomd.org/media/wco/public/global/pdf/topics/facilitation/instruments-and-tools/tools/safe-package/aeo-compendium.pdf?la=en>
11. At the 21st SWG meeting, Delegates from New Zealand and the ICC shared their perspectives on account-based management, benefits and challenges in application of the approach. New Zealand Customs had offered Deferred Payment (DP) to all importers since the 1980s, recognizing that the Deferred Payment/Repayment (DPR) of Duties and Taxes system was a trade facilitation mechanism that benefited businesses and Customs, in line with the provisions of the RKC.
12. A number of benefits of the DPR of Duties and Taxes were described that included pre-clearance of goods, monthly payment, one combined monthly transaction statement and monthly import declaration, thus reducing administrative costs. In New Zealand, 80% of shipments were pre-cleared prior to a vessel's arrival.
13. The Representative of the ICC explained how account-based border management helped move away from transaction-based processing and the need to review each individual shipment and declaration. An account-based management scheme adopted a more holistic approach to carrying out comprehensive risk management, focused on traders' and intermediaries' internal compliance controls and processes, and provided trade facilitation benefits for traders and intermediaries with a proven compliance history. This resulted not only in the clearance of goods being expedited, but also in cost savings both for governments and business as a result of Deferred Payment Scheme (DPS) of taxes and duties and consolidated Customs declarations over a specified period of time.
14. There are two main aspects to account-based management: the financial obligations (payment of duties and fees as well as clearance of goods) and risk assessment. It allows for greater focus to be placed on higher risk "one-off" types of shipments. The foundational principals of account-based management are a shared responsibility between traders and Customs administrations and the notion that compliant and trusted traders who were willing to do more should receive greater benefits.
15. Noting that many SMEs were unable to participate in AEO programmes due to the complex and burdensome administrative requirements and associated costs, the ICC representative said that intermediaries could take on some additional responsibilities and provide support to minimize the overall risks for Customs. Furthermore, AEO programmes and account-based management did not have to be necessarily linked. It was believed that even though some Members had already provided DP of duties of taxes to AEOs, the concept could and should be applied more broadly to all traders.
16. While sharing their diverse perspectives and raising certain issues and questions, delegates underscored that account-based clearance facilities (including DP of duties and taxes and entry into a declarant's records) should not necessarily be linked to AEO programmes and should be provided to all compliant traders as a best practice, as

stipulated in the RKC and the WTO TFA. However, if it was not possible to extend such a facility to all traders, then AEOs, being compliant and secure operators, should be considered as the initial beneficiaries.

17. It was noted that account-based management, particularly DPS of duties and taxes, had already been included as one of the key benefits under the AEO programmes. At the same time, a few delegates added that account-based clearance systems had been made available to other economic operators, going beyond AEOs.
18. After noting that Customs' mission was much wider and included security, society protection and economic development, delegates suggested enhancing the account-based management approach by including other aspects and not just fiscal aspects, i.e. DP of duties and taxes. Some of the key prerequisites for account-based management, include pre-arrival advance cargo information, effective risk management, data analysis and post-clearance audit, as well as a strong compliance culture.
19. To the end, the SWG decided to develop a template for collecting Members' case studies on account-based management in order to create a 'living repository'. The template is still under discussion by the SWG.

IV. Action Required

20. The TFAWG is invited to :
 - discuss the approach of account-based management and its applicability to Customs and clearance processes for enhanced facilitation and effective risk management, as well as associated requirements and critical success factors; and,
 - encourage Members and stakeholders to share their working experiences, initiatives and lesson learned in this domain.
