Authorized Economic Operators Programs: Private Sector Perspectives

Specially prepared for the 12th Meeting of the COMCEC Trade Working Group on “Improving Authorized Economic Operators Programs in the OIC Member States”

Ankara, 6 November 2018
1. Private sector perspectives on AEO: Why important?

2. Review of corporate public communication: What do multinational firms communicate to the markets on AEO?

3. Findings from the Association member survey on AEO: What benefits & what challenges?

4. Key takeaways
The International Association of Authorised Economic Operators (AEO), Customs and Logistics is a private sector membership organisation which includes international sector-representative organisations, such as the International Association of Customs Brokers (ASAPRA); regional organisations, such as the European Shippers Council (ESC) and the Federation of Freight Forwarders and Logistics Operators of Latin America and the Caribbean (ALACAT); national associations and private companies.
1. Private sector perspectives on AEO: why important?

- Multistakeholder engagement

- Feedback to inform further research and policy questions

What are the **critical questions to business** (large companies and SMEs) related to AEO? Buy-in/investment, Business partner/supplier criteria, etc.

What is the **decision-useful information** to business and investors related to AEO? Operational costs, Effective risk & compliance management, etc.

Is this information/data available and **publicly communicated**?

- Raising awareness on specific issues and their implications for competitiveness and participation in trade

In today’s global trade customs and logistics are essential to a country’s competitiveness. Logistical cost optimization need a competitive and reliable offer of local customs brokers & logistic services providers. Yet these actors are not included as **eligible operators** in some AEO country programs.

**AEO benefits (indirect/collateral)** include improved management systems and practices of operators.
2. Review of corporate public communication: What do multinational firms communicate to the markets regarding AEO?

The findings result from the Association’s desk research on public reports from top listed companies around the world (350 companies reviewed). AEO is mentioned in relation to:

- corporate risk factor
- faster customs clearance of cargo leading to quicker delivery times for customers;
- security/integrity of the supply chain; requirements to suppliers
- recognition of the company as a reliable international trading partner; implementing sound compliance systems and security control;

as most salient topics.

Following some illustrative examples.
2.1. Corporate risk factor

**FERRARI;** The Netherlands; Cars. Luxury brand.

“If we were to lose our Authorized Economic Operator certificate, we may be required to modify our current business practices and to incur increased costs, as well as experience shipment delays.

Because we ship and sell our cars in numerous countries, the customs regulations of various jurisdictions are important to our business and operations. To expedite customs procedure, we applied for, and currently hold, the European Union’s Authorized Economic Operator (AEO) certificate. The AEO certificate is granted to operators that meet certain requirements regarding supply chain security and the safety and compliance with law of the operator’s customs controls and procedures. Operators are audited periodically for continued compliance with the requirements. The AEO certificate allows us to benefit from special expedited customs treatment, which significantly facilitates the shipment of our cars in the various markets where we operate. The AEO certificate is subject to mandatory audit review by May 1, 2019 according to the new European Customs Legislation and therefore we will need to implement all necessary organization changes in order to comply with the new requirements. If we were to lose the AEO status, including for failure to meet one of the certification’s requirements, we would be required to change our business practices and to adopt standard customs procedures for the shipment of our cars. This could result in increased costs and shipment delays, which, in turn, could negatively affect our results of operations.”
2.2. Faster customs clearance of cargo, leading to quicker delivery times for our customers

EMIRATES SKY-CARGO, UAE, Air Freight

“We were also awarded the ‘Authorised Economic Operator’ (AEO) certification by the UAE Federal Customs authorities in March 2018. This allows faster customs clearance of cargo travelling on Emirates SkyCargo in the UAE, leading to quicker delivery times for our customers.”

The Emirates Group Annual Report 2017-2018
2.3. Supply chain Integrity Requirements

MONSANTO, USA; Agrochemicals y biotechnology

“When applicable, suppliers should implement practices and procedures to ensure the security of their supply chains in accordance with Authorized Economic Operator (AEO) standards, the Customs-Trade Partnership Against Terrorism (C-TPAT) initiative of the US Department of Homeland Security, and related global supply chain security programs in the countries where suppliers engage with Monsanto.”

*Monsanto Supplier Code of Conduct*
2.3. Supply Chain Security Requirements

“Supply Chain Security Requirements
Suppliers who are integrated into Siemens’ supply chains take measures to guarantee security in the supply chain in accordance with the requirements of global customs security programs. Detailed requirements can be found in the WCO’s SAFE Framework or the respective national customs security program.

The requirements can preferably be met by proof of participation in a national customs security program (e.g. AEO) or comparable security initiatives. Alternatively, a confirmation can be provided stating compliance with the required security standards.”

siemens.com/supply-chain-management/supplier-at-siemens/basic-information/export-control/
2.3. Supply Chain Security Requirements

SIEMENS, Germany, electrification, automation, digitalization

17. Corporate Responsibility and Security in the Supply Chain

17.1 ...The Seller shall further provide the necessary organizational instructions and take measures, particularly with regard to the following types of security: premises security, packaging and transport, business partner, personnel and information in order to guarantee the security in the supply chain according to the requirements of respective internationally recognized initiatives based on the WCO SAFE Framework of Standards (e.g. AEO, CTPAT).

SIEMENS General Conditions of PURCHASE of Goods & Services (including Software), 2018
2.3. Supply Chain Security Requirements

16. C-TPAT and Security in the Supply Chain. Supplier, its Affiliates and Representatives, when providing Goods/Services to the Customer internationally, shall support the efforts of the Customer regarding security in the supply chain, as directed by the World Customs Organization SAFE Framework of Standards, US Customs & Border Protection C-TPAT standards or any other applicable customs trade security programs (e.g. AEO). Upon request, Supplier agrees to provide Customer’s declaration on security in the supply chain or other documentation recognizing Supplier’s participation in a national customs supply chain security program.

SIEMENS, Germany, electrification, automation, digitalization
2.4. Recognition to operators with outstanding compliance systems and security control


“In response to the growing importance of the corporate governance associated with global security risk, we have implemented corporate policies, procedures, and internal reporting structures to ensure that we perform rigorous, security-minded due diligence for global projects and transactions. (…) These measures have led to the director-general of Yokohama Customs certifying ITOCHU as an Authorized Economic Operator (AEO) (both Authorized Exporter and Authorized Importer), a title given to operators with outstanding compliance systems and security control.”

ITOCHU Sustainability Report 2017
3. Findings from the Association member survey on AEO: What benefits & what challenges?

The findings result from a survey to document and analyse benefits and challenges of AEO as perceived by Association members.

It was conducted on September-December 2017. The survey questionnaire was composed of 4 major themes and 17 variables; and asked 3 questions.

- To what extent do you consider that AEO accreditation provide benefits in the following areas?

- To what extent do you consider that your organisation has margin for improvement in these areas?

- What do you consider to be the main barriers or difficulties that inhibit the success of the AEO concept?

- Cost reduction
- Improved digital/IT capacities
- Improved compliance and risk reduction
- Improved brand reputation
3. 1. Surveyed the perceptions of Association members on AEO benefits & challenges

- 47% are AEO or have applied for AEO status
- 36% have plans to apply for AEO status
- 47% are AEO from Spain
- 53% are AEO from LAC

- 81% are customs brokers & logistics services providers
- 14% are importers & exporters

- 33% annual sales < 1 million USD
- 42% annual sales 1 to < 25 million USD
- 11% annual sales 25 to < 100 million USD
- 10% annual sales > 100 million USD

240 survey responses
3. Findings from the Association’s member survey on AEO: What benefits?

Benefits of AEO on topic:
- Anticipate and minimize risks
- Time reduction
- Guarantee reduction
- Management data
- Metrics allow comparison and better decisions
- Trust
- Accreditation
- Process systematization
- Agility
- Risk management implementation
- Differentiation from NON-AEO
- Cost savings from best practices
- Armonised practices in governance & management

Margin for improvement on topic in my business:

- +
- -
3. Findings from the Association’s member survey on AEO: What benefits?

According to respondents perceptions,

**Reputational gains and improved risk management** are the themes with high level of perceived benefit, identified also as topics with high margin for organisational improvement.

- Trustworthy organisation; accredited by certification; agile; differentiation from Non-AEO

- Implementation of risk management systems through better procedures, policies and documentation of operations.

- Standardization and automation of organisational processes, enabling increased productivity levels and quality of operations (this is the subject perceived with most margin for organisational improvement).
3. Findings from the Association’s member survey on AEO: What challenges?

The main factors perceived to be hampering greater success in AEO programs relate to insufficient information on AEO programs: on the eligibility criteria, requirements and costs to access the AEO status; as well as insufficient tangible benefits.
4. Key takeways

- Large firms are increasingly integrating AEO to their risk management systems. AEO is recognized as a useful tool in the management of risks related to supply chain security and productivity levels.

**Lead firms in GVC are increasingly including AEO certification** (or the national equivalent security standard) as a requirement to supplier firms.

An indirect or collateral benefit from AEO certification is that the journey to become AEO helps companies (specially SMEs) increase and improve their management capacities and competences in the areas related to AEO requirements. These accredited capacities differentiates them as reliable and competitive operators in the market (a direct benefit).

This leads to **inclusiveness of the different types of operators** (importantly local customs brokers & logistic services providers) in AEO country programs being seen as an important policy issue, with implications for competitiveness and participation in trade, of goods and services.

- Communication could advance the use of the AEO standard by business, generate visibility on the work being done for securing and facilitating trade; share AEO best practices and learning resources; keep interest growing; and list AEO companies (global database).
International Association AEO’s 2019 AEO International Congress
• Federation of Freight Forwarders and Logistics Operators of Latin America’s Congress
• World Free Zones Organization’s World Congress
• eDelivery Expo & Congress
TEŞEKKÜR EDERIM - THANK YOU

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