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Advancing
Free Trade for Asia-Pacific
Prosperity

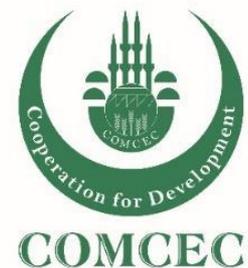
Best Practices and Cooperation Efforts in APEC on AEO Programs

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- APEC Policy Support Unit Study on *Study of APEC Best Practices in Authorized Economic Operator (AEO) Programs*
- Published in May 2016
<https://www.apec.org/Publications/2016/05/Study-of-APEC-Best-Practices-in-Authorized-Economic-Operator-AEO-Programs>
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Outline



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- Introduction about APEC
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- Key themes
 - Scope of AEO program
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 - Customs organizational structure for AEO programs and their major roles
 - Partnership between customs authority and the private sector
 - Accessibility of information on customs authority's website about the AEO program
- Convergence Analysis
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Purpose of the Study



- To advance the aims of **greater integration** and **harmonized customs procedures**
 - As highlighted in the APEC Connectivity Blueprint for 2015–2025 and the APEC Customs 3M Strategic Framework
- Supports the efforts of the Sub-committee on Customs Procedures (SCCP) and objectives of the AEO Action Plan
- Updates the work of the AEO Compendium (2010)

APEC Member Economies



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Regional Integration



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- **Integrating** the region and ensuring that goods, services and people move easily across borders is at the core of APEC's work.
- Members facilitate this trade through faster customs procedures **at borders**; more favorable business climates **behind the border**; and aligning regulations and standards **across the region**.
- For example, APEC's initiatives to synchronize regulatory systems is a key step to integrating the Asia-Pacific economy. A product can be more easily exported with just one set of common standards across all economies.

Source: <http://www.apec.org/About-Us/About-APEC/Fact-Sheets/Regional-Economic-Integration-Agenda.aspx>



Background of the Study



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Standards to Secure and Facilitate Global Trade (SAFE) Framework

- WCO adopted the SAFE Framework, based on the Revised Kyoto Convention, which introduced the concept of Authorized Economic Operator (AEO)

What is an Authorized Economic Operator (AEO)?

“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.”

AEO initiatives in APEC



- In 2011, APEC adopted the Consolidated Counter-Terrorism and Secure Trade Strategy
 - Implementation of the APEC Framework for Secure Trade
 - Emphasizes the AEO concept as a way for the Customs community to contribute to counterterrorism
- At the 2014 Ministerial Meeting, APEC adopted the Customs 3M Strategic Framework
- 17 APEC member economies have operational AEO programs in varying stages of development
- 36 MRAs were concluded by APEC members

AEO initiatives in APEC



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Sub- Committee on Customs Procedures (SCCP)

- **2001:** included a section on “Customs-Business partnerships” in its Collective Action Plans
- **2005:** included the “APEC Framework based on the WCO SAFE Framework”
- **2009:** established an AEO Working Group
- **2010:** endorsed an AEO Action Plan and developed an AEO compendium
- **2011:** included a section on “AEO and MRAs.”

Approach



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Recommended ways to **expand** the APEC network of AEO programs and increase their interoperability

Identified **best practices**

Assessed **convergence** in features and design elements of AEO programs in APEC member economies

Surveyed the AEO programs of APEC member economies (including SMEs, benefits, and MRAs)

Themes



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Theme		Variables
1	Scope of AEO program	Scope of AEO Program Types of Operators
2	Application, verification, and authorization procedures	Application, Verification & Authorization Procedures Self-Assessment Mechanism
3	Security and compliance requirements	Compliance Requirements Physical Security Requirements
4	Post-authorization policies on audit and revalidation, suspension, and revocation	Post-Authorization Audit Suspension and Revocation
5	Customs organizational structure for AEO programs and their major roles	Customs Organizational Structure of AEO Program Training of Customs Officers
6	Partnership between customs authority and the private sector	Partnership Initiatives Benefits for AEOs Mutual Recognition Agreements Small & Medium Enterprises
7	Accessibility of information on customs authority's website about the AEO program	Electronic Promotion of the Program



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1. Scope of AEO Program

- A variety of sectors was represented in the various AEO programs

Variables:

1. Scope of AEO Program (58.8%)

2. Types of Operators (51.5%)

- 76.5% of programs were open to importers and exporters
- 52.9 % of the programs included customs brokers
- Only 41.2% of programs had multiple classes in the program with multiple tiers of benefits and associated security/compliance standards
 - low level of convergence may be due to different security priorities in each member economy

2. Application, Verification and Authorization Requirements



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- Most AEO application processes were similar, requiring the same types of documents
- However, timeframes diverged greatly, between 1 to 6 months

Variables:

1. **Application, Verification Authorization Procedures (78.2%)**

- Wide variation of convergence amongst sub-variables
 - All AEO programs in APEC were required to undergo an onsite validation and verification audit
 - But only 35.5% of programs conducted a risk check on applicants with other ministries/databases beyond the customs authority.

2. **Self-assessment Checklist (90.2%)**

- High level of convergence for all sub-variables

3. Security and Compliance Requirements



- Generally high levels of convergence in security and compliance requirements
- APEC AEO programs have adhered to the SAFE Framework closely

Variables:

1. **Compliance Requirements (88.2%)**

- High levels of convergence for all sub-variables
- All AEO programs required compliance with security standards
- Compliance on financial accountability is also high

2. **Physical Security Requirements (87.7%)**

- Slight variance amongst sub-variables
- Almost all programs required site, goods and document security
- But only 58.8% of programs required a recovery plan according to the SAFE Framework standards

4. Post-authorization, Audit/Revalidation, Suspension, and Revocation Policies



Some economies required the AEOs to reapply, while other economies based their revalidations on identified changes in the business's operations, paired with ongoing monitoring.

Variables:

1. Post-authorization Audit Process (70.6%)

- Wide range amongst sub-variables
- All AEO programs had regular re-validation and auditing mechanisms.
- Only 47.1% of programs require AEOs to conduct an internal audit

2. Suspension and Revocation (78.4%)

- Most programs had mechanisms to suspend AEO status if administrative orders are ignored
- But only 52.9% had an appeals process

5. Customs Organizational Structure for AEO Programs and their Major Roles



The development of AEO programs tended to involve consultations with stakeholders.

Variables:

1. Customs Organizational Structure of AEO Program (75.3%)

- Most programs had high levels of checks and balances, and openness to foreign companies and other government agencies
- Only 23.5% created an AEO program-specific position
- Also a wide variety in the organizational levels authorizing and validating AEOs

2. Training of Customs Officers (53.9%)

- High degree of variance amongst sub-variables
- Most programs provided AEO specific and general skills training
- The percentage dropped significantly for specific, academic and audit training

6. Partnership Initiatives Between Customs And Private Sector



Since AEO programs are voluntary, customs authorities and the private sector must form strong partnerships to ensure the programs' success.

Variables:

1. Partnership Initiatives (65.7%)

- Lack of consultation with private sector is problematic

2. Benefits for AEOs (72.7%)

- Robust and targeted benefits required to encourage private sector to pursue AEO status
- However, if trade efficiency is already high, then AEO participation might only provide marginal benefit for firms
 - High convergence may not be conducive to trade facilitation in this case

6. Partnership Initiatives Between Customs And Private Sector



3. Mutual Recognition Agreements (72.2%)

- MRAs are a long-term goal to foster regional economic integration
 - In line with the APEC Customs 3M Strategic Framework
- Number of MRAs within APEC members increased from 9 in 2010 to 24 currently
 - Room for more agreements to be signed

4. Small & Medium Enterprises (29.4%)

- Low level of convergence unsurprising
 - Small proportion of SMEs are export-oriented
 - No single definition of SMEs in APEC
 - High cost required to meet AEO requirements
 - Still important to include SMEs because of their role in the global supply chain

7. Accessibility of Information on Customs' Website about the AEO Program



Websites are important to provide centralized information.

Variable:

1. Electronic Promotion of the Program (71.4%)

- Almost all websites had explanatory information and listed the requirements and benefits of an AEO status
- However, less than half had a FAQ section and/or did not allow online applications

Convergence Analysis



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- AEO programs were reviewed to determine similarity amongst member economies
 - Using a matrix created based on the variables
- A convergence percentage is then generated based on the number of features present in each AEO program
 - The convergence percentage is **not** meant as a ranking for AEO programs and their features, nor as a gap analysis
 - Only determines which elements of APEC member economy AEO programs have converged

Convergence Analysis Results



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	Variable	Convergence Percentage
1	Self-Assessment Mechanism	90.2%
2	Compliance Requirements	88.2%
3	Physical Security Requirements	87.7%
4	Suspension and Revocation	78.4%
5	Application, Verification & Authorization Procedures	78.2%
6	Customs Organizational Structure of AEO Program	75.3%
7	Benefits for AEOs	72.7%
8	Mutual Recognition Agreements (MRAs)	72.2%
9	Electronic Promotion of the Program	71.4%
10	Post-Authorization Audit	70.6%
11	Partnership Initiatives	65.7%
12	Scope of AEO Program	58.8%
13	Training of Customs Officers	55.9%
14	Types of Operators	51.5%
15	Small & Medium Enterprises (SMEs)	29.4%

Conclusion



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- Convergence among AEO programs in APEC is high
- Convergence percentages are compiled from a number of sub-variables, which may have wide variances between them
- Results are meant to encourage further AEO program convergence in APEC
- But every AEO program is unique to the economy's specific environment and experiences
 - No single template should be used for every AEO program in the region.

Conclusion



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- Aspects or components of AEO programs within APEC found to have high degrees of convergence were:
 - Self-Assessment Mechanism;
 - Physical Security Requirements;
 - Compliance Requirements;
 - Suspensions and Revocation; and
 - Application, Verification & Authorization Procedures.

Some noted best practices were:

- Stakeholder involvement and communication/understanding of benefits;
- Participation by small and medium enterprises in AEO programs;
- Training and capacity building;
- Mutual recognition agreements among economies; and
- Other government agency inclusion.

Recent Development



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- Boracay Action Agenda (2015 Meeting of APEC Ministers Responsible for Trade):
 - Widen the base of Authorized Economic Operators (AEO) and trusted trader programs (TTP) to include SMEs in order for them to contribute to security, integrity and resiliency in supply chains.
 - a. APEC will further advance the formulation of best practice guidelines for the development and enhancement of AEO and TTP programs, and work towards forming an APEC-wide network of AEOs/TTPs.
 - b. APEC will continue to carry out capacity building on AEO and TTP, including increasing SMEs awareness and understanding of and compliance with AEO/TTP requirements.
- APEC CTI Annual Report to Ministers (2017):
 - Capacity building initiatives on AEO Programs to promote the exchange of best practices and experiences on developing the necessary domestic legal framework for AEOs, including the certification of new actors, and negotiating and effectively implementing MRAs.

Examples of Best Practices



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- Australia engaged SMEs during the design phase and listened to their specific concerns. Australia used a formal consultative working group with SMEs to design the “Outcomes-Based Approach” used in the security standards. This “Outcomes-Based Approach” to security standards specifies the required security outcome, and the operators describe how those standards are being met in their individual circumstances. This approach was explicitly designed to foster SME participation in the security chain.
- Korea offers expedited AEO authorization examinations to SMEs through multiple procedural preferential provisions, including a 'priority audit'. In order to facilitate SME's access to the program, consulting fees are provided to the firms that show a lack of personnel and financial resources. Additionally, larger firms sign Memorandums of Understanding with their SME partners to support their AEO authorization.

Examples of Best Practices



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- Singapore's AEO criteria are not prescriptive and assessment is based on the security risks involved. Although Singapore has not taken specific steps to attract SMEs to the program, Singapore emphasizes outcomes when engaging with SMEs.
- Thailand uses the same set of security standards for all companies while acknowledging and taking into account SMEs' economic limitations. It uses this approach as a guiding principle, including during the evaluation process, judging the overall adequacy of a company's security. However, Thailand did note that this approach requires a higher level of auditor training, professionalism, and management oversight to ensure an objective evaluation of the compliance requirements in the specific business context of SMEs.

Thank You



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