

So who wants to be an AEO?

DESPITE its membership of APEC, and commitments to the WTO, Australia has so far failed to embrace new trade security safeguards introduced by other nations following the 9/11 incident. With the concept of Authorised Economic Operator (AEO) becoming a benchmark for 'best in class' traders, and more bi-lateral Mutual Recognition Agreements covering AEOs being signed off by Governments, Australian companies are being warned that they will face increasing costs in accessing foreign markets, and will miss out on opportunities as they are excluded from "AEO-preferred" supply chains . . .



ANALYSIS

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THE tragic events of 9/11 and the advent of supply chain security programmes are inextricably linked. Since that fateful day in 2001, corporations and regulators (mostly Customs authorities) have worked hard to design systems to minimise the risk of shipping containers becoming the delivery vehicle for weapons of mass destruction, drugs and other illicit cargo.

The Americans responded quickly and had their Customs-Trade Partnership Against Terrorism (C-TPAT) programme up and running by 2002. By 2005, the World Customs Organisation (constituted by the Customs authorities of its 176 member nations) had distilled the best elements of C-TPAT and similar programmes into its *SAFE Framework of Standards* to secure and facilitate global trade – promoting the concept of an Authorised Economic Operator (AEO).

By May 2010, it had effectively encouraged 56 countries to implement some form of AEO programme, including, in this region, China, Japan, Korea, Malaysia, New Zealand and Singapore. Another 105 countries, including a number in Asia, have formally indicated their intention to do so.

■ So what is an AEO programme and why does it matter?

Customs authorities have limited resources with which to prevent terrorism and cross-border crime, collect customs duties and enforce the trade policies of their respective governments. It makes sense for them to use risk as-

— Australia is conspicuous by its absence

assessment strategies to enable them to deploy those limited resources where they can have best effect – on high-risk shipments.

An AEO programme encourages reputable traders to disclose detailed information to Customs about their supply chains – everything from the details of their business partners, to their staff background checks, facility access controls, incident reporting, perimeter fencing, CCTV coverage and much, much more.

If Customs is persuaded that the trader's supply chain is secure from interference by terrorists and others, the trader achieves certification as an AEO and qualifies for certain facilitation benefits.

Depending on the nature of a particular country's programme, these may include priority Customs clearance, minimal documentary and physical examinations, periodic (rather than shipment-by-shipment) reporting of cargo, periodic payment of duty, and first-in-line treatment on resumption of business after a port shut-down.

These benefits can be substantial, particularly in developing countries where Customs authorities do not necessarily have a strong trade facilitation ethos. But, in addition, a number of world-leading multinational corporations have found that there are even greater commercial benefits which flow from participation in these programmes.

The level of detail required to be reported to Customs has meant that even some of the most sophisticated companies in the world have found it necessary to look at their own familiar supply chains from a fresh perspective.

Instead of leaving it to separate subsidiaries in the corporate group to manage their respective nodes in the supply chain, the Head Office is now monitoring the complete supply chain from beginning to end. This has meant that inefficiencies, gaps and defects have been identified and eliminated, with a resultant improvement in overall productivity.

These companies are now reporting quantifiable improvements in a number of key metrics – such as reduction of in-transit damage and loss, reduction in pilferage, and increase in on-time deliveries. Collectively, these outcomes add up to happier customers and more

profitable operations.

Add this to the facilitation benefits offered by Customs and it explains why these companies are strong advocates for participation in each new AEO programme that is launched around the world.

■ **So, who can be an AEO?** Effectively, any player in the supply chain, including manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses and distributors.

■ **Is this a fad?** No! AEO programmes are here to stay.

There will be no winding back of these programmes – only expansion and enhancement of them. They are the new paradigm for the conduct of international trade – not just because of the intelligence and security benefits flowing to Customs authorities, but because certified AEO companies are now preferring to deal with other AEOs.

The Customs facilitation benefits accruing to an AEO depend upon maintenance (or improvement) of the security of its supply chain. Each AEO's supply chain is only as strong as its weakest link. Increasingly, AEOs will not tolerate the presence of non-AEOs in their supply chains.

■ **Are AEO programmes perfect?** No.

One particular concern is that, while each country's programme aims to comply with the WCO SAFE Framework of Standards, there are inevitable differences between them. Japan, as an island nation, for example, is not concerned with the rail and road border crossings that are so important in the US programme.

These differences between programmes undoubtedly add cost to companies wishing to join a number of programmes – because each programme will have its unique requirements. But this is increasingly being addressed through Mutual Recognition Agreements (MRAs).

Under an MRA between two countries, each country formally recognises the AEO programme of the other country and grants benefits to AEOs of that other country.

For example, a New Zealand company which exports to Japan can be admitted to the Japanese programme if it has been certified under the New Zealand programme. This avoids the cost and delay associated with complying with a foreign programme in a foreign language and undergoing the required on-site audit by a foreign Customs authority.

Most of the major trading economies (including the EU, USA, Japan, China, Korea and Singapore) have, or are planning, MRAs.

■ **Who's missing?** Well, in this region, Australia is conspicuous by its absence from the AEO fraternity.

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Despite formally notifying the WCO of its intention to implement the WCO's SAFE Framework of Standards, and despite being a founding member of APEC, whose leaders and Trade Ministers have repeatedly emphasised the importance of its 21 member economies establishing AEO programmes, Australia shows no signs of doing so.

The lack of an Australian programme will undoubtedly put Australian companies at a competitive disadvantage.

For example, an Australian company competing with that New Zealand company for the Japanese market would have to incur the costs and delays involved in navigating the intricacies of the Japanese AEO programme — and hosting a site visit by Japanese regulators. More broadly, Australian companies will be excluded from participation in the "AEO preferred" supply chains being developed by many multinational companies.

Not every company involved in an international supply chain will initially want to become certified as an Authorised Economic Operator. But as the number of programmes expands to cover more and more export markets, as the network of mutual recognition agreements continues to grow, and as the facilitation benefits delivered to AEOs are further enhanced, the case for wanting to be an AEO will become increasingly compelling.

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