



AEO Global Recognition – Trend in Global Trade Security and Facilitation, and the China Link

As one of the two pillars of the World Customs Organization's Framework of Standards to Secure and Facilitate Global Trade ("WCO Framework"), the Authorized Economic Operator ("AEO") program seeks to "reward" compliant businesses with simplified customs procedures and controls, as well as guarantee the safety and facilitation of global trade.

Apart from access to Customs facilitative measures, a more important advantage of being an AEO is the recognition by the global trading community of this status. Through mutual recognition agreements, the AEO status accorded by one country is recognized by the Customs authorities in other countries, enabling holders of AEO status to enjoy preferential treatment provided by these other countries and thus, enhance their global competitiveness. Crucially, companies are also starting to list AEO status as an important factor when selecting suppliers, partners and service providers.

Definition of AEO

"Authorized Economic Operator" or "AEO" refers to a party involved in the international movement of goods in whatever function as complying with the World Customs Organization ("WCO") or equivalent supply chain security standards. AEOs include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses and distributors.

After 9/11, security and facilitation of global trade gained the spotlight all around the world. It is against this background that the WCO introduced the Framework of Standards to Secure and Facilitate Global Trade at the 105/106 annual Council Meeting in June, 2005. The WCO Framework has two pillars: Customs-to-Customs network arrangements and Customs-to-Business partnerships. As one of the two pillars, the AEO program was introduced to establish a partnership between the Customs administration and the private business sector. It is aimed at ensuring simplified customs procedures for reliable businesses and security and facilitation in global supply chain.

China's Participation in Global Recognition

China is now in close contact with major trading partners, such as the European Community, the United States, Japan, Korea and Singapore, to explore mutual recognition of AEOs; breakthroughs have apparently been achieved.

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- The Smart Trade Routes Programs was jointly planned in September, 2006 and launched in November 2011 by China Customs and EC Customs. After a series of discussions and surveys, both sides are drafting a report evaluating the other's AEO system, which will be presented to the Joint Customs Cooperation Committee for review. Formal negotiations on mutual recognition are expected to be launched following that.
- China Customs cooperated with U.S. Customs on the Customs-Trade Partnership Against Terrorism ("C-TPAT") Accreditation Pilot Program. Three pilot accreditations were conducted in the period 2008 to 2010, involving 40 enterprises; 34 passed the accreditation. Both sides are planning to draw from that experience in exploring the possibility of establishing a joint C-TPAT accreditation model and discuss the feasibility of AEO mutual recognition.
- In August 2009 and August 2010, China, Japan and Korea held the first and second AEO meetings, during which the three countries introduced AEO developments in their respective countries and agreed on the next steps to take. Closer cooperation between China and Korea on AEO mutual recognition is expected to be achieved in 2011. China and Singapore are also engaged in similar discussions.



China Customs will use its cooperation with EC Customs as the first step towards developing AEO global recognition. Based on its experience negotiating and implementing AEO mutual recognition with EC Customs, as well as learning from C-TPAT cooperation with the US, China Customs plans to steadily and progressively initiate AEO global recognition talks with major trading partners with advanced AEO systems.

China's "AEO" Program

A global framework has to be adapted to domestic requirements for effective and efficient implementation. In the case of the WCO Framework, China Customs amended the *Measures for the Classification Administration of Enterprises* ("Measures") to reflect the AEO requirements. The criteria for granting AEO status, such as track record of compliance, a satisfactory system of managing commercial records and proven financial solvency, etc., are all included in the Measures. Based on the Measures, an AA rated enterprise in China will have AEO status.

The WCO AEO requirements (as provided in the Instruction Manual on AEO) and the requirements under China's Measures are provided below.

WCO AEO	China's Measures for the Classification Administration of Enterprises
<p>Appropriate Record of Customs Compliance</p> <p>(1) No infringement of customs rules over the last 3 years preceding the submission of application by the applicant</p> <p>(2) No infringements of customs rules over the same period by the person in charge of the applicant company or responsible for customs matters</p> <p>Trade and Logistical Systems Criteria</p>	<p>A consignee or consignor of import or export goods in the category of AA shall simultaneously meet the following requirements:</p> <ol style="list-style-type: none"> 1. Having been subject to the administrative category of A for at least one year; 2. Having the error rate of import or export declaration below 3% during the previous year; 3. Meeting the requirements for customs administration,

WCO AEO	China's Measures for the Classification Administration of Enterprises
<p>(1) Have a record system of import and export activities with proper maintenance;</p> <p>(2) Allow customs authority access to its trade records</p> <p>(3) Have appropriate internal control measures in place</p> <p>(4) Have satisfactory procedures in place for archiving the company's record for the review of customs administration</p> <p>(5) Have appropriate information technology security measures in place to protect from unauthorized intrusion</p> <p>Financial Solvency Financial solvency is an important factor in maintaining and improving the security of supply chain. The applicant shall not have any debts unable of pay off in the past or at present.</p> <p>Safety and Security Criteria Safety and security criteria is the most important criteria among all, it covers requirements for goods, transport vehicles, buildings, staff, business partner and information technology.</p>	<p>enterprise business management and trading safety upon the inspection of the customs; and</p> <p>4. Submitting a Report on Business Management Status and the audit report for the previous year as issued by an accounting firm every year; and submitting a Form on the Import and Export Business every half a year.</p> <p>The consignee or consignor of import or export goods in the category of A shall simultaneously meet the following requirements:</p> <ol style="list-style-type: none"> 1. Having been subject to the administrative category of B for more than one year; 2. Having never committed the crime of smuggling, the act of smuggling or violation of the provisions on customs supervision and control for one consecutive year; 3. Having never been subject to any customs administrative punishment due to importing or exporting goods infringing on intellectual property rights for one consecutive year; 4. Having no defaulted taxes or fines for one consecutive year; 5. Having the gross import or export value more than 500,000 US Dollars in the previous year; 6. Having the error rate of import or export declaration below 5% during the previous year; 7. Having sound accounting rules, as well as correct and complete business records; 8. Having taken initiatives in cooperation with customs administration, timely handling various customs formalities, and provided correct, complete and valid documents and certificates to the Customs; 9. Submitting a Report on Business Management Status every year; 10. Handling the formality for reissuing and altering the Register Document for Customs Declaration of Consignees or Consignors of Import or Export Goods of the Customs of the People's Republic of China according to provisions; and 11. Having no bad records in the administrative departments and institutions of commerce, people's bank, industry and commerce, taxation, quality inspection, foreign exchange and supervision, etc.



Enterprises applying for or have already received AA rating are subject to Customs audits.

Customs audit is a combination of pre-inspection and post-inspection:

- Pre-inspection is conducted on an applicant applying for AA rating, to verify its eligibility.
- Post-inspection is conducted to ensure that AA rated enterprises are operating in compliance with Customs requirements.

Customs audits not only focus on the Customs compliance of enterprises, but also the level of their trade security. Enterprises should take the following steps to ensure success with Custom audit:

- Always engage in legitimate operations; avoid smuggling or involvement in other violations of Customs rules;
- Declare and make tax payment in a timely manner; avoid making short payments mistakes;
- Ensure that all Customs declarations made are correct; avoid mistakes in making Customs declarations;
- Establish an effective and efficient internal control mechanism to guarantee the smooth conduct of import and export activities; and
- Strengthen trade security administration; mitigate potential threats to the supply chain.



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