



Linkages between Risk Management and AEO Programmes



HOW CUSTOMS ARE OFTEN PERCEIVED

Volatile, Unpredictable, Complex and Ambiguous

However **Properly Managed** and **Collaborative Risk Management** can change this Perception!



Global Customs Risk Trends & Challenges – The Ecommerce Focus 1/2

The international trade and compliance landscape is rapidly changing, and global supply chains are facing major challenges:

GLOBALIZATION AND ECOMMERCE

Forging partnerships with service providers that have expertise across various geographies. Customs simplification and modernisation



A GLOBAL TREND TOWARDS A RISK-BASED APPROACH

Requiring traders to share details of their shipments at any given time, such as pre-load, pre-departure and pre-arrival.



DIGITALISATION

Increasing digitization in customs audit and compliance and electronic exchange of information through a single window



TRADE FACILITATION

Efforts at simplifying and harmonizing customs processing but political will globally to promote multilateral trading system and trade facilitation



INCREASED AWARENESS OF REGULATION & COMPLIANCE

Core focus among international trade companies. Increased focus on Customs compliance, clearance, data quality and Post-audit checks and quality.



Global Customs Risk Trends & Challenges – The Ecommerce Focus 2/2

The focus of Customs changed from a traditional fiscal driven Gatekeeper at the border to an Organization driven by Security & Trade Facilitation supported by Information Technology

What changed in Customs?	What does it mean for us?
<ul style="list-style-type: none">➤ Higher focus on Security of the Supply Chain and WCO SAFEA Framework	<ul style="list-style-type: none">➤ Increased need for electronic data transmission➤ Data availability in advance
<ul style="list-style-type: none">➤ Risk based approach for Customs Controls & Inspections	<ul style="list-style-type: none">➤ Need for better data quality➤ Higher non-compliance risks and penalties
<ul style="list-style-type: none">➤ Stronger collaboration and Trade Facilitation with Supply Chain Partners and ratification of the TFA	<ul style="list-style-type: none">➤ Participation in Security Programs such as Authorized Economic Operator➤ Good record with Customs essential
<ul style="list-style-type: none">➤ Implementation of IT solutions & Integration including simplified clearances and modernisation	<ul style="list-style-type: none">➤ Integrated system solutions essential for a smooth clearance process (where applicable)➤ Speed of Customs clearance increased

How does Customs & International Trade react in the Risk Environment?

Globalization boosts the cross-border flow of goods resulting in an increased need for Trade Facilitation & Security on both sides

All must act in Concert – Customs ...



- Global guidelines such as **WCO Data Model & Framework of Standards**
- **Advanced IT Systems** for EDI integration with International Trade
- **Interconnected Solutions** between Customs Authorities
- **Risk assessment methodology** for targeted Inspections
- **Mutual recognition agreements** on Security Programs
- **Single Window** Approach
- **Efficient Revenue Collection**

... and International Trade



- Customs on the **Top Management Radar** of every company
- Investment in **Customs IT infrastructure**
- **Advance Cargo Information** sharing and **usage of Supplier Data**
- **Participation in Security Programs** as a "Must"
- **Enhancement of internal skills** to ensure full Customs Compliance
- **Bundling of Customs Brokerage Activities**
- **Stronger Steering & Monitoring** of Customs Brokers

Risk Management Fundamentals

- The Customs administration should through a public-private sector partnership collaboration effort establish an effective risk-management system linked to an AEO program and the TFA Art. 7.4 calls for Members to have “a” risk management system:
 - To identify potentially high-risk cargo and/or transport conveyances.
 - Link meaningful risk assessments to AEO Benefits that should be ‘meaningful, measurable and reportable’ in order to demonstrate proper risk management benefits to compliant traders.
 - Provide reduced inspections and random exams in delivering benefits to AEO members.
 - Enable AEO’s to have their own risk profiles maintained with the AEO Administrator including clearly defined non discriminatory risk scoring.
- There should be a single risk management and assessment system addressing risks of all relevant border agencies and linking such risk systems to an AEO program that delivers realities rather than paper-based commitments:
 - Such processes must include initial and on going reviews of compliance records for import/export,
 - Flexible and adaptable but clearly defined approach should be taken to the needs of various types of AEO applicants and review the risk environment as it changes.
 - Properly implement risk assessment outcomes and agreed benefits in a meaningful way that provides tangibility and practical realities.
 - Risk Management needs to streamline customs clearance – minimise additional requirements.
 - Automate the risk process.

Risk Management Fundamentals

- Good Risk Management means Customs administration can identify reliable traders and focus their controls on consignments of unknown/unreliable traders and enhance the actual intents of an AEO Program should result in lesser stops, priority treatment and tangible measurable outcomes versus a non AEO entity.
- By enhancing Risk Management and Customs-to-Customs co-operation and recognizing each other's AEOs, mutual recognition will allow Customs to target high risk shipments more effectively and expedite low risk shipments and facilitate free and efficient trade.
- Review the risk management criteria as the regulatory and business environments change.
- Automate risk management:
 - Advance electronic cargo information through detection algorithms.
 - Focus on high risk trade.
 - Incorporate into a SW.
 - Develop contingencies for system down time.
- Develop risk profiles specific to each border agency:
 - What are their unique needs and what's the best way to handle it.
 - Share risk profiles to avoid duplication of effort.
 - Shared responsibility between industry and customs/border agencies.

What Traders Want – Simplification

Description	SME	Multi Nationals
Pre Arrival Risk Assessment – Minimizing border “stops”	High	High
Simplified Clearance Procedures (relative to Cat 2 Cat 3)	High	High
Coordinated Intervention - Improving the cooperation and coordination between different agencies at the borders	High	High
Fall back procedures during system downtime	High	High
Advance Rulings	Low	High

What Traders Want – Standardization

Description	SME	Multi Nationals
Duplication of Trade formalities	Low	High
Adjudication and Examination at time of arrival	High	High
Intrusive inspections - Leveraging X-RAY technology for examination	High	High
24 x 7 Customs Operations at key Gateways	Moderate	High
Level playing field EMS vis-à-vis Courier	High	Low

Why and Where AEO May Need a Makeover.....

- The AEO Program in many countries today:
 - Focussed heavily on and very much about checklists,
 - Meeting static tests and too little about behaviour in the trade environment,
 - And whilst WCO members whilst promoting benefits of an AEO program tend to be reluctant to grant AEO's the actual facilitation benefits and often little tangible benefits.
 - TFA adoption means compliant traders to be granted at least 'facilitative measures' out of a list of seven.
 - TFA 7.1 Each Member shall provide additional trade facilitation measures related to import, export, or transit formalities and procedures,, to operators who meet specified criteria, hereinafter called authorized operators
 - Members and Regulatory Authorities should not only do this but go beyond and look at true AEO benefits and recognition of good risk management.
- Risk management should be a fundamental factor to realise real preferential treatment at the border to those AEOs who are most compliant, in a dynamic way:
 - For example the less hits you generate, the quicker consignments should be clear, the more facilitative measures you should benefit from (and vice-versa).
 - Likewise less intrusive and time consuming inspections based on risk profiling
 - Consideration of a bonus/malus programme even amongst AEOs where some AEOs are better than others and are recognised accordingly.
 - However all of this will also require good management of performance records by the border authorities – is this achievable and practical!.
 - Without good risk management there is NO AEO
 - Integrity is key and any corruption will cancel out any trade facilitation efforts.

The Utopian TFA Benefits for Ecommerce Trade

TFA 7.3. The trade facilitation measures provided pursuant to paragraph 7.1 shall include at least 3 of the following measures:

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

Food for Thought

Do you monitor AEO compliance performance?

Do you distinguish between more and less compliant AEOs?

Pre-arrival Risk Assessments and pre-clearance

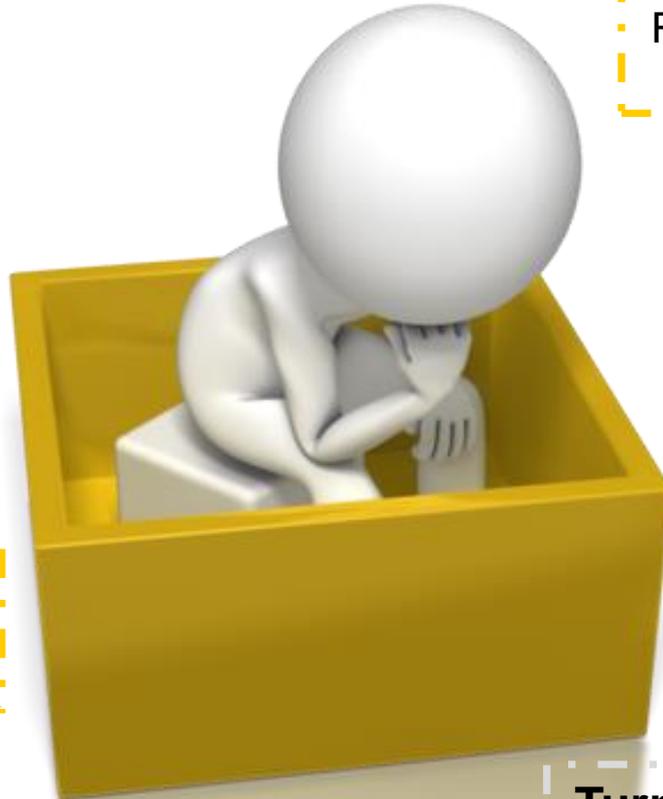
Risk Management and Regulatory Authorities Training

Risk based profiling and inspections and AEO

What extra benefits are you ready to give very compliant AEOs?

Are you ready to share an AEO compliance ranking with fellow customs administrations?

Turning Risk into Compliance through a well established Risk Management System working hand in hand with an AEO Program



Thinking Beyond the Boxes Borders – Opportunity knocks!

Tackling compliance

Ecommerce and B2C
including legislative
reform

TFA Implementation
and application of
simplification

Pre-arrival Risk
Assessments and
pre-clearance

Improved training and
skills enhancements for
both DHL and Customs

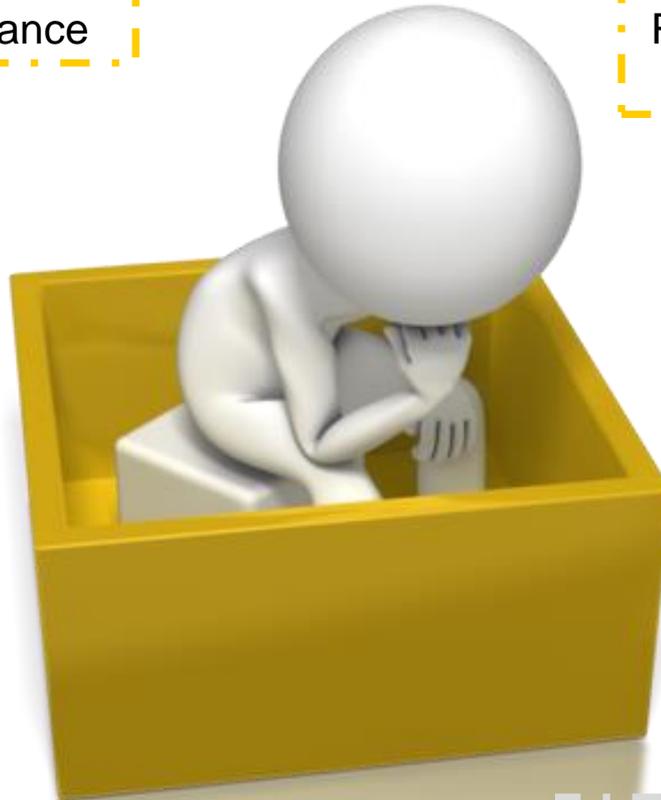
Risk based profiling and
inspections and AEO

De Minimus and
simplified clearance
through modernisation

Manual conditional
releases allowances for
system down times

24/7 Customs
Operations

**Turning complexity into
Simplicity through Compliant
and Efficient Express
Customs Processes**





Thank you!

