Authorized Economic Operator Pilot Programme of Hong Kong, China

Submitted by: Hong Kong, China
Authorized Economic Operator (AEO) Pilot Programme of Hong Kong, China (HKC)

APEC Ease of Doing Business Workshop on Trading Across Borders

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Authorized Economic Operator

- AEO arrangement is a major standard under the Customs-to-Business Pillar of the WCO SAFE Framework of Standards (FoS) to Secure and Facilitate Global Trade.

- AEO is 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.

Global Situation of AEO Programme Implementation

- In June 2005, the WCO adopted the SAFE FoS to Secure and Facilitate Global Trade.

- In the APEC forum, the Ministers responsible for Trade agreed in principle in 2005 to implement the APEC Framework for Secure Trade
Global Situation of AEO Programme Implementation (Cont’d)

- As at August 2010, 162 of 176 WCO members have undertaken to implement the SAFE FoS.
- 20 of 21 APEC economies have expressed their intention to implement the SAFE FoS.
- 14 economies have implemented their own AEO programmes (Some have also started their AEO mutual recognition arrangements.)

APEC Customs Directors General/Commissioners Meeting

- Statement of the Chair
  - Support the establishment of AEO programme in each economy, and promote mutual recognition arrangements.
  - Pursue the steady implementation of the AEO Action Plan, including the development of the AEO Best Practices.
  - Continue developing communication networks to facilitate the resumption of trade in the event of a major disruption to the global supply chain.
HK AEO Pilot Programme

- Launched on 23 June 2010

- Implementation plan
  - To run for about 12 months
  - To involve about 10 forerunners
  - To start with Shippers (i.e. Importers/Exporters)

Reasons for Implementing AEO Programme

- Adapts to the new environment and links up with the global AEO development

  - Aims:
    - to maintain HKC’s competitive edge as an international trading centre and regional logistics hub;
    - to enhance HKC’s trading partners’ confidence in the security of HKC’s exports; and
    - to facilitate clearance of goods (originated from or transshipped through HKC) by overseas Customs administrations.
Reasons for Implementing AEO Programme (Cont’d)

- Provides a mechanism for Customs and business to develop supply chain best practices.
  - **Aims:**
    - **HK Customs** - To achieve a dual aim of enhancing Customs enforcement and facilitating legitimate trade
    - **AEOs** - To reap benefits, including faster Customs clearance through reduced examination and predictable Customs procedures

Reasons for Implementing AEO Programme (Cont’d)

- Shows our readiness to cooperate with the international community to secure the international supply chain.
  - **Considerations:**
    - HKC is a member of the WCO and APEC;
    - HKC’s principal trading partners have implemented their AEO programmes on different scales
Reasons for launching an AEO Pilot

- The **AEO Implementation Guidance** of the **WCO SAFE Package** advises Customs administrations to carry out a pilot before formally implementing an AEO programme.

- A majority of the economies which have already implemented their AEO programmes had launched pilot projects.

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Reasons for launching an AEO Pilot (Cont’d)

- HKC has its unique trading environment, which is characterized by, among others,:  
  - a significant proportion of SMEs;  
  - a small number of manufacturing industries; and  
  - sophisticated transportation and communication networks.

- The WCO Framework Standards may **not be all** applicable to HKC’s situation.
Reasons for launching an AEO Pilot (Cont'd)

- Provides a platform to collect views from the local industries
  - *Industries may have better knowledge of AEO programme implementation and a better grasp of their security status in the international supply chain (through joining AEO programmes in other economies).*
  - *Information collected in the pilot would help refine AEO application, validation and assessment process, and identify areas for further enhancement.*

Principles of HK AEO Programme

- Fits the unique local trading environment;
- Caters for SMEs;
- Does not require legislative amendments;
- Does not necessitate any changes to the existing business operation or customs clearance procedures;
- Complies with the WCO standards; and
- Makes reference to the AEO best practices of other Customs administrations and other international standards, such as the ISO.
Core Features of HK AEO Pilot

- Open and Voluntary

  - All local companies, regardless of their size and nature of business, can choose to join.

  - HK Customs starts with several companies and expands the scope progressively.

Core Features of HK AEO Pilot (Cont’d)

- High Flexibility

  - Considers operators’ security profile on an individual basis and allows flexibility in assessing whether they could meet the criteria for obtaining AEO status.

  - Advises the operators of their compliance level and the ways on how they could meet the unfulfilled standards.

  - Allows mandatory and value-added requirements based on operators’ business models.
Core Features of HK AEO Pilot (Cont’d)

- Two types of AEO Status
  - Tier 1 AEOs
    - Target: Small Companies
    - 3 General Criteria + 7 Security & Safety Criteria
  - Tier 2 AEOs
    - Target: Large Companies
    - 3 General Criteria + 9 Security & Safety Criteria

Core Features of HK AEO Pilot (Cont’d)

- 3 General Criteria:
  - Tier 1 and Tier 2 AEOs
  - (1) Customs Compliance;
  - (2) Maintenance of Commercial Records; and
  - (3) Financial Soundness
Core Features of HK AEO Pilot (Cont’d)

- Security & Safety Criteria:
  - For Tier 1 and Tier 2 AEOs
  - (1) Premises Security and Access Control;
  - (2) Personnel Security;
  - (3) Cargo Security;
  - (4) Conveyance Security;
  - (5) Business Partner Security;
  - (6) Security Education and Training; and
  - (7) Information Exchange, Access and Confidentiality

For Tier 2 AEOs only
- (8) Crisis Management and Incident Recovery; and
- (9) Measurement, Analysis and Improvement

Criteria for Obtaining an AEO Status

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<tr>
<th>General Criteria</th>
<th>Tier 1</th>
<th>Tier 2</th>
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<td>1. Customs Compliance</td>
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<td>2. Maintenance of Commercial Records</td>
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<td>3. Financial Soundness</td>
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<table>
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<tr>
<th>Security &amp; Safety Criteria</th>
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<td>4. Premises Security &amp; Access Control</td>
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<td>5. Personnel Security</td>
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<td>6. Cargo Security</td>
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<td>7. Conveyance Security</td>
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<td>8. Business Partner Security</td>
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<td>9. Information Exchange, Access &amp; Confidentiality</td>
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<td>10. Security Education and Training</td>
<td>✓</td>
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<td>11. Crisis Management &amp; Incident Recovery</td>
<td>Not mandatory</td>
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<td>12. Measurement, Analysis &amp; Improvement</td>
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Benefits for AEOs in HKC

- Less physical Customs examination when compared with other economic operators;
- Priority treatment of consignments if selected for customs inspection;
- Choice of place of controls (for containerized sea cargo only);

Benefits for AEOs in HKC (Cont’d)

- Other indirect benefits like reducing theft and losses, improved customer confidence and improved security and communication with partners in the supply chain;
- Recognized as a secure and safe business partner - “Kite Mark”;
- Further trade facilitation deriving from mutual recognition; and
- Special priority treatment of consignments for Tier 2 AEOs at times of disruption to border operations.
**Way Forward**

- To conduct review after AEO Pilot;

- To devise a timetable of implementing the AEO programme on full scale; and

- To maintain close liaison with other Customs administrations on their AEO implementation and exchange views on **mutual recognition**.

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**The End**

- Thank you!