

## WORKSHOP SUMMARY REPORT

# ***“Integrating SMEs in Authorized Economic Operators Programs in Asia Pacific Region: Improving SMEs Participation in APEC Secure Trade”***

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Subcommittee of Customs Procedures (SCCP)

Puerto Varas, Chile

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## 1. BRIEF DESCRIPTION OF THE WORKSHOP ACTIVITIES

A one-day workshop was held in Puerto Varas, Chile on the margins of APEC SOM 3 meetings. The workshop brought together more than 130 participants, including representatives of the Sub-Committee on Customs Procedures (SCCP), the private sector and policy makers of APEC economies. The objective of the workshop was to analyze and discuss how to improve SMEs participation in AEO programs. Participants discussed views on different proposals addressed by the SCCP. This included entry barriers for SMEs to the AEO certification; best practices to integrate SMEs into AEO programs and the identification of specific benefits of MRAs that can improve SME access to international markets.

A consultant from the Inter-American Development Bank (IDB) provided important insights from the initial research. These insights related to the identification and analysis of entry barriers for SMEs to AEO and the identification of potential benefits of MRAs within the APEC region, with special emphasis on the integration of SMEs into international value chains. Before starting discussions in each Panel and as an introduction to the Panel, the consultant provided participants and experts with the first results from the research.

The content of the three panels was as follows:

- **Panel 1:** *Addressing AEO Certification as a Trade Facilitation Instrument: Where are we in the APEC Region?*

This Panel sought to reveal how the AEO Program, in the field of customs procedures, is achieving (or not) the objectives related to Trade Facilitation. The discussion included among other elements, time, costs, benefits and opportunities for companies to comply with the requirements of the AEO Programs. The issue of extended benefits was also addressed, and concluded that is not only those related to customs procedures and clearance, but also those associated with processes that Customs Administrations share with other regulatory agencies operating at the border or within the economies.

- **Panel 2:** *Questions remaining about SMEs: Is SMEs involvement on AEO Programs a low point for the Region? Are there entry barriers related with SMEs involvement in AEO Programs?*

This Panel included, in addition to the presentation of the first findings by the consultancy on the issue of entry barriers for MSMEs to the AEO certification, an enriching conversation and exchange of experiences and good practices among representatives of the economies, experts, customs officers and representatives of private sector companies.

- **Panel 3:** *¿La Región APEC está demasiado lejos? Mutual Recognition Agreements (MRAs) as the key component of the Trade Facilitation objective of AEO Programs: Is APEC Region too far?*

This Panel focused on the perspectives of the agenda of the Mutual Recognition Agreements within APEC. The objective was to try to show a general perspective on the existing agreements between Customs and the benefits that AEO companies can see after their implementation, with emphasis on tangible measures in trade facilitation, such as control reduction, elimination of duplicate inspections and implementation of simplified processes, among others.

In the three panels, the private sector, participants and experts were encouraged to analyze and discuss the different issues proposed and develop their own conclusions, which were compiled through a survey.

## 2. FOLLOW-UP AND EVALUATION (Phase 1: Workshop).

Measures	Indicators	Target	Result
Workshop participation rate and gender data	Number of participating member economies	At least 12 economies	14 economies (included Chile)
How many government agencies, companies and representatives participated in the workshop?	Number of participants	50 participants	147 participants
	Participation rates of women	30% of female experts /panellists	47% of female experts/panellists
		30% of female participants	35% of female participants
	Participation rates of private sector panellists	30% of private sector panellists	35% of private sector panellists
	Participation rates of expert panellists in customs matters	50% of expert panellists in customs matters	44% of expert panellists in customs matters
	Number of attendees by gender.		Men: 96 Women: 51
Recommendations and comments made by panelists and participants	Number of recommendations developed	5 recommendations	10 recommendations
	Survey response rates	50% of surveys answered	52% of surveys answered

### 3. MAIN FINDINGS OF THE SURVEYS; THE EVALUATION OF THE PERCEPTION OF PARTICIPANTS REGARDING THE MAIN ISSUES DISCUSSED IN EACH PANEL.

During the Workshop, a survey was given to each of the attendees, which included a number of questions to collect their perception regarding the main topics addressed in each panel (see Annex 1). At the end of the day, the surveys were collected, totalling 71 surveys answered, corresponding to 54% of those attending the Workshop. The answers have been tabulated, finding the following results:

**Panel 1: Addressing AEO Certification as a Trade Facilitation Instrument: Where are we in the APEC Region?**

N°	Questions	General	Public Sector	Private Sector
1	The AEO Program support the voluntary compliance strategy.	3.6	3.6	3.7
2	The AEO Program support the Customs risk management strategy	3.6	3.6	3.7
3	The AEO Program is consistent with the WTO Trade Facilitation Agreement.	3.6	3.6	3.6
4	The AEO Program increases the speed of international market access.	3,5	3,5	3,5
5	The participation of other Regulatory Agencies in the AEO Program accelerates the clearance of cargo.	3.7	3.7	3.7
6	The participation of other Regulatory Agencies in the AEO Program has no major impact as a measure to facilitate customs clearance.	2.0	2.0	2.0
7	The participation of other Regulatory Agencies in the AEO Program can be understood as an extension / improvement of the benefits provided by the AEO.	3.4	3.3	3.5
8	The participation of other Regulatory Agencies in the AEO Program rises the price and increases the complexity of the AEO certification process for business.	2.5	2.8	2.3
9	One of the benefits that contributes most to Trade Facilitation is less physical inspection of the cargo	3.5	3.4	3.5
10	One of the benefits that contributes most to Trade Facilitation is the speeding up of border procedures	3.6	3.5	3.7
11	One of the benefits that contribute most to Trade Facilitation is the reduction or simplification of the formalities for cargo clearance.	3.6	3.6	3.6
12	One of the benefits that contributes most to Trade Facilitation is the implementation of simplified procedures for paying taxes.	3.2	3.2	3.3
<p>Note:</p> <p>4 = Strongly agree            3 = Agree            2 = Disagree            1 = Strongly disagree</p>				

**Panel 2: Questions remaining about SMEs: Is SMEs involvement on AEO Programs a low point for the Region? Are there entry barriers related with SMEs involvement in AEO Programs?**

N°	Questions	General	Public Sector	Private Sector
1	Your economy has a specific Association for SMEs.	2.9	2.8	2.9
2	SMEs have access to the AEO Program in your economy	2.9	2.9	2.8
3	The AEO Program must include SMEs.	3.6	3.5	3.6
4	If your economy does not currently certify SMEs as AEO, It may have a plan to include them.	2.9	2.9	2.9
5	The institution responsible of the AEO has a specific section for AEO as well as SMEs on its website	2.5	2.6	2.3
6	SMEs have to fulfil specific requirements to apply and become an AEO.	3.0	2.9	3.1
7	SMEs can to waive from complying with certain requirements and to be certified	2.0	2.0	2.1
8	They must grant specific benefits for SMEs once they become an AEO.	3.1	2.9	3.4
9	SMEs have found it difficult to incorporate into the AEO Program because Customs does not design the AEO Program thinking in SMEs business model characteristics.	2.9	2.9	2.9
10	SMEs have found it difficult to incorporate into the AEO Program because, from the beginning, AEO Program was developed only for large companies.	2.7	3.0	2.5
11	SMEs have found it difficult to incorporate into the AEO Program because the benefits are not attractive to SMEs	2.8	2.9	2.8
12	SMEs have found it difficult to incorporate into the AEO Program because the benefits do not improve cost-benefits relationship.	2.6	2.6	2.7
13	To encourage SMEs to participate in the AEO Program Customs must develop new benefits focused on SMEs business model characteristics.	3.3	3.0	3.6
14	To encourage SMEs to participate in the AEO Program Customs must develop new AEO standards for SMEs with less requirement for SMEs. .	2.6	2.6	2.7
15	To encourage SMEs to participate in the AEO Program Customs must introduce some flexibility in the way in which SMEs demonstrate compliance with AEO criteria	3.0	3.1	3.0
16	To encourage SMEs to participate in the AEO Program Customs must promote the creation of a Government financial aid for SMEs to cover implementation costs.	3.2	3.1	3.4
17	To encourage SMEs to participate in the AEO Program Customs must involve Other Governmental Agencies in AEO Program to add supplementary benefits.	3.6	3.5	3.7
<p>Note:</p> <p>4 = Strongly agree  3 = Agree  2 = Disagree  1 = Strongly disagree</p>				

**Panel 3: Mutual Recognition Agreements (MRAs) as the key component of the Trade Facilitation objective of AEO Programs: Is APEC Region too far?**

N°	Questions	General	Public Sector	Private Sector
1	Legal frameworks of each economy that involves complex processes to negotiate are one of the important difficulties faced during the negotiation process of MRAs.	3.2	3.2	3.4
2	Having enough companies to schedule observation visits is one of the important difficulties faced during the negotiation process of MRAs.	2.8	2.9	2.9
3	The provision of financial resources (budget) to conduct observation visits is one of the important difficulties faced during the negotiation process of MRAs. .	3.2	3.2	3.1
4	Program compatibility (requirements, conditions, legal framework, etc.) is one of the important difficulties faced during the negotiation process of MRAs.	3.4	3.5	3.3
5	Agreeing benefits that are attractive to companies in both economies is one of the important difficulties faced during the negotiation process of MRAs.	3.2	3.1	3.3
6	The methodology (process) definition for the exchange of information is one of the important difficulties faced during the MRAs implementation of the MRAs.	3.3	3.3	3.3
7	The provision of benefits to certified companies of the economy with which the MRA was signed is one of the important difficulties faced during the implementation of MRAs.	3.2	3.1	3.3
8	Technological barriers to information exchange (modification of IT) are one of the important difficulties faced during the implementation of MRAs.	3.2	3.3	3.2
9	The provision of financial resources (budget) for implementation is one of the major difficulties faced during the implementation of MRAs.	3.1	3.0	3.1
10	Streamlining border crossings (for economies with land border in common) is one of the most important benefits of MRAs implementation.	3.5	3.4	3.6
11	Simplification and streamlining of clearance of import / export cargo is one of the most important benefits of the implementation of MRAs.	3.6	3.5	3.7
12	The reduction in logistics costs of import / export operations is one of the most important benefits of the implementation of MRAs.	3.5	3.4	3.6
13	Partnership relationship between Customs of the signatory economies of the MRA is one of the most important benefits of the implementation of the MRAs.	3.4	3.4	3.5
14	Achieving a higher standard regarding cargo security, due to AEO business linkage is one of the most important benefits of the implementation of MRAs.	3.5	3.4	3.8
15	Creating new business opportunities between AEO companies is one of the most important benefits of the implementation of MRAs.	3.5	3.4	3.6
16	Simplification and acceleration of clearance between related companies (Headquarters-Branches) is one of the most important benefits of the implementation of the MRAs.	3.3	3.2	3.5
<p>Note:</p> <p>4 = Strongly agree</p> <p>3 = Agree</p> <p>2 = Disagree</p> <p>1 = Strongly disagree</p>				

#### 4. MAIN CONCLUSIONS.

In the Workshop, we were able to know the data provided by the consultancy that, together with the Inter-American Development Bank, is taking place within the framework of said project, which illustrated us very well about the importance that SMEs have for the economies of the region. If we think that 97% of companies are SMEs in the region, their incorporation into the program is not only relevant in terms of the number of potentially certifiable companies, but also relevant to boost economic development strategies in our region.

According to the IDB study, while SMEs do not represent more than 20% of direct export capacity in most economies, they are responsible, on average, for 50% of employment. Thus, their participation, both as a direct exporter or as part of the supply chain, should get our attention. SMEs are more vulnerable to difficulties and bureaucracy, on their way to business. Therefore, it is imperative that economies promote a regulatory environment that fosters and promotes cross-border trade in them.

In our economies, we have a global network of reliable companies, which continue to do their utmost to guarantee the security of their loads and thus be able to make use of trade facilitation measures that AEO programs deliver through their benefits. While the AEO concept is implemented in all our economies, with a greater or lesser degree of development and maturity, the findings of the IDB survey alerted us to the fact that only six APEC economies have identified the specific number of SMEs that have been certified or are in the process of becoming an AEO. (Total of certified SMEs: 180).

Considering the total universe of companies that could potentially be certified, it corresponds a discrete amount and a great future opportunity for the program.

If we agree that SMEs are relevant to our economy, looking at the figures shared by the Bank's study, the next question is what are the barriers that SMEs have to participate in the Authorized Economic Operator program?

We are satisfied because some answers have begun to be interpreted and one of the most important is that there is the conviction that, in the region, the programs do not consider entry barriers in their definitions. Therefore, we can ensure that there is no barrier in the design or conception of AEO Programs, which prevents entry for SMEs.

If there are no barriers in the definition of the program, then where are they? There seems to be a consensus that the main barriers for SMEs can be associated with the costs that the implementation of solutions can entail, which allow them to achieve compliance with security requirements, to be certified.

How to deal with that? The joint reflection and the experiences shared by the experts of the different programs in the dialogue, have allowed us to understand from the public sector that customs should recognize this as a barrier. Without modifying the requirements of our AEO programs, we should perhaps assess the flexibility in the way in which SMEs demonstrate their compliance with standards. Therefore, Customs must review the development of programs and focus on the correct understanding, regarding the way in which the requirements can be met by the SMEs.

On the other hand, there is also responsibility on the part of the private sector, both at the individual level at the time of strategic business definitions, as well as through the contribution made by trade associations. In both areas, the idea that when companies spend on security, what they are actually doing is an investment must be

strengthened. Therefore, while it may be necessary to invest resources when participating in a certification program, this investment has a return in the medium term according to the experience shared by SMEs of the private sector. In this regard businesses need to better understand their inputs in the global supply chain. Firms need to be educated in this area. There are a number of examples in which firms have lost considerable amount of money for no strengthening the security of their supply chain.

In this regard, the studies and data available regarding the effect that the benefits of the program generate in clearance times and costs must be broaden. To demonstrate that the benefits are tangible and significant, will allow greater confidence in the program for SMEs

A novel look regarding the effect that the AEO certification process has within the enterprises themselves is another of the contributions made by the private sector in the Workshop. The certification process pushes enterprises to establish improvements in their operational and recruitment processes and other aspects, which directly have an effect on productivity, even before the benefits of the program itself. In this regard, it would be interesting to have figures and studies provided by the private sector and trade associations on the participation of SMEs in the supply chain, the key processes in which they participate and an assessment of the specific risks regarding these actors, given that improving information strengthens the participation of SMEs in AEO programs.

In the dialogue some key strategies were identified, these can facilitate the participation of SMEs from the public sector:

- Provide education: accompanying in the certification process is relevant to the success of the SMEs; offer training to enterprises that allow them to develop knowledge about risk analysis and strategies to mitigate them;
- Outreach Programs: more expeditious, best-known and understandable certification processes for SMEs.
- Manage effective communication: maintaining communication and exchanging information is a good practice that must be enhanced.

Another aspect that can contribute to strengthening the program focusing on SMEs is the challenge of going in depth in the coordinated work between government agencies, exploring with greater enthusiasm the implementation of the Pillar 3 of the WCO SAFE Framework of Standards. This may be of special interest for the inclusion of SMEs in the programs, since it increases the benefits that they can receive when they participate in foreign trade, directly or indirectly. At the same time, it gives the public sector the possibility of adding value, based on coordinated actions.

Similarly, it was indicated that it is very important that the initiatives of the AEO Program and Single Windows complement each other, since they have shown to be highly efficient to expedite processing and give traceability to the operations; therefore, it is relevant that Customs Administrations actively participate by supporting their implementation.

Finally, much emphasis was also placed on the importance that Mutual Recognition Agreements represent for the APEC region, and how we should continue working to strengthen their actual implementation.

We must continue exploring tools that strengthen programs implementation, especially in the field of information exchange. In this regard, it has been suggested that block chain can be a tool that supports the solution of problems associated with the exchange of information, facilitating the effective provision of benefits derived from the growing

number of MRAs in the world. We were able to know some general aspects of the CADENA project during the workshop, which is a pilot initiative financed by the IDB and thus we had light on the importance it may have in the future to promote an initiative of this nature at the regional level.

In the MRA negotiation process, it is important to make a correct evaluation and study regarding the security criteria given that the harmonization of the requirements between different economies is one of the benefits that generates expectations within the private sector. This means the extension in obtaining benefits outside the borders of each economy, and therefore the cost reduction of this process for private actors.

From the public sector, we must work to meet the expectations we have sown, working on deepening the agreements and their implementation. Importers and exporters expect to have benefits; therefore, for programs to grow and strengthen, it is necessary that MRAs have a concrete effect on certified operators.

Today, the world is characterized by having a more dynamic foreign trade and in this sense, times and opportunities are relevant variables of competitiveness. To achieve this goal, we must continue working to strengthen trust and dialogue between the private-public sectors.

## 5. RECOMMENDATIONS

**Recommendation 1:** It is important that the AEO Programs consider the differences between the benefits that each type of operator seeks when certifying as an AEO. For example, exporters and importers seek benefits that reduce clearance times, controls and costs, while the rest of the operators in the supply chain seek to consolidate a “market preference”, that is, to prefer them to other service providers, becoming the main incentive to certify AEO.

**Recommendation 2:** For an AEO program to be a real contribution to facilitation, it is very important that customs officers operating at borders be trained in AEO and understand how to provide the benefits to the operators. Many programs do not consider this and the implementation of the benefits is frustrated.

**Recommendation 3:** Customs Administrations should endeavour to review their programs and be aware that the programs should not lower their standards for SMEs, but they should make more flexible the way in which they evaluate their compliance by these companies. For this, it is important to recognize the context in which these companies work and if the evidence they present is consistent with the identified risks.

**Recommendation 4:** AEO programs must make greater efforts in training and dissemination regarding requirements and, especially, strive to have programs whose certification processes are more expeditious, known and understandable, with special emphasis on the incorporation of SMEs.

**Recommendation 5:** Regarding the specific recommendations for Customs, it was emphasized that AEO programs should incorporate KPI indicators that focus on SMEs, such as participation rates, number of operators, use of benefits, among others.

**Recommendation 6:** Expand the studies and data concerning the effect that the benefits of the program generate in clearance times and costs, as well as the implementation of MRAs. Highlight that the benefits are tangible and significant will allow greater confidence in the program for SMEs

**Recommendation 7:** Although certification is free of charge in most of the AEO Programs in the APEC region, Customs Administrations should consider that the incorporation of SMEs into the AEO certification would require the provision of external financing for the implementation. It is at this point that the Economies have to look for or adapt tools supporting the AEO certification process of SMEs. Public funds and resources, in general, are available in all Economies of the APEC region, either because they have been specifically designed for this purpose, or because they are part of public support and subsidy policies for the development and internationalization of SMEs. , but it is necessary to organize the Trade Associations that represent these enterprises so that they know the financing tools, spread them among their partners and take advantage of them.

**Recommendation 8:** Economies must strongly promote the use of MRA among AEOs, because not everyone knows how to use it, noting that 75% of enterprises say that they do not have information on MRA available on the Customs website. Therefore, it is recommended that the Economies make further progress with this issue, especially to inform the AEOs via web how they can get access to the benefits of the ARM. In this regard, it is also recommended that they try to include in the text of the

ARM a monitoring clause to verify that the benefits are being delivered, indicating that one should be creative when negotiating them. Although it is easier to find benefits when Economies are bordering, discussions with those implied are necessary in order to find new ones. It is also important to hold joint meetings and seminars involving Customs Administrations and AEO enterprises of both economies, since good ideas may appear which can be implemented.

**Recommendation 9:** Customs Administrations must work hard to improve information exchange systems, in a secure way, share the certified operator's status and thus ensure that such operators will receive the expected benefits upon arrival in the economies with which MRAs have been signed. This is essential for the consolidation and expansion of the AEO programs.

**Recommendation 10:** Customs Administrations must work with greater enthusiasm in incorporating other government agencies into AEO programs. This alliance between organizations can bring direct benefits to SMEs, significantly reducing clearance times and costs.

## 6. PHOTOS



