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# CUSTOMS MODERNIZATION HANDBOOK AUTHORIZED ECONOMIC OPERATOR PROGRAMS



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CUSTOMS MODERNIZATION HANDBOOK

# AUTHORIZED ECONOMIC OPERATOR PROGRAMS

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TCBoost can meet every aspect of a mission's trade-related needs, from analysis to training, in a broad range of topics, including trade facilitation and customs reform, trade policymaking and negotiations, export diversification and competitiveness, and economic adjustments to trade liberalization. Visit [www.tcboostproject.com](http://www.tcboostproject.com) for more information.

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# INTRODUCTION

Customs responsibilities are evolving. In the post-September 11 world, Customs administrations have moved far beyond their original role as governments' primary revenue collectors. Customs administrations are now expected, among other responsibilities, to provide security from the threat of terrorism by securing international supply chains. International agreements and guidance documents on supply chain security, such as the World Customs Organization (WCO) Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework), have established best practice guidelines emphasizing both trade facilitation and supply chain security through Customs-to-Customs and Customs-to-business partnerships. Customs-to-business partnerships can be strengthened through authorized economic operator (AEO) programs, which identify and reward businesses that comply with WCO or equivalent standards for supply chain security. According to the WCO, as of June 2009, 157 member nations had expressed the intention to implement the SAFE Framework. Japan, the European Union, Argentina, China, Brazil, India, Chile, and several other countries have been inspired by the SAFE Framework to develop and implement programs, but many WCO member nations will require guidance and training to implement the framework.

The Authorized Economic Operator Program Handbook is the fourth in a series of customs modernization handbooks commissioned by USAID. This handbook is based on the SAFE Framework and can provide Customs administrations in developing countries with practical, detailed guidance and best practice examples in working collaboratively with the trade community to secure the supply chain while facilitating trade, maintaining or improving controls, and protecting revenue. The handbook does not seek to add to the SAFE Framework concepts but rather to assist Customs administrations in developing countries in planning and implementing national AEO programs. The handbook was developed by the USAID Worldwide Support for Trade Capacity Building (TCBoost) project with significant input from the WCO and the U.S. Customs and Border Protection (CBP). This collaboration is the first of its kind.

The approach of the Authorized Economic Operator Program Handbook is based on effective program management practices and best practices drawn from the experience

of Customs administrations throughout the world. USAID recognizes that management commitment to and employee acceptance of any Customs reform initiative can best be achieved when the Customs administration and its employees participate in the design and implementation of the initiative. USAID also recognizes that Customs managers often prefer to take the lead in developing and implementing new initiatives without relying too heavily on outside technical advisers. This handbook was designed to enable developing-country Customs administrations to follow its guidelines and institute the recommended reform measures with minimal additional technical assistance—although this do-it-yourself approach does not preclude short-term technical assistance. Customs administrations considering an AEO program or in the process of implementing an AEO program may contact USAID and/or CBP’s Office of International Affairs to request technical assistance in or training on how to develop and implement such a program.

This handbook begins with a brief history of the development of the SAFE Framework of Standards, particularly as it informs the development of AEO programs, and discusses the principles and preconditions that influence the design and implementation of AEO programs (e.g., import vs. export orientation, Customs-to-business partnerships, integrity issues). Section 2 presents a prototype implementation plan for AEO programs that can be adapted to address local issues and priorities. Section 3 features case studies that detail the experiences of countries that have designed and implemented AEO programs. Finally, the handbook includes a CD that provides reference materials and sample forms and documents from Customs administrations implementing AEO programs throughout the world.

# I. SUPPLY CHAIN SECURITY AND THE SAFE FRAMEWORK

## SUPPLY CHAIN SECURITY

In the days after the September 11, 2001, attacks on the United States, nearly all air traffic over the United States was grounded, and land borders and seaports were sealed. The economic impact of these shutdowns resonated within the United States and throughout the world, demonstrating the vulnerability of international supply chains. The United States, Canada, New Zealand, Jordan, Sweden, Netherlands, Australia, and Singapore moved quickly to implement security programs, predecessors of AEO programs.

Given their central role in the movement of goods across international borders, Customs administrations helped develop and implement these security programs, but the responsibility for securing the international supply chain does not rest with Customs alone. No one entity owns or manages the international supply chain; securing the chain requires the participation of manufacturers, importers, exporters, brokers, carriers, consolidators, ports, airports, terminal operators, integrated operators, warehouses, and distributors. Recognizing the need to develop a uniform set of strategies to secure—yet facilitate—the movement of global trade, the WCO began developing Customs Guidelines on Integrated Supply Chain Management (ISCM Guidelines) in 2002. Exhibit 1-1 lists the supply chain nodes where, according to the CBP, manipulation of the supply chain can occur.

## SAFE FRAMEWORK OF STANDARDS

The adoption of the ISCM Guidelines in 2004 was followed by the adoption of the SAFE Framework of Standards in 2005. The SAFE Framework is based on two pillars: (1) Customs-to-Customs partnerships and (2) Customs-to-business partnerships. Pillar 1 emphasizes the harmonization of advance electronic cargo information requirements on inbound, outbound, and transit shipments and the use of a consistent risk management approach to address security threats. Pillar 2 encourages the establishment of ways for Customs to identify businesses that consistently demonstrate commitment to compliance with Customs regulations and security procedures as AEOs.

## EXHIBIT I-1

### Supply Nodes

The U.S. Strategy to Enhance International Supply Chain Security (June 2007) identifies 16 supply chain nodes where goods can be manipulated:

1. Origination of cargo (supplier or factory)
2. Origination of packaging
3. Origination of container (if containerized cargo)
4. Mating of cargo and packaging
5. Consolidating of cargo or sealing of container
6. Storage before transport
7. Movement of cargo to port of origin
8. Port of origin (airport, marine terminal or facility, trucking company)
9. International transportation
10. Port of entry (airport, marine terminal or facility, border port of entry).
11. Movement to deconsolidation point
12. Storage before processing
13. Deconsolidation
14. Movement to destination
15. Destination
16. Information flow associated with cargo (end-to-end).

Each node presents an opportunity or requirement for gaining access to the means of transport or cargo.

The SAFE Framework defines an AEO as 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 standards for supply chain security. AEOs include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, and distributors. The SAFE Framework establishes the following six standards for AEO programs:

- **Standard 1—Partnership.** AEOs engage in a self-assessment—measuring their internal policies and procedures against security standards and best practices to ensure that they provide adequate safeguards against the compromise of their shipments and containers until the shipments are released from Customs control at destination.
- **Standard 2—Security.** AEOs incorporate program-defined best practices for security into their business practices.
- **Standard 3—Authorization.** The Customs administration, together with representatives of the trade community, design validation processes or quality accreditation procedures that offer incentives to businesses because of their status as AEOs.
- **Standard 4—Technology.** All parties maintain cargo and container integrity by using modern technology.
- **Standard 5—Communication.** The Customs administration regularly updates the security standards and supply chain security best practices defined in the AEO program.
- **Standard 6—Facilitation.** The Customs administration works cooperatively with AEOs to maximize security and facilitation of the international trade supply chain originating in or moving through its Customs territory.

## AEO PROGRAM DESIGN PRINCIPLES

In the design and implementation of an AEO program, certain principles must be followed and certain conditions must be met. These include compliance with international standards and being guided by best practices developed by international organizations and other Customs administrations, the prioritization of either imports or exports, the state of Customs-to-business partnerships in the country, and the level of integrity displayed by the Customs administration.

### GET SUPPORT FROM HIGHEST LEVELS OF THE CUSTOMS ADMINISTRATION

A successful AEO program requires the firm commitment of the Customs administration's director general or chief executive. The chief executive must sponsor and advocate for the program from its inception. The chief executive's direct involvement in the program provides tangible support to the team developing the program, ensures that Customs officers understand the program's importance, and gives the program credibility before the trade and transport community. The chief executive must be personally involved in introducing the AEO concept to the executive branch, to the legislature, and to other government ministries and agencies to obtain the necessary governmental support and funding for the program. This handbook proceeds under the assumption that the chief executive has obtained governmental consent or approval, been assured of funding, and has reached out to other ministries and agencies involved in trade and border issues.

### COMMIT TO MEETING INTERNATIONAL STANDARDS

The SAFE Framework standards for AEO programs reinforce international standards for Customs administrations (e.g., Revised Kyoto Convention). Customs administrations ready to design and implement AEO programs understand the importance of balancing international trade and security and are ready to play their role in facilitating legitimate international trade and investment. They also understand the vulnerability of the international supply chain and their increasingly important role in securing goods and conveyances moving across borders. They measure their success by documenting that new procedures and working relationships have increased the degree of compliance with Customs and related requirements. They simplify procedures to reduce delays and uncertainty. They establish achievable goals to improve compliance and measure their success in achieving them. They tailor controls to risks. They communicate more openly and effectively. They implement transparent, performance-based human resource management practices, provide adequate compensation, and reduce opportunities for corruption.

### COMMIT TO PROFESSIONALISM AND INTEGRITY

No matter how well designed, a program will fail if Customs managers, importers, and exporters cannot rely on their officers and employees to perform their duties in an ethical manner. If customary practices include the exchange of tips, gratuities, favors, or bribes, both Customs and the trading community must be willing to make a change. In the Customs administration, success begins with senior managers' firm personal commitment to provide leadership and to insist on improved policies, practices, and procedures, even

when traditional methods of doing business are deeply ingrained. The success of an AEO program also depends on professionalism and integrity in the trading community, especially importers, exporters, and brokers. The WCO has published excellent integrity assessment tools, and USAID has published the handbook *Establishing and Implementing a Customs Integrity Program* dealing specifically with this issue. Both are on the CD included with this handbook.

## **DETERMINE IMPORT OR EXPORT ORIENTATION**

Some AEO programs focus on imports, others on exports, depending on national priorities. Governments must not only guard against terrorist attacks on their own soil through the import supply chain, but they must also safeguard their competitiveness in the international market by protecting export markets and brand names. Ideally, an AEO program covers both imports and exports, but Customs administrations should not try to do too much too soon. If a country considers its primary threat an attack on its homeland, it will probably address imports first. But if the primary threat is to export markets, the country might prefer to focus first on export security. Either decision does not preclude a program covering both imports and exports later. The key issue is where to start.

## **STRENGTHEN CUSTOMS-TO-BUSINESS PARTNERSHIP**

In modern Customs administrations, traditional control systems have given way to risk-based selectivity systems. These systems have made complying with Customs requirements easier. They punish those who do not comply and reward those who do. In developing an AEO program, a Customs administration must get to know its trading community and understand its business practices and concerns. Adversarial relationships are replaced with mutual respect and partnership. By adopting a less adversarial philosophy, Customs administrations can both secure the international supply chain and facilitate the movement of legitimate international shipments. Section 2, Step 4 of this handbook provides additional information on strengthening or enhancing the relationship between Customs and the trade community.

## 2. STEPS IN AEO PROGRAM DESIGN AND IMPLEMENTATION

Every Customs administration incorporates its own experience and approach into AEO program design and implementation. Some Customs administrations have project management or modernization and reform departments, but others may not have the resources or training to apply project management techniques. This guide to AEO program implementation

- Suggests a course of action incorporating project management techniques for Customs administrations that do not have in-house project management expertise;
- Outlines a strategy that will enable Customs administrations and business clients to work in partnership on incorporating the SAFE Framework into a national AEO program; and
- Describes best practices and the approaches taken by Customs administrations that have already implemented AEO programs.

The design and implementation of an AEO program are complex and time-consuming processes. The best way to prime an AEO program for success is for the partners in the public and private sectors to collaborate in designing the program. This collaboration entails the formation of two groups:

- A project implementation team made up of Customs officers
- A working group of representatives of the trade (importers, exporters, carriers, brokers, warehouse operators, manufacturers) and other government agencies with responsibilities relating to imports and exports.

The formation of these two groups is addressed in Steps 1 and 2.

### STEP 1: ASSEMBLE PROJECT IMPLEMENTATION TEAM

The first step in developing an AEO program is assembling a project implementation team. The project implementation team is made up of Customs managers and officers responsible for working with the private sector to design the AEO program and for managing project implementation.

Although the Customs chief executive serves as the project sponsor, few managers in such a high position can devote the time and attention necessary to manage the design and implementation process. The chief executive therefore should appoint a trusted subordinate as the full-time project manager.

The project manager should have strong motivation and excellent project management skills and the demonstrated ability to bring together people with diverse points of view in a productive manner. The project manager leads the project implementation team and works closely with the AEO working group (see Step 2). He or she will have to have the authority to speak for the chief executive and to make decisions and commitments (within defined parameters) for the project. The project manager keeps the chief executive informed of progress and any obstacle encountered in the design and implementation process. Although the chief executive may have delegated significant authority to the project manager, the chief executive must remain visible and accessible.

The project manager nominates the rest of the project implementation team, including specialists in risk management, human resource management, policy and procedure development, postclearance audit-based controls, information technology, legal and policy advice, and public information. Field officers should also participate. Having local champions who are well informed about the program will help later. Nominees should demonstrate motivation to pursue progressive Customs modernization and be able to work well with others. It is recommended that the project manager and implementation team members have a good command of English, one of the WCO's primary languages. The ability to research WCO references and other best practices without having to call on a translator will be valuable.

The project implementation team can have both full-time and part-time members. In either case, team members must be free to contribute meaningfully to the project. Supervisors of team members must recognize that the AEO project is a high priority, understand that they are expected to support it, and ensure that their subordinates have sufficient time to fulfill their project implementation roles and responsibilities. The chief executive facilitates this by ensuring that supervisors are made aware of the importance of the AEO program through correspondence and staff meetings and by conveying the expectation that the design and implementation process be fully supported.

When a project implementation team is formed, the team members' ability to remain on the team long term should be taken into consideration. Customs officers who participate in this process will learn how businesses operate and will see firsthand the successes and challenges that play out during the design and implementation of the program. To lose this experience as the program progresses would be very detrimental to the program. These knowledgeable officers should be kept on to lead the AEO program.

## **STEP 2: ESTABLISH AEO WORKING GROUP**

The second step in developing an AEO program is to bring the private sector and other government agencies into its planning and implementation by creating an AEO working group. The Customs chief executive should take the lead in identifying and inviting representatives from the private sector and other government agencies to work

with the project implementation team. The project implementation team, private sector counterparts, and representatives from other relevant government agencies form the AEO working group.

The working group will lay the foundation for the AEO program and ensure that the private sector and other government agencies are represented. In some countries, a Customs consultative committee made up of representatives of border agencies and segments of the private sector—such as importer and exporter associations, Customs broker and agent associations, freight forwarder associations, transport company associations, and airport and seaport management companies—already exist. If such a committee exists, the Customs administration should use it to develop a partnership-friendly environment for the AEO program by inviting the consultative committee to designate representatives to participate in the AEO working group.

Because other government agencies exert additional controls over imports and exports, an AEO program cannot succeed without their input and cooperation, especially in simplifying and harmonizing procedures. Involving other agencies in AEO program design and implementation helps avoid unproductive and embarrassing interagency arguments in the presence of the trade community. If Customs wants to develop a good relationship with the trade community, it has to ensure that other trade-related government entities share that motivation.

When the working group is established, an introductory meeting should be held. Although the quality and success of the AEO program depend on the participation of the private sector, the program is essentially a Customs program, and the Customs project manager should serve as chairperson and an industry counterpart should serve as deputy. The chief executive and project manager provide a detailed briefing on the AEO concept. The working group selects the deputy chair and officers for the group.

## STEP 3: DEFINE THE PROJECT

The first steps for the AEO working group are to draft a charter and a scope of work for the project.

### PROJECT CHARTER

The project charter

- Defines the project and provides broad direction,
- Explains the importance of the project to the Customs administration and its stakeholders,
- Names the project manager and establishes his or her decision-making authority,
- Names the project implementation team members and establishes their roles,
- Emphasizes senior management's support for the project and the project manager,
- Emphasizes the importance of the private sector in the design of the AEO program,

- Spells out the working group's role as the primary communication conduit between Customs and private industry partners, and the rules by which the working group operates,
- Specifies that the AEO working group is a permanent part of the AEO program, and
- Is made available to everyone associated with the project.

The project manager submits the draft charter to the chief executive and incorporates the chief executive's modifications into the final charter. The issuance of a project charter signed by the Customs chief executive serves as official notification of the initiative and of the expectation that they fully support the concept and those charged with implementing it.

## SCOPE OF WORK

When the Customs chief executive has approved and disseminated the charter throughout the Customs administration, the project implementation team develops a preliminary scope of work for the project implementation team. The scope of work includes project objectives and rationale; project sponsor and major stakeholders; the project scope or boundaries (i.e., the work that will and will not be performed); expected dates and duration of implementation; assumptions, constraints and risks; initial project organization; initial work breakdown structure; project deliverables, timelines, and milestones; and cost estimates and resource requirements. The scope of work builds on the project charter by laying out the broad parameters of the project; the AEO working group will develop a project implementation plan, more detailed than the scope of work, in step 4. In drafting the scope of work, the project implementation team must consider organizational and resource issues such as

- What department assumes management responsibility of the AEO program after the project implementation team completes its work? Is there a department suited for and capable of taking on this responsibility or must a new department be created? Will the organizational structure have to be revised?
- Does Customs have the resources necessary to support an AEO program? How many personnel will be required to manage the program? Where will they come from?
- Will new office space be required? What computers, vehicles, and other equipment will be needed?
- If Customs does not have the resources needed, where does it turn to request them?

A key variable for determining resource needs is the number of AEOs the program can reasonably expect to support. This handbook recommends that a new AEO program start with importers and exporters because they select the other links in the supply chain. After the first participants gain experience and confidence, the program can be expanded to include brokers, transporters, and ports.

The chief executive publishes the scope of work. The charter is made available to all Customs managers, ideally on the Customs intranet and website. The Customs chief executive also approves organizational and resource recommendations so that Customs can begin to implement the decisions made.

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The U.S. Department of Agriculture *Project Management Handbook*, found on the CD accompanying this handbook, provides detailed instructions on drafting project charters and preliminary scopes of work.

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## STEP 4: DRAFT PROJECT IMPLEMENTATION PLAN

Next, the AEO working group drafts a project implementation plan. The working group must work as a team, considering each other's point of view and being willing to compromise. The project implementation plan should include each task to be completed, the person or persons responsible for each task, and the date each task is expected to be completed. Steps 5–11 specify these tasks.

When the AEO working group has produced a first draft of the project implementation plan, they present it to the Customs chief executive for review. The chief executive should circulate the draft within Customs and solicit comments. The working group reviews the comments and adjusts the draft as appropriate. The working group can expect to revise and resubmit the plan several times to the chief executive and other senior managers before receiving approval to proceed. After the final draft of the project implementation plan is approved, the project implementation team publishes the plan, making it a public document. As with the project charter, the approved project implementation plan should be made available to all Customs managers and be posted on the Customs intranet and website.

The AEO working group can then begin implementing the project implementation plan:

- Define AEO requirements (Step 5)
- Define AEO benefits (Step 6)
- Develop the application process (Step 7)
- Recruit supply chain security specialists (Step 8)
- Announce and promote the AEO concept (Step 9)
- Pilot the AEO concept (Step 10)
- Consider mutual recognition (Step 11)

The AEO working group should begin reporting to the chief executive on its progress in implementing the plan. Reports are made in writing, usually monthly, detailing the work accomplished, tasks completed, unexpected obstacles or delays encountered, adjustments made to the plan, and other relevant information. The Customs chief executive should meet with the working group at least once in each reporting period to discuss progress.

## STEP 5: DEFINE AEO REQUIREMENTS

The first major task in developing a national AEO program is to define the requirements to become an AEO. These requirements may be written in draft regulations (or sublegislation) but are more practical when published in a less-formal format that allows modification on the authority of the Customs chief executive (acting on recommendation from the working group) rather than requiring legislative amendments. Because participation in AEO programs is voluntary, this informal approach is usually sufficient. The AEO working group should draft national requirements in compliance with the guiding standards established by Chapter 5 of the SAFE Framework, with respect to regulatory compliance, business record management, financial viability, security, crisis management, communications, and training. Each of these guiding standards is briefly discussed below.

## REGULATORY COMPLIANCE

To participate in an AEO program, a potential industry partner must demonstrate a record of compliance over a certain period of time. A critical and often difficult question the AEO working group must consider is whether Customs has sufficient, reliable data to determine past compliance levels.

The project implementation team works with the Customs risk management department to analyze declarations from the preceding 12 months and identifies the importers, exporters, transporters, and brokers with the most declarations, the highest Customs value, and greatest revenue contribution. Because this information is confidential, participation in this review has to be limited to Customs officers who are constrained from revealing this information to others. The team also reviews declaration amendments and penalty cases to determine whether a past level of compliance can be reliably determined for those companies.

The team reviews declaration processing at clearance centers and all penalty cases issued for undervaluation during the preceding 12 months to determine if procedures have inadvertently created a lack of documented amendments, inappropriately identified legitimate Customs valuation disagreements as violations, or encouraged undervaluation as a negotiating ploy.

Accurately gauging past compliance may not be possible, however, because of a lack of reliable data. Even if Customs cannot accurately ascertain past compliance, an appropriate record of compliance must be defined. The AEO working group may choose to define this record differently for past and future compliance. This recognizes that Customs compliance tracking measures may not have been adequate before the implementation of the AEO program and does not unfairly penalize traders for this inadequacy. Exhibit 2-1 describes a scenario in which the issue of traders' compliance is clouded by local valuation practices.

If past or current Customs practices have contributed to less-than-satisfactory compliance, setting the initial compliance standard will be challenging. Setting it too high may be counterproductive. If Customs cannot accurately analyze compliance levels

Part 2 Section 1 (1.2.2) of the European Union's *Authorised Economic Operator Guidelines* and the U.S. Customs and Border Protection's bulletin *What Every Member of the Trade Community Should Know About: Reasonable Care (A Checklist for Compliance)* and *Importer Self-Assessment Handbook*, found on the CD accompanying this handbook, demonstrate best practices in compliance measurement.

### EXHIBIT 2-1

#### *Complications Arising from Informal Amendment Practices*

When Customs officers do not register (officially accept) a declaration until the importer or broker has agreed to change the declared value, the increase in declared value is not recorded because the declaration is not changed after it was registered. By dealing with valuation disputes informally when a declaration is presented, Customs may unintentionally create an atmosphere of negotiation, encouraging importers to undervalue their declarations and to see their original valuation as an opening bid, knowing that they will not be penalized for undervaluation and hoping that the final value will be lower than if they had declared the true transaction value at the outset.

Furthermore, increasing the originally declared Customs value at the time the declaration is presented but before it is officially accepted does not necessarily mean that the importer or broker committed an offense, filed a false document, or attempted to defraud the government. Transaction value is problematic. The price that different importers pay suppliers for the same or similar goods varies according to many factors. Customs officers generally do not have adequate information at the time the declaration is presented to correctly dispute the declared transaction value and assess an alternative value.

on the basis of its records, what can it do? Absent a reliably documented pattern of an AEO applicant's willful misconduct, Customs must rely on the applicant's willingness and ability to conform to AEO requirements in the future.

In any case, Customs must correct any procedure that contributes to a lack of compliance and begin documenting and tracking amendments to declarations accurately, if it is not already doing so. Customs must record all violations (of whatever type), as well as positive and negative examination findings, in a manner that is accurately attributable to the company involved. Customs, if it has not already done so, also must pursue refinements in postclearance audit, risk management programs, IT solutions, and integrity programs.

If Customs has not yet started promoting voluntary compliance and measuring compliance, an AEO program offers an ideal opportunity to begin establishing compliance measurements and implementing more transparent procedures—for example, requiring brokers and importers to register electronic declarations when they file rather than allowing a Customs officer to register the declaration after haggling over valuation. If a declaration is revised to reflect a higher Customs value, the revision must be recorded through a formal amendment process to create the record necessary to measure a company's compliance.

This will probably require an organizational change of philosophy about how to gain compliance—from negative reinforcement (penalties and seizures) to positive reinforcement. This sort of culture change is not easy. The AEO working group will have to use proven change management techniques to promote the voluntary compliance approach and gain the acceptance of all stakeholders, Customs officers in the field included. The difficulty of making this change should not be underestimated. Many will resist it and be skeptical of the new approach.

## BUSINESS RECORDS MANAGEMENT

National legislation usually defines recordkeeping requirements, including which documents must be retained and for how long. Redefining national standards or establishing new national standards for an AEO program is usually not necessary. Generally speaking, an AEO should be able to demonstrate that it understands the legal requirements for recordkeeping, including the nature of the records to be maintained and the length of time that records must be kept and that it has

- Procedures to explain the recordkeeping requirements to employees preparing, maintaining, and producing the records;
- Security measures to protect records from loss or unauthorized access;
- Procedures to prepare and maintain required records and to produce the records for Customs, including documents relating to imports and exports, powers of attorney, and licenses;
- Assigned responsibility for recordkeeping compliance and maintaining familiarity with Customs recordkeeping requirements; and
- Procedures to notify Customs of variances from or violations of the recordkeeping requirements as well as procedures to take corrective action when notified by Customs of violations or problems involving recordkeeping (U.S. Customs Service 1998).

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The U.S. Customs and Border Protection compliance bulletin, *What Every Member of the Trade Community Should Know About Records and Recordkeeping Requirements* and Section 1.2.3.3 (Internal Control System) of the European Union's *Authorised Economic Operator Guide*, found on the CD accompanying this handbook, demonstrate records control best practices.

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The AEO applicant is responsible for demonstrating that it has a recordkeeping system that satisfies the standards established by the AEO working group. The applicant meets this burden of proof by documenting its records management system in its AEO application. This, of course, is subject to Customs validation.

## FINANCIAL VIABILITY

The SAFE Framework requires that an AEO's financial standing be sufficient to fulfill its commitments with due regard to the characteristics of its business activity. In other words, small family businesses with one or two employees should not be held to the same financial viability standards as a large company with a high volume of Customs transactions. Flexibility and common sense should be used in determining the sufficiency of the applicant's financial standing. Customs probably has a documented working relationship with an AEO applicant that will demonstrate the applicant's financial responsibility with respect to Customs obligations. The applicant's history of maintaining bank guarantees or other financial securities required by Customs and its ability to obtain the bank guarantee required by the AEO program can further demonstrate financial viability.

Customs and the applicant establish to Customs' satisfaction that the applicant meets reasonable financial viability standards agreed to by the AEO working group. Customs reviews the applicant's past performance in meeting its financial obligations, and the applicant certifies in the application process that it meets any additional financial solvency or related standard.

## SECURITY

Sections 5.2.G through 5.2.K of the SAFE Framework require that AEOs incorporate predetermined security best practices into their business practices. The AEO working group establishes national security standards based on the SAFE Framework and establishes the format by which AEO applicants demonstrate that they meet these standards. Working group members must understand that the SAFE Framework standards were written with flexibility in mind. Rather than specifying the type of fencing, number of cameras, means of securing buildings, and the like, the SAFE Framework uses terminology such as "reasonable precautions," "as necessary," "if necessary," "adequate lighting," and "appropriate barriers."

The goal of the security standards is the implementation of meaningful Customs-specific security enhancement protocols. In this context "meaningful" calls for an approach that takes into consideration that what is reasonable for one company may not be reasonable for another. AEOs that have large facilities or a large fleet of vehicles and a correspondingly large number of personnel require more substantial security systems than AEOs that have only one office and a handful of employees. A Customs administration implementing an AEO program must take this into account as it reviews applications and security profiles. The test is whether the security measures in place are reasonable for the size and activities of the company and accomplish the goals of the standard.

The Trading Partner Security Standard (5.2.K) is crucial to the supply chain security concept and calls for AEOs to contractually require their business partners to implement

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Part 2 Section 1 (1.2.4) of the European Union's *Authorised Economic Operator Guide*, found on the CD accompanying this handbook, demonstrates a financial viability best practice.

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security practices. The ultimate goal of the SAFE Framework is to secure the entire supply chain, not just portions of it. Thus, for an export manufacturer to be designated an AEO, the manufacturer is expected to ensure that its business partners also meet the appropriate security standards. Such partners include land transportation companies contracted to move the manufacturer's export product to the place of export, the clearing agent who prepares the export declaration, the air or sea transport company, and other service providers. Standard 5.2.K requires that the AEO, when entering into negotiated contractual arrangements with a trading partner

- Encourage, if necessary, the other contracting party to assess and enhance its supply chain security;
- Include such language in those contractual arrangements, to the extent practical for its business model;
- Retain documentation to demonstrate its efforts to ensure that its trading partners meet these requirements;
- Make this information available to Customs upon request; and
- Review relevant commercial information about the other contracting party before entering into contractual relations.

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Singapore Customs' *Guide for Completing Security Profile* and U.S. Customs and Border Protection's *Supply Chain Security Best Practices Catalog* and activity-specific minimum security standards, found on the CD accompanying this handbook, demonstrate security standard best practices.

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## CRISIS MANAGEMENT AND INCIDENT RECOVERY

To minimize the impact of a disaster or terrorist incident, Section 5.2.L of the SAFE Framework requires that the AEO and Customs develop and coordinate contingency plans for emergency security situations and for disaster or terrorist incident recovery. These plans must strike a balance between security and trade facilitation.

Although the United States, Mexico, Canada, and other countries have developed contingency plans, this aspect of the AEO security standards is still in development and need not be incorporated into the AEO program until the WCO develops guidelines.

## COMMUNICATIONS AND TRAINING

Sections 5.2.D and 5.2.E of the SAFE Framework establish requirements for Customs and AEOs with respect to cooperation, communication, and training on matters of mutual interest. The formation and maintenance of an AEO working group satisfies the requirements that Customs consult regularly with all parties involved in the international supply chain at the national and local levels and that AEOs—through an industry association—openly and consistently exchange information with Customs.

The requirement that Customs and AEOs clearly identify and make readily accessible points of contact is routinely met during the application process described in Step 8.

These standards require that Customs and AEOs establish procedures and mechanisms to identify and report incidents, suspected Customs offenses, suspicious or unaccounted-for cargo, and any other risk associated with the movement of goods in the international supply chain. The standards call for Customs to designate contacts (names and phone numbers) in Customs for reporting purposes, to make AEOs aware of reporting procedures, and to give AEOs a way to provide feedback. Similarly, they require AEOs to

notify Customs of any unusual or suspicious cargo documentation or other abnormality and to notify Customs and other relevant authorities in a timely fashion when employees discover illegal, suspicious, or unaccounted-for cargo. These requirements can be met by the AEO working group's collaborating on a Customs directive outlining reporting requirements, procedures, and means.

The standards also address training for Customs and AEO personnel on security policies and the responses required in case of security lapses.

Customs training responsibilities include

- Training its own security personnel;
- Assisting AEOs in developing guidelines, security standards, best practices, training, and authorization schemes and materials calculated to raise security awareness and to assist in minimizing security risks; and
- Providing AEOs with educational materials and expert guidance, familiarizing them with Customs practices, and providing training on maintaining cargo integrity.

An AEO's training responsibilities include

- Working with Customs to educate the AEO's personnel and trading partners on the risks associated with the movement of goods in the international trade supply chain;
- Training its employees to recognize potential internal threats to security and preventing unauthorized access to secure premises, goods, vehicles, automated systems, seals, and records;
- Familiarizing Customs with relevant internal information and security systems and processes, and assisting Customs in training on search methods for AEO premises, conveyances, and business operations;
- Making employees aware of the procedures for reporting suspicious incidents; and
- Keeping adequate records of educational methods, guidance provided, and training.

The AEO working group enlists the assistance of the Customs risk management department and training department in developing training materials. When the standards and forms are drafted, the AEO working group presents them to the Customs chief executive for review and approval.

When the Customs chief executive approves the standards and forms, the AEO working group formats the AEO application form and company profile template and prepares instructions for filling out the forms.

## STEP 6: DEFINE AEO BENEFITS

Because AEO programs are voluntary and participation has financial costs for participants, to encourage participation and offset costs, Customs administrations must offer measurable and tangible benefits to AEOs, deciding on what the benefits will be in cooperation with the trade community. Potential AEOs must understand how participation will benefit them in terms of simplified processes and in making them more attractive business partners when the security of the global supply chain is increasingly

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Singapore Customs  
*Secure Trade Partnership  
Guidelines* (Appendix  
A, STP Guidelines—  
Security Measures,  
section 8), on the CD  
accompanying this  
handbook, demonstrates  
a crisis management and  
incident recovery best  
practice.

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important. If the benefits do not outweigh the costs, or if potential participants have become cynical about the prospects for improvement, the chance of success will suffer. Expected benefits include inventory cost reduction; reduction of cost to move goods in transit; reduced losses due to lost, pilfered, or damaged merchandise; lower rejection rates at the port of destination; and lower staffing costs.

Section 5.3 of the SAFE Framework lists the four groups of benefits that AEO programs can provide to AEOs. These are shown in Exhibit 2-2.

The AEO working group should review, research, and discuss the list of potential benefits and agree on those it considers relevant and practical in the national environment. It should also determine whether those benefits are permissible under existing legislation or whether legislative changes are required. The working group should also determine if the benefits, small and large, can be feasibly delivered. It is important not to overpromise.

## EXHIBIT 2-2

### *Benefits that May Be Offered to AEOs for Participation in AEO Program*

Measures to expedite cargo release, reduce transit time, and lower storage costs

- A reduced data set for cargo release
- Expedited processing and release of shipments
- Fewer cargo security inspections
- When examination is required, use of nonintrusive inspection techniques first
- Reduction of certain fees or charges
- Keeping Customs offices open around the clock when a need for such coverage has been identified

Access to information of value to AEOs

- Names and contact information for other AEOs, with the consent of those participants
- List of countries adopting the SAFE Framework

- List of recognized security standards and best practices

Special measures during periods of trade disruption or elevated threat level

- Priority processing during periods of elevated threat conditions
- Priority processing after an incident requiring the closing and reopening of ports and/or borders
- Priority in exporting to affected countries after an incident

First consideration for participation in any new cargo processing program

- Account-based processing rather than transaction-by-transaction clearance of accounts
- Simplified postentry or postclearance programs

Seminars, points of contact, and newsletters are small benefits that can be added to larger benefits. Some potential benefits, such as dedicated traffic lanes, will depend on funding and infrastructure.

After the AEO working group has drafted the list of specific benefits to be incorporated into the AEO program, the Customs legal department determines if the proposed benefits are permissible according to the national Customs code. If any proposed benefit does not comply with legislation, the legal department explains, in writing, why those benefits cannot be provided under current legislation. The Customs chief executive must then determine, after hearing from the AEO working group and the legal department, the extent to which Customs should pursue new legislative authority and task the legal department with drafting the appropriate and necessary changes.

Best-practice examples from different Customs administrations are provided on the CD accompanying this handbook.

The AEO working group finalizes the list of benefits. The Customs chief executive and/or the legal department pursues expedited enactment of any legislative change required, and the AEO working group drafts implementing instructions for each approved benefit.

## STEP 7: DESIGN THE APPLICATION PROCESS

Applicants have to complete an application and security profile to join the AEO program. Now is time for the AEO working group to design the application process, laying out standard, transparent procedures for the review and approval of the application. Before the working group designs the review and approval process, it must first design detailed instructions on completing the application and security profile, a memorandum of understanding template for the AEO applicant and Customs; and perhaps an AEO certificate. Then the working group can begin drafting standard operating procedures for reviewing, verifying, and approving applications. The group must also draft procedures for removing or suspending an AEO from the program, and procedures for a rejected applicant to appeal its denial of AEO status. The process should also allow for internal checks and controls. Section 5.5 of the SAFE Framework provides an application process outline.

The following describes a typical application process.

### APPLICATION

The applicant completes an application for the AEO program, including a questionnaire and security profile, which an officer of the company signs. By completing the questionnaire and security profile, the applicant

- Demonstrates that it uses standard accounting practices, prepares sound financial statements, and maintains a complete record of contracts, purchase orders, shipping documents, import duties, and taxes paid;
- Demonstrates that it has an internal control system that creates an audit trail from accounting records and payments to Customs entry records and provides full documentation to ensure that accurate values are reported to Customs;
- Demonstrates that it meets specific security and procedural requirements published by Customs;
- Agrees to allow Customs officers to review all company documents related to imports, exports, and other Customs activity and to periodically inspect company premises on request;
- Demonstrates a record of a high level of compliance with Customs requirements and agrees to maintain a supportive attitude and cooperate with Customs to ensure that the company's procedures and practices result in a high level of compliance;
- Commits to continue meeting all program requirements, acknowledging that failure to do so may result in suspension or removal from the program; and
- Agrees to provide annual notification to Customs confirming the name, title, e-mail address, and postal address of the company contact for the AEO program and asserting that the company continues to meet the requirements of the AEO program.

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Best-practice examples of application forms and security profiles from the European Union and Singapore are provided on the CD accompanying this handbook.

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## APPLICATION REVIEW

Customs reviews the application to determine the applicant's readiness to assume the required responsibilities. Customs considers

- The company's history of trade compliance, including compliance measurement data, previous penalty or other enforcement action, and the company's standing with tax and other government agencies;
- Information about the company's risk exposure, such as
  - Volume of import/export activity;
  - Imports from suspect manufacturers or suppliers;
  - Imports from countries known as transshipment points;
  - Large volumes of imports under special duty provisions or trade programs; and
  - Large volumes of imports under complex tariff classifications; and
  - Verification of security measures.

## APPLICATION REVIEW MEETING

After the application has been reviewed, an application review meeting is held. The Customs review team leader

- Provides the applicant with written notification of the application review meeting at least 10 days before the start of the meeting and includes a request for supporting documentation or material, if needed;
- Contacts the applicant's primary point of contact to answer preliminary questions and explains the application review meeting process; and
- Makes opening comments about the AEO program and welcomes the applicant's interest in the program.

The company

- Provides an overview of corporate structure and lines of authority and describes its import/export and other relevant departments and the extent to which the staff members are trained, the company's relationship with brokers, and how it ensures the flow of Customs-related information and communication within the company;
- Gives a tour of its facility so the review team can observe controls and procedures in action; and
- Gives the review team a private room where members can meet.

The review team

- Discusses the information presented by the company, meets with the company representatives, and raises questions about the company's application.
- Reviews the company's internal control processes and procedures, selecting three or four declaration numbers and asking the company to demonstrate and explain the documentation for the entire declaration process for those declarations.
- Documents its findings and gives them to the applicant. If the team finds significant weaknesses, it recommends an action plan to address the weaknesses and specifies a deadline by which the company must complete the plan.

## APPLICATION APPROVAL OR DENIAL

To ensure that the AEO program is managed in a fair and impartial manner, the approval authority is separate from the review process. The officers who perform the review make their recommendations in writing to a chief executive or senior manager in Customs who has approval authority.

When Customs determines that the applicant has met the requirements for acceptance into the AEO program, Customs signs the partnership agreement memorandum of understanding and advises the applicant that its application has been approved.

If the applicant does not meet the value or volume requirements for participation or has committed a serious infringement or repeated infringements of Customs rules, the application is denied.

If Customs determines that an application should not be approved, it issues a notice specifying the reasons for denial and advising the applicant of its right to file a written appeal. If deficiencies cited as the reason for denial are corrected by the deadline (which the AEO working group sets), the applicant may request in writing the reinstatement of the application.

The approval of an application can be annulled if the application was approved on the basis of incorrect or incomplete information, and the applicant knew or should reasonably have known that the information was incorrect or incomplete, and the favorable decision would not have been taken on the basis of correct or complete information. The company's point of contact for the AEO program is notified of the annulment of the authorization, and the annulment takes effect immediately on the date the decision to annul was made.

The AEO application process will vary from country to country; the AEO working group should adjust the process described here to ensure that the process meets local objectives.

## STEP 8: RECRUIT SUPPLY CHAIN SECURITY SPECIALISTS

AEO programs are based on risk management principles promoted by the WCO and practices used by Customs administrations throughout the world; therefore, the logical entity to assume responsibility for the management of an AEO program is the risk management department of the Customs administration. This department, normally responsible for employing analytical skills to identify and target high-risk shipments, must expand its focus and use its skills to identify low-risk, compliant companies qualifying for simplified and expedited procedures.

The risk management department must develop its own expertise in supply chain security. As Customs officers review AEO program applications and validate security profiles—visiting facilities, meeting with company managers, and reviewing security processes and controls—they gain familiarity with business practices. Although Customs administrations often already establish and enforce basic physical security standards for bonded warehouses, free trade zones, duty-free shops, and bonded carriers, few have had the need or opportunity to acquire the expertise in business operating procedures,

internal controls, employee security, and information security that implementing an AEO program will require.

To meet the challenges of managing an AEO program, a Customs administration may have to increase staffing or redeploy existing staffing to create a new group of supply chain specialists. Supply chain specialists develop focused expertise in and knowledge about the international supply chain and the means of securing it. Ideally, supply chain specialists have university degrees and two or more years of experience in Customs-related activities. They may have backgrounds in enforcement, trade matters, transportation, or trade logistics, and they should have organizational, computer, interpersonal, and verbal and written communication skills as well as the ability to perform detailed work. Training or practical experience in commonly applied security principles, concepts, and methodologies is especially welcome, as are language skills, because supply chain security specialists review correspondence, purchase orders, and other documents that may be in a foreign language. The experience and knowledge that project implementation team members gain in AEO program design and implementation are invaluable to the ongoing management of the program, and the Customs administration should take care to retain these officers so that the institutional memory of the program is not lost.

### EXHIBIT 2-3

#### *Typical Supply Chain Specialist Duties*

In the United States, the CBP's AEO program is called the Customs-Trade Partnership Against Terrorism (C-TPAT). A new kind of specialist—the supply chain security specialist—is critical to implementing the program. The specialist physically inspects and validates member companies' domestic operations and foreign business partners. In 2007, C-TPAT security specialists validated 3,011 supply chains, visiting manufacturing and logistics facilities in 79 countries. (CBP 2008a).

Supply chain specialists perform the following duties:

- Serve as subject matter experts on the WCO Safe Framework of Standards, the Revised Kyoto Convention, the International Ship and Port Facility Security Code, and international standardization related to security of the supply chain (ISO/PAS 28000 and related)
- Provide guidance to prospective AEOs on how to prepare a security profile and complete their application
- Vet applications and security profiles for content and completeness
- Preliminarily rate each application (compliant/ satisfactory, partially compliant/more information needed, unsatisfactory)
- Request further information to resolve deficiencies and answer questions about application and profile information
- Lead or participate in application review meetings and validation visits to applicants' premises to meet with the company's officers and inspect facilities and procedures to verify that the information in the application and profile is accurate and that the described procedures and safeguards are in place
- Resolve deficiencies observed during the application review meetings, including meeting with rejected applicants to provide guidance on how these can be corrected
- Document findings and provide a written recommendation of approval or disapproval to the deciding authority and drafting the correspondence to the applicant
- Serve as the principal adviser and primary Customs point of contact to assigned AEOs for security issues and as the primary liaison for promptly resolving non-security-related issues
- Maintain accurate files of actions taken with respect to applications and participants so that an audit trail is maintained
- Prepare assessment reports, giving special attention to identifying unusual trends that could become security problems
- Recommend the appropriate response to incidents of noncompliance by AEO partners, including working with the AEO partner to identify ineffective procedures or internal controls and providing recommendations for improvement
- Serve as a trainer and public speaker to Customs and private sector partners on supply chain security issues

The human resources department of the Customs administration should establish a supply chain security specialist position, prepare descriptions of duties and qualifications, and recruit in accordance with local practices. Each Customs administration has its own formats and systems for documenting the duties of specialized positions. Exhibit 2-3 lists the functions a supply chain security specialist typically performs. The training and employee development department of the Customs administration should ensure that training for the new specialists is organized promptly.

The size of the implementing country, the number of Customs offices, and the geographical distribution of AEOs should be taken into consideration in determining whether all supply chain security specialists should be based in headquarters or posted to regional offices. If the decision is made to disperse some supply chain security specialist to certain regions, the specialists should still come under the functional supervision of the department designated to manage the AEO program.

In addition to an office and furnishings, each supply chain security specialist requires a computer with access to risk management databases and the automated Customs declaration processing system. Laptop computers and digital cameras should be available for documentation of validation visit findings. Because working with AEOs requires supply chain security specialists to visit company premises regularly, dedicated transportation is required as well. Secure (i.e., lockable) filing cabinets are required because AEO applications, security profiles, and related files contain sensitive information that must be safeguarded. Communications capabilities, including mobile telephones and Internet access, are also required. The administrative department of the Customs administration should take the necessary actions to ensure that these logistical resources are provided.

## **STEP 9: ANNOUNCE AND PROMOTE THE AEO INITIATIVE**

After the AEO standards, benefits, and application process have been finalized and supply chain security specialists have been recruited and trained, Customs should launch an outreach campaign announcing Customs' new role as protector of the international supply chain and its commitment to facilitating the movement of legitimate shipments. The importance of this campaign cannot be underestimated. For a voluntary AEO program to work, Customs must have the support and participation of stakeholders from inside and outside the government; it therefore must promote the AEO program both within Customs and among other government stakeholders, as well as to the business community and other interested parties. For this reason, the Customs chief executive should assume primary responsibility for outreach. The chief executive can be the face of this program to the public and to other ministers, but he or she probably does not have the specialized skills to design the communications strategy for the program. This should probably be done by the public information office in cooperation with the AEO working group.

## OUTREACH WITHIN CUSTOMS AND TO OTHER GOVERNMENT AGENCIES

The success of the program depends on the Customs workforce's understanding of the program and willingness to support it. Employee buy-in is essential. The chief executive and project manager brief field office managers on the AEO concept, the role of Customs in supply chain security, and voluntary compliance. The AEO working group makes arrangements for the chief executive and other managers to speak at public forums and schedules the chief executive to meet with employees at major Customs offices. At least one member of the working group should accompany the chief executive at each venue to assist in answering technical questions and to document the presentation, to record questions or issues that need further consideration and response, and to ensure that follow-up actions are carried out promptly.

Other government agencies that have import or export requirements must also understand how an AEO program affects them. Simplified procedures are not just a Customs concern; other agencies' concerns and processes must be factored into the program and issues solved to everyone's satisfaction. This may be difficult: other agencies or ministries may think that Customs is trying to take charge and that this could result in a cut in their budgets, staffing, or responsibilities. In this event, the Customs chief executive will probably have to enlist the support of the minister who oversees Customs to engage potentially problematic government departments at the ministerial level.

## OUTREACH TO THE TRADE COMMUNITY AND THE GENERAL PUBLIC

The outreach program must also explain the AEO program to the trade, the general public, and the press, emphasizing supply chain security, voluntary compliance, industry partnerships, and expedited procedures. The public information officer or communications coordinator helps schedule and prepare talking points and seeks to attract media attention to the AEO program. The public information officer or communications coordinator also publishes informational brochures, newsletters, and the like. Field managers brief employees, traders, and interested organizations in their communities and report to the project implementation team about each presentation.

Customs managers must convince potential AEOs (1) that the benefits of voluntary participation will exceed the cost of meeting program requirements and (2) that the Customs administration is committed to a partnership approach. International organizations and donors should be kept apprised of the project's progress, beginning in the earliest planning stages. They understand the importance of an AEO program and may be willing to provide financial or technical support. It would be wise to maintain a dialogue with the WCO as the project develops.

As noted in Step 6, companies must understand how participation in the AEO program will benefit them by simplifying processes and making them more attractive business partners in a global environment in which the security of the supply chain is increasingly important. They must be persuaded that the benefits of participation will outweigh the costs.

Customs administrations that have successfully used the partnership approach or consultative committees in previous initiatives to develop a working relationship will have a head start on promoting the AEO program. Administrations with less experience

## EXHIBIT 2-4

*Do These Views Sound Familiar?*

CUSTOMS PERSPECTIVE	TRADE PERSPECTIVE
"We've modernized. Our new Customs code now includes the GATT Agreement on Customs Value."	"Customs officers ignore our declared valuations and rely on 'market research' or whatever the individual officer thinks the goods are worth."
"We can't trust traders. They routinely undervalue their goods. Their suppliers in other countries are well known for false invoicing. Transaction value just doesn't work here."	"We can't trust Customs. No matter what values we declare, Customs arbitrarily raises them. There's no uniformity and no predictability."
"We've modernized. We accept electronic declarations."	"Customs doesn't officially accept the declaration until we deliver the hard copy to their office. Then they make us change the electronic version to raise the declared values before they accept it."
"We give the traders reasonable options: revise the value now and get the goods released, or insist on the value and appeal. We'll hold the goods until you get a decision from our headquarters."	"Headquarters always accepts the officer's recommendation. In the meantime, we're paying storage costs and don't have access to our goods. It's cheaper to pay the higher duties."
"We don't penalize the trader if he agrees to our 'valuation uplift.' We simply change the declaration in our automated system before we register it. It's easier this way."	"Customs officers don't use the amendment function in the automated system so there is no record of which officers are raising values or how much they're raising them. This allows each individual officer to do whatever he pleases."
"Traders will never change. They're always going to undervalue their goods."	"The valuation process is just a negotiation. Why shouldn't I start at the lowest amount?"
"Traders complain constantly."	"Customs never listens to us."

working with consultative committees may be all too familiar with the attitudes and opinions cited in Exhibit 2-4.

Adversarial attitudes and opinions raise the following potential impediments to AEO program implementation:

- Trader cynicism based on partially unmet promises (GATT valuation)
- Mutual distrust
- Failure to communicate effectively or develop productive working relationships
- Potential inability to quantify compliance levels.

Whether traders complain openly or mutter their criticism quietly, the Customs administration must face the issues and demonstrate its willingness to discuss mutual frustration and desire for improvement in a nondefensive way. Even in the worst cases, there is good news: an AEO program does not just require change, it also provides the impetus and the means for making change happen.

For Customs administrations whose potential partners doubt that a partnership is possible or that Customs will follow through on its promises of meaningful benefits for joining the program, an AEO program can facilitate the transition from mistrust to mutual respect. If this transition has not yet been realized, those on both sides must be willing to strive to reach mutually acceptable solutions to what may have been considered insurmountable differences.

How does the trading community win the trust of Customs? By

- Demonstrating a continued record of compliance,
- Establishing good communications and reporting suspicious activities,
- Demonstrating a desire to collaborate,
- Ensuring that all employees behave ethically, and
- Demonstrating respect and not immediately assuming the worst.

How does a Customs administration win the trust of the trading community? By

- Being transparent and consistent;
- Ensuring that the trading community has access to decision makers;
- Reducing administrative burdens;
- Demonstrating a desire to collaborate;
- Ensuring that all employees behave ethically; and
- Demonstrating respect and not immediately assuming the worst.

This calls for vigorous outreach, training, and emphasis on compliance. Behaviors may not change overnight across the board, but if Customs can win the cooperation and commitment of the largest companies and demonstrate that compliance has its rewards, that message will gain impetus and the AEO program will grow in size and impact.

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Examples of promotional brochures and publications of the Customs administrations of New Zealand, Sweden, Singapore, the United States, and the United Kingdom are provided on the CD that accompanies this handbook.

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## OUTREACH TO OTHER NATIONAL CUSTOMS ADMINISTRATIONS

As the AEO concept spreads around the world, mutual recognition between countries will become increasingly important. Key trading partners or fellow Customs union members will probably be the first candidates for mutual recognition agreements, and they should be made aware of the AEO initiative. See Step 11 for details.

## STEP 10: PILOT THE AEO PROGRAM

In Step 5, the project implementation team and the risk management department analyzed 12 months of Customs declarations and identified the importers, exporters, transporters, and brokers with the most declarations, the highest Customs value, and greatest revenue contribution. The initial purpose of that analysis was to determine whether a past level of compliance could be determined for the most active companies. These active companies are the most likely candidates for piloting the AEO program.

Pilot testing should include only a representative sample of companies from different industry segments that are the most proficient in Customs compliance, have the highest volume of transactions, and have effective internal processes. The WCO recommends instituting a pilot with no more than 10 companies. This ensures that requirements, documentation, procedures, and day-to-day operations mesh and enables the quick identification and resolution of unanticipated problems. Pilot companies should also be located in the same city as Customs headquarters or in close proximity. This allows Customs to focus in the pilot on implementing simplified procedures and providing benefits at a single Customs clearance office.

When the candidates for the pilot have been identified, representatives of the AEO working group brief the companies' decision makers on the requirements and benefits of the AEO program and invite their participation in the pilot.

A senior supply chain security specialist is responsible for the day-to-day supervision of the Customs processes and personnel associated with the AEO program, including

- Developing an annual work plan to address security vulnerabilities;
- Serving as the primary liaison with the WCO and counterparts at other Customs administrations;
- Assigning workload;
- Reviewing work products;
- Periodically contacting AEOs to ensure that an effective working relationship is being maintained by the supply chain security specialist assigned to them;
- Ensuring the integrity of official relationships between supply chain security officers and their assigned companies and points of contact;
- Ensuring the integrity of office files and records, and
- Reviewing appeals and recommending appropriate action to the Customs chief executive.

A subordinate supply chain security specialist should be assigned as a liaison officer to each pilot company. If the company requests, the specialist assists the company in developing its procedures and security profile.

The AEO working group works with the Customs training and development department to develop and provide training on the AEO program to the companies in the pilot. The AEO working group and supply chain security specialists develop and provide training to pilot company managers and staff. Because supply chain security specialists, in carrying out their duties, form relationships with company points of contact, attention must be given to ensuring that these relationships are conducted with professional and personal integrity and do not become overly familiar.

The AEO working group and project implementation team determine the period of pilot testing (three to six months is recommended) and commence implementation. The AEO working group monitors the performance of the companies and the Customs administration. Procedural or policy adjustments may be made during the pilot. At the end of the pilot, a detailed report is made to the Customs chief executive and stakeholders. If adjustments to the program guidelines are necessary, they are made.

After the pilot has been completed, the AEO program can be expanded incrementally. The AEO working group determines the pace of the expansion. It makes a public announcement explaining the process in broad terms and inviting interested companies to attend briefings at Customs offices. The Customs chief executive announces the full implementation of the AEO program. Customs may find it advantageous to incrementally expand the program by opening it to additional categories of companies according to the volume of companies' Customs transactions. Each entity is different, so piloting with a few importers/exporters first and then opening the pilot to other

importers/exporters works well. Then, if resources permit, a pilot can be conducted with brokers, and so on. Expansion would progress in this manner until all the types of companies envisioned to be eligible for AEO status have been pilot tested.

When the AEO program has been fully implemented and permanent management of the program has been transferred to a Customs department, the project implementation team ceases to participate in the AEO program, but the AEO working group continues to oversee it and serve as the vehicle for industry input. Ideally, Customs assigns at least two representatives to the AEO working group: a deputy to the chief executive and the head of the risk management department (or whatever department is in charge of the program). The AEO working group works with the Customs department managing the program and the training and development department to update the training curriculum, and training is given periodically to applicants.

## STEP II: CONSIDER MUTUAL RECOGNITION ARRANGEMENTS

Mutual recognition is an aspect of the AEO concept that is still being developed. The WCO holds that mutual recognition offers significant potential and is developing guidelines. At this time, however, mutual recognition programs are in their infancy.

Mutual recognition allows each country's Customs administration to rely on the standards and safeguards imposed by the other. Mutual recognition will become more important as the 157 Customs administrations that have committed to implementing the SAFE Framework make their programs operational. At this stage, though, Customs administrations developing AEO programs should at least consider ensuring through government-to-government coordination that their efforts are compatible with the efforts of their major trading partners.

Generally, mutual recognition requires that supply chain security programs have well-defined security criteria, are fully operational, and that Customs has procedures to verify that AEOs meet their commitments. Customs administrations considering mutual recognition arrangements first initiate high-level customs-to-customs discussions and establish working groups that

- Conduct and document a side-by-side comparison of each country's program,
- Conduct visits to observe and evaluate each other's validation processes to ensure that they are comparable,
- Explore the feasibility of information sharing in the context of each country's legislation, and
- Develop operational procedures.

The WCO's *Integrated Supply Chain Management Guidelines* suggest that to enable mutual recognition, Customs administrations have to bilaterally or multilaterally agree on common control and risk management standards, sharing intelligence and risk profiles and joint monitoring. Although the WCO has not issued guidelines for mutual recognition, individual Customs administrations have already undertaken such

arrangements. U.S. Customs and Border Protection (CBP) has mutual recognition arrangements with New Zealand, Canada, Jordan and Japan. The United States has also engaged in discussions with the Customs administrations of Singapore, the European Union, and Korea, as well as with countries that have not yet developed AEO programs.

The CBP policy has been to sign mutual recognition agreements that are nonbinding instruments. The reason for this is that the C-TPAT program, is voluntary, and to maintain the flexibility that comes with that status, a flexible instrument is needed. Signing an agreement is a lengthy process and is usually implemented with a follow-on operational document that details how the agreement is to be implemented. Exhibit 2-5 summarizes the process that the United States has used for mutual recognition.

## EXHIBIT 2-5

### *Process Used by the United States to Establish Mutual Recognition Agreements*

#### PHASE I—EVALUATION

Generally, mutual recognition requires that the supply chain security programs of the involved countries have well-defined security criteria, that they are fully operational, and that Customs has procedures in place to verify that AEOs meet their commitments. When the requirements are met, each Customs administration analyzes the business partnership program of its counterpart:

- Business partnership program officers on each side engage in an in-depth, side-by-side analysis of both programs and note gaps.
- Program officers visit their counterparts to develop a deeper understanding of the procedures, policies, and practices of their program.
- Each country's legal authorities determine if the legal foundations for entering into a mutual recognition agreement exist.
- A report on the similarities and differences of the two programs is written (for internal purposes);
- A joint findings document takes this report into consideration and includes proposed resolutions;
- Decisions are made on the feasibility of continuing to the next stage.

#### PHASE 2—OPERATIONAL PLANNING AND TESTING

Planning for how mutual recognition between the two administrations will work is undertaken. After operational and policy issues have been resolved a pilot program is developed. The

following steps are taken:

- Identify companies willing to participate
- Develop methodology and measures for communication, feedback, and evaluation for Customs and trade
- Determine a protocol for reporting security breaches
- Issue a document that defines the pilot
- Develop a communications strategy.

#### PHASE 3—PILOT

When a pilot is conducted, decisions on how widely it will be promoted are made. If both Customs administrations have confidence in each other's program, a pilot may not be necessary. The Customs administrations

- Conduct the pilot,
- Write an internal report and evaluation, and
- Issue a joint findings document that includes Customs' and the trade community's views, recommendations, and resolutions.

#### PHASE 4—DECLARATION OF MUTUAL RECOGNITION

The Customs administrations decide to mutually recognize each other's program. A statement of what mutual recognition means and how it will work is released. The statement specifies

- Verification provisions,
- Review periods and methodologies, and
- National security provisions such as protocols to be followed during and after an event or when suspension of mutual recognition is merited.

## 3. CASE STUDIES

The SAFE Framework offers general guidance for designing and implementing AEO programs while providing enough flexibility to accommodate different needs and perspectives. This section highlights those differences by presenting case studies of diverse places where AEO programs have been implemented successfully:

- In the United States, C-TPAT has a history of cooperation between Customs and private industry in securing the global supply chain that predates the September 11 attacks.
- Sweden has built on a strong relationship between Customs and the private sector in implementing the Stairway, an AEO program that served as a model for the European Union's program. By simplifying procedures and improving services, Sweden has increased private sector participation in the program.
- New Zealand's Secure Export Scheme demonstrates that AEO programs need not always be import oriented; protecting export markets is also a function of AEOs. The Secure Exports Scheme is an international benchmark that is studied by Customs administrations throughout the world.
- Jordan designed and implemented its Golden List program emphasizing project management principles, an uncommon achievement for Customs administrations in the developing world. Jordan leveraged donor assistance to develop an AEO program that achieved mutual recognition from U.S. Customs and Border Protection.
- The European Union, the world's largest trading bloc, includes some of the world's most competitive economies as well as countries whose economies are not as mature. Despite considerable cultural and economic differences among its members, the European Union managed to develop unified AEO guidelines in 2008.
- In Argentina, the System of Reliable Operators (SOC) program recognizes AEOs regardless of size. The SOC is open to micro, small, and medium businesses, as well as larger players in the international supply chain.

## UNITED STATES: LEVERAGING A STRONG HISTORY OF PRIVATE SECTOR PARTNERSHIP

U.S. Customs (now CBP) has a long history of working with industry leaders to stem the flow of contraband across U.S. borders (see Exhibit 3-1). The U.S. Customs administration recognized in the early 1980s that to provide the highest level of security, it must work in partnership and close cooperation with the ultimate owners of the supply chain: importers, carriers, brokers, warehouse operators, and manufacturers.

C-TPAT, which is the basis of the U.S. AEO program, was implemented shortly after the terrorist attacks of September 11, 2001. C-TPAT's primary goal is to prevent weapons of mass destruction and those who would use them from compromising the international supply chain. Participation in the program is voluntary; members commit to ensuring the integrity of their security practices and ensure, through contractual means, that their business partners throughout their supply chain satisfy their security expectations. In return, CBP commits to providing expedited clearance procedures, dedicated lanes, fewer inspections, and account-based processing. CBP also assigns a supply chain security specialist to assist C-TPAT members in all security-related issues.

The C-TPAT partnership approach emphasizes prevention over interdiction, shared responsibility, and awareness of security and smuggling. C-TPAT recognizes the complementary role that member companies fill and balances national security interests with facilitating legitimate, compliant trade, thereby allowing CBP to focus on its greatest perceived risk: the fight against terrorism. In a survey of 1,756 C-TPAT members, four of 10 participants did not have a formal supply chain security plan before joining the program. Eight of 10 indicated that their ability to manage supply chain risk had been strengthened as a result of joining the program. The security criteria were generally viewed as very or somewhat easy to implement and more than half indicated that the benefits either outweighed the costs or were about the same.

The C-TPAT strategic plan recognizes that through partnerships, CBP educates and has been educated, has heightened awareness of weaknesses, and has gained the trust of the trade. C-TPAT has a positive effect on international business, with companies requesting security information from service providers, vendors, suppliers, and manufacturers. Many C-TPAT companies contractually require their business partners to improve security to meet C-TPAT guidelines. This is perhaps the greatest success of C-TPAT. These partnerships help CBP speed low-risk shipments across the borders and through ports of entry, preserving global trade despite the threat of terrorism.

## JORDAN: USING PROJECT MANAGEMENT PRINCIPLES AND DONOR ASSISTANCE EFFECTIVELY

Jordan has minimal natural resources, a growing population that includes many refugees, and neighboring countries in conflict. Despite these challenges, Jordan has increased its exports, including significant exports to the United States. Although it remained secure and stable in a troubled region, Jordan suffered from the September 11 terrorist attacks.

## EXHIBIT 3-1

### Timeline of U.S. Customs Voluntary Industry Partnerships

**1984.** The Carrier Initiative Program is created as a cooperative effort between air, sea, highway, and railway transporters to prevent drug smuggling by commercial transporters. Program members commit to strengthening their security measures in domestic and foreign terminals and cooperating closely with U.S. Customs in identifying and reporting smuggling attempts and other illicit activities. In return, Customs commits to performing security audits of the carrier's domestic and foreign operations, conducting postseizure analysis, and providing training on identifying and eliminating weaknesses in internal security systems.

**1989.** The Super Carrier Initiative Program focuses on large airline and ocean transporters that operate in locations with great potential for drug trafficking. Program members commit to implementing proactive security programs and become less vulnerable to drug-related penalties.

**1995.** The Land Border Carrier Initiative Program focuses on truck, rail, and bus companies. Members commit to preventing their equipment and facilities from being used for the smuggling of illicit substances, perform background checks on employees, and establish strict personnel and physical security standards. Customs commits to expedited clearance procedures.

**1996.** The Business Antismuggling Coalition, a business-led alliance to combat smuggling, is formed on the basis of a proposal from importers at the port of San Diego. It addresses the entire process of manufacturing, emphasizing security at foreign manufacturing sites. Customs works with business communities in seven countries through this program.

**1998.** In the American Countersmuggling Initiative Customs sends specialized teams of officers to each country in the Business Antismuggling Coalition four times a year to provide training and

on-site audits.

**2001.** C-TPAT aims to protect the entire international supply chain, including importers, transporters, brokers, warehouses, terminal operators, and manufacturers. C-TPAT becomes the core of all industry partnership programs.

**2002.** The Importer Self-Assessment Program is opened to C-TPAT importers that commit to implementing internal controls and maintaining an audit trail. Customs gives members increased compliance assistance, risk assessments, internal controls, audit trails, and data analysis support. Program members assess their own compliance with Customs laws and regulations and are removed from the regulatory audit pool for each specific area in which they establish adequate internal controls to ensure compliance.

**2002.** The United States, Mexico, and Canada agree to coordinate their commercial border clearance processes in the Free and Secure Trade (FAST) Program by using common risk-management principles, supply chain security, industry partnership, and advanced technology to improve the efficiency of screening and clearing commercial traffic at their borders. FAST is open to C-TPAT carriers, drivers, importers, and manufacturers and provides dedicated lanes, fewer examinations, enhanced supply chain security, and safety while protecting the economic prosperity of member countries.

**2006.** The C-TPAT Tiered Benefits program recognizes importers that do more to secure their supply chains. Tier 1 consists of certified importers that receive the basic benefits of a certified C-TPAT member. Tiers 2 and 3 provide progressively increased benefits for those who go beyond minimum requirements.

After September 11, perceptions of risk about Jordanian imports increased, and Jordan's export market to the U.S. declined.

To boost exports, Jordan Customs moved quickly to develop and implement an AEO program, which it calls the Golden List. The SAFE Framework Standards, which were still under development at the WCO at the time, were incorporated into the program. The design and implementation of the Golden List program followed internationally recognized Project Management Institute (PMI) standards, starting with stakeholder identification and analysis. Jordan Customs already had a risk management unit, which was a natural selection for taking charge of the AEO program. Jordan Customs involved the private sector early on, including all key business elements in the supply chain from exporter to importer. During stakeholder identification, Customs also recognized that other agencies have a legitimate mandate at the border—in other words, compliance for risk management means compliance with all regulations.

The Golden List program started with the identification of the following security risks and strategic goals:

- Recognition by importing countries of Jordanian exporters' lowered risk profile
- Minimal disruption to companies from Jordan Customs while validating compliance with the Golden List program standards
- Adequate rewards for companies offsetting the cost of participation in the program
- Recognition that because new processes were introduced in both the Jordan Customs and the private sector, project success was contingent on technical assistance from the sponsoring USAID project for both Customs and the private sector
- A single program that included recognition of the high likelihood of compliance with all tariff and nontariff measures and supply chain security in the recognition of Golden List participants
- Customs' agreement with participants that during the planned compliance audit, any inadvertent historical errors or omissions discovered would be corrected, and additional duties or taxes—but no penalties—would be paid if owed.

The outcome of the strategic planning was a project plan that included

- Timelines and milestones;
- Selection of project implementation team members, including both Customs and private sector companies;
- Work breakdown, including work packages for donor-funded technical experts, Jordan Customs, and the private sector; and
- Budgeting, including donor funding levels, in-kind funding by Jordan Customs, and in-kind and monetary funding from the private sector.

The following lessons were learned from the Jordan Golden List program:

- Technical assistance to all stakeholders, including the private sector, is needed.
- USAID and CBP both have important roles to play in AEO program development.
- A phased approach will permit more companies to participate sooner.
- Keeping commitments for facilitating low-risk shipments is vital.
- Program success depends on long-term vision and commitment.

In June 2008, Jordan Customs Department and CBP signed a mutual recognition arrangement to recognize compatibility between the Jordanian and U.S. cargo security programs.

## NEW ZEALAND: PROTECTING EXPORT MARKETS

New Zealand developed the Secure Exports Scheme (SES) for exporters and launched it in 2004. Before SES, Customs had minimal interaction with exporters and export cargo, but in the changed security environment after September 11, 2001, the country wanted its exports to move with minimum disruption across borders and be recognized as low risk. Similarly, business partners wanted to avoid interruption to the international supply

## EXHIBIT 3-2

### Timeline of the Development of the Jordan Customs Golden List Program

**September 2003.** Jordan Customs and USAID agree to design and implement an AEO Program.

**October 2003.** Jordan Customs completes the legal research necessary to create an enabling environment.

**November 2003.** Compliance audit training is conducted.

**February 2004.** The first public information seminar is held.

**March 2004.** Volunteer pilot test companies are selected for all supply chain industries.

**April 2004.** AEO program plan, with final target dates and responsibilities, is drafted.

**May 2004.** Jordan Customs Department finalizes its Compliance Audit Manual and participates in a public information seminar sponsored by Customs and the pilot test companies.

**October 2004.** Compliance manuals for each industry segment are drafted.

**December 2004.** At the WCO biannual meeting in Amman, informal discussions between Jordan Customs Department and CBP are held.

**March 2005.** The WCO provides an advance copy of the SAFE Standards to validate the Jordan Customs Department's Golden

List Program planning.

**May 2005.** Jordan Customs Department provides training to private sector companies.

**June 2005.** The WCO issues the SAFE Standards. Jordan Customs and pilot test companies hold public seminar.

**July 2005.** Jordan Customs conducts compliance audits of pilot AEO companies. CBP and Jordan Customs begin mutual recognition process, beginning with assessment of Golden List supply chain security components against C-TPAT program.

**August 2005.** Jordan Customs officially launches Golden List Program and opens participation to other qualified Jordan companies.

**February 2006.** Marketing of Customs Golden List program is conducted with Jordan Enterprise Development Corp, Jordan Investment Board, and Jordan Exporters Association.

**March 2006.** USAID technical assistance ends and Jordan Customs, private sector participants, and CBP continue developing program.

**June 2008.** Jordan Customs and CBP sign mutual recognition agreement at WCO annual meeting, making Jordan the second country to receive this recognition from CBP.

chain, to be certain that their goods would arrive at destination as planned, and to meet their customers' requirements.

SES was developed through working with companies and industry groups. Customs reviewed seven years of export history in its database and determined that the top 250 exporters by value and volume accounted for 80 percent of trade. These exporters were given priority during the development and introduction of the program. Policies and procedures were developed as the concept evolved.

SES has 106 participants, and although changes have been made to the program, no partner has withdrawn for lack of benefits. The SES provides the following benefits:

- SES benefits Customs officers when making decisions on whether export cargo should be inspected before export because they know that the partner's cargo is low risk.
- SES benefits and assists business partners by providing them with a point of contact to address any Customs matter and the expectation that they will receive priority clearance of their goods for export.
- SES benefits both Customs and partners by enabling each party to learn about the other's processes. Customs personnel say they enjoy their interaction with businesses at the detailed level at which the scheme operates. In meetings they can articulate the impact that any proposed business or Customs change will have on a partner's

operation. Staff turnover in this area of client services is low, and other personnel see this role as a good professional development opportunity.

- SES benefits the government and the economy by ensuring that exports from New Zealand are recognized as carrying a low security risk and by maintaining New Zealand's reputation as a safe trading country.

SES ensures communication between the partner and the designated Customs contacts. There are no formal means of communication or contact, but the Customs client service officers must maintain contact and provide assistance on request.

Customs promoted SES as part of the FrontLine Programme, which had been introduced a few years before to provide advice on Customs procedures and areas of interest to business at their premises and to public interest groups. Client service officers meet every six weeks to discuss the SES program, its promotion, and their contribution to its implementation and to receive training on site security. The implementation of the SES program by Client Services was achieved with no increase in baseline costs or personnel.

As SES matured, Customs produced a range of public communication, from stand-alone informational documents for exporters to weekly Customs Release newspaper and magazine articles, Customs Contraband magazine articles, the Customs website, and public presentations made around the country. The brochure *Helping You Do Business* and a series of fact sheets provide detailed information about the SES to applicants and their supply chain participants and/or partners. The fact sheets are available in print and electronically on the Customs website. (Copies are also included in the CD accompanying this handbook.)

The SES has been studied by Customs organizations from South Africa, Singapore, China, Japan, Vietnam, Canada, Hong Kong, Malaysia, and Australia. It has been showcased at international conferences such as those of APEC and the World Customs Organization. New Zealand Customs has signed mutual recognition arrangements with the United States and Japan.

## SWEDEN: SIMPLIFYING PROCESSES AND IMPROVING SERVICE

In 1998 Swedish Customs, taking a holistic approach to reform and modernization, began developing and implementing a new system, dubbed the Stairway. In the first phase, Customs and the trade community worked together to identify business needs and opportunities for simplification of Customs processes. The second and third phases were pilot tests, and the Stairway opened for all companies in March 2002. Implementation in pilot phases was important for creating the best solutions for both Customs and trade.

Several trade and industry organizations participated in the development of the Stairway; this partnership is the cornerstone of this system. Challenges were handled through dialogue and partnership. Businesses recognize the value of bearing the Stairway logo and being certified in the Stairway system.

The Stairway provides simplified procedures and improved service to operators that certify the quality and security of their business. This enables Customs to facilitate legitimate trade while promoting security to ensure that no illegal activity takes place. Customs thus maximizes use of its resources and provides a high level of service to reliable trade partners. The Stairway encompasses all modes of transports and is open for all companies dealing with Customs, such as importers, exporters, and agents, regardless of size or line of business.

The Stairway is a single window based on an electronic, paperless process. Companies present their information to Customs one time. Customs determines the appropriate level of control according to its own risk assessment, which includes input from other agencies. Risk management is an important part of the Stairway system because it makes identifying and controlling high-risk goods, procedures, and operators possible. At the same time it identifies low-risk operators and shipments to facilitate their clearance and simplify their Customs procedures.

To become a certified operator in the Stairway, a company goes through an extensive accreditation process. Applicants must first quality-assure Customs routines and security. Customs visits and evaluates the company using a risk assessment model. If everything is in order, the company is certified as an AEO with a tailor-made control program. It is then treated as a low-risk operator with access to a range of facilitation possibilities. The Stairway consists of five steps. Each step provides specific opportunities and requirements: the greater responsibility an operator takes for the quality and security in his Customs processes, the more options for simplification Customs can offer.

As a consequence of the terrorist acts of September 11, 2001, demands for security in the global supply chain increased. Instead of developing a separate system responding to safety and security risks, and in order to strike a balance between facilitation and control of international transactions, a security module for the Stairway, StairSec®, was developed. This certification brings security to the supply chain in the same way that certification in Customs procedures brings quality to the supply chain.

The development of the Stairway was supported by the EU Commission, both financially and with ideas. The European AEO standard was launched on January 1, 2008, and is now part of the Stairway. Swedish Customs continued to develop the Stairway with the aim of making it fully compatible with the AEO concept and launched a new version of the Stairway in March 2007. The new version contains criteria for AEO and AEO Guidelines. The concepts behind the new EU AEO standard are founded to a large extent on the Swedish Stairway system, so implementing the AEO concept in Sweden was easy.

## EUROPEAN UNION: INCORPORATING DIVERSE MEMBERS

The European Union is the world's largest trading bloc. Its member states include some of the most competitive countries in the world as well as some states whose economies are still maturing. With so many languages and cultures and economic levels, developing a unified AEO program met significant challenges, but in January 2008 the EU Guidelines for Member State AEO Programs came into force.

In developing its AEO Program, each member Customs administration had to consider national programs that recognized participating companies. Some countries, such as the United Kingdom and Sweden, already had well-developed compliant-trader programs. Others had not yet incorporated this approach to risk management.

The EU methodology was to develop guidelines first, then test the guidelines with the private sector. The methodology incorporates applications for ensuring compliance with tariff and nontariff measures and security measures to prevent terrorist attacks. The EU methodology qualifies AEO companies at three levels:

- **Customs Simplifications**—for economic operators that meet the criteria of Customs compliance, recordkeeping standards, and financial solvency. The certificate holder is entitled to easier admittance to Customs simplifications; fewer physical and document-based controls; priority treatment if selected for control; and the possibility to request a specific place for such control.
- **Security and Safety**—for economic operators that meet the criteria of Customs compliance, appropriate recordkeeping standards, financial solvency, and maintenance of appropriate security and safety standards.
- **Combination of Customs Simplifications and Security and Safety**—for economic operators that meet the criteria of Customs compliance, appropriate recordkeeping standards, financial solvency, and maintenance of appropriate security and safety standards and that want to benefit from all AEO benefits.

The EU approach to the development of the European Commission's AEO Guidelines considered several elements and steps that other countries could learn from in developing their own AEO programs:

- Incorporate existing programs recognizing compliant traders
- Determine the objectives of the program, particularly the objectives of the private sector
- Incorporate to the fullest extent related ISO standards as indicators of the likelihood of compliance with tariffs and nontariff measures, specifically ISO 28001 for reduced risk in the supply chain and recognition of third-party registration to these standards
- Incorporate the full supply chain as members for eligibility
- Apply the concept of full-circle due diligence, requiring participants to check on the risk factors of their own supply chain
- Pilot-test the approach with selected companies before finalizing the guidelines
- Publish an instruction manual for companies to follow in preparation for applying for AEO recognition
- Recognize small and medium enterprises as a special category

The EU-wide AEO program, though new, has the advantage of having models from the other Customs administrations that implemented programs earlier and member states' compliant-trader programs.

### EXHIBIT 3-3

#### Timeline of the Creation of the EU AEO Program

**July 2004.** The European Commission presents proposed changes to Parliament and Council for supply chain security to be incorporated into law.

**May 2005.** The Community Customs Code is amended to include security requirements necessary to enable AEO programs.

**June 2005.** The WCO publishes the SAFE Standards.

**June 2006.** An AEO Compact Model is issued.

**August 2006.** A pilot case study report is published.

**June 2007.** Guidelines for member states AEO programs are issued.

**January 2008.** Member states start AEO programs in conformance with guidelines.

## ARGENTINA: OPENING AEO PROGRAMS TO BUSINESSES OF ALL SIZES

After the terrorist attacks of September 11, 2001, as Customs controls were tightened globally, the Argentinean Customs Authority began to rethink the manner in which it exercised controls despite the economic crisis that the country was experiencing. Recognizing the extent to which international trade had grown in size and complexity, Argentina Customs began reformulating its control scheme so that Customs would no longer merely serve as an instrument of control and revenue collection but would take on the broader role of promoters of trade and exchange and protectors of national security.

Argentina's modernization process started in 2004. Guidelines were established under the SAFE Framework and included the formation of the Risk Management Directorate in 2006. The Risk Management Directorate was made responsible for supporting the new Customs structure with risk management expertise, including providing risk analysis on goods potentially harmful to the environment or to the health and safety of Argentinean society as well as analyzing the risks related to copyright infringement, narcotrafficking, and commercial fraud. The Risk Management Directorate was also made responsible for implementing new technology for control and security through special systems such as an AEO program.

In 2006, Customs implemented its new vision of controls establishing the System of Reliable Operators (SOC) and charged the Risk Management Directorate with the responsibility for evaluating registrant applications, supporting documentation, and compliance. (These documents are available in Spanish on the CD that accompanies this handbook.)

The SOC initiative benefited from intensive interaction between Customs and businesses in the design stage and through subsequent modification and enhancement. This initiative resulted in a work plan that included

- Technological investment of US\$60 million for five years (2003–2008),
- Flexibility to incorporate regulatory changes, and
- Adaptation of existing software systems.

In 2008, the SOC program was expanded to include micro, small, and medium-sized businesses (with a maximum of 40 employees). (Exhibit 3-4 summarizes the timeline of the development of the SOC program.)

The SOC program gives participants the following benefits:

- Priority access to streamlined procedures
- Reduced operational costs and times and external trade flexibility
- Information security and network logistics
- Use of the Green Channel
- Future recognition by Customs administrations that have signed a mutual recognition agreement with Argentinean Customs.

The SOC program is based on a legal framework that does not relinquish control to the private sector but is based on traceability. It sets forth flexible requirements for various types of businesses, depending on degree of complexity of business processes. The SOC design is not only for large operators but also for micro, small, and medium-sized enterprises, an important sector in Argentina.

Lessons learned in the implementation included:

- The private sector is needed in the development and refinement of the AEO program.
- The program provides mutual benefits—for the private sector, added value to the product, and for the public sector, a secure Customs.

#### **EXHIBIT 3-4**

##### *Timeline for Implementation of Argentina's SOC*

**June 2005.** SAFE Framework released by the WCO; Argentinean Customs begins to design its AEO program.

**November 2005.** Implementation of the Secure Container Initiative. The Port of Buenos Aires is certified as a Secure Port, the first in Latin America.

**February 2006.** Customs establishes a new Risk Management Directorate.

**August 2006.** Customs issues External Note No. 37/2006,

establishing the initial AEO program framework.

**November 2007.** General Resolution No. 2350 implements the SOC.

**July 2008.** External Note No. 48/2008 expands the program to micro, small and medium businesses.

**December 2008.** A new Automated Information System for implementation of Reliable Operators is developed.

## 4. BEST PRACTICE REFERENCES

The following reference materials are included in the AEO Best Practices CD that accompanies this handbook. These materials have all been made available to the public on various websites and are current at the time of publication of this handbook.

### AEO BENEFITS

- U.S. Customs and Border Protection
  - FAST Reference Guide
  - C-TPAT Cost Benefit Survey
- European Union
  - AEOC Certificate Fact Sheet
  - Authorised Economic Operator Guidelines, Part 1, Section 3

### APPLICATION FORMS

- Luxembourg Customs and Excise
  - Application for an AEO Customs Simplifications Certificate
- Singapore Customs
  - Application for Secure Trade Partnership
  - Handbook on Secure Trade Partnership
- U.S. Customs and Border Protection
  - US C-TPAT Online Application

### PROMOTIONAL BROCHURES

- New Zealand Customs Service
  - Secure Exports Scheme
- Swedish Customs

- Stairway Concept Brochure
- White Paper on the Accreditation of Operators and Supply Chain Security
- Singapore Customs
  - Secure Trade Partnership Guidelines
- U.S. Customs and Border Protection
  - FAST Fact Sheet
  - FAST Reference Guide
- U.K. Revenue and Customs
  - Notice 117 Authorised Economic Operator

## FINANCIAL VIABILITY

- Luxembourg Customs and Excise
  - Application for an AEO Customs Simplifications Certificate (Section 4)
- European Union
  - AEOC Certificate Fact Sheet
  - Authorised Economic Operator Guidelines, Part 2, Section 4

## INFORMED COMPLIANCE/COMPLIANCE MEASUREMENT

- U.S. Customs and Border Protection
  - Office of Strategic Trade Importer Self-Assessment Handbook
  - Importer Self-Assessment Frequently Asked Questions
  - Reasonable Care—A Checklist for Compliance
- European Union
  - AEOC Certificate Fact Sheet
  - Authorised Economic Operator Guidelines, Part 2, Section 1

## PROGRAM PLANNING AND MANAGEMENT

- US Customs and Border Protection
  - Securing the Global Supply Chain – C-TPAT Strategic Plan (2004)
- USAID
  - Customs Modernization Handbook – Establishing a Program Management Process
- U.S. Department of Agriculture
  - Project Management Handbook Appendices, Version 1.0

## RECORDS MANAGEMENT

- European Union
  - AEOC Certificate Fact Sheet
  - Authorised Economic Operator Guidelines, Part 2, Section 1.2.3.1 – 1.2.3.3

- U.S. Customs and Border Protection
  - Records and Recordkeeping Requirements

## SECURITY PROFILES

- Argentina Customs
  - Nota Externa N° 37/2006 (DGA) Sistema de Operadores Confiables para Destinaciones de Exportación.
- New Zealand Customs
  - Fact Sheet 34 Secure Exports Scheme
  - Fact Sheet 34A Secure Exports Scheme Security Plan
  - Fact Sheet 34B Secure Exports Scheme Process Map
  - Fact Sheet 34C Secure Exports Scheme Site Plan
  - Fact Sheet 34 D Secure Exports Scheme Transport Operators
- Singapore Customs
  - Secure Trade Partnership Guidelines
  - Guide for Completing Security Profile
  - Handbook on Secure Trade Partnership
- U.S. Customs and Border Protection
  - Security Criteria for Air Carriers
  - Security Criteria for Brokers
  - Security Criteria for Highway Carriers
  - Security Criteria for Importers
  - Security Criteria for Manufacturers
  - Security Criteria for Rail Carriers
  - Security Criteria for Marine Port Authority and Port Operators
  - Supply Chain Security Best Practices Catalog
- International Federation of Customs Broker Associations
  - IFCBA Guidelines: A Framework to Increase Supply Chain Security and Facilitate Trade

## INTEGRITY

- U.S. Agency for International Development
  - Customs Modernization Handbook: Establishing and Implementing a Customs Integrity Program
- World Customs Organization
  - Integrity Best Practices Compendium
  - Integrity Development Guide





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