No. 2

Regional Best Practice Study

on

Authorized Economic Operator (AEO)

AEO Best Practice of Korea and New Zealand Customs

WCO ROCB Asia Pacific

April 2008

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I. AEO Best Practice of New Zealand Customs (The Secure Export Scheme-New Zealand's Trade Security Program)

1.1 Background

Following the events of September 11 2001 in the United States, and the paradigm shift towards increased global trade security, New Zealand Customs developed a trade security strategy aimed at providing trading partners with an assurance that goods exported from New Zealand are a 'low security risk'.

New Zealand's strategy is to provide an assurance over all exports by undertaking risk management screening and inspection before the goods are permitted to be loaded for export.

New Zealand's Trade Security Strategy has five main aims:

- To maintain and enhance facilitated access to world markets for New Zealand exports;
- To assure trading partners that all goods exported from all ports in New Zealand are 'low security risk';
- To be recognised as a responsible global citizen by contributing to international supply chain trade security;
- To display our commitment to the principles, standards and outcomes of the WCO SAFE Framework;
- To work jointly towards supply chain security with other Government agencies.

Much of New Zealand's system development and program implementation took place during the period when the WCO Framework was being formulated. New Zealand was therefore able to review and comment on drafts of the WCO Framework based on our practical experience.

The New Zealand government was satisfied that existing import systems and controls would manage the level of assessed security risk posed to New Zealand by imports.

The key components of New Zealand's trade security approach are:

- Enhanced legislation;
- Control over the export environment at the border;
- Risk Management screening of exports;
- Increased government investment in technology and staff;

- Development of a national communication and targeting centre to work directly with overseas border agencies.

1.2 Outline of the Trade Security Framework

The New Zealand Customs Secure Exports Partnership Scheme (SES) is a voluntary scheme that is consistent with the WCO SAFE Framework. It involves a cooperative partnership between government and industry, and recognises existing security practices implemented by industry. Underpinned by legislative support, the Scheme provides confidence through mutually agreed supply chain security practices.

SES members face a decreased likelihood of pre-load cargo inspections. Although many of New Zealand's Small and Medium Enterprises (SMEs) are unlikely to choose to become members of our Secure Export Scheme (SES), they are still included in New Zealand Customs' 'low security risk' trade assurance because of our export screening and inspection processes.

While SES cargo documentation is included in our 100% electronic screening, the cargo itself is less likely to be subject to inspection either in New Zealand or by mutual recognition partner agencies because scheme members are committed to supply chain security standards.

An important element of New Zealand Customs' trade security framework is control over the export environment at the border. This involves Risk Management screening of exports which include Non-Invasive Inspection (NII) technology to conduct pre-load inspections.

Another important element is the Customs-to Customs operational communication capability. New Zealand Customs has a National Targeting Centre with the ability to share NII images in real time with overseas partner agencies. The National Targeting Centre's capability also allows us to share information and review of our Customs-to-business programs with partner agencies.

Enhanced legislation enacted under our trade security framework includes the powers to:

- Require export declarations to be filed electronically;
- Access port and cargo handlers systems to track-and-trace cargo pre-export;

- Examine SES member cargo from the point of pack to the port of loading;
- Exchange security information with overseas border agencies.

New Zealand Customs' trade security strategy also includes these four strands:

1.2.1 Electronic Reporting

While electronic reporting systems already existed previously, new compliance requirements were introduced in March 2004. Further enhancements included:

- The "up-to-five-days" post departure period for lodgement of export declarations was withdrawn;
- Exports compliance checking became a priority;
- A Customs clearance is mandatory before goods can be loaded for export (New Zealand Customs electronically notifies port companies when cargo is cleared for loading);
- 100% electronic clearance within 60 minutes of lodgement;
- Electronic reporting of Cargo manifests became mandatory.

1.2.2 Risk Assessment

Existing systems and intelligence profiling used for import risk management is now also used to target export cargo.

1.2.3 Responding to Risk

The New Zealand government increased its investment in Customs resources which allowed for increased levels of Customs staff; and new inspection technology including non intrusive x-ray equipment, radiation detection equipment and the deployment of explosive detector dogs.

1.2.4 Reducing Risk

This approach aimed to eliminate risk and compliance uncertainty by raising security standards pre-border:

- Inland securing of containers using Customs seals – placing the container under customs control;
- The Secure Export Scheme – voluntary membership committed to security standards from pack-to-port.

1.3 Advantages to Exporters

Trade is the lifeblood of the New Zealand economy. Ensuring trade moves smoothly and quickly is crucial. By becoming a Secure Exports Scheme partner companies are providing us with increased confidence in the security of their exports. The likelihood of their shipment requiring examination will also be significantly reduced.

Companies will demonstrate to off-shore business contacts that they are committed to providing them with goods in a secure and timely fashion.

The advantages of joining the scheme include:

- Secure supply chain from point of packing to time of loading for export.
- 'Green lane' status means cargo can be moved to port/airport facilities knowing the potential for Customs intervention for security is low.
- Ability to demonstrate compliance with security standards when contracting to supply overseas importers that are committed to supply chain security.
- Joining the scheme will enhance companies’ border clearance privileges in the United States provided their client is a member of C-TPAT (Customs Trade Partnership Against Terrorism) initiated by US Customs and Border Protection.
- In the event of trade disruption caused by security alerts, partners' exports are likely to experience minimal disruption as their security can be assured.
- The World Customs Organisation's Framework of Standards to Secure and Facilitate Global Trade is being adopted and implemented by a large number of international Customs administrations. By joining this scheme, partners will already have in place security measures that comply with these standards.
- Reduced fees for the lodgement of all export entries.
- Customs can provide advice and assistance if companies strike unexpected issues with their export goods at overseas borders.

New Zealand has a reputation as a safe and secure trading partner. As a Secure Exports Scheme partner a company can contribute to a more secure international environment.

1.4 Next Steps- Implementing an MRA Under the WCO Framework

From New Zealand's point of view, under the WCO SAFE Framework, the ultimate objective that customs administrations share is to encourage and assist businesses to secure the supply chain. The processes used to secure the supply chain are then verified by robust Customs-to-Customs cooperation. We must build the Customs-to-Customs frameworks in order that businesses may see the benefits and operate easily within the AEO Framework. Both the Customs-to-Customs relationship and the Customs-to-Business programmes are essential components of a Mutual Recognition Arrangement between two administrations.

A vital lesson learnt by New Zealand Customs in achieving Mutual Recognition is the fundamental role of the Customs-to-Customs pillar. A robust Customs-to-Customs relationship is vital for a trusted relationship, and a shared understanding of risk. We have found that establishing a trusted Customs-to-Customs relationship is the most important facet of the whole Mutual Recognition process, however, it also takes the longest to achieve.

New Zealand at an early stage recognized that end-to-end supply chain security requires a commitment to security standards by the administrations of both the exporting and importing countries. Traders who commit to security standards within the respective country schemes will gain facilitation benefits under bilateral arrangements.

Administrations seeking to implement end-to-end supply chain security on a bilateral basis must embrace the principles, standards and objectives of the WCO SAFE Framework.

II. AEO Best Practice of Korean Customs

2.1 Background

In the wake of 9/11 terrorist attacks, the World Customs Organization (WCO) adopted "the Resolution on Security and Facilitation of the International Trade Supply Chain" in June 2002, pursuing trade facilitation and border security at the same time. Following that, the WCO approved, at its council sessions in 2005, "the WCO Framework of Standards to Secure and Facilitate Global Trade (SAFE)." The WCO SAFE is comprised of international standards among Customs authorities for trade facilitation and security, and also defines standards on cooperation between Customs and Customs, and Customs and Businesses.

The Resolution and the SAFE represent a shift in focus of the international Customs communities towards efficient response to transnational terrorism that rises with consistent increase in the trade volume in the midst of globalization. In other words, the WCO presented a new model of Customs administration, pursuing protection of trade and transportation through strengthened border security and safety, while at the same time simplifying Customs procedures and promoting trade facilitation.

In this line, Korea has also made its utmost efforts to contribute to the enhanced security and facilitation in the international supply chain, by submitting the Letter of Intent on the Framework and reflecting logistics security policies on its Customs Act. In addition, to accomplish the goals of trade security and facilitation simultaneously under the basic principles of the WCO SAFE, Korea Customs Service (KCS) has focused on the security control over the end-to-end logistics supply chain through cooperation with the private sectors.

The Authorized Economic Operator (AEO) system of Korea Customs has evolved responding to changes of the times. Since the KCS launched the Customs-business partnership in 1990s by concluding MOUs with the private sectors, it has long built the foundation for adoption of the AEO system, currently promoted by the WCO, by introducing risk management techniques and developing systems for measuring and assessing compliance level of ex/import and logistics companies. Here, we want to share AEO-related policies taken by Korea Customs, major achievements made so far and future plans.

2.2 Adoption of 'the AEO program'

Korea has so far pursued trade facilitation and security at the same time through cooperation with the private sector, introduction of risk management techniques in Customs administration, and measurement and assessment of regulatory compliance of logistics companies. As defined in the C-TPAT of the US and the AEO guidelines of the WCO and the EU, security of cargoes and their speedy clearance can be boosted by international cooperation and adoption of global standards. In this regard, Korea Customs has made the following efforts to prepare relevant institutions and regulations needed to build a more intensive logistics security system covering the whole logistics supply chain.

In Apr. 2007, to establish an internal logistics security system, KCS formed a T/F headed by the Deputy Commissioner, and drew up a road map for logistics security through workshops, etc. Included in the road map were 18 tasks such as adoption of the AEO program and preparation of the legal basis. In addition, through the outsourced research on adoption and application of security standards for each supply chain, best practices of international organizations and major countries were analyzed to come up with the minimum security standards for 12 supply chain participants, including manufacturers, exporters, importers and Customs brokers, certification and verification procedures and policies on advantages to be offered. Based on the outcome, Korea revised its Customs Act on Jan. 1, 2008 for introduction of the AEO program. The following is the provisions regarding the AEO included in the revised Customs Act.

"The Commissioner can certify as AEOs trade-related parties that meet the security standards provided by the Presidential Decree, and provide them advantages in the clearance procedure. Korea Customs can also provide advantages in the clearance procedure to AEOs of other countries under the reciprocal condition." (Article 255-2 of the Customs Act)

With this, KCS has laid legal foundation for introduction and operation of the AEO system, and mutual recognition of AEOs through regional or bilateral agreements, etc.

2.3. Other Logistics Security Enhancements measures

2.3.1 Customs-Business partnership through the MOUs

KCS first signed in 1993 the MOUs with relevant organizations, mainly according to i) the Article 15 of the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, ii) the WCO's recommendation on signing MOUs with trade-related businesses and iii) the request of the G7 Summit in July 1991 for strengthened partnership between monitoring and enforcement agencies, and international trade and transportation industries.

Through the MOUs signed with private businesses and associations, the Customs has strived to prevent such terrorist goods as firearms and explosives, and narcotic drugs from being smuggled into Korea, and it has also maintained close cooperation with its partners through information exchange, etc. to help understand the importance of missions and responsibilities of each party and potential problems, and to deal with problems that occur in the process.

To make sure the MOUs are implemented faithfully, the Customs has an obligation to provide training on how to screen out and detect terrorist goods and illicit drugs, to offer training materials and guidelines, and to operate a dedicated contact point, while businesses are obliged to present data and information required by the Customs, to notify perceived suspects and hazardous goods to the Customs, and to operate a dedicated contact point. In addition, the Customs has granted the MOU partners, which contribute to detection of smuggling cases, such advantages as simplified import declaration and exemption of import inspection for speedy clearance of their imported goods, with thefollowing key outcomes:

- ◆ No. of MOU partners: 1,008 entities including air/sea port operators
- ◆ Drug seizures attributable to cooperation program with MOU partners

2.3.2 Risk Management

Since introduction in 1996 of computerized system, that screens out high risk cargoes based on analysis of import cargoes, KCS has adopted and operated various risk management techniques, regarding ex/import cargoes and passengers.

□ Import C/S system ('96), □ High-risk Cargo Monitoring and Targeting System ('99) □ Cargo C/S, Export C/S, APIS, D/S, and R/S system ('00~'01)

KCS also institutionalized submission of cargo manifests 24 hours prior to port entry in 1997, and it has been running the Cargo Management System that can automatically screen out in advance the high-risk cargoes, under various sets of risk management standards based on the advance information.

2.3.3 Container X-ray scanner

KCS signed the CSI agreement with the US Customs on Jan. 17, 2003, and since Aug. 4, 2003, it has acquired shipping data on the US-bound cargoes 24 hours before their loading. The acquired data are used in profiling and targeting terrorist goods, under the close cooperation with US counterparts. To minimize cargo screening costs, Korea Customs has deployed container X-ray detectors at major ports since Nov. 2002.

<Installment of container detectors>

Installation year	Ports	No. of detectors
'02~'05	Busan port	4
'02~'05	Incheon port	3
'03	Gwangyang port	1
'03	Pyongtaek port	1
'04	Onsan port	1
'05	Gunsan port	1
Total	6 ports	11

1.3.4 Data Exchange

Currently, the KCS is working to reflect in its Customs automation system the WCO CDM Model (ver. 2.0) data elements. It reached agreements with Belgium and the Philippines in Jun. and Sep. 2007, respectively, to launch pilot projects for data exchange, completed the designing of the DM/UCR Pilot system for data exchange at the end of 2007, and successfully completed the pilot project with Belgium on the transport of CSD-equipped containers in Jan. 2008.

1.3.5 Compliance measurement and assessment system

Since Dec. 2005, Korea Customs has designated Customs administration partners in ex/import and logistics industries, based on the assessment of their regulatory compliance, and provided these partners with advantages in the clearance procedure such as exemption of inspection or audit, and omission of confirmation, checking, etc. by the Customs. It is an earnest form of AEO system, based on Customs-business partnership in which ex/import and logistics companies themselves build their own systems for bonded cargo control to conduct self-examination of their work process, and then let the Customs confirm the process and select AEOs based on the result.

Korea Customs has set the assessment standards on the regulatory compliance of companies, such as management safety, facility safety, assigned duties, internal control and Customs cooperation, and built an electronic system to measure and assess in real time whether the companies are in faithful compliance with Customs-related laws and regulations.
Based on the assessment results, companies with a high and medium compliance record are guaranteed the maximum allowable benefits by Customs and the continuance of current level of self-controlled management, while those with a low compliance record are required to improve their law-abiding level. In particular, some of the companies with high compliance level are designated as 『Faithful Customs Partners』 and granted with various incentives including reduced inspection.

Taking into consideration the number of Customs officials and companies to be dealt with, measurement and assessment of regulatory compliance have been conducted in phases for all commercial bonded warehouses, bonded factories and bonded stores (720) and high-ranked shippers, airlines, bonded transporters and forwarders (50 each), and they now cover all the ex/import and logistics companies.

1.4 Future plan

Although the basis for adopting the AEO system has been established, specific matters regarding its operation have yet to be defined. Korea Customs plans to work out detailed policies on security standards for individual supply chain participants, certification procedures and advantages to be granted, after collecting opinions of relevant organizations and the academics through public hearings and seminars. In the second half of 2008, KCS aims at conducting a pilot program with 1 selected company in each category of supply chains of 50 biggest exporters, and building a supportive system for AEOs in 2009.

< Future direction of the AEO system>

Phase	Goal	Direction	Year
Phase 1	introduction of institution and consensus building	Institutionalization	2008
Phase 2	Expansion of institution and minimization of corporate burden	Systemization	2009
Phase 3	BP exploration and pursuit of mutual recognition	Building a global brand	2010

As referred above, KCS is currently in the process of institutionalizing the introduction of the AEO program in earnest. Starting with the revision of the Customs Act this year, it will try to map out specific operation policies for early adoption and successful implementation of the AEO program, based on institutions in international organizations and other countries, and considering domestic situations. Moreover, by actively seeking advance information sharing with other countries and mutual recognition of AEOs, Korea Customs will continuously strive to meet the two goals of Customs administration; cargo security and speedy clearance.

No. 3

Regional Best Practice Study

on

Authorized Economic Operator (AEO)

AEO Best Practice of Australia and China Customs

WCO ROCB Asia Pacific

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I. AEO Best Practice of Australian Customs

1.1 Background

Australia has successfully implemented three of the four core elements of the WCO Framework through current advanced electronic reporting requirements; container examination, air cargo and international mail inspection programs; and comprehensive risk management systems.

The remaining key feature of the Framework is the establishment of Customs – Business partnerships. These "joint ventures" between national Customs administrations and the international trading community are aimed at enhancing security over the movement of international cargo, while providing improved facilitation and clearance processes.

To address this remaining element, the Authorised Economic Operator pilot project was commissioned to examine and consider the options for the establishment of an Australian AEO program.

The project, undertaken over a period of 18 months from July 2006 to December 2007 had two primary objectives:

1. Test and fine-tune the application and assessment processes for security accreditation of importers, exporters and other parties in the supply chain; and

2. Explore opportunities for future mutual recognition of AEO programs with trading partners.

1.2 Outline of the AEO scope

1.2.1 Outline of the scheme/program

The pilot project involved engaging a small number of Australian companies to test the application and assessment processes to become certified as AEO compliant. Participating companies represented a diverse mix of Australian supply chain operations incorporating numerous links in both the aviation and maritime environments.

Australian Customs AEO Pilot Certification Process

Company contacts Customs and receives security profile template and guidelines

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Company submits completed self-assessed security profile to Customs

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Customs assesses security profile and if sufficient, arranges validation visit

↓

Customs visits company site to physically verify and validate the supply chain

↓

Upon positive validation Customs and the Company signs partnership MOU

↓

Benefits initiated

As part of the pilot, participating companies completed a process of self assessment followed by a Customs assessment, validation and risk assessment.

The pilot emphasized the need for a total supply chain security approach to cargo management and shared responsibility for ensuring the security of trade across all nodes of the supply chain.

Australian Customs worked closely with participating companies to develop joint understanding of security profiles covering their domestic and overseas supply chains. These profiles were lodged by industry for initial assessment by Customs and were followed by a number of validation visits to numerous sites in their operations.

Information was compiled from both the security profile and physical validation steps and was risk assessed through the post validation process.

1.2.2 Legal framework (including precise scope and procedures of the scheme)

Currently Australia does not have specific AEO legislation.

1.3 Outline of the AEO Standards

AEO standards adopted for the pilot were consistent with the WCO SAFE Framework and other international examples covering:

- **Physical security** – Site security and access controls for staff and visitors
- **Personnel security** – Vetting, identification, training and procedures
- **IT and information security** – Physical IT security, information security and data integrity
- **Cargo and container security** – Receipt, storage, sealing, inventory and release of cargo and containers
- **Third party relationships** – Screening, contract management and monitoring
- **Security planning** – Planning, contingency arrangements and compliance
- **Transport** – Physical security, monitoring, tracking and procedures

1.4 Examples of how countries have applied these standards

To date a pilot project has been completed to test the applicability of the AEO concept in Australia.

The Australian project has applied the WCO standards in a method consistent with other overseas programs.

Some of the key features adopted for the pilot include:

- a focus on security and assurance of trade for both the importing and exporting communities, and the ability to better focus Customs resources on high risk targets for intervention;

- alignment with the WCO Framework, while also reflecting similar international supply chain security programs;

- voluntary participation with coverage in both maritime and aviation sectors; and

- based on the concept of industry self-assessment followed by Customs validation and ongoing review.

1.5 Benefits of AEO Program

Supporting Australian industry in achieving international competitiveness is essential in maintaining strong economic trade and investment prosperity, and ensuring that barriers do not impede trade or reduce competiveness.

Potential benefits explored during the pilot include:

- reduced intervention and examination in recognition of the lesser risk posed by trusted partners;
- priority service in the event of intervention or examination;
- access to a dedicated point of contact;
- mutual recognition amongst trading partners;
- opportunities for AEO status to aid rapid resumption of trade given limited available resources to deal with security challenges after a security incident.

1.6 Other (future activities including mutual recognition with other members, where to get more information, etc)

Australian Customs is currently developing a forward work program exploring opportunities for trade facilitation and business resumption arising from the AEO concept and mutual recognition.

For more information please contact supplychainsecurity@customs.gov.au

II. AEO Best Practice of China Customs

2.1 Background

Thanks to the national policy of reform and opening up, China has witnessed dramatic increase of foreign trade in the past decades. The accession to WTO from 2001 furthers its emerging trend. The volume of imports and exports in 2006 has increased 46 times over that in 1980, and comparatively the Customs revenue has rocketed by 150 times over the same periods. Trade facilitation and efficient Customs clearance are the concerted expectations both of the government and the private sector.

Under this broader context, China Customs has been always confronted with the major dilemma of “effective control vs. efficient processing” with its limited resources and higher expectations. The traditional philosophy of “goods-orientation” in Customs control and the “cat-mouse” relationship between Customs and trade has been largely challenged.

To address such challenges, the Modern Customs Regime Initiative has been launched and developed as the 21st century heralds. The “goods-orientation” has been shifted to “account-orientation” in Customs control and operations guided by risk management. The new Customs-business partnership has been built up through innovating the philosophy, procedures and measures in customs administration.

As a major member of the WCO, China Customs holds that the adoption and the rolled-out implementation of the SAFE Framework marks a solid step-forward by the international Customs community to address the new challenges to secure and facilitate the global trade in the new century. China Customs is among the first group to sign the Letter of Intent to adopt the Framework. China Customs received the diagnostic mission in March 2006, followed by the completion of the self-assessment in line with the standards in the Framework. From September of 2007, China Customs began to implement the Action Plan in a full-swing manner.

To combine the implementation of the Framework with its modernization drive, China Customs has undertaken two initiatives to embody the two pillars of the SAFE, Customs-to-Customs network and Customs-to-Business partnership.

First, try to establish and update an AEO program with Chinese characteristics, second, implement the China-EU Pilot Project on Smart and Secure Trade Lanes (SSTL).

2.2 Outline of the AEO program in China

Adoption of the AEO program and partnership with the business can help Customs manage risks, improve administrative efficiency and resultantly facilitate trade. China Customs has taken five measures in adopting the AEO program in past years.

Firstly, China Customs has transformed AEO concept into national legislation by revising *the Rule on Categorized Management for Enterprises by Customs (hereinafter referred as "the rule")*. The AEO concept, standards, essential requirements, facilitation measures and verification procedure are incorporated. Especially, the requirements of security have been highlighted.

Secondly, much research and practice have been carried out concerning AEO. China Customs transformed the AEO verification procedures and practices into "validation audit" in the above-mentioned Rule in line with the AEO requirement. The companies applying for AEO status must be validated by Customs. Auditing units of China Customs are making active explorations and have conducted pilot projects in some Customs regions, which have yielded good results.

Thirdly, China Customs further promotes the partnership between customs and the business. The revised Rule stipulates the requirement of establishing partnership with the business and provides a legal basis. The obligations of compliance and facilitation measures for the five categories of companies are explicitly defined, which guides the companies to keep compliant by following the principle of "compliance for facilitation".

Fourthly, China Customs attaches great importance to international cooperation and exchanges. China Customs took an active part in the research, study and discussion among member administrations about the Framework. Domestically, AEO was widely introduced through publicity and training programs among different levels of Customs staff.

Fifthly, China Customs is developing IT-based enterprise assessment system. In order to establish the AEO program successfully, Customs is developing such a computer system to enhance the accuracy and consistency of enterprise rating. Customs will also transform the results of validation into risk indicators that will be applied in Customs clearance system. All these efforts will minimize Customs intervention to legitimate trade and ensure trade security and facilitation.

2.3 Outline of Categorized Management for Enterprises (CME)

As an integral part of Customs-business partnership, China Customs has established it's featured "Categorized Management for Enterprises (CME)" from late 1980s when China Customs began to apply the principles of risk management. To promote the principle of compliance and facilitation, China Customs broadened the scope and streamlined the validation processes and "four-category enterprise management regime" has been established since 1999. Ever since 2004 the Red and Black List Initiative have been introduced to enhance the effectiveness of the program. As mentioned above, *the Rule on Categorized Management for Enterprises by Customs* has been revised and entered into force from April 1, 2008. Under the new rule, the Red and Black List Initiative has been merged the enhanced "Categorized Management for Enterprises (CME)".

2.3.1 Scope of the participating enterprises

Properly determining what kind of enterprises can participate into the AEO system should be the first step. As stipulated in the *r*evised *Rule,* the eligible enterprises and organizations fall into two categories. The first category is those directly involved in import and export activities, and the second category cover the Customs brokering companies. China customs has for the time being not extended the scope to other players in the supply chain. However, according to future legislation on customs controlled premises and manifest rules, also other players in the supply chain like port operators, freight forwarders, carriers and warehouse keepers will have to be registered with China Customs. An equivalent AEO concept will be developed for these companies.

2.3.2 Criteria for the participating enterprises

Clear criteria for applying shall be well established for any successful AEO program. The major difference between the CME program with the WCO AEO guidelines is that under the CME, all the participating enterprises will be classified into five classes: AA, A, B, C, D. That is to say, “discriminatory treatments” will be applied to respective category. The underlining principle is that the compliant should enjoy more facilities and the non-compliant should suffer stricter control, eventually encourage the voluntary compliance.

The criteria are generally based on the enterprise’s current business situation, demonstrated compliance with Customs law and requirements, internal control procedures, accuracy of declarations and compliance with other government agencies (OGAs). All the conditions and requirements are clearly defined, record-based and easily verified.

Categories AA, A enterprises are highly compliant and reliable traders. Category AA enterprises will be treated as “AEO”. Class C and Class D enterprises have violated Customs law and regulations to some extent. The other enterprises will fall into Category B.

For Category AA, the enterprise must have been granted Category A for 1 year. The trade volume is one of critical requirements. Generally, the enterprise that would like to apply for CME shall:

- Enterprieses directly involved in import and export activities: annual import and export volume shall be amounted to or more than US$30 million (US$10 million for the Middle and West region).
- Customs brokering companies: annual number of declarations processed shall be amounted to or beyond 20000 (5000 for the the Middle and West region)

2.3.3 Facilitative and punitive measures

As stated above, the discriminatory treatments applied to the enterprises under different classes range in a spectrum in terms of facilitation and control. Catalogue of Facilitative and Punitive Measures have been established and published as an integral part of *the Rule*. Generally, Class AA, A can enjoy preferential treatments like priority facilitation in declaration and inspection, door-to-door inspection, fast channel, security release and so on.

For example, immediate release can be granted to Category AA just after the electronic documentation control. “Green” Window for declaration has been set for Class A. In a word, a Class A enterprise can enjoy much substantial benefits than a non-membership enterprises. Such tangible benefits really offer sufficient incentives to the concerned enterprises.

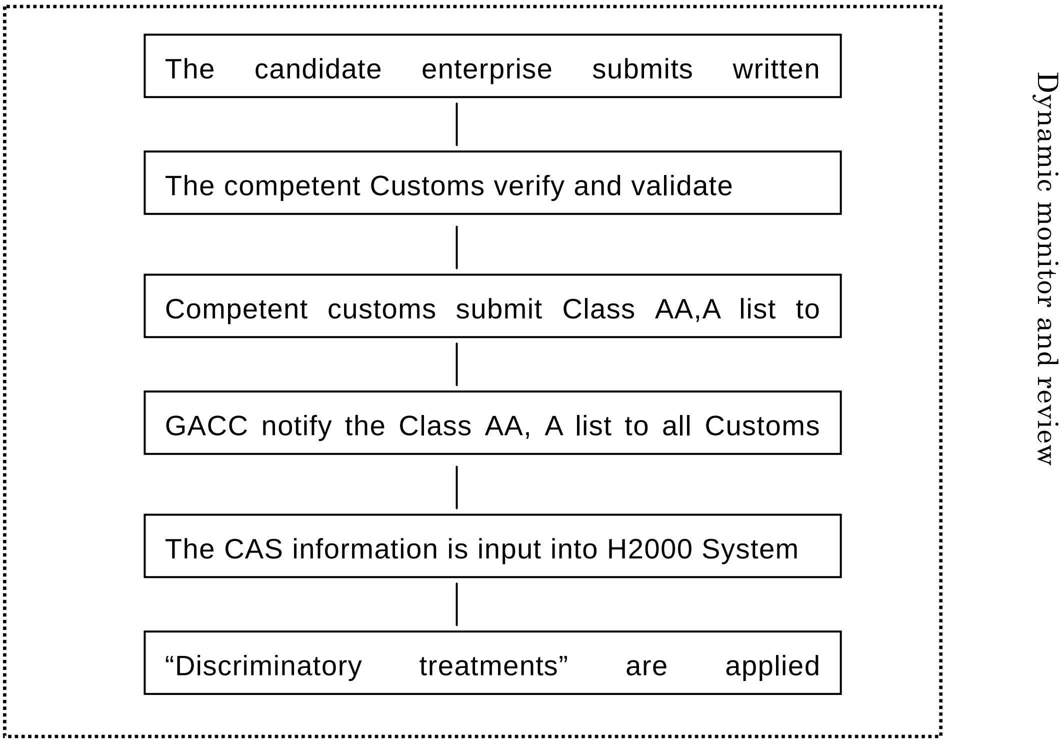
For Class C, and Class D, stricter and tighter control measures and procedures will be applied: cash security, transaction-by-transaction inspection and so on. Naturally, ordinary Customs control shall be applied to Class B. Such “discriminatory treatments” spur their desire for compliance.

2.3.4 Validation, authorization and adjustment

The validation under the CME is both voluntary and compulsory. All the procedures should be open and fair. For Categories AA, A, the candidate shall apply to the Customs voluntarily, while for Categories C and B, Customs will directly validate and authorize. All the concerned enterprises have the right to appeal for review in terms of classification. The applying and validating procedures for Class A is elaborated in the following flowchart:

China Customs is the only authority to validate and authorize the CME regime. The Department of PCA under GACC is overseeing and monitoring the CME program nationwide. The competent Customs Region is responsible for validating and authorizing the enterprises within their jurisdiction. To demonstrate political will, the Committees on CME have been set up in some Customs Regions, comprising the DG in charge and the directors in the relevant departments.

CME Work Groups are set up at the operational level. Generally, the departments of enterprise administration and/or PCA in a Customs Region are responsible for validating. The third-party validators haven’t been involved.



The validation and authorization shall be a dynamic and continuous process. For example, enterprises under higher classes shall be degraded to lower classes immediately once some offences have been committed in Customs offence. Naturally, Categories B, C and D can be adjusted to higher classes based on certain and clear criteria in their compliance. Especially, the requirements for Categories C and D are relatively reasonable to comply with. Punishment should not be the ultimate purpose, and the enterprises that are willing to be compliant should be strongly encouraged. Generally, annual review will be conducted by Customs to re-validate all the concerned enterprises. Such system ensures a fair and positive environment.

The CME program has been well incorporated into the Customs control and enforcement. All the information related to the information under the CME shall be timely input into China Customs H883 (H2000) Customs Processing System. In routine operation, the system, through risk assessment, can automatically alert the category a company has been classified and the proper treatments shall be applied, which ensures automatic, uniform and efficient management over the enterprises. Any change or adjustment shall be updated in the system in a timely manner to ensure all the concerned Customs officers are kept informed.

2.3.5. Benefits

The CME program (including the former Red and Black List Initiative), geared to forge closer Customs-business partnership; have created win-win dividends both for Customs administration and the business. As put by a high level Customs official in charge of the CME program, “The compliant enterprises won’t find Customs control nowhere, and the delinquent enterprises will find Customs control everywhere.” Though there are no specific quantified measurements, the following qualitative evaluations are reliable:
For the trade community, the benefits call be identified:

- The legal rights of enterprises have been well protected;
- A positive compliance environment for imports and exports has been well-established;
- The awareness and desire for voluntary compliance has been enhanced;
- The internal business processes or procedures have been standardized and streamlined;
- More channels have been available to communicate and cooperate with Customs;
- The social corporate reputation has been well recognized;
- The cost of Customs processing has been much reduced;
- The competitiveness has been enhanced.

From the perspective of the Customs, the overall efficiency and effectiveness of Customs control has been significantly enhanced:

- Many risks exposed to Customs control have been reduced and mitigated;
- More facilities have been provided to the compliant enterprises;
- Gradual increase of Customs revenue, contributing more to national fiscal policy;
- Fighting against anti-smuggling and other offences from the roots have achieved positive results;
- Customs can allocate its limited resources more efficiently.

2.4 China-EU Pilot Project on Smart and Secure Trade Lanes（SSTL）

As the first inter-continental pilot project for implementing the Framework, China-EU pilot project is obviously a bold experiment by both China and EU Customs administrations. The aim is to establish a safe, facilitated and smart international trade supply chain. The pilot project will carry out an all-around control over the international cargo flow so as to facilitate the legitimate trade to the largest extent and reduce the security risk of cargo flow.

Under the overall framework of mutual administrative assistance between China and EU, in September 2006, China Customs and EU signed the *Joint Statement on Strengthening Cooperation on Supply Chain Security* between the General Administration of Customs of the People's Republic of China and the Customs Authorities of the European Commission at the second meeting of the China-EU Joint Customs Cooperation Committee. Right after that, the *joint understanding of launching the Pilot Project on Smart and Secure Trade Lanes* was signed by China Customs, HM Revenue & Customs of the U.K. and the Dutch Customs. With the concerted efforts of all the participating parties, implementation of the pilot project has been launched formally since November 2007.

The data exchange under the framework of China-EU Pilot Project on Smart and Secure Trade Lanes, which was launched at the end of 2007, marks the opening of a new chapter in the mutual cooperation on such frontier areas as trade security and facilitation. At present, the pilot project is under implementation at the ports of Shenzhen (China), Rotterdam (the Netherlands) and Felixstowe (the United Kingdom). The pilot project marks the concrete cooperation in implementing the Framework:

- First, through data exchange, the customs administration of the importing country can get the needed cargo information in advance.
- Second, through electronic seals and smart container technologies, it can also obtain more cargo flow information in advance, including information carried by the container itself and information transmitted through networks.
- Third, through data comparison and matching, two parallel lines of information flow are built up to guarantee the security and facilitation of cargo.

At present, guided by the WCO SAFE Framework, the Customs participating in the pilot project have already set up a chain of secure and facilitated international trade. As the inseparable parts of this chain, the Customs authorities of China and the EU, together with the participating companies, are joining their efforts to ensure the security and facilitation of international trade.

The cooperation between China and EU Customs in data exchange, joint risk rules setting, mutual recognition of AEO, mutual recognition of customs control results and application of e-seals and smart container technologies is full embodiment of the two pillars and the four core elements of the Framework. The businesses which have been invited to be involved in the pilot have received substantial benefits like fewer inspection, safer supply chain, higher commercial reputation and etc. The SSTL will definitely set the best practice for AEO implementation bilaterally, regionally and even globally.

2.5 Way forward

The reengineering of the AEO system should be further woven into its strategic modernization drive, and the principles and standards elaborated in the WCO AEO Guidelines can be appropriately absorbed and adopted while implementing its current CME regime. The scope of the CME should be extended to the main players in the international supply chain. The needs of SMEs should be properly addressed. Risk management should be further incorporated into the AEO system.

The existing preferential or facilitative measures should be integrated and streamlined. All the AEOs can enjoy the uniform treatments nationwide. The achievements and lessons derived from the pilot project on the SSTL can be consolidated, for instance, the mutual recognition agreements (MRA) can be extended to the concerned trade partners.

No. 4

Regional Best Practice Study

on

Authorized Economic Operator (AEO)

AEO Best Practice of Japan

WCO ROCB Asia Pacific

August 2008

Table of Contents

1. Background

Japan Customs introduced a compliance-based program called “Simplified Declaration System” for authorized importers in March 2001 before the adoption of Framework of Standards or even before the terror attacks in US. This System is consistent with the Revised Kyoto Convention. For further trade facilitation, Japan Customs introduced the Simplified Declaration System for authorized exporters in March 2006. Based upon these compliance-based procedures, Japan Customs established the framework of the Japan AEO program in April 2007. The Japan AEO program is aimed at enhancing security and trade facilitation in international trade through Customs-to-Business partnerships. The program is consistent with the WCO Framework of Standards and Guideline for AEO.

In order to introduce the Japan AEO program, Japan Customs amended and upgraded previous compliance-based programs for importers and exporters to be consistent with the WCO guidelines for AEO programs. The amended Customs laws and regulations covered warehouse operators in October 2007 and carriers, forwarders and Customs brokers in April 2008 respectively. Benefits for traders have increased. This improvement to the AEO program enables Japan Customs to conduct more focused examinations and inspections on the cargo of unauthorized traders than ever before. Japan Customs is promoting the participation of traders in AEO programs as a Customs-to-Business partnership, and as an international Customs-to-Customs partnership, promoting the mutual recognition with foreign Customs administrations that possess equivalent AEO programs.

In regard to the domestic circumstances in Japan, the “ASIAN GATEWAY INITIATIVE” aims at structural reforms on trade procedures and trade-related procedures. The Asian Gateway Initiative was discussed at Council under the Cabinet and endorsed by the Prime Minister in 2007. Establishment of the AEO program is considered one of the most important issues to be addressed in this initiative.

- Principles of the primary Simplified Declaration System

The basic principles for the introduction of the Simplified Declaration System for importation in 2001 were as follows:

In Japanese Customs procedures, in principle, importers are required to lodge two types of declaration at the same time; one is the import entry declaration and the other is the duty-payment declaration. However, it was determined that separating these declarations, declaration on cargo entry from that on duty payment, to reward highly compliant importers, would pave the way to enter cargo before duty payment. This would result in expanding opportunities and increased convenience for importers. It was determined that this would also be beneficial for the customs administration to enable them to streamline inspection of higher risk cargo and to conform to the recent trends in international harmonization of customs procedures.

In the studies of foreign Customs clearance procedures related to acceptance of the Revised Kyoto Convention, Japan Customs found that the U.S. and European countries adopted similar systems which separate cargo entry and duty payment for traders with good qualifications. Thus from the viewpoint of international harmonization of procedures, the compliance-focused clearance system was introduced in Japan while maintaining the ordinary import clearance procedures.

However, in this primary system, there were several conditions such as designated types of import goods that were not user friendly. For example, an approved importer could apply for the simplified system only for the importation of certain type of goods (e.g. frequently imported goods; more than 24 times a year) which had been approved by the Director General of a Regional Customs. Such conditions were revised several times to become consistent with the WCO Guidelines for AEO and be more user-friendly for high compliant importers, with the understanding that the physical security management aspects should be considered.

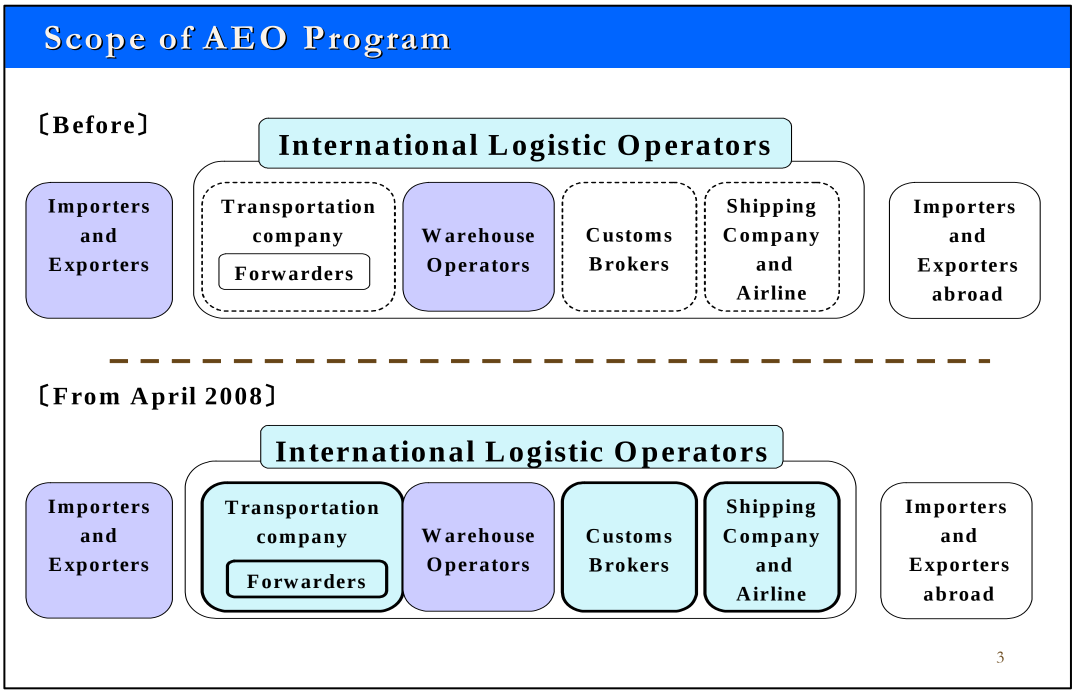
2. Outline of the scope

2-1. Outline of the scheme/program

The current scope of Japan's AEO program covers Importers, Exporters, Warehouse Operators, Customs Brokers and Logistics Operators.

Japan's AEO program is a combination of programs (outlined below) for those traders or operators:

－Program for Authorized Importers (stared in March 2001 and revised.)
－Program for Authorized Exporters （started in March 2006 and revised.）
－Program for Authorized Warehouse Operators (started in October 2007)
－Program for Authorized Customs Brokers (started in April 2008)
－Program for Authorized Logistics Operators (started in April 2008)

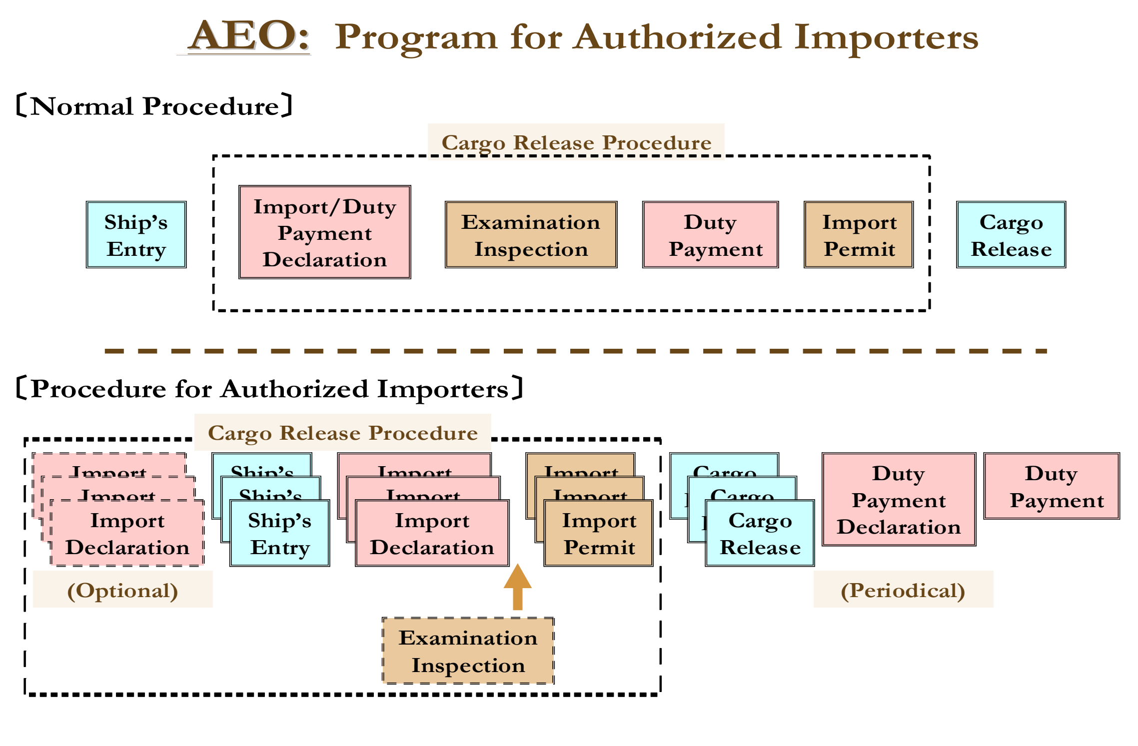


The scope of the former AEO program in Japan had covered importers, exporters and warehouse operators. In legislative revisions in 2008, Japan Customs reviewed its AEO program to expand the scope of participants in the program to all logistic operators, to cover all players engaging in the flow of goods (''supply chain'') in international logistics including forwarders, Customs brokers, shipping companies and airlines who are involved in Customs transit of goods. New programs for Authorized Customs Brokers and for Authorized Logistics Operators such as carriers and forwarders started on April 1, 2008.

a. Program for Authorized Importers

It entitled 'Simplified Import Declaration System.' The latest revision of the system in 2007 allows importers with high compliance and security management of their cargo to make import declarations before arrival of the cargo and enter the cargo into the domestic market before declaration for duty payment. It is the importers choice to use this simplified system or normal clearance procedures. Under this system, declaration of goods for release is carried out each time the goods are imported. Basically, submission of the invoice and other supporting documents is not required. Additionally, examination and inspection for duty payment are omitted in the clearance procedure.

In the new program, a part of the current AEO program, Authorized Importers are able to use the simplified system for any kind of goods. In combination with the automated (electric) clearance system, they are able to make entry declarations prior to the arrival of their cargo. They are able to pay duties, which are imposed on goods in several declarations within a month, by lump sum at the end of the next month. To complement these positive changes for importers, compliance requirements were strengthened. Conditions were introduced such as not-penalized within the past 3 years, no employment of the penalized, and establishment of the inner Compliance Program to emphasis self-compliance by traders. There are goods not eligible for this simplified import system, such as goods subject to physical examination at the border such as goods of duty exemption requiring certain conditions or verification, goods controlled by ceiling system, etc.



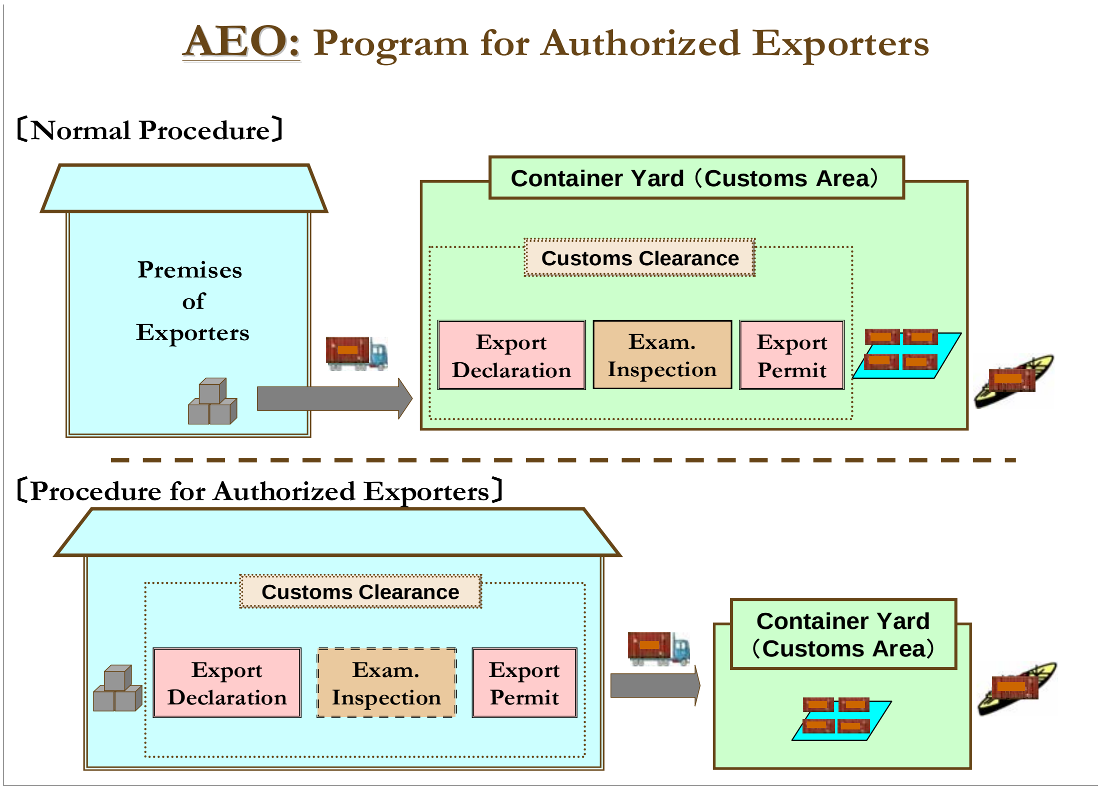
b. Program for Authorized Exporters

This is called the "Simplified Export Declaration System." Under normal export procedures, outbound cargo is required to be carried into Hozei/Customs area such as container yards before export declaration. However, Authorized Exporters who ensure high compliance and security management on their cargo are allowed to make export declarations and receive export permissions even when their cargo is still under transportation to seaports or airports or located in their own manufacturer premise or warehouses. As a consequence, the Authorized Exporter could reduce their logistic costs.

This simplified system was introduced in 2006 and revised in 2007. Authorized Exporters are able to lodge export declarations either to the regional Customs whose jurisdiction where their manufactures premise or warehouses are located or to those controlling the locations of the loading seaports or airports. They are also able to use the simplified declaration system for consolidated cargo.

Conditions for Authorized Exporters are:

- No punishment regarding Customs laws and related laws,
- establishment of the internal Compliance Program,
- ability to use automated clearance system, etc.



c. Program for Authorized Warehouse Operators

The program for Authorized Warehouse Operators was introduced in October 2007. Authorized Warehouse Operators of Hozei areas (bonded areas), Hozei warehouses or Hozei factories are eligible to use their sites, which satisfy requirements, by only notification to Customs (Customs permission for Hozei is not necessary). The notified sites will be subject to compliance - reflected Customs inspection. And the monthly fee will be eliminated. Additionally, the period for permission will become longer than normal Hozei areas, warehouses and factories. There are requirements for achieving of Authorized Warehouse Operators status such as compliance records, establishment of the Compliance Program, use of automated systems for customs procedures and those for the sites, including physical requirements.

AEO: Program for Authorized Warehouse Operators

〔Normal Procedure〕

- Separate permit from Customs is required for each Customs warehouse
- Permit is provided to each facility
- Periodical inspection of facilities and operations by Customs
- Monthly fee for each facility according to its size

〔Procedure (Benefits) for Authorized Warehouse Operators〕

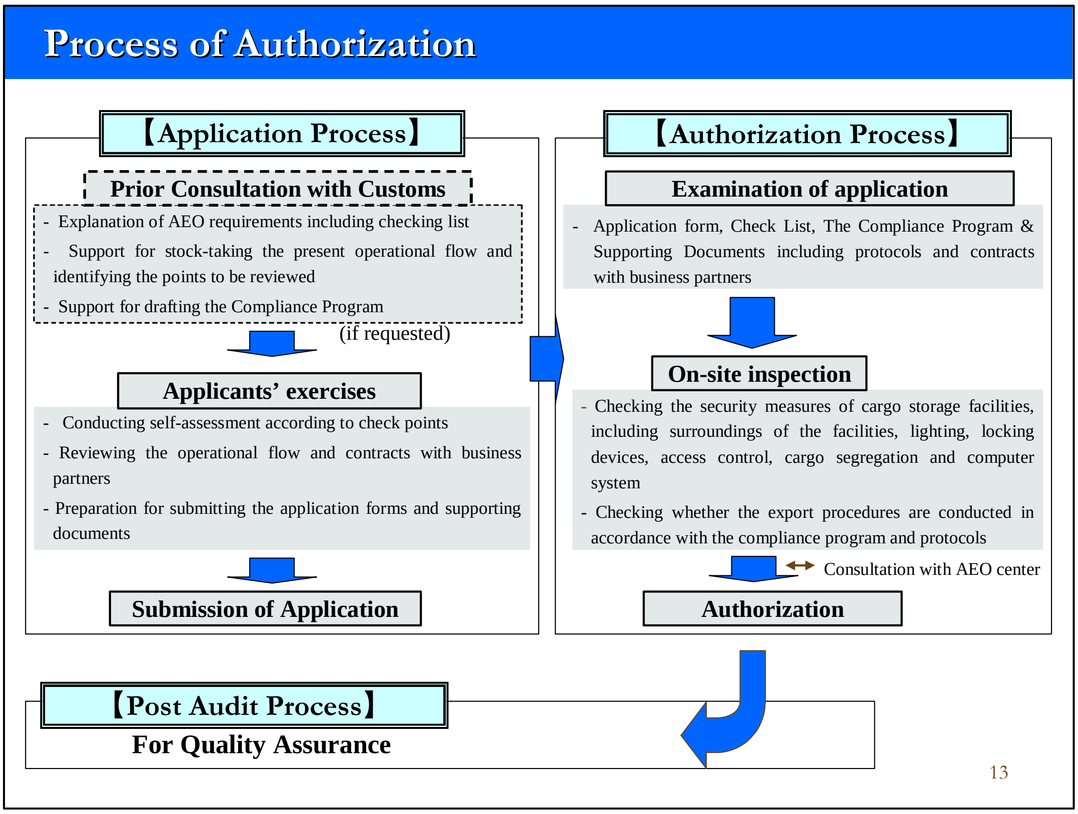
- Establishment of a new Customs warehouse only by notification to Customs
- Comprehensive permit is provided to each Operator
- Compliance reflected reduced inspection
- Reduced monthly fee

d. Program for Authorized Customs Brokers

The program for Authorized Customs Brokers was introduced in April 2008 to cover all the players in the supply chain. The program is beneficial for customs brokers with high compliance and security control on cargo. Using this system, Authorized Customs Brokers will be able to enjoy the special treatment of simplified Customs procedures and can expect benefits such as reducing the lead time and costs, faster and smoother release and improved convenience for themselves and their clients. As for representative actions of import on the request of their client importers, Authorized Customs Brokers are able to make duty-payment declarations after release of the cargo. In relation to representative actions of export on the request of their client exporters, on the premise of Customs transit by Authorized Logistics Operators, Authorized Customs Brokers are able to make export declarations on the cargo which is located in any place other than Customs areas. Authorized Customs Brokers are also eligible to become Authorized Logistics Operators if they fulfill the requirements.

e. Program for Authorized Logistics Operators (Carriers and Forwarders, etc.)

This program was also introduced in April 2008 to cover all the players in the supply chain. Authorized Logistics Operators such as Carriers, Forwarders, Shipping Companies or Airlines can enjoy simplified procedures on Customs transit. While application and Customs approval are required for each Customs transit block following submission of manifest data in normal procedures, Authorized Logistics Operators are required only to submit manifest data for the whole route covered by NACCS, the automated cargo clearance system. When an Authorized Customs Broker makes an export declaration on the cargo which is located in any place other than Customs areas at the time of export declaration on request of an exporter, it is also able to transit the cargo directly from the place to the port of loading. This will contribute to reductions of lead time and logistic costs.



-Process of authorization

Any trader or operator who wants to become an Authorized one has to apply to and obtain the approval of the Director-General of regional Customs. The following steps are applied:

1) First step is the "prior consultation with customs". This is not mandatory; however, any trader or operator who is interested in the AEO program and wants to become Authorized can contact regional Customs to get the necessary information for the application procedures. Customs gives the explanation of AEO requirements, including the Check List and gives necessary advice to the applicant, including advice for drafting the internal Compliance Program.
2) Secondly the applicant should conduct a self-assessment according to the Check List, reviewing their operational flow and contracts with their business partners and

submit the application form to Customs with the supporting documents.

3) The third step is authorization. Customs examines the submitted application form and all the supporting documents, namely, the Check List, The Compliance Program, and the documents which include protocols and contracts with business partners. Customs also conducts an on-site inspection to check the security measures of the cargo storage facilities and the applicant's operations, including the surroundings of the facilities, cargo segregation, lighting, locking devices, access control, computer system, etc. Customs also checks whether its Customs procedures are conducted in accordance with its Compliance Program and protocols. When all the results fulfill the requirements designated for approval of each type of AEO, the applying trader or operator is approved as that type of AEO by the Director-General of regional Customs.

After the authorization, the authorized trader or operator will be subject to a post validation audit by Customs which is conducted periodically to test assurance. In the post audit process, Customs conducts an on-site inspection of the premises and facilities of the AEO with interviews. Security measures of the cargo storage facilities, including the surroundings of the facilities, and whether Customs procedures are consistent with the Compliance Program and protocols. If a significant problem is found in the audit process, Customs issues an "Administrative order for improvement." If satisfactory improvement is not completed after this order, Customs revokes the AEO status of the auditee.

2-2. Legal Framework (including precise scope and procedures of the scheme)

In Japan, there are four types of statutes with regard to national government administrations. They are law (or Act), cabinet order, ministerial ordinance and administrative order (or Decree). Japan Customs has established and been conducting its AEO program as a voluntary program, but based on the Customs Law.

Customs Law

Customs laws generally, stipulate the rights and obligations of citizens. The AEO program, benefits, conditions and requirements for authorization (AEO standards), expiry and revocation of approvals are stipulated in the Customs Law.

Cabinet Order

"Cabinet Order for Enforcement of the Customs Law," stipulates specific procedures for the rights and obligations in the Customs Law.

In relation to the AEO program, formalities such as particulars to be described for clearance procedures, particulars for application procedures and exemptions are stipulated in this Cabinet Order.

Ministerial Ordinance

This provides for more details for the implementation of the specific procedures for the AEO program. Formalities such as particulars to be set forth in the internal Compliance Program are stipulated in “Enforcement regulation of the Customs Law.”

Order of Director General of CTB

Administrative orders, Orders of Director General of Customs and Tariff Bureau (CTB) provide guidelines to subordinate organizations within the Customs administration. Details for the implementation of the specific procedures are stipulated in Orders of Director General of CTB. The Basic Order regarding the Customs Law, named “Guidelines for reviewing the approval requirements of authorized importers, etc.” provides guidelines to regional Customs for checking the applications, the particulars written in the internal Compliance Program, the Check List and etc.

3. Outline of the AEO Standards

3-1. Common Standards- Requirement for all types of AEO qualification

There are common requirements to be approved by Director-General of regional Customs as Authorized operators for all types of operators.

- No violation, specifically, not punished for violating the Customs Law and Customs-related laws in the past 3 years and other laws in the past 2 years.
- No cancellation of their business for more than 3 years (Warehouse Operator, Customs Broker, Logistics Operator)
- No withdrawal of authorization of AEO status in the past 3 years
- No Employment of a person or persons with former convictions.
- Equipment of the ability to operate the control of goods adequately and without fail, including the use of automated system for Customs procedures (NACCS)
- Own the internal compliance program for adequate operation of Customs procedures and the management of cargo.

These requirements are stipulated in the Customs Law and are examined in the process of authorization. Individually, there is a little difference in additional requirements according to the nature of operators. By types of operators, requirements to be approved for AEO status are as follows:

Authorized Importers (Art.7-2, Customs Law)

In addition to the common requirements, any importer who wants to be approved as an Authorized Importer

- Shall not have been convicted of violating the Customs Law or other national tax laws nor shall have received a notification of administrative penalty in relation to the Customs Law or the National Tax Violation Control Law in the past 3 years
- Shall not have had been imposed the heavily additional duties or consumption taxes on import goods within the past 3 years.
- Shall not have been delinquent in payment of customs duties or taxes on import goods in the past 3 years.

Authorized Exporters (Art.67-4, Customs Law)

Other than the common requirements, any exporter who wants to be approved as an Authorized Exporter

- Shall not have been sentenced to imprisonment in the past 2 years for violating other laws designated in Article 70 of the Customs Law.

Article 70 of the Customs Law provides Customs with the authority of Certification or Verification on goods whose importation or exportation needs permission or approval, other disposition of administrative agency or needs to be examined or to meet condition under other laws and regulations on trade control.

Authorized Warehouse Operators (Art.51, Customs Law)

There are requirements for applicants and for the sites. An applicant must fulfill the common requirements for itself as an entity as well as requirements for the sites to be used as special Hozei warehouses under the Authorized Warehouse Operator Program (Art. 4-2, Ministerial Ordinance). The sites

- Shall be operated adequately and without fail, according to the Compliance Program.
- Shall be equivalent to the standard of equipment required for normal Hozei warehouses or Hozei areas.

There are provisions applied with necessary modifications for operators of Hozei factories (Art.62, Customs Law and Art.4-7, Ministerial Ordinance).

Authorized Customs Brokers (Art.79, Customs Law, revised)

The compliance requirement of common requirements is changed as follows:

- Not punished for violating the Customs Law or other related laws in the past 3 years.

Authorized Logistics Operators (Carriers, Shipping companies, Airlines, etc.) (Art.63-4, Customs Law, revised)

Other than Authorized Customs Broker and Authorized Hozei Warehouse Operator,

- Hozei Warehouse Operator, Hozei Manufacturing Warehouse Operator,
- Manager of Designated Hozei Area, Integrated Hozei Area,
- Airline, shipping company, forwarder, trucker, forwarding agency

are eligible to apply for Authorized Logistics Operator for Customs Transit. They must satisfy the following criteria:

- Not punished for violating the Customs Law and Customs-related laws in the past 3 years.
- Shall not have been punished in violation of the laws or regulations according to individual categories of logistics operations in the past 3 years.

3.2 General requirement for application

The skeleton of AEO requirements, that is, “compliance record”, “e-system for Customs procedures”, “Financial integrity” and “Compliance Program’’ are applied to all types of AEOs in Japan.

Compliance Record: Compliance record is a criterion for eligibility as an Authorized Operator. There are several criteria. For example, those who have infringed Customs-related laws and regulations in the past 3 years or those who have not paid customs duties by the due date are not eligible to apply for AEO status.

E-system for Customs Procedures: All applicants have to be able to take advantage of IT system for Customs Procedures. The IT system is called NACCS, Nippon Automated Customs Clearance System, in Japan.

Financial Integrity: Applicants’ financial integrity such as systems for audit and crisis management shall be described in the application form and will be considered in the authorization process.

Compliance Program: All applicants have to establish their internal Compliance Programs. The Compliance Program must include such elements as Organizational Set-up, Contracting Parties Requirements, Cargo/Conveyance/Premises Security, Co-operation and Communication with Customs, Crisis Management, Education/Training and Internal Audit.

More details of the internal Compliance Program are as follows:

Organizational Set-Up Establishment of the central office to manage the Compliance Program(CP) and CP units in each department of traders and ensuring proper operations in each department.

Contracting (Business) Parties Requirement Ensuring the adequacy of business partners in relation to the performance of the CP, including security aspects and the establishment of a framework to ensure proper operations by business partners.

Cargo/Conveyance/Premises Security (in the case of Importers / Exporters) Ensuring the appropriate management of cargo, including establishment of a framework to check the route and the mode of transportation, and proper tracking of the cargo.

Measures such as checking the movement of both persons and vehicles, locking devices, barriers, fencing and lighting, setup of video surveillance cameras, and periodic patrolling are included. .

Due Customs Procedures This includes making a list of cargo under the AEO program by operators, such as descriptions, marks, tariff classification, tariff rate, application of trade control laws and regulations and other relevant information. This list should be updated in a timely manner based on the revision of relevant laws and regulations. It is also required to establish a framework for and appropriate management of Customs procedures.

Consultation, Cooperation and Communication with Customs and Other relevant authorities The AEO should establish the adequate reporting channels to Customs on any accident or misconduct in implementing the CP and report any changes of the CP to Customs, if such changes are related to Customs procedures, cargoes and/or logistics.

Crisis Management - Establishment of a framework to ensure the reporting channels in case of emergency, preventative measures and remedial measures.

Education/Training - Establishment of a framework to plan and implement education and training programs in a periodic and continuous manner.

Internal Audit A framework for internal audit to ensure proper implementation of the CP should be established. In other words, self-audit is the AEO's obligation.

In 2007, Japan Customs revised the form of the CP to be common for Importer and Exporter. The item numbers to be described were reduced from 130 to 40 and the Check List form was introduced so that applicants are able to check their in-house compliance levels by themselves. Japan Customs is collaborating with other government agencies in terms of in-house compliance programs.

4. Examples of application

Japan Customs consists of 9 regional Customs. Each regional Customs has an AEO unit. To ensure consistency among regional Customs, the office for AEO in Tokyo regional Customs, which was set up in July 2007, has been working as the Central Office (AEO center) all over Japan along with Clearance Division at CTB. It is a challenge for Japan Customs to increase the number of the private companies who participate in the AEO program. Officers at AEO Units or Center are involved in extensive activities to ensure participation rate increases. The following are cases dealt at regional Customs level.

Case 1.

Company A is a small size enterprise with less than ten employees, including the employer. The employer came to one of the regional Customs for a consultation on how to become an AEO. Company A imports only one item of industrial product from raw material. According to the Customs advice, Company A assigned the employer as the top manager and designated one of its employees to be responsible for appropriate Customs procedures and another employee for auditing the compliance in the company. It also set in-house rules of the procedures on their individual responsibilities, which are required in the AEO program. The regional Customs visited company A several times to confirm whether these measures were working well. With regard to the cargo management, Customs also confirmed through on-site examinations that its post-entry management was appropriate to ensure security. As a result, Company A was approved to become an Authorized Importer to avail themselves of benefits of the AEO Program.

Case 2.

Company B, a big trading company, was an Authorized Importer with high compliance. However, during a post clearance audit of Company B, Customs auditors found large amounts of discrepancy between the accurate prices and duties/taxes to be paid on imported goods and the actual payment based upon its self-assessed declaration. Since there was a disguise and concealment on the base for calculation of the price (actually paid or payable), this discrepancy was subject to ‘heavily additional duty/tax.’ Art.7-12 of the Customs Law provides that the imposition of heavily additional duty can be in the scope for withdrawal of approval for Authorized Importers. According to this provision, Company B was deprived of the approval for Authorized Importer by Director General of the regional Customs. This company is not qualified to apply for an Authorized Importer in the next three years.

Case 3.

Company C is a large-size enterprise. It separated one of its operating divisions into an independent subsidiary company for the purpose of merging with a division of another company of the same business. The subsidiary company was newly established as Company D, and its CEO and other executives were co-posted by those of the parent company, C. After the merge was decided, the staff of company C came to the compliance office of a regional Customs for consultation to obtain Customs' approval as Authorized Exporter and asked whether it is possible to obtain two authorizations for C and D by one application. According to the Customs advice, both companies had in-house compliance programs each. Finally, the fact was confirmed that Company C and Company D were independent and had individual compliance programs and systems, although both were family-owned with the common executives. Therefore, Company C and Company D became Authorized Exporters individually.

5. Benefits of AEO Programs

5.1 Benefit for Business

Beneficiaries under the current AEO program are (a) Authorized Importers, (b) Authorized Exporters and (c) Authorized Warehouse Operators, (d) Authorized Customs Brokers and (e) Authorized Logistics Operators (carriers, shipping companies, airlines, forwarders, etc.）Benefits for those AEOs are as follows.

a. Authorized Importers

Authorized Importers are able to make import declarations and receive import permissions before arrival of their cargo. They are also able to submit declarations for duty payment within a certain period after the release of the import cargo. They are able to pay Customs duties and taxes on several import declarations in the same month, at once in a lump sum, while non-authorized importers have to pay them separately for each declaration in normal import clearance procedure. Therefore, authorized Importers can expect faster and smoother release of import cargoes, reduction of import costs and effectiveness.

In addition, Authorized Importers are able to take such benefits as reduction in the number of particulars at the time of import declaration. No paperwork is required for import declarations and duty payment basically, and no documentary examination and/or physical inspection for the purpose of duty assessment at the time of entry, that is, except for the compliance-reflected examination or inspection for non-tax purpose. Since high compliance is reflected in Customs clearance procedure, Authorized Importers are able to calculate the time for release and manage their inventory control more efficiently, which contributes to predictability.

b. Authorized Exporters

Authorized Exporters can make export declarations without carrying cargoes to be exported into Customs/Hozei areas. Anywhere the export cargo is located, in factories or warehouses of Authorized Exporters or en route to airport or seaport, Authorized Exporters are able to make the export declaration and receive export permission. Security controls and compliance of Authorized Exporters are reflected on Customs examination and inspection, which enable the expeditious and smooth loading of its cargo. This contributes to a reduction in lead time and logistic costs.

c. Authorized Warehouse Operators

Authorized Warehouse Operators can establish new Customs warehouses with only a simple procedural requirement to notify Customs of the sites which satisfy the requirements. Comprehensive permission is provided to each Authorized Warehouse Operator. The monthly fee for warehouses becomes free. The period of permission for the sites is longer than normal Customs warehouses and/or factories (8 years for the sites of Authorized Warehouse Operators, 6 years for normal operators). Security controls and compliance are reflected on reducing the frequency of Customs audit.

d. Authorized Customs Brokers

As for representative actions of import on the request of their client importers, Authorized Customs Brokers are able to make duty-payment declarations and to pay duties and taxes on the cargo of their client importers after release of the cargo. This will facilitate faster and smoother release of import cargo and improve convenience for importers.

As for representative actions of export, on the premise that Customs transit made by Authorized Logistics Operators, Authorized Customs Brokers are able to make export declarations on the cargo which is located any place other than Customs areas on the request of its client exporters. This will contribute to a reduction of the lead time and logistic costs. Authorized Customs Brokers are also eligible for approval to become Authorized Logistics Operators if they fulfill the requirements. (see below e.)

e. Authorized Logistics Operators (Carriers and Forwarders, etc.)

Authorized Logistics Operators such as carriers, shipping companies, airlines and forwarders, etc. can enjoy simplified procedures on Customs transit. While application and permission is required to each Customs transit block following submission of manifest data in normal procedures, Authorized Logistics Operators are required only to submit manifest data for the whole route covered by the NACCS system.

When an Authorized Customs Broker makes an export declaration on the cargo which is controlled by an Authorized Logistics Operator, the requirement to place the cargo at

Customs area can be waived. This means that it is able to transit the cargo directly from the place to the port of loading. This will contribute to reduction of the lead time and logistic costs.

5.2 Benefits for Customs administrations

AEO programs are beneficial for the effective management and border control of Customs administrations. More effective examinations can be conducted for high risk cargo using limited resources to prevent smuggling of drugs, guns, or any other prohibited items or to adequately enforce controls on goods which are subject to import and/or export controls at border. It also contributes to international harmonization of customs procedures, which will promote facilitation of international trade.

6. Others -Challenges including mutual recognition with other members

-Promotion of participation in AEO programs

Japan Customs is making efforts to enhance its AEO program in cooperation with the business sector. Under the current situation, 114 exporters are authorized as Authorized Exporters in Japan (as of May 19). The total export value of these Authorized Exporters represents 42.7% of total exports from Japan. Japan Customs is aiming to increase this ratio up to 50% by the end of 2008 based upon Custom-Business partnerships. In relation to imports, 58 importers are authorized as Authorized Importers as of May 1, 2008. And there are 22 Authorized Warehouse Operators are authorized as of May 1, 2008.

-Outreach activities

To attract more operators, officers in charge of AEO at regional Customs are engaging in outreach activities of the AEO program to encourage potential operators in their jurisdiction to expand this campaign throughout Japan. Prior to the revision of the Customs Law and regulations regarding its AEO program, Japan Customs held explanation meetings to ask for understanding and cooperation from the operators both on a regional basis and on a headquarters basis (by Customs and Tariff Bureau), by industrial sectors or for high-ranking exporters in volume.

- Mutual Recognition with foreign counterparts (Under Consultation or Discussion)

Japan Customs is working on prevailing AEO programs and a similar effort is being made in other countries. Japan, as one of its key tasks, is endeavoring to advance efficiency in distribution, through developing partnerships with overseas AEO Programs in order to provide mutual benefits, including smoother and more facilitated import/export Customs clearance for those economic operators with excellent compliance records. Currently, Japan Customs has been conducting consultation or studies with several countries such as the U.S, Australia, EU, Malaysia, China and Korea. The mutual recognition arrangement with New Zealand Customs Service was signed on May 14, 2008.

Japan Customs is carrying this movement forward based upon the idea that the mutual recognition of AEO programs could maximize the benefits of honest stakeholders. This is a totally different approach compared with the traditional international Customs cooperation, which had placed its emphasis on information exchange of the '"negative" elements for enforcement purpose. In this sense, we could say that this significant development is a turning point for customs administrations in the world. For this approach to facilitate mutual recognition, there are two indispensable elements. One is the IT system for procedures and the other is the channel for information exchange.