



21 September 2018

(18-5874)

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Committee on Trade Facilitation

Original: English

IMPLEMENTATION OF THE AUTHORIZED ECONOMIC OPERATOR PROGRAMME IN HONG KONG, CHINA

COMMUNICATION FROM HONG KONG, CHINA

The following communication, dated 19 September 2018, is being circulated at the request of the delegation of Hong Kong, China for Members' information.

1 INTRODUCTION

1.1. Customs plays a key role in the conduct of international trade. With different stakeholders involved in different stages of the global supply chain, it is a challenge for Customs to safeguard the security of the supply chain while facilitating the movement of legitimate goods across boundaries. In June 2005, the World Customs Organization (WCO) adopted the SAFE Framework of Standards (SAFE FoS) with a view to securing and facilitating global trade through closer partnership between Customs administrations and between Customs and Business. One of the core elements under the SAFE FoS is to provide benefits to businesses that meet pre-determined supply chain security standards. In this regard, the SAFE FoS provides the instruments and guidelines for Customs to implement the Authorized Economic Operator (AEO) Programme.

1.2. This paper introduces the implementation of the AEO Programme in Hong Kong, China (HKC), and its ongoing efforts in facilitating and securing international trade.

2 HONG KONG AUTHORIZED ECONOMIC OPERATOR PROGRAMME

2.1. The Hong Kong Authorized Economic Operator (HKAEO) Programme, which is developed based on the SAFE FoS, was formally launched in April 2012. It is administered by the Customs and Excise Department (C&ED) under an open and voluntary certification regime.

2.2. The HKAEO Programme aims to enhance international supply chain security, foster Customs-to-Business partnership, facilitate movement of legitimate goods, and improve the competitiveness and marketability of HKAEOs in overseas market.

2.3. The HKAEO Programme is in full compliance with the SAFE FoS and also meets the requirements set out in Article 7.7 of the Agreement on Trade Facilitation (TFA) of the World Trade Organization (WTO).

Eligibility

2.4. All registered companies in HKC, who are involved in the international supply chain, such as manufacturers, importers, exporters, freight forwarders, warehouse operators, carriers, are eligible to apply for the HKAEO status. No accreditation fee will be charged.

Accreditation Process

2.5. The accreditation process involves the following four stages:

- (a) Application: Applicants are required to furnish information on their company background, business activities, organization and management structure, operation sites, supply chain

cargo flows, and operational procedures. They are also required to conduct a self-assessment on their capability of attaining the required security standards in relevant business processes before submitting the application.

C&ED will assign a designated Account Manager to follow up on each AEO application and assist the company in enhancing its internal controls and sharing the best practices in supply chain security.

- (b) Validation: The Account Manager will lead an Accreditation Team to assess the company's level of compliance with the pre-determined criteria. The assessment includes process reviews, document checks, personal interviews, and on-site validation to inspect the reliability and effectiveness of key security measures therein.
- (c) Approval: Each application and findings in the assessment will be examined by an Accreditation Panel for granting of the HKAE0 status.
- (d) Post-accreditation Management: The Account Manager will maintain ongoing communication with the accredited HKAE0 to foster a closer Customs-Business cooperation.

The HKAE0 Certification is valid for three years. HKAE0s are required to renew their certification before expiry. In the renewal exercise, the Account Manager and his/her team will revisit operation sites of the company and check if they are in continuous compliance with the criteria.

Accreditation Criteria

2.6. The HKAE0 Programme maintains a two-tier certification system. Both tiers are in full compliance with the security and safety requirements prescribed in the SAFE FoS. Companies can decide which tier of certification they wish to apply, taking into account their business models and operating environment. Companies will be accredited with either one of the tiers, subject to the level of compliance to the pre-determined criteria set out below:

	Tier-1	Tier-2
General Criteria		
• Customs Compliance	✓	✓
• Maintenance of Commercial Records	✓	✓
• Financial Soundness	✓	✓
Security & Safety Criteria		
• Premises Security & Access Control	✓	✓
• Personnel Security	✓	✓
• Cargo Security	✓	✓
• Conveyance Security	✓	✓
• Business Partner Security	✓	✓
• Security Education & Training	✓	✓
• Information Exchange, Access & Confidentiality	✓	✓
• Crisis Management & Incident Recovery		✓
• Measurement, Analysis & Improvement		✓

2.7. As shown in the above table, a Tier-2 certification requires the company to fulfil two additional criteria. While the benefits enjoyed by HKAE0s of both tiers are essentially the same, the company with a Tier-2 status will be able to strengthen its management processes on risk assessment, crisis management, and internal control through the accreditation process, thereby helping it to identify vulnerability in its business, get prepared for emergency situations, and keep improving its business operations.

Benefits

2.8. Through Customs-to-Business partnership, the HKAE0 Programme enhances both the efficiency of legitimate trade and the security of international supply chains. Companies which met the pre-determined criteria will be awarded the HKAE0 Certificate in recognition of their trusted partner status with C&ED. As of August 2018, there are 47 HKAE0s in HKC and 85% of which obtained a Tier-2 certification.

2.9. Being accredited as HKAE0 is a manifestation of outstanding performance of a company in upholding supply chain security. The accreditation qualification represents a reliable and trustworthy international brand, as an increasing number of customers see this as an important factor in choosing their business partners. More importantly, HKAE0s can enjoy the following benefits:

- (a) Reduced Customs inspection and examinations¹;
- (b) Prioritized Customs clearance and rapid release time;
- (c) Clearance of goods at designated AEO Priority Service Counters at entry points²;
- (d) Strengthened competitiveness and marketability;
- (e) Enhanced goodwill as a secure trader; and
- (f) Privileged benefits under Mutual Recognition Arrangement (MRA);

In addition to the following benefits enjoyed by all traders given HKC's free port status:

- (g) Low documentary and data requirements; and
- (h) Deferred payment of duties on dutiable commodities.

2.10. C&ED introduced a specially designed HKAE0 logo in January 2014. All HKAE0s are entitled to use the logo in their business, such as applying on companies' website, companies' vehicles, premises and business cards etc.

3 MUTUAL RECOGNITION ARRANGEMENT

3.1. The development of AEO programmes has become a global trend. Currently, over 70 Customs world-wide, including most of HKC's key trading partners, have launched their AEO programmes. Through MRAs, AEOs of one economy may enjoy Customs facilitation provided by the others. Such seamless movement of goods throughout the supply chain eventually benefits trade among all economies on the chain.

3.2. MRAs can also benefit the law enforcement agencies, in particular the Customs. First, the accreditation of AEOs provides an additional indicator for risk profiling. This improves the efficiency of Customs in the administration of goods and the ability in detecting high-risk consignments. Second, the MRA network facilitates Customs in communication and information exchange on boundary controls and cargo clearance matters, which strengthens cooperative ties between Customs administrations.

3.3. As of August 2018, HKC has concluded nine MRAs with China, India, Korea, Singapore, Thailand, Malaysia, Japan, Australia and New Zealand.

3.4. To enable foreign AEOs to enjoy Customs facilitation during their import clearance at HKC, C&ED has upgraded its cargo clearance systems by incorporating an automated matching function to identify foreign AEOs in the Customs clearance process automatically. This further enhances the Customs facilitation enjoyed by foreign AEOs.

¹ The inspection rate for AEO cargoes is generally reduced by 80% when comparing with that for non-AEO cargoes.

² C&ED set up designated "AEO Priority Service Counter" and "AEO Priority Parking Space" at various control points. Customs officers will give priority on handling the AEOs' consignments and this will shorten the time required for Customs clearance.

4 CHALLENGES AND SUCCESS CASE

Challenges

4.1. The challenge of an AEO programme rests on its design which needs to cater for different stakeholders in the economy. In this connection, a clear understanding of the composition of the economy and characteristics of different stakeholders therein is of vital importance to the success of AEO programme. For instance, SMEs in HKC account for over 98% of the business units, and the most of them are involved in the import/export trade and wholesale industries.

4.2. To meet these challenges, C&ED adopted the following strategies:

- (a) Pilot run: Prior to the full implementation of the HKAE0 Programme, a pilot run was conducted in 2010 to help C&ED to examine the feasibility of the programme design and collect feedback from the industry.
- (b) A tailored fit programme for the business environment: C&ED introduced a two-tier certification system in the HKAE0 Programme. Companies in particular SMEs may start with applying for the Tier-1 certification first by fulfilling the 10 security criteria, and joining the AEO programme at an early stage to enjoy the facilitation measures. Companies in larger scale and with more complicated operations may apply for Tier-2 certification directly to achieve the highest standard. This arrangement effectively attracts more companies including SMEs to join the HKAE0 Programme.
- (c) Education and promotion: C&ED has devoted multiple efforts in promoting AEO certification to eligible traders and providing advice and guidance to them in AEO application.
- (d) Capacity enhancement: Helping companies, in particular SMEs, to fulfil the required standards is crucial to the success of the HKAE0 Programme. C&ED designates Account Managers to assist companies in the AEO accreditation process. The Account Manager advises the company on enhancements to its internal control process in respect of its business model and operating environment and guide the company throughout the accreditation process.

Success Case

4.3. A local manufacturer of cooking sauces successfully obtained the Tier-1 certification in November 2017. The company was found in Hong Kong in 1938 and has been operating as a family business. According to the company, the accreditation process has enhanced its cargo security and supply chain processes. The widely recognised AEO status does not only help strengthen its competitiveness, but also its marketability overseas. The company is now enjoying a smooth and streamlined logistical process for its movement of goods along the supply chain, with reduced clearance time for its imports into HKC's MRA partner economies.

5 FUTURE DEVELOPMENT

5.1. The AEO programme under the SAFE FoS is an effective approach in implementing trade facilitation measures required in the TFA. It does not only facilitate legitimate trade but also benefit law enforcement agencies in risk management and operation efficiencies. HKC will continue to take steps to encourage more companies to join the HKAE0 Programme and develop MRAs with other Customs administrations with a view to providing HKAE0s with more clearance benefits at the international level and further expanding these trade facilitation benefits beyond Customs boundaries.

6 REFERENCE

6.1. More details on the HKAE0 Programme as well as its latest development can be found at the C&ED webpage: https://www.customs.gov.hk/en/trade_facilitation/aeo/index.html.
