

LOGISTICS, SECURITY AND COMPLIANCE: THE PART TO BE PLAYED BY AUTHORISED ECONOMIC OPERATORS (AEOs) AND DATA MANAGEMENT

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Abstract

Enhanced security, compliance and logistics management in both the private and public sectors (including Customs) is dependent on accurate, comprehensive data from trusted, compliant companies. Rather than building our international trade supply chain procedures on outdated paper-based systems and principles, developments in private sector technology and regulatory data requirements, such as the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT), United Nations electronic Trade Documents (UNeDocs), and the World Customs Organization (WCO) Data Sets, are steering us towards a Cross Border Data Reference Model that will drive a Master Document and an Internet-based seamless data pipeline. This requires a re-think of our traditional way of managing the customs business and takes the Framework of Standards and the Authorised Economic Operator (AEO) concept to new heights of private, public partnerships, thereby removing the need for extra layers of border management bureaucracy and replacing them with new and exciting models for integrated border management.

Security, facilitation and data

Total trade in the UK is growing: from 25% of GDP in 1970 to 60% in 2006 or £735 billion. Intra-EU trade represents just over half of this. UK trade will continue to grow at about 5% a year with port traffic increasing by weight by over 30% by 2030. This reflects the global increase in trade. The use of containers to handle higher value general cargo and other commodities continues to grow. Forecasts project world port container throughput growth of 505 to 611 million TEUs in 2015; 2.4 times 1999 throughput of 210 million TEUs.

About 95% of goods consumed or produced in the UK come and go by sea.

This increase in trade is applying pressure on all aspects of the international supply-chain and in particular, on three of the most important aspects — logistics, security and compliance. Accurate, efficient and coordinated data management using state-of-the-art technology is essential in meeting this challenge.

In the future government authorities, including customs administrations, will seek to obtain data in electronic format directly from the originator of the information. This will require the facility for data interchange between the Business-to-Business (B2B) component of the United Nations electronic Trade Documents (UNeDocs) data model and the World Customs Organization (WCO) Data Model. This data exchange will only be possible if the data structures and the information requirements of the Business-to-

Government (B2G) layer in the UNeDocs and the WCO Data Models are harmonised through a common reference data model. This will be a globalised requirement, setting globalised standards and procedures which will impact developed and developing countries alike.

This need for greater security and trade facilitation along with the demand for data from modern electronic businesses and commerce are driving the change from the outdated transactions and systems which have, for many years, been modelled on the presentation of hard-copy invoices, bills of lading, certificates, licences and manifests.

Framework of Standards and Authorised Economic Operators (AEOs)

In June 2002 the WCO recognised the need for both better security and better trade facilitation and formed a Joint Customs-Industry Task Force on Security and Facilitation. This, in turn, led to the High Level Strategic Group (HLSG) and ultimately, to the adoption of the WCO SAFE *Framework of Standards to Secure and Facilitate Global Trade* in June 2005.

The main objectives of the SAFE Framework are to secure and facilitate global trade through the establishment of cooperative arrangements between Customs, trade and other government agencies in order to promote the seamless movement of goods through secure international trade supply chains. Key elements of this will be the mutual recognition of controls and information which will allow a broader and more comprehensive view of the global supply chain and create the opportunity to eliminate duplication and multiple reporting requirements.

This encourages and makes it easier for buyers and sellers to move goods between countries. But companies, small and large, involved in international trade between the major trading zones have faced a steep increase in administrative burdens in recent years, with larger and larger volumes of information required to comply with import, export, transit and security and related regulatory requirements. Many of the requirements are duplicated for different governmental authorities and represent a waste of resources of both the individual states and the exporters.

In 2005 the WCO SAFE Framework of Standards and the Security Amendment to the European Community Customs Code both included the need to recognise legitimate, compliant businesses that will work in partnership with Customs within the international trade supply chain business. These companies are known as Authorised Economic Operators (AEOs) and in Europe, this system came into effect from 1 January 2008.

There are other AEO initiatives in various countries around the world and parallel programs such as Customs-Trade Partnership Against Terrorism (C-TPAT) in the United States and Partners in Protection in Canada.

An AEO is an economic operator who, by virtue of satisfying certain criteria, is considered to be reliable in their Customs-related operations. Consequently, AEOs are entitled to trade facilitation benefits such as:

- a lower risk score which will be incorporated into Customs' risk management systems and be used to determine the frequency of physical and documentary checks by Customs
- consignments may be fast-tracked through customs controls. Holding an AEO security and safety certificate does not mean consignments will not be subject to examination for prohibited or restricted goods or on behalf of other government agencies. However, if they are selected for examination, they will receive priority over non AEOs
- when the requirement to make pre-arrival/pre-departure summary declarations is introduced in the EC in July 2009, AEOs will be able to omit certain data elements from the declaration

- being allocated recognised status (across the EC)
- an industry ‘kite mark’ and useful marketing tool.

Depending on the type of AEO certificate applied for and authorised, these can include either easier access to certain customs simplifications or certain facilitations from customs security and safety controls, or both.

The aim is to provide business with an internationally recognised quality mark which will indicate that their role in the international supply chain is secure and their customs controls and procedures are efficient and compliant. An operator with AEO security and safety status implies that, apart from being reliable in the traditional financial and customs terms, the company is also compliant in respect of security and safety standards and can, therefore, be considered as a ‘secure’ trader and thus a reliable trading partner.

Like AEO, the C-TPAT is a joint US Government-business initiative designed to strengthen the overall supply chain and border security working through close cooperation with the ultimate owners of the supply chain — importers, carriers, brokers, warehouse operators and manufacturers.

Mutual assistance and recognition

While the AEO-type systems will enhance the Customs-to-Business relationship, the sharing of data between businesses and Customs at the global level and the sharing of risk management and information between customs administrations remains critical to decision making and meeting regulatory requirements. Mutual recognition of AEOs and customs systems requires international conventions and legal gateways, and the sharing of trade-based data requires confidentiality safeguards and assurances.

The Johannesburg Convention recognises the increased global concern for the security and facilitation of the international trade supply chain, and that offences against customs law are prejudicial to the security of the Contracting Parties and their economic, commercial, fiscal, social, public health and cultural interests.

Along with the 1977 Nairobi Convention on Mutual Administrative Assistance, the Johannesburg Convention also recognises that the international exchange of information is an essential component of effective risk management and that such exchange of information should be based on clear legal provisions.

The lack of coordination between customs administrations and between Customs and business has become a more prominent issue in recent years with the requirements for faster information delivery, in advance of shipping, for security and other purposes, and the expanding requirements of data standardisation in international supply chains. The ability to handle data efficiently and swiftly has become a key element in international competitiveness, especially in international supply chains.

The seamless data pipeline

Much work has been done to eliminate redundancies and duplication in the submission of data to government authorities. The ultimate outcome is a simplified process with a standard set of data and messages that traders will use to meet government requirements for the declaration and release of cargo, goods, means of transport and crew in international cross border transactions.

Hi-tech, secure, single data provision and management solutions offer the possibility of creating seamless, electronic processes between businesses, between trade and government, and also between the relevant governmental agencies. This facilitates submission of information for various purposes and ensures equity of treatment, harmonisation and transparency with greater predictability. Furthermore, electronic

processes must be considered more secure by both the economic operator and by government, since integrity and standardisation are then improved.

While the primary objective is the single submission of data, establishing a Single Window or a seamless, integrated data pipeline necessitates a major rationalisation of the current approach and requirements.

The goal is to encompass the entire trade transaction process for cross border trade, in particular the trade, transport, finance and the Business-to-Government (B2G) processes using, at least, UN/CEFACT, UNeDocs and the WCO Data Model.

The government sector has recognised the extent of the problem of increasing trade and diminishing public resources and skills. Diagnostic examinations have produced clear evidence of the need to radically change the way Customs conducts its business and much work still needs to be done to clarify the role of Customs in the 21st century.

The private sector however, driven extensively by competition, the need to cut overheads and the logical need for security and efficiencies, has been making considerable advances.

Process management software applications, for example, can provide real-time shipment visibility and security monitoring to ensure that containers and cargo have not been tampered with. Customers can monitor the actual movements of their assets and shipments, as read through the Radio Frequency Identification (RFID) network, against their previously planned movement. Alerts can be used to notify security, operational managers and Customs if there is a breach in security or a diversion from an approved route. By increasing monitoring and visibility of goods flowing through the supply chain, real-time sensor tags allow companies to maintain the financial and security integrity of the international trade supply chain. By also capturing and managing the data through a seamless, integrated data pipeline, both the data and the movement of the goods can be monitored, the risks assessed and the appropriate level of control exercised.

But the current situation is very different from the vision of better data management and better security from track and trace technology. Much of the information that is currently input into the regulatory cross border processes originates from the private sector stakeholders in the supply chain process. Even in today's supply chains, traders continue to re-enter this data in the formats required by the different regulatory bodies. This re-entering of data is highly inefficient and does not meet today's security requirements.

The trade has identified the need for faster information delivery, often in advance of shipping, for security and other purposes, and the need for data standardisation. In both the government and commercial sectors the ability to handle data quickly and efficiently improves international competitiveness and risk management, especially in international supply chains. International organisations and governments themselves have also recognised, in the main, that import and export regulatory and security requirements associated with the movement of goods, people and transport are best served through private and public, integrated border management services driven by information technology-based intelligence.

Conclusions

There is a need for an integrated and globally supported international data model to cover the exchange of data throughout the entire cross border process. The WCO Data Model will not be extended to cover all trade related non-government areas, and UNeDocs will not define the data requirements for Customs and other government agencies. Not having an integrated international data model for the entire cross border process causes major problems for international supply chain operators and administrators as they have to prepare multiple copies of information in different formats for different countries and for different processes.

The concept of a seamless, electronic integrated data pipeline, based on a total trade transaction model, would allow:

- the receipt of data about an impending transaction at the earliest possible time, or data testing on an ongoing basis
- the data relating to the shipment of a consignment to grow as the goods move along the supply chain and as carriers, circumstances and locations change
- agencies that have the legal right to receive and/or view the data to do so
- data inconsistencies and human re-keying errors to be reduced
- whole-of-government and international risk assessments to be undertaken
- the progress of the transaction to be fully monitored with a single point of response for the trader, resulting in faster release and clearance
- a transaction history to be maintained for reuse and statistical purposes
- the effort in dealing with government agencies to be reduced and in some cases, this reduction would be significant
- for the data from the consignor in the exporting country to be transmitted to the consignee in the importing country resulting in benefits to the trader, transport industry stakeholders and government agencies
- the movement (export) data to be used to pre-populate the (import) data and/or verify the import data. Inconsistencies would be identified and resolved earlier and standard data sets would be stabilised.

Implementation of an integrated data model for cross border trade will require strong support from governments and trade and promotion of the concept to key stakeholders. The WCO must take a leading role in the development of this model.

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