Who benefits most from AEO certification?
An Austrian perspective

Hans-Joachim Schramm

Abstract

In this paper, the Taxation and Customs Union Directorate-General (European Commission) (TAXUD) Authorised Economic Operator (AEO) Database was employed and supplemented with company data to develop a census of AEO certifications per company size (in terms of employees and revenue) and export/import quotas in the case of Austria 2008-2013 in order to determine who benefits most from AEO certification. Findings can be simply summarised as follows: the more export-orientated a sector is, the more AEO certifications are granted. More specifically, about 49% of all AEO certifications in Austria are granted to companies from the manufacturing industry, followed by about 29% to transport and logistics service providers and 18% to wholesale or retail companies. Others such as the primary sector, energy provision and service industries are negligible. Looking more closely at the Austrian AEO certified companies, most of them from the manufacturing industry can be classified as ‘SME’ in the European Union (EU) sense but are being heavily export-orientated at the same time and in need of an AEO certificate to smooth their export/import operations. Transport and logistics service providers do benefit from AEO certification, too, but are being pushed to apply for certification by their customers.

1. Introduction

Initiated by the World Customs Organization (WCO) as a part of the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework) of 2005 (WCO 2007; Ireland 2009), the voluntary Authorised Economic Operator (AEO) concept received worldwide adoption. By March 2014, 168 out of 179 WCO Members had signed letters of intent committing to implement the SAFE Framework and a total of 64 AEO programs were already operational or would soon be launched (WCO 2014).

One of these programs is the uniform concept of European Union (EU) AEO as one of the main elements of the Security Amendments to the Community Customs Code (CCC, Regulation EEC/2913/92) with Regulation EC/648/2005 of 12 April 2005. After a pilot study conducted in 2006 (Weerth 2007; Wolfgang & Natzel 2007; TAXUD 2012), the EU introduced AEO certification procedures for the 27 EU Member States at that time with Regulation EC/1875/2006 of 18 December 2006 amending the CCC Implementing Provisions (CCIP, Regulation EEC/2454/93). This part of the Security Amendments was then brought into force on 1 January 2008, and after six years, there are now about 12,000 certified AEO operators registered in 27 of 28 EU Member States who potentially benefit from customs simplification and security facilitation (TAXUD 2014).

Referring to empirical work about EU AEO and other comparable voluntary security initiatives worldwide, the constant flow of surveys about the US C-TPAT and/or Canadian PIP (La Londe 2002;
DAMF Consulting 2005; Sheu, Lee & Niehoff 2006; Peleg-Gillai, Bhat & Sept 2006; Diop, Hartman & Rexrode 2007; Haughton 2007; GAO 2008; Voss & Williams 2013; Melnyk, Ritchie & Calantone 2013), Latin American BASC Programme (Gutiérrez, Hintsa, Wieser & Hameri 2009), or Swiss AEO (Granqvist, Hintsa, Lazarescu & Rskolneko 2010) is remarkable. In the case of the EU AEO program only a few investigations are identifiable and many of them can be regarded as purely narrative (for example, Janowska-Bucka 2008; Burgemeestre, Hulstijn & Tan 2009; Houe & Guimaraes 2012; Biljan 2014) to anecdotal (for example, Lui, Tan & Hulstijn 2008; Jackson 2011). However, some recent empirical studies dealt at least partly with AEO implementation issues and were published in Germany (Materna et al. 2009, 2010), the Netherlands (den Butter & van Scheltinga 2008), Sweden (Uricuoli 2010; Uricuoli & Ekwall 2012) and by the EU (Lejeune, Tusveld, Aerts, Wagemans, Bogaerts & Buysing Damste 2013). In addition to this, Polner (2010, 2011, 2012) and Weerth (2011) commented on the progress of voluntary security programs like the EU AEO.

In principle, an EU AEO certification seems to be beneficial for all companies exporting and importing goods from/to the EU (Wolfgang & Natzel 2007; TAXUD 2012; Polner 2012). This paper relates to who really benefits the most from AEO certification, or more particularly, what are the main characteristics of companies with AEO certification in the case of Austria.

First, some background is provided about the AEO certification on the EU level and its implementation in Austria before results of an explorative data analysis of companies listed in the TAXUD AEO Database are presented and discussed. The paper closes with some concluding comments and further research implications.

2. Background

On the basis of Article 5a of the security amendments to the CCC, AEO status can be granted to any economic operator meeting the common criteria of (1) record of compliance with customs requirements, (2) satisfactory system of managing commercial and, where appropriate, transport records, which allows appropriate customs controls, (3) proven financial solvency and, (4) where relevant, appropriate security and safety standards (Wolffgang & Natzel 2007; TAXUD 2012; Polner 2012; WCO 2014).

AEO status is then granted in the form of a certificate as laid down in Article 14a (1) of the CCIP. According to the AEO Guidelines (TAXUD 2012) ‘the AEO status shall be recognised across all Member States, pursuant to Article 5a of the CCC, therefore, the holder of an AEO certificate shall receive the same benefits in all Member States’. The benefits are also summarised in the AEO Guidelines:

- easier admittance to customs simplification
- prior notification
- reduced data set for entry and exit summary declarations
- fewer physical and document-based controls
- priority treatment of consignments if selected for control
- choice of the place of controls
- indirect benefits such as more transparency and visibility of the supply chain
- recognised as a secure and safe business partner
- improved relations with customs authorities
- improved relations and acknowledgment by other government authorities.

In Austria, the application procedure for AEO certification is then outlined in the working practice guideline ZK-0051 (BMF 2013), which also specifies in more detail the abovementioned benefits for companies with AEO status based on the AEO Guidelines.
In addition to these directly granted trade facilitation benefits, AEO certification also offers economic advantages, which may be due to reduced costs and streamlined processes in daily export/import operations. In addition, AEO status can give a competitive advantage over non-certified competitors: whenever there is a need to select between different suppliers or service providers, AEO certified companies might prefer an already AEO certified partner, as Customs regard them as a lower risk if all members of their supply chain have AEO status. This is especially true when we think about mutual recognition of AEO status like the US-American C-TPAT program (Aigner 2010; Szelp 2010).

3. Data sampling and results on the EU-level

The TAXUD AEO Database (TAXUD 2014) was the starting point for further inquiry. It contains a list of those AEOs who agreed to disclose their name, along with their certificate type, issuing country, competent customs authority and effective date they received their AEO status. By the end of 2013 a total of 11,957 AEO holders from 27 EU Member States were recorded in the TAXUD AEO Database with 5,342 or 44.9% of them being registered in Germany (see Tables 1 and 2). Furthermore, the large number of AEO certificates issued in 2011 is remarkable. This came about with the introduction of some real benefits for AEO holders in the EU in January 2011, for example, electronic entry summary declaration, allowance of reduced data requirements, etc. (Weerth 2011). In 2012 and 2013, less AEO certificates were issued than in 2011 which indicates that the first run for AEO certifications is over.

Concerning the type of AEO certification, at the end of 2013 there were 6,200 (51.9%) companies with AEO-F status (that is, full or customs, security and safety) and 5,358 (44.8%) with AEO-C status (that is, customs only) in the EU (see Table 1). This is pretty much in line with the trend Weerth (2011) already commented on: the status of AEO-C is gaining importance as it is somehow an ‘AEO light’ for companies which are mainly interested in simplified procedures within the EU customs system (see Table 2).

Table 1: AEO holders in EU27 end of 2013 by year of receiving their AEO status

<table>
<thead>
<tr>
<th>EU27</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holder of AEO-C</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Year)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Holder of AEO-S</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Year)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Holder of AEO-F</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Year)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Ranking of AEO holders in EU27 in 2010 (Weerth 2011) and 2013 (TAXUD 2014).
4. The Austrian perspective

In Austria, more AEO-F and less AEO-C holders registered compared with the EU27 on average with 85 (34.1%) AEO-C and 163 (65.5%) AEO-F certifications by the end of 2013 (see Table 3). Regarding spatial distribution of AEO certificates by AEO Competent Customs Authorities (with their range of operations being almost identical with the Federal States of Austria), 57 (22.9%) of these 249 AEO certificates were issued at Salzburg, 48 (19.3%) at Vienna and 41 (16.5%) at Lower Austria. This reflects spatial distribution of the Austrian economy pretty well, especially when we look at manufacturing, transport and logistics company activities.

For each Austrian AEO holder listed in the TAXUD AEO Database at the end of 2013, company-specific data like main field(s) of business activity, annual turnover, number of employees, export and import quota were examined. To get this information, company websites as well as company information databases of the Bureau van Dijk, Dun and Bradstreet, and Creditreform were retrieved and compared in order to obtain the most recent figures available. This approach of taking more than one source into consideration was necessary as 53% of these Austrian AEO holders in the sample have less than 249 employees and 37% have an annual turnover of less than 50 million Euro. Therefore, a lot of them fall in the range of EU small to medium-sized company definition according to Commission Recommendation 2003/361/EC of 20 May 2003, and these sorts of companies are often very cautious not to release too much information about their business. In addition, many are not autonomous companies, that is, they are local subsidiaries of much larger corporate groups headquartered in Austria or somewhere else with very specific fields of activity like procurement and import of raw material, cars and spare parts, etc., or they simply represent the management part of a larger holding company.

Table 3: Austrian AEO holders as at end of 2013 by year of receiving their AEO status

<table>
<thead>
<tr>
<th>AT</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holder of AEO-C</td>
<td>6 (16.7)</td>
<td>17 (19.5)</td>
<td>31 (23.1)</td>
<td>58 (31.2)</td>
<td>80 (34.0)</td>
<td>85 (34.1)</td>
</tr>
<tr>
<td>Holder of AEO-S</td>
<td>0 (0.0)</td>
<td>0 (0.0)</td>
<td>1 (0.7)</td>
<td>1 (0.5)</td>
<td>1 (0.4)</td>
<td>1 (0.4)</td>
</tr>
<tr>
<td>Holder of AEO-F</td>
<td>30 (83.3)</td>
<td>70 (80.5)</td>
<td>102 (76.1)</td>
<td>127 (68.3)</td>
<td>154 (65.5)</td>
<td>163 (65.5)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>36</td>
<td>87</td>
<td>134</td>
<td>186</td>
<td>235</td>
<td>249</td>
</tr>
</tbody>
</table>

Table 4 shows results per AEO-holders’ main field(s) of business activity according to ÖNACE 2008 (Statistics Austria 2010), grouped into industries/sectors of (1) commodity (mainly gas and oil), (2) manufacturing, (3) wholesale/retail (4) transport/logistics and (5) service industry. Furthermore, for better comparison, averages per field of business activity were drawn from Statistics Austria (2014) with the latest figures of turnover and number of employees as of 2011.

First, it is obvious that in Austria the status of AEO-F is more appreciated than AEO-C (especially in the manufacturing as well as the transport and logistics sector) and the importance of AEO-S is almost negligible. Furthermore, the wholesale/retail sector shows a balanced use of AEO-C and AEO-F certifications on average, which may stem from the fact that this sector is much more nationally orientated than the others.

When comparing the date an AEO certification was granted, companies from the commodity sector, wholesalers and retailers seem to be laggards. A closer look at the AEO population development shows that early birds of AEO certification in 2008 were in fact mainly manufacturing companies or transport and logistics service providers that applied for an AEO-F status.
### Table 4: Company characteristics of Austrian AEO-holders (as at end 2013)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Manufacturing</th>
<th>Wholesale/ Retail</th>
<th>Transport/ Logistics</th>
<th>Service Industry</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEO since (on average)</td>
<td>Q2 2011</td>
<td>Q4 2010</td>
<td>Q2 2011</td>
<td>Q3 2010</td>
<td>Q2 2010</td>
</tr>
<tr>
<td>Holder of AEO-C</td>
<td>6</td>
<td>31</td>
<td>22</td>
<td>23</td>
<td>0</td>
</tr>
<tr>
<td>Holder of AEO-S</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Holder of AEO-F</td>
<td>2</td>
<td>87</td>
<td>22</td>
<td>43</td>
<td>6</td>
</tr>
<tr>
<td>TOTAL AEO-holders</td>
<td>8</td>
<td>118</td>
<td>44</td>
<td>67*</td>
<td>6</td>
</tr>
<tr>
<td>Average turnover (in Tsd. €)</td>
<td>2,688,080 (224,196)</td>
<td>402,816 (37,188)</td>
<td>128,944 (11,903)</td>
<td>146,901 (9,612)</td>
<td>188,869 (1,624)</td>
</tr>
<tr>
<td>Average Employees</td>
<td>402 (175)</td>
<td>957 (71)</td>
<td>235 (11)</td>
<td>262 (22)</td>
<td>398 (4)</td>
</tr>
<tr>
<td>Turnover/ Employee (in Tsd. €)</td>
<td>12,867 (2,497)</td>
<td>463 (459)</td>
<td>1,611 (807)</td>
<td>343 (383)</td>
<td>480 (360)</td>
</tr>
<tr>
<td>Average Import Quota</td>
<td>50</td>
<td>26</td>
<td>57</td>
<td>-</td>
<td>51</td>
</tr>
<tr>
<td>Average Export Quota</td>
<td>61</td>
<td>81</td>
<td>52</td>
<td>-</td>
<td>29</td>
</tr>
</tbody>
</table>

* For five customs house brokers no reliable data was available, one manufacturer was listed twice.

Furthermore, throughout all industries/sectors in Table 3, AEO-holders are larger companies than on average, both in terms of annual turnover and average number of employees. But the dataset contains some wholesale, retail and commodity sector companies where annual turnover is abnormal high with only a few employees. This is a strong indication that these companies are either working in a very focused, specialised business or they simply represent the management part of a holding company.

Last but not least, AEO-holders in the Austrian manufacturing industry are very export-orientated with wholesale, retail and commodity sector companies showing, on average, more balanced foreign trade.

### 5. Conclusions

In general, it can be said that obtaining an EU AEO certificate is beneficial for every company; at least, it does not provide any drawbacks. However, some benefit more from it than others.

First, the more export-orientated an industry sector is, the more AEO certifications are issued. In the case of Austria, many AEO-holders come from the manufacturing industry as their business is very often heavily export-orientated. At least some benefits that come with AEO status make their export business easier to manage.

Second, a tight link between the manufacturing and the transport and logistics sectors is obvious: transport and logistics service providers like freight forwarding companies usually organise and/or perform transport and logistics services for the manufacturing industry on national and international levels (Schramm 2012). Thus, they are quite often pushed by their clients to apply for an AEO status or else lose them as clients.
The third big contributors in the population of AEO-holders are wholesalers and retailers, although this sector is somehow under-represented. But this in turn indicates that in this sector, export/import operations are not so important on average, but size matters: there are quite a few larger companies engaged in international sourcing and/or distribution operations which really benefit from AEO certification.

This piece of work represents explorative research but is leading to promising results. A logical next step will be a more detailed questionnaire-based survey among these AEO-holders identified in Austria. Moreover, other EU Member States could be treated the same way, given the sample is sufficiently large.

References


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**Notes**

1 This paper was presented at the Inaugural INCU Global Conference, 21-23 May 2014, Baku, Republic of Azerbaijan.

2 Notably these figures presented in the paper deviate slightly from those published in, for example, Weerth (2011), Frühwirt (2012) or Lejeune et al. (2013) as the TAXUD AEO Database always shows only active AEO certifications but not changes or withdrawals, revocations and suspensions thereof since their first issuance (Gellert 2011). Moreover, AEO applications may have been filed but not published or have been accepted but not yet issued (Weerth 2011).


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