AUTHORISED ECONOMIC OPERATOR (AEO) PROGRAMS: IBM'S PERSPECTIVE

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Abstract

Globalisation is placing new demands on today's corporate leaders. As organisations continue to expand and operate in a global economy, companies face an increasingly dynamic environment prone to risk. IBM believes that the continued threat of global terrorism requires companies to secure assets as they move through the supply chain, and that the cooperative approach among those involved in the supply chain as contemplated by Authorised Economic Operator (AEO) programs is the right approach for strengthening overall supply chain security. Corporations can demonstrate their leadership by investing in security that protects their supply chain while providing a competitive advantage.

IBM's perspective

Being a large, globally integrated enterprise that conducts business in 170 countries around the world doesn't come without a certain level of risk. To reduce and potentially eliminate this risk, and recognising the value and importance of government and industry partnerships, it has been IBM's strategy from the very beginning to partner with academia and governments to solve this common problem collaboratively. Within IBM, supply chain security is not just viewed as a cost of doing business, it is a competitive differentiator. Companies that understand this will lead in this new 'flat' global business environment. For companies to succeed they need to be resilient and agile, to mitigate risks and to understand and plan for a broader set of possible supply chain disruptions or risk losing customers that have more options today than ever before. IBM's participation in supply chain security programs is part of the company's holistic approach to mitigating risk and maintaining a globally integrated supply chain.

Many acknowledge the critical role that industry plays in securing individual supply chains. IBM encourages industry to take its supply chain security game to the next level by playing an active role in shaping security and trade facilitation initiatives worldwide. Industry leaders have a unique perspective and experience that can be leveraged by governments to achieve desired security goals without imposing onerous mandates that stifle competitiveness. Both security and trade facilitation can be achieved through mutually beneficial government/industry partnerships – partnerships that deliver meaningful, measurable business benefits to both parties.

Within IBM, *supply chain security* is defined as protecting products, facilities, equipment, information, and personnel from theft, damage, or terrorism, and preventing the introduction into the supply chain of unauthorised people, contraband, or weapons of mass destruction or effect. Such weapons, for example, are capable of inflicting grave destructive, psychological and/or economic damage, and include chemical, biological, nuclear, radiological, or explosive weapons.

IBM's definition of *trade facilitation* is the enhancement of supply chain efficiency and predictability by reducing supply chain costs related to customs clearance time, inspections, and inefficient or country-unique customs processes. Supply chain security and trade facilitation are not viewed by IBM as mutually exclusive – indeed, we believe that trade facilitation should be one of many benefits bestowed upon companies that have demonstrated good supply chain security.

Industry outreach: A little help from our friends

From the outset, customs officials envisioned supply chain security partnership programs that begin at the point of origin of the goods – well beyond the limits of their regulatory reach. Collaboration, at the corporate level, was a necessity. Unlike governments, companies *could* require their suppliers and business partners to meet security requirements globally. To accomplish their goal, Customs partnered with industry to create voluntary supply chain security programs that provide benefits to both the government and trade participants.

In June 2005, the World Customs Organization (WCO) enhanced global security by unanimously adopting the Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework), a global strategy for safeguarding supply chains and facilitating trade. The SAFE Framework seeks to reduce complexity and country-unique requirements by establishing a common set of supply chain security and customs standards. The SAFE Framework incorporates the concept of the Authorised Economic Operator (AEO), that is, parties involved in international trade (for example, importers, exporters, carriers, manufacturers, warehouse keepers, freight forwarders) that have implemented required security measures and 'Best Practices'. AEOs receive benefits such as reduced risk-targeting assessments and inspections, and expedited processing of their goods by Customs in return for their security investments. In June 2006, the WCO adopted the international guidelines for Authorised Economic Operator (AEO) status. Over 140 WCO members have indicated their intention to implement the SAFE Framework. Under the Columbus Programme, the WCO has completed over 100 capacity-building diagnostic missions to determine the needs of the local customs organisation in order to implement the SAFE Framework. It has also provided an opportunity for Customs and industry representatives in some countries to share their supply chain security and trade facilitation goals and concerns in a non-confrontational arena.

IBM and other global corporations have publicly advocated international supply chain security programs that implement a common, global set of supply chain security measures via voluntary programs. Establishing common requirements across numerous countries represents a significant efficiency opportunity that is a key benefit to global corporations. Common requirements also facilitate mutual recognition of supply chain security programs – another key benefit to participants and Customs alike.

IBM's AEO pilot program experiences: Let's talk!

Security has always been an area of major focus within IBM and the company has undertaken numerous initiatives to strengthen its supply chain and those of its suppliers – none more important than working with governments and customs organisations worldwide to develop and implement new security programs. IBM was one of the first companies to participate in the US Customs-Trade Partnership Against Terrorism (C-TPAT) program and the Canada Border Services Agency (CBSA) Partners in Protection (PIP) initiative.

IBM's AEO experience has taught us four things. First, the threat of terrorism is a global threat. Terrorists are seeking economic targets like corporations, putting all business at risk – large and small. Second, supply chain security is end-to-end. It's a partnership. Everyone stands to gain and everyone stands to lose. Any gaps or deficiencies will affect all of us, not just some of us. Every hand off needs to be secure throughout the supply chain – not just the last hand off. Supply chain security isn't only for large global companies. Companies of all sizes must step up.

Third, security investments represent a competitive advantage. Recent research completed by Massachusetts Institute of Technology (MIT) and Stanford University indicates that innovative leaders in supply chain security have received key benefits from their security investments, including increased efficiency, improved asset visibility, enhanced supply chain resiliency, and better inventory management and customer relations. Fourth, a lot of supply chain security work is under way globally at the WCO and within many customs organisations. IBM strongly encourages companies to participate in AEO programs and partner with Customs and industry to help secure the global supply chain upon which we all depend.

Earlier this year, IBM participated in pilot AEO programs in Singapore and Australia that were based on the WCO SAFE Framework and AEO Guidelines. Customs in both countries embraced the opportunity to *engage* industry in planning the implementation of their AEO programs versus *delivering* AEO programs developed without input from the trade. Focus group meetings were held with national and multinational companies of all sizes and from many industries – sessions in which companies could share questions, concerns, and AEO experiences with each other as well as with Customs. Any proposed country-unique requirements were discussed and ultimately, revised to be consistent with the SAFE Framework or categorised as a 'Best Practice'. Eliminating country-unique AEO requirements is key to industry, as these requirements drive 'one-off' procedures that add complexity and implementation costs, and potentially endanger mutual recognition by other countries.

Currently, member countries of the European Union (EU) are establishing their AEO programs consistent with the recent European Commission AEO regulations. Innovative companies that recognise the benefits of early program participation are now meeting with customs authorities and preparing their EU AEO applications.

Getting ready for AEO: IBM's Lessons Learned

IBM strives to learn and apply our 'Lessons Learned' as we prepare for new AEO programs. Comparing our AEO experiences with those of other companies leads us to appreciate the executive support IBM's supply chain security has received. The best efforts to implement global supply chain security measures will be challenging, at best, if executive team support is lacking. Completing partnership applications and security profiles requires internal collaboration of multiple internal stakeholders, detailed review of procedures and practices, and true collaboration with supply chain partners. Knowing your executive team is backing your efforts is critical to your success.

Continual awareness education, process review and improvement are key to avoid complacency and to assure that new threats can be properly mitigated. Internal controls or processes that were a 'Best Practice' three years ago may be considered a supply chain security standard by Customs today. AEOs must be able to demonstrate proof of process execution – both within their enterprise and by their trading partners.

IBM's AEO validation meetings have been a two-way learning experience. Both Customs and IBM have openly discussed vexing issues and shared industry 'Best Practices'. The voluntary nature of AEO partnerships promotes stronger relationships and open communication and enables the flexibility needed to adapt programs quickly.

AEO benefits for Industry and Customs

Like IBM, many companies have implemented security measures to prevent theft, deter illegal access to facilities, or protect intellectual capital. However, as companies evolve from traditional asset protection to end-to-end supply chain security, additional security investments are likely to be required. Regardless of size, companies have limited resources and many AEOs want their benefits to be commensurate with their level of investment. The ability to demonstrate collateral (indirect) or direct benefits to your executives will justify past expenditures and will facilitate future security investment requests – a challenge in an area where 'nothing happened' justifies further investment.

Customs acknowledges the need to provide business benefits to AEOs who have made supply chain security investments and some research is under way. IBM commissioned white papers from the Massachusetts Institute of Technology (MIT) and Stanford University to capture and quantify the business benefits companies have realised from their supply chain security investments. These studies provided some important insight regarding both collateral (indirect) and direct benefits that resulted from security

investments, but IBM strongly encourages Customs organisations to regularly report quantified benefits to AEO participants. Quantified benefits from an external source can be an invaluable confirmation of investment pay-back.

AEO benefits with the highest significance to IBM include its basis on common, global standards, the voluntary nature of AEO programs, and its collaborative partnership where both parties make investments and receive business benefits relative to those investments. Adoption of common AEO requirements by Customs prevents conflicting requirements and unnecessary inefficiencies in a global supply chain. The voluntary status of AEO programs is crucial to maintain the ability to implement security measures based upon risk assessments versus rigid regulatory requirements. AEO participants employ diverse business models throughout their global supply chains, and programs need to recognise that 'one size does not fit all' environments. Voluntary programs encourage collaboration with Customs and allow for flexibility of security policies and procedures that would not be possible under a regulated program.

In exchange for industry investments that improve the security of shipments, Customs organisations in many countries have agreed to provide prioritised cargo processing and release, reduced cargo inspections and 'head of the line' priority use of non-intrusive inspection techniques when examination is required. Such measures will decrease cycle time, increase supply chain predictability and potentially lower storage expenses while facilitating on-time deliveries and customer satisfaction.

In some countries, Customs may provide access to the name and contact information of other AEO participant companies (with their prior consent) that will facilitate verifying program participation by trading partners. AEO program participation is a key selection criterion for many companies when selecting new or assessing current suppliers. Customs may also offer AEO participants first consideration when new cargo processing or trade facilitation programs (for example, Accredited Client Programs) are announced, thus acknowledging company internal controls while focusing customs' resources on less known entities.

Consideration of a company's AEO status when threat levels are elevated or prioritisation of an AEO's exports when business is resumed at ports following an incident provides a competitive advantage and enhances business continuity. For companies whose shipments are rarely inspected, business resumption benefits represent valuable incentives for AEO participation.

Finally, AEO programs established under the SAFE Framework provide mutual recognition – where Customs in one country 'recognises' and provides benefits based upon a company's AEO status in another country. Common requirements and mutual recognition are important concepts for a global economy, as they drive supply chain efficiencies and reduce administrative burdens for companies that do business in many countries. For Customs organisations, uniform criteria and consistent risk management guidelines facilitate mutual recognition and eliminate the need to conduct onsite validations in every country in which the AEO applicant conducts business.

Next steps: What you can do

Industry needs to take the lead in shaping the future direction of supply chain security. It's our supply chains that will be affected in the event of a terrorist act and it's our supply chains that will be slowed by inefficient, onerous government mandates. Industry leaders need to actively collaborate with governments to balance supply chain security and trade facilitation by implementing common, global security and customs declaration data requirements, and by encouraging their trading partners to participate in AEO programs that provide business benefits.

Governments need to realise that AEO programs represent an opportunity to form valuable partnerships with industry. Governments can accelerate the implementation of the SAFE Framework by establishing joint government-industry consultation groups that can help drive AEO program participation. Customs

should start AEO pilot programs with major trading countries and openly collaborate with your trusted industry partners.

In today's global economy, companies locate their operations based on the right cost, the right skills, and the right business environment. Countries that develop secure, efficient cross-border processes that allow businesses to reduce costs will thrive.

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