

Session 2: Transitioning to a Fully Operational AEO Program, Authorization Process and Validator Tips

National Workshop on the Enhancement and Sustainability of the Authorized Economic Operators (AEO) Program in CAREC

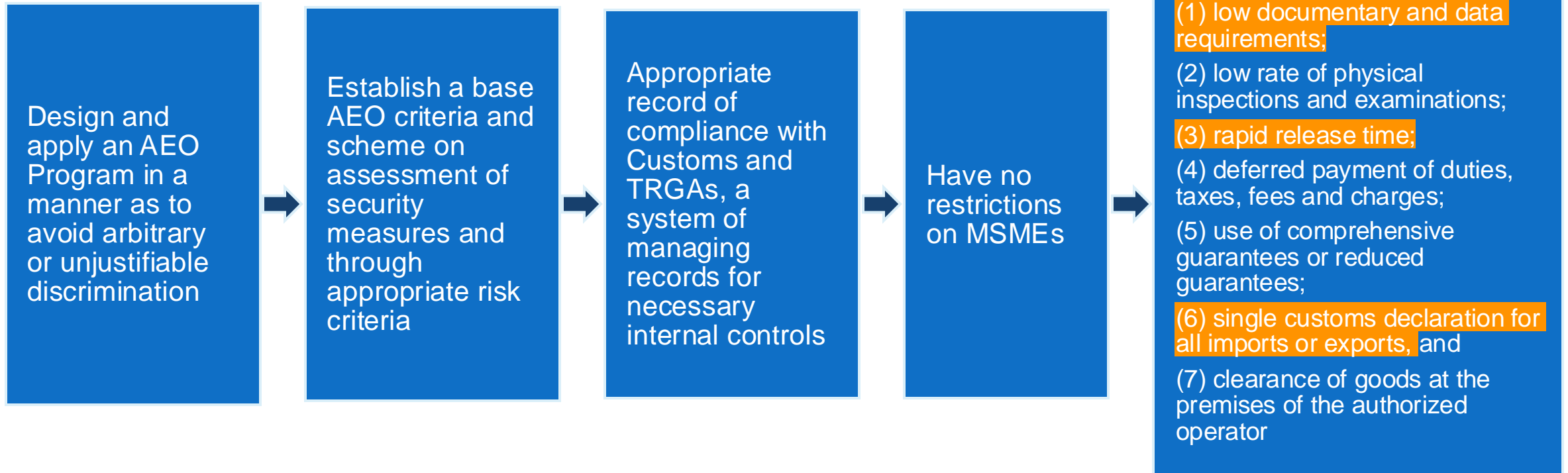
13-14 August 2024, Astana, Kazakhstan

AEO Program Design Principles

| | |
|--|---|
| Mandate from the Top | Obtain support from the highest levels of the Customs administration |
| Compliance with International Standards | Ensure commitment to international standards |
| Professionalism, Integrity and Strategic Direction | Ensure commitment to professionalism, integrity, and continuous training of key staff |
| Customs-Business Partnership | Strengthen Customs-to-Business partnership |
| Customs-Partner Government Agencies Partnership | Strengthen coordination between Customs and partner government agencies (PGAs) |

Compliance with International Standards

WCO Sets Out Obligations to AEO Program



Professionalism, Integrity and Strategic Direction

| PREVIOUS MINDSET | EMERGING MINDSET |
|--|---|
| Private sector = adversary | Private sector = strategic partner + force multiplier |
| Focus on control | Balance between facilitation and control |
| Physical inspection by default | Intervention by exception |
| Focus on goods | Focus on data |
| Limited pre-arrival processing | Decisions before arrival of goods and post-clearance controls |
| Focus on identifying non-compliance and punishment | Focus on incentivizing compliance |
| Individual approach to security | Collaborative approach to security |

Customs – Business Partnership

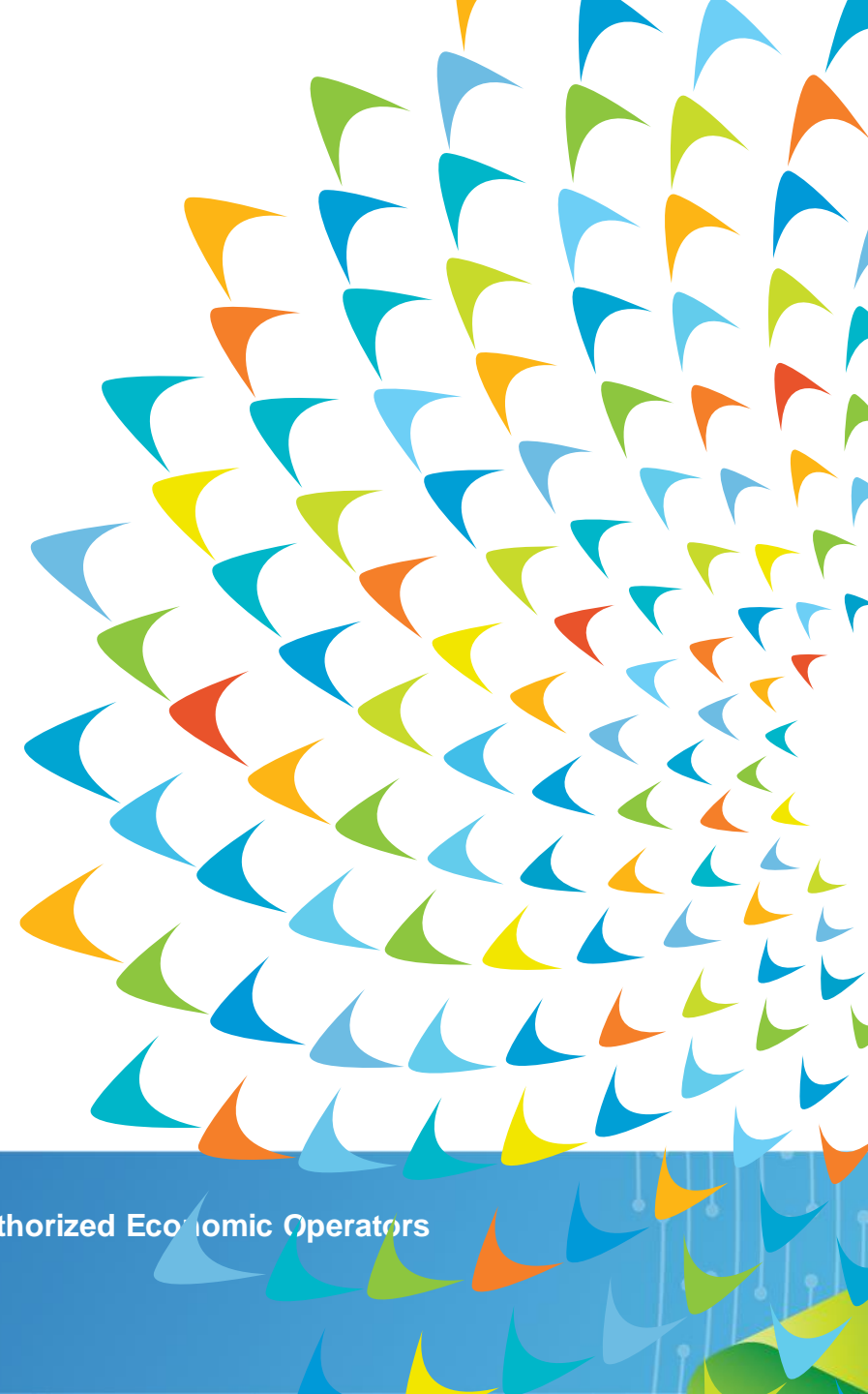
| STANDARDS | DESCRIPTION |
|---------------|--|
| Partnership | AEOs will engage in a self-assessment process, measured against pre-determined security standards and best practices. |
| Security | AEOs will incorporate pre-determined security best practices into existing business practices |
| Authorization | Customs, together with representatives from the trading community, will design validation processes or quality accreditation procedures that offer incentives to businesses through their status as AEOs |
| Technology | All parties will use modern technology to maintain cargo and container integrity |
| Communication | Customs administrations will regularly update Customs-to-Business partnerships to promote minimum security standards and supply chain security best practices |
| Facilitation | Customs administrations will work cooperatively with AEOs to maximize security and facilitate the international trade supply chains originating in or moving through their Customs territory |

Customs – Partner Government Agency Partnership

| STANDARDS | DESCRIPTION |
|-------------------------------|--|
| Partnership | Under the SAFE Framework, Importance of cooperation between Customs and other government and inter-government agencies involved in international trade and supply chain security has increased |
| Coordinated Border Management | Cooperation across various agencies, especially coordinated border management, is essential at the national level. |
| Single Window Platform | Cooperation across various agencies in utilizing the single window provides interoperability and dynamic business rules for inter-agency data sharing and support risk targeting and profiling activities |
| Effective Cooperation | Given the nature of the global supply chain, particularly with respect to how AEOs function, such effective cooperation needs to be promoted both bilaterally and multilaterally between and among organizations |



AEO Organizational Design



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Strategic Policy and MRA Policy

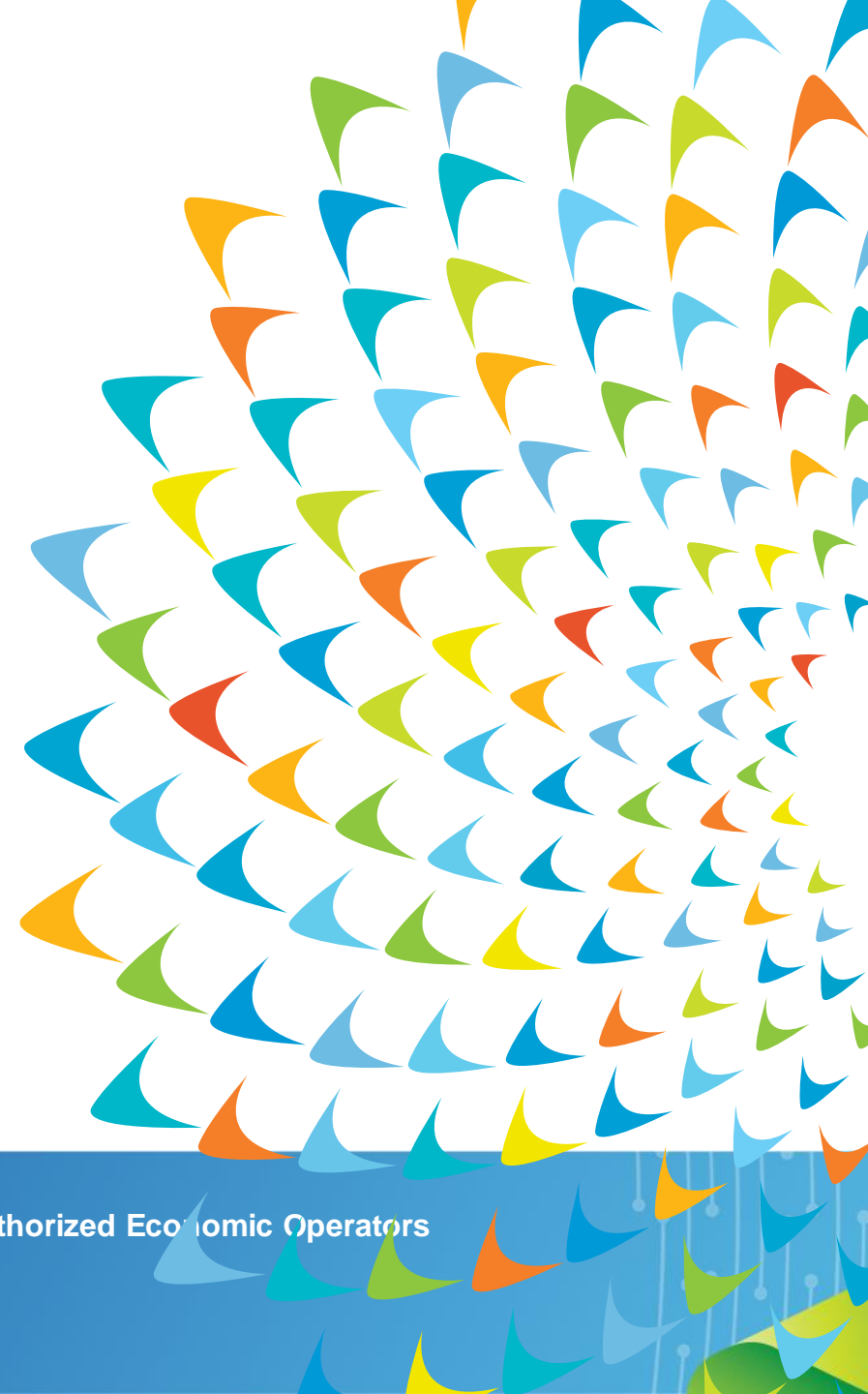
| RESPONSIBILITIES | POTENTIAL POSITION |
|---|--|
| AEO program policy development - change in objectives, outcomes, organization | Manager for AEO Strategic Policy Supervisor for AEO Strategic Policy Senior Officer for AEO Strategic Policy IT Technical Staff Administrative Staff |
| Strategic Risk Management | |
| Strategic policy-border and supply chain regulatory framework and overall compliance model | |
| MRA negotiation and management | Manager for MRA Supervisor for MRA Senior Officer for MRA IT Technical Staff / Administrative Staff |

AEO Program Operational Support

| RESPONSIBILITIES | POTENTIAL POSITION |
|---|---|
| Learning and development | Manager for Operational Support (AEO) Operations Support Officer AEO Manager Accounts Manager Validator IT Technical Staff Administrative Staff |
| Recruitment, retention, succession planning and management of the program | |
| Executive briefings, evaluation, reporting and audit | |
| Program process improvement, documentation and governance in consultation with the field offices | |
| Operational risk management | |
| Accreditation process and account management | |



Piloting the AEO Program



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Piloting the AEO Program

| | |
|-------------------------------------|---|
| Test and Refine | Test and refine the systems, processes, procedures, and documentation supporting the AEO program |
| Engage the Pilot Partner Businesses | The AEO team identifies the importers, exporters and logistics actors with the most import and/or export declarations (volume), the highest Customs value, and revenue contribution |
| Test the Benefits | Test operationally the benefits delivered under the AEO program |
| Perform MRA base work | Perform base work for the establishment of an MRA with a priority trading partner country |
| Test the IT System | Determine whether the IT system can support the risk management component of the program |

Preconditions in selecting Pilot Companies

Start with a **small number** of pilot companies

Consult and inform pilot companies of the content of the draft AEO program (eligibility criteria, benefits, validation process) and invite their voluntary participation in the pilot

Assign a contact officer to each pilot company for advice and assistance during the certification process

Provide necessary training on the AEO program to the managers and staff of the pilot companies

Limit the pilot period of testing to a defined time frame

Document all stages of the certification process with clear objectives, milestones, and performance indicators

Evaluate the pilot results properly, which means involving internal and external pilot participants

Deliver a detailed report at the end of the pilot phase to Customs management and involved stakeholders

Maturity of the AEO Program



Once the AEO program has become fully operational, the execution of all activities is generally the responsibility of the regional offices



AEO policy and final decision making remain the responsibility of Customs executive management, with supporting departments maintaining responsibility for the sustainability of the program components



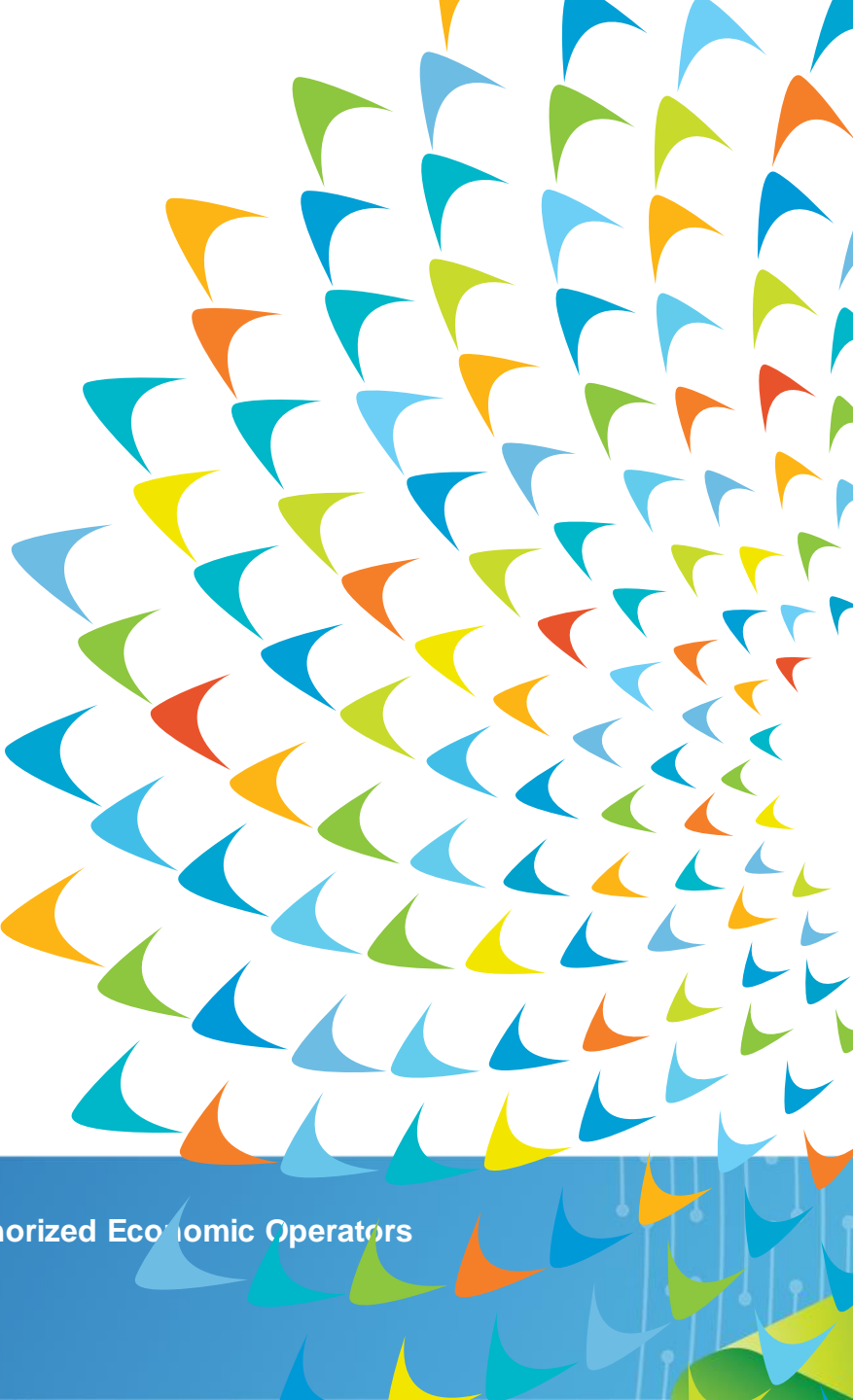
A structured quality monitoring and measurement system should be put in place to ensure the progress and expected outcome (quantity and quality) of the AEO processes



In case of any deviation, a procedure is needed for analyzing and improving the processes.



AEO Authorization Process



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AEO Certification Process

Application Process

Applicants for an AEO authorization must complete an application and security profile to join the AEO program. The application process requires transparent procedures for review and approval.

Validation Process

After Customs accepts the application, the validation process starts. The intent of the validation is to form an opinion on whether the AEO applicant meets the program criteria and Customs compliance.

Authorization Process

When the decision has been made by the Customs AEO team to provide AEO status to a business, a certificate is issued.

Nine Steps in the Validation Process

1. Validation Planning

The validation planning covers the choice and order of validation procedures, the sites to be visited, interviews to be held, the time frame and dates, and required resources

2. Information Gathering

Conducting interviews can be very time consuming. Thus, many Customs administrations make use of a Self-Assessment Questionnaire.

3. Understanding the Business Systems

A systems-based approach to an AEO validation requires the validator to identify enough information about relevant business and security systems and processes to be able to test the business's internal control and monitoring systems.

4. Initial Interview

The initial interview should be conducted with the business's management staff. It is important to meet representatives who are involved with relevant Customs and security processes

5. Risk Assessment

When the validator understands a business and the objectives are clear, the validator can determine whether potential risks are relevant for that specific individual business

Nine Steps in the Validation Process

6. Conduct the Validation

Identify and analyze the appropriateness and effectiveness of the trader's internal controls that are relevant to ensuring compliance with Customs and supply chain security

7. Response to Residual Risk

After all relevant risks are assessed, including the business's internal control measures to reduce and control these risks, there may be some risks that are not (sufficiently) covered.

8. Reporting

When the validation is complete, a report is prepared highlighting matters of significance and presenting the validator's conclusions on the risks that have been identified and tested

9. Control Plan

The control plan addresses how the detected risks should be monitored over time. It describes and plans how Customs will monitor the business and respond to the risks identified

AEO Certification Documentation

A letter or agreement between Customs and the operator detailing any necessary improvement actions or mutually agreed obligations (where appropriate) is separately made and signed.

The certificate is officially handed over to the authorized operator.

The AEO status is confirmed to the trader and entered in the AEO management system.

The control plan, made by the validator or with the validator's advice, is finalized.

Post Certification

| Sub-Processes | Description |
|------------------|--|
| Managing the AEO | It is crucial for the success of an AEO program that the Customs account manager is well informed about the history, current situation, and actual developments and events affecting the international supply chain of the AEO |
| Monitoring | After certification of an AEO, the Customs administration (account manager) must monitor the AEO's international supply chain-related activities and processes on an ongoing basis to ensure continued compliance with trade and security measures |
| Re-Evaluation | Re-evaluation of the AEO should happen after a maximum monitoring period of at least two years. Also, it is possible to conduct partial re-evaluation reviews that focus on areas of the AEO's supply chain activities that have changed since the initial validation. |

Functions of the Account Manager

Being available day-to-day to respond to questions

Handling the exchange of information and reports with the AEO

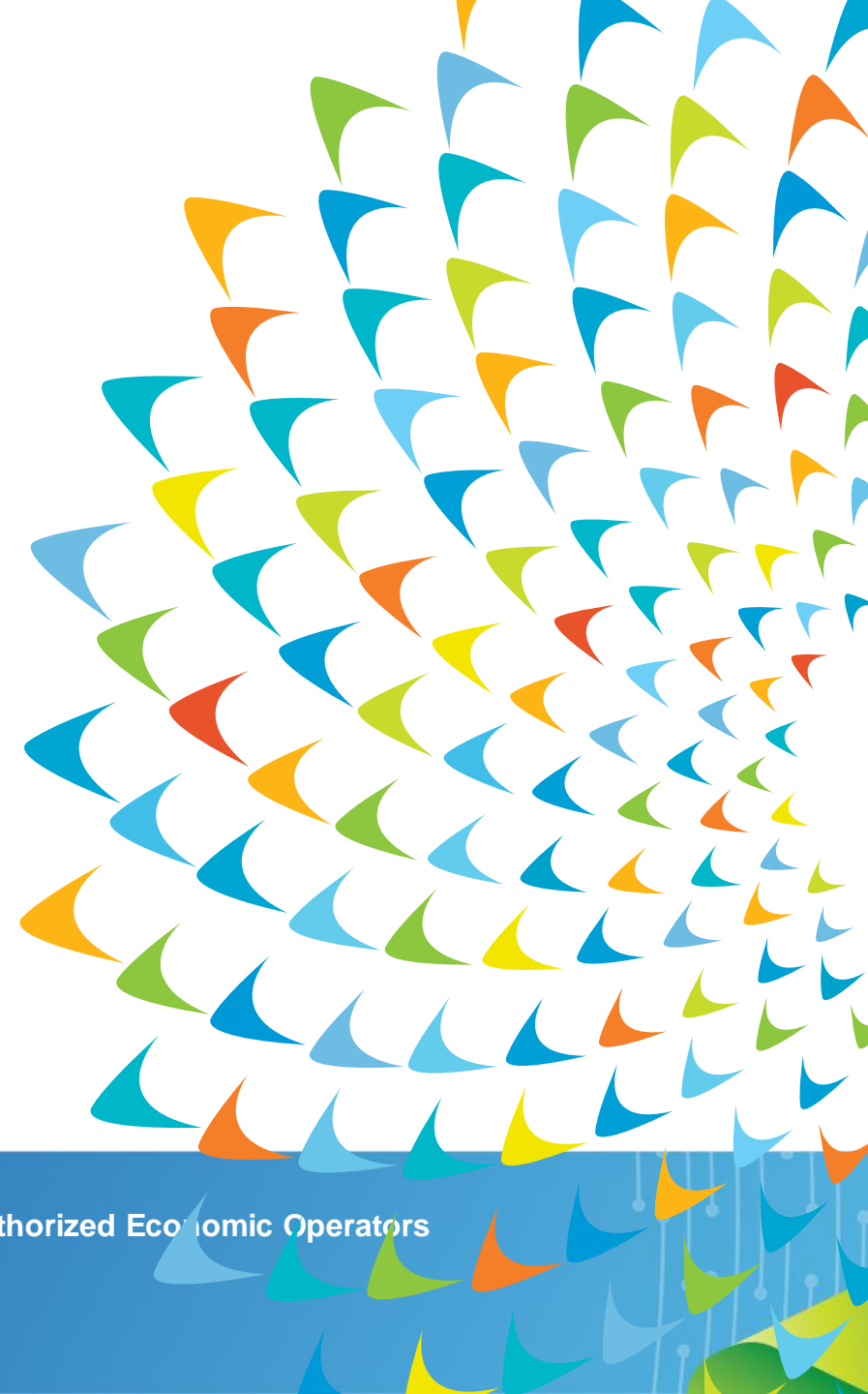
Arranging meetings and business visits, ensuring good governance when appropriate

Proactively supporting the AEO with information about upcoming changes that can have an impact on compliance and service levels

Building networks with key institutions to enable businesses to receive the correct information and thus foster compliance



Sample Tips for the AEO Validator



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Tips for the AEO Validator (1)

| No. | Questions | Tips for the AEO Validator |
|-----|--|---|
| | 1. Demonstrated compliance with Customs requirements | |
| 1 | Does the company committed any infringements/offences as defined in national legislation over a period determined by the AEO programme? | <ul style="list-style-type: none"> The applicant requires the absence of any serious infringement or repeated infringements, including no record of serious criminal offences relating to the economic activity of the applicant. Customs checks the totality of the facts, along with mitigating and aggravating factors in its decision to determine if the applicant is qualified to become an AEO |
| 2 | Have any applications for Customs authorizations/ certifications been refused, or existing authorizations been suspended or revoked? | <ul style="list-style-type: none"> Customs must maintain a record of any applications for Customs authorizations/ certifications that have been refused, or a record of existing authorizations that have been suspended or revoked because of breaches of national/regional legislation |
| 3 | Any goods that are subject to economic trade licenses /restrictions (e.g. textiles, agricultural goods, dual-use goods), please describe briefly your procedures | <ul style="list-style-type: none"> Applicants should provide the list of goods they trade in that are subject to economic trade licenses / restrictions and provide the relevant license/permission or approval from competent authorities. |

Tips for the AEO Validator (2)

| No. | Questions | Tips for the AEO Validator |
|-----|--|--|
| | 2. Financial Viability | |
| 1 | Has the company provided financial statements for the previous period, based on national generally accepted accounting principles? | <ul style="list-style-type: none"> Where the company is required by national law to have its financial statements audited by an external auditor, these should be provided. If there are opinions or reports attached to the financial statements, these should also be considered. |
| 2 | Is the company currently engaged in, or the subject of, bankruptcy proceedings? Has it ever been? | <ul style="list-style-type: none"> The applicant should disclose whether the company is or has been the subject of bankruptcy or bankruptcy protection proceedings, and details of the bankruptcy proceedings should be disclosed. |
| 3 | Has the company fulfilled its financial obligations regarding payment of Customs duties and all other duties and taxes? | <ul style="list-style-type: none"> A record of accurate and timely payments to Customs of duties, taxes and fees can serve as evidence of a good compliance record and commitment to meeting Customs obligations over a period of time, reinforcing trust. |
| 4 | Has the company met requirements for surety bonds or other financial instruments to secure payment of duties and taxes to Customs (in Members which provide for release prior to payment)? | <ul style="list-style-type: none"> If a company has met the requirements for financial instruments, such as surety bonds, it is likely to have undergone additional financial screening/underwriting. This should be considered. |

Tips for the AEO Validator (3)

| No. | Questions | Tips for the AEO Validator |
|------------------------------------|--|--|
| 3. Storage before Transport | | |
| 1 | Does the consolidator or the freight forwarder can document the storage of containers before transport? | <ul style="list-style-type: none"> Perform background check of the consolidator, business registration, local permits, etc., and if possible, check their facilities |
| 2 | Does the consolidator have a good standing with the Customs Authority? | <ul style="list-style-type: none"> Check the performance and compliance of the consolidator company with Customs |
| 3 | Describe briefly the documented procedures in place to verify the physical integrity of the cargo conveyance prior to stuffing, including the reliability of the locking mechanisms of the doors | <ul style="list-style-type: none"> Check the documentation procedure in relation to stuffing, issuance of house bill of lading Check the information indicated in the consolidated cargo manifest if complete, such as port of discharge, marks and numbers, etc. |
| 4 | Describe the procedures in place for inspecting the structure of the transport conveyance, including the seven-point inspection process carried out for all dedicated transport conveyances prior to stuffing: <ul style="list-style-type: none"> Front wall / Left side Right side Floor and ceiling Inside/outside doors/under carriage | <ul style="list-style-type: none"> Check pallets, crates, boxes to ensure they have undergone sufficient processing If pallets are present, are they stamped or branded with IPPC mark of compliance Check to make sure the floor is the correct height Make sure the floor is flat and uniform in height Be on the lookout for unusual repairs / loose bolts Make sure reliable locking mechanisms are attached to the container |

Tips for the AEO Validator (4)

| No. | Questions | Tips for the AEO Validator |
|---------------------------------------|--|---|
| 4. Information Security Policy | | |
| 1 | Does the applicant have an information security policy establishment? | <ul style="list-style-type: none"> • Identify the responsible manager or security officer in the development and enforcement of approved information security policies • The information security policy should be consistent with the SAFE Framework and consistent with existing guidelines as an applicant for AEO certification • The policy should be periodically compared with best practices appropriately incorporating changes in technologies, personnel and business practices |
| 2 | Does it have an information security policy review process? | <ul style="list-style-type: none"> • Identify the responsible officer in updating security policy review process, exceptions as necessary and route them back through the review process |
| 3 | Does it have an information security policy violations and enforcement | <ul style="list-style-type: none"> • The security policy should cover the disciplinary ramifications for violators, determines the severity of the violation, performance history, and other pertinent factors in determining the extent of discipline • Criminal prosecution is possible where the act constitutes a violation of law should be defined in the security policy. • A breach of contract, where applicable, may also apply |

Tips for the AEO Validator (5)

| No. | Questions | Tips for the AEO Validator |
|-----|---|--|
| | 5. Physical and Environmental Security | |
| 1 | Physical access control for secure areas | <ul style="list-style-type: none"> • Limit the entrance and exit gates of the facilities • Employ security guards equipped with suitable security tools • Secure areas should be manned where possible with random patrols • Check if there are intruder detection systems in critical areas such as CCTVs and silent alarms |
| 2 | Reporting lost/stolen identification badges or access tokens | <ul style="list-style-type: none"> • Availability of a logbook documenting lost or stolen access tokens or IDs |
| 3 | Isolated delivery and loading areas | <ul style="list-style-type: none"> • Delivery and loading areas should be controlled and isolated from secure areas to avoid unauthorized access • Third-parties should need to register at the guardhouse, load the items at the docking areas, and have them delivered with a proper sign-off |
| 4 | Secure third-party access | <ul style="list-style-type: none"> • Customers, contractors, former staffs, VIP guests going to critical areas must always be escorted |
| 5 | Fire, water, and physical intrusion alarms trigger immediate action | <ul style="list-style-type: none"> • Critical areas such as loading and delivery points, storage areas and packing area must be equipped with fire, water, and physical intrusion alarm systems |

Tips for the AEO Validator (6)

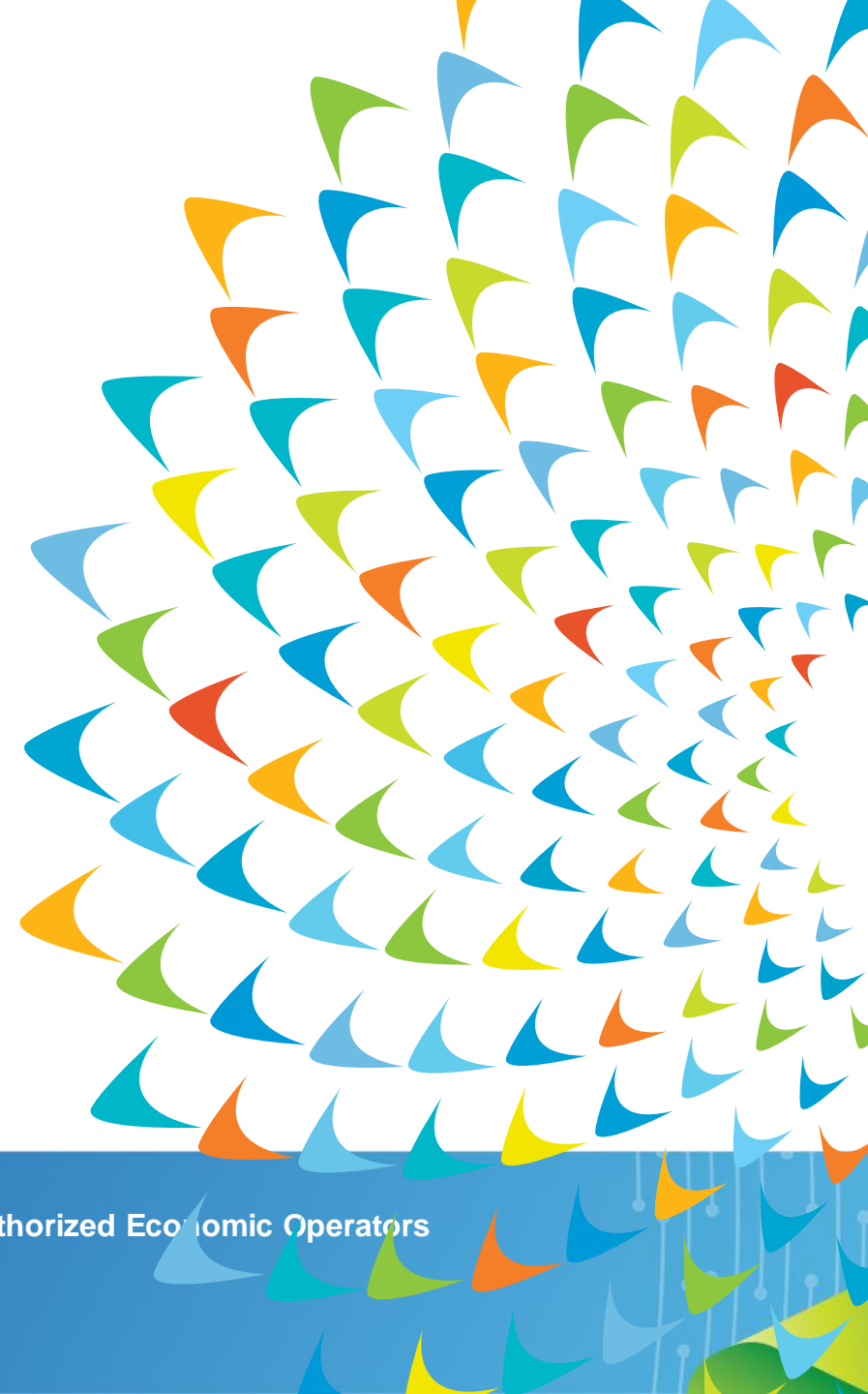
| No | Questions | Tips for the AEO Validator |
|------------------------------------|--|---|
| 6. Trading Partner Security | | |
| 1 | Are there written procedures outlining criteria for evaluating the supply chain security of business partners? | <ul style="list-style-type: none"> AEOs need to have procedures in place that outline how they can clearly identify their business partners, and to ensure that those business partners also do their due diligence to secure the international supply chain |
| 2 | What is the scope of the evaluation made when selecting business partners, and does it include AEO criteria or status? | <ul style="list-style-type: none"> The business partner screening process can consider whether a partner is a member of an approved AEO program with a MRA with the member where AEO status was granted. It can also consider whether the business partner is certified by a recognized security organization that conducts supply chain security audits |
| 3 | Are there processes to regularly review business partners in the context of building a secure supply chain? | <ul style="list-style-type: none"> Periodically reviewing business partners' security assessments is important to ensure that a strong security programme is still in place and operating properly. |

Tips for the AEO Validator (7)

| No. | Questions | Tips for the AEO Validator |
|-----|---|--|
| | 7. Crisis Management and Incident Recovery | |
| 1 | Has a contingency plan been put in place to respond to disasters and emergencies, and is it updated in a timely manner? | <ul style="list-style-type: none">• Companies should have written procedures in place that address crisis management, business continuity, security recovery plans, and business resumption.• A crisis or emergency may include the disruption of the movement of trade data due to a cyberattack, a fire, or a carrier driver being hijacked by armed individuals. Based on risk and where the member operates or sources from, contingency plans may include additional security notifications or support; and how to recover what was destroyed or stolen, to return to normal operating conditions.• Contingency plans need to be updated, based on risks and lessons learned. |



Thank you.



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