Session 7: Cross-border E-Commerce and AEO Scheme for SMEs

Regional Workshop on Cross-Border Digital Trade for CAREC Countries

12-14 November 2024, Seoul, South Korea

Introduction

- Analysis of e-commerce challenges associated with supply chain and logistics landscape and how these directly and indirectly affects the Customs clearance process.

- Opportunities for collaboration with the AEO Program that can provide support for inclusion of MSMEs involved in e-Commerce trade into this scheme.

- Touchpoints with risk management program that can be established to support trade facilitation initiatives and timely detection of risks.

- Map out current e-commerce procedures in general and identify pain points in the Customs clearance process, providing recommendations to address these challenges and respond to the requirements of trade facilitation, revenue collection and border protection mandates.

E-Commerce Growth

## Challenges for Customs and Border Regulatory Agencies

The rapidly increasing volumes and the nature of e-commerce cross-border trade presents specific challenges for Customs and other border agencies, which may require a particular focus to implementation of trade facilitation measures.
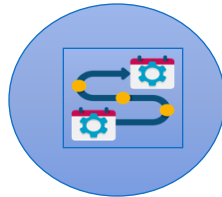
Objectives

Draw up recommendations that will assist Customs in crafting appropriate regulation
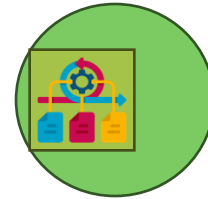
Provide a framework for full compliance to WTO-TFA Article 7.8

Align with e-Commerce (WCO Guidelines) international standards and UPU best practices for postal services

Identify challenges and opportunities of e-Commerce cross-border clearance space and leverage on these to help improve the business processes

Methodology

Collection of data is done through a series of reviews of existing Circulars and Orders as well as interviews with Customs focal person/s, logistics providers and other concerned parties and entities.

Benchmarking is also conducted to determine the gaps in Customs clearance process against international best practices.

Identification of resources and other tools necessary to document the analysis, validation with concerned parties and presentation of findings and recommendations are also undertaken.
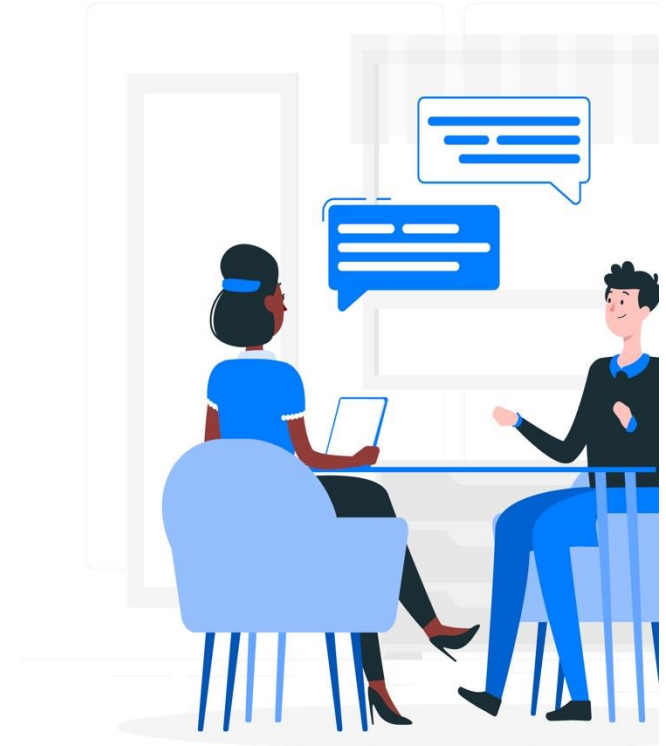
Characteristics of the e-Commerce Market

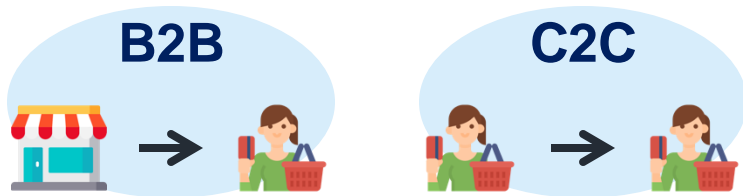**Definition from Trade Department, adapted from OECD:**

Typically, the **seller undertakes to deliver the goods direct to consumer's door or to a local pickup point**, contracting with the postal service or an express delivery operator who assumes responsibility for clearance at export and import.

Reliability of the seller, speed of delivery, ability to track and trace, and ability to return goods easily are key demands of e-Commerce consumers. Given that speed of delivery is an essential feature, air transport is typically involved.

Characteristics of the e-Commerce Market

E-Commerce Transactions

B2B

C2C

Top E-Commerce Sites
Statista's research, as of the 1st quarter of 2021

Shopee
B2C

ebay
C2C

Common Shipment Categories

Category 1   **Category 2**   **Category 3**   Category 4
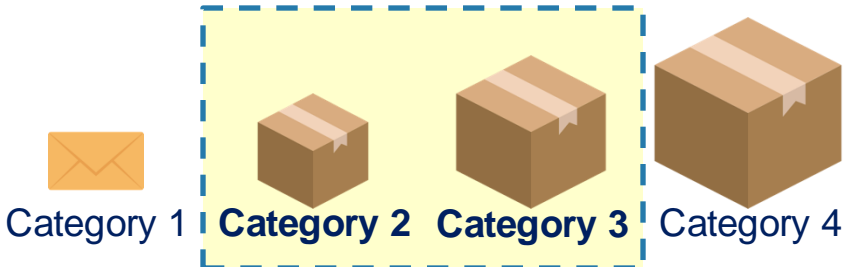
Some fall under Cat. 4 in B2B and some in B2C market.

Top Trading Partners
(According to Trade Department)

Comparative Analysis

- WCO Guidelines for the Immediate Release of Consignments by Customs dated June 2018 provides a set of clearance procedures to assist both Customs and trade to expedite the clearance of large number of small or negligible value goods across borders that are primarily being carried by courier and express mail services.

- The guidelines recommend that the shipments be categorized into the following, each with suggested release treatment as well as data and documentary requirements:

Category 1

Category 2

Category 3

Category 4

Category 2 and 3 Regimes

Express Shipments
Express shipments are consolidated air shipments of goods which are time-sensitive in character which are shipped under a Master Airwaybill consigned to an Air Express Cargo Operator (AECO).

Non-Express Shipments
Regular or standard shipping that does not usually include any special arrangements to deliver the goods in a fast and expeditious manner and which are normally handled by non-vessel operating common carriers (NVOCCs) or regular freight forwarders.

Postal Items
Postal items refer to anything dispatched under postal services, including mail-letter post, parcel post, money orders, etc.

Category 2 Threshold

Customs administrations should ensure that information regarding the ***value of a consignment*** or the duty and/or tax payable below which no duties and taxes will be levied, is readily available. One or both criteria may be used.

EXPRESS	NON-EXPRESS	POSTAL
Customs Order requires the submission of electronic consolidated inward foreign cargo manifest (e-CIFCM) to identify individual shipments consigned to the ultimate consignee which includes, but not limited to, house airway bill (HAWB) Number, consignee name, number of packages, description of goods and declared value.	Customs Order requires the submission of electronic manifests for all carriers and consolidators/freight forwarders of all incoming shipments regardless of the shipment value. It requires the submission of electronic consolidated cargo manifest (e-CCM) containing manifest details for each house and master bills of lading, including but not limited to name of supplier, name of consignee, description of goods and declared value of the shipment.	Customs Order requires the establishment of an interface system with Postal Service for the submission of the advance copy of the postal declaration form which contains among others, the claimant's name, description of the goods and declared value of the content.

Category 2 Threshold

- Without the electronic interface with Postal Service, it may be difficult to obtain an advance copy of postal declaration form, which is necessary for determining the categorization of shipments based on the value of goods.

- The **"Value"** data element should be a mandatory field in the e-CIFCM/e-CCM.

Field Name	Field Type	DB Type/Size	Validation/Constraints		Field Name	Field Type	DB Type/Size	Validation/Constraints
Customs Office (Code)	String	VARCHAR2(5 BYTE)	Mandatory		Item (number of degrouped B/L)	Integer	NUMBER(5,0)	Readonly/Auto populate
Customs Office (Name)	String	VARCHAR2(35 BYTE)	Readonly/Auto populate		Package Code	String	VARCHAR2(17 BYTE)	Mandatory
Registry Number	String	VARCHAR2(17 BYTE)	Mandatory		Description of packages	String	VARCHAR2(35 BYTE)	
Date of Arrival	Date	DATE	Readonly/Auto populate		Marks & Nb	String	CLOB	Mandatory
Time of Arrival	Time	TIMESTAM			Freight Currency	String	VARCHAR2(3 BYTE)	Optional
B/L ref Number	String	VARCHAR2			**Values Declared for**	**String**		**Optional**
B/L Type (Code)	String	VARCHAR2			Customs Value	Double	NUMBER	Optional
B/L Type (Name)	String	VARCHAR2						
Nature	Integer	VARCHAR2						
B/L Number	Integer	NUMBER(5						
B/L Sub-line Number	String							
Previous Document	String	VARCHAR2						
UCR	String	VARCHAR2(35 BYTE)	Optional		Location Info	String	VARCHAR2(35 BYTE)	Optional
Place of Loading	String	VARCHAR2(5 BYTE)	Mandatory		Freight P/C Indicator	String	VARCHAR2(3 BYTE)	Optional
Place of Loading(name)	String	VARCHAR2(35 BYTE)	Readonly/Auto populate		Freight value (Amount)	Double	NUMBER	Optional
Place of Unloading	String	VARCHAR2(5 BYTE)	Mandatory		Freight Currency	String	VARCHAR2(3 BYTE)	Optional
Place of Unloading	String	VARCHAR2(35 BYTE)	Readonly/Auto populate		**Values Declared for**	**String**		**Optional**
Carrier Code	String	VARCHAR2(17 BYTE)	Readonly/Auto populate		Customs Value	Double	NUMBER	Optional
Carrier Name	String	VARCHAR2(35 BYTE)	Readonly/Auto populate		Customs Currency	String	VARCHAR2(3 BYTE)	Optional
Carrier Address	String	CLOB	Readonly/Auto populate		Transport Value	Double	NUMBER	Optional
Exporter/Shipper Code	String	VARCHAR2(17 BYTE)	Optional		Transport Currency	String	VARCHAR2(3 BYTE)	Optional
Exporter/Shipper Name	String	VARCHAR2(35 BYTE)	Mandatory		Insurance Value	Double	NUMBER	Optional
Exporter/Shipper Address	String	CLOB	Mandatory		Insurance Currency	String	VARCHAR2(20 BYTE)	Optional
Transport Mode Code	String	VARCHAR2(3 BYTE)	Readonly/Auto populate		Seal number	Integer	NUMBER(5,0)	Optional
Transport Mode Description	String	VARCHAR2(35 BYTE)	Readonly/Auto populate		Marks of Seal	String	VARCHAR2(20 BYTE)	Optional
Transport Nationality Code	String	VARCHAR2(3 BYTE)	Readonly/Auto populate		Sealing party code	String	VARCHAR2(3 BYTE)	Optional
Transport Nationality Name	String	VARCHAR2(35 BYTE)	Readonly/Auto populate		Sealing party Description	String	VARCHAR2(35 BYTE)	Optional
Transport Identity	String	VARCHAR2(27 BYTE)	Readonly/Auto populate		Information	String	VARCHAR2(70 BYTE)	Optional
Notify Code	String	VARCHAR2(17 BYTE)	Optional		Transit customs office code	String	VARCHAR2(5 BYTE)	Readonly/Auto populate
Notify Name	String	VARCHAR2(35 BYTE)	Optional		Transit Customs office name	String	VARCHAR2(35 BYTE)	Readonly/Auto populate
Notify Address	String	CLOB	Optional		Transit document reference	String	VARCHAR2(35 BYTE)	Readonly/Auto populate
Consignee Code	String	VARCHAR2(17 BYTE)	Optional		Transhipment location code	String	VARCHAR2(5 BYTE)	Readonly/Auto populate
Consignee Name	String	VARCHAR2(35 BYTE)	Mandatory		Transhipment location name	String	VARCHAR2(35 BYTE)	Readonly/Auto populate
Consignee Address	String	CLOB	Optional		Transhipment document reference	String	VARCHAR2(35 BYTE)	Readonly/Auto populate
Total Containers	Integer	NUMBER(5,0)	Mandatory		Onward Carrier Code	String	VARCHAR2(17 BYTE)	Readonly/Auto populate
Status	String	VARCHAR2(17 BYTE)	Readonly/Auto populate		Onward Carrier name	String	VARCHAR2(35 BYTE)	Readonly/Auto populate

Category 2 Threshold

- Immediate release may be granted based on one of the following declarations: (a) Immediate release on presentation of a *consolidated declaration* that can be a manifest, a waybill, a house waybill, a cargo declaration or an inventory of items prepared by the operator or his agent. (b) Immediate release following the presentation of a **simplified goods declaration.**

EXPRESS	NON-EXPRESS	POSTAL
Customs Order states that the detailed CIFCM for all *de minimis* shipments shall serve as the goods declaration. Accordingly, the detailed CICFM is submitted in paper form to the document processor who checks for completeness of information as well a check for the declared value and presence of regulated items. If found in order, the CICFM is forwarded to the Customs examiner who shall then proceed with the inspection of packages and other appropriate actions in accordance with the prescribed procedures.	Customs Order states that de minimis importations shall be lodged and processed under a simplified system and with the use of ICT system to allow advance clearance and ensure proper customs monitoring and control and which captures and preserves pertinent data on de minimis transactions It specifies situations that guides Customs officers in the determination of de minimis transactions based on invoice value.	Customs Order states that rules and regulations on de minimis importation shall apply to postal items and shall be released under a simplified clearance procedure using postal customs declaration form. Customs Order states that postal consignments are to be released under a simplified clearance procedure using the CN22 and CN23 postal customs declaration forms.

Sellers must fill out a CN22 customs declaration for a shipment whose weight is less than two kilograms and legal value of less than the allowed amount for category 2 shipments. The CN23 form, on the other hand, must be used when a package weighs two kilograms or more, and has a value of the allowed category 2 shipments or more

Category 2 Threshold

- **Data elements for all individual items in a consolidated consignment** should be *individually reported* (e.g., house waybill) or should be affixed to the individual items. The individual items should be available to Customs administration on request when deemed necessary. Nevertheless, *electronic submission of the item level data elements* may facilitate Customs' *risk management process* for immediate release.

EXPRESS	NON-EXPRESS	POSTAL
To implement risk-based control procedures through a systematic methodology and application of various techniques and tools such that low risk shipments may benefit greater facilitation as opposed to shipments that require higher levels of control" It requires the submission of e-CIFCM for the purpose of identifying the individual shipments consigned to the ultimate consignees as a rider to the e-IFCM	Customs Order requires the submission of electronic manifests for all carriers and consolidators/freight forwarders of all incoming shipments regardless of the shipment value. It requires the mandatory submission of e-CCM after the system validation of e-IFM in Customs system, including the submission of e-CCM containing manifest details for each House and Master Bills of Lading, including but not limited to name of supplier, name of consignee, description of goods and declared value of the shipment.	It requires the establishment of an interface system with Postal Service for the submission of the advance copy of the Postal Declaration Form which contains among others, the claimant's name, description of the goods and declared value of the content

Category 3 Low Value Dutiable Consignments

Consignments may be granted immediate release with simultaneous clearance subject to any Customs selective documentary and/or physical examination of the consignments based on risk management techniques and provided that:

o A **simplified or full Goods declaration** containing the necessary information required by the Customs administration is electronically presented prior to the arrival of the consignments, for the purposes of processing information, calculating the duties and taxes payable and for selecting consignments for documentary and/or physical examination, if deemed necessary;

o **Ensure duties and taxes are paid** or deferred payment terms are accepted.

Category 3 Low Value Dutiable Consignments

Immediate release with subsequent clearance may be granted provided that:

o For release, a manifest and/or a waybill (house) or an inventory prepared by the operator or agent or a ***provisional declaration*** containing the information required by the Customs administration is electronically presented to the Customs administration; ***adequate financial guarantees*** are given to the Customs administration for securing payment of duties and taxes

o The Customs administration, if it deems necessary based on risk management techniques, subjects such consignments to any documentary and/or physical examination prior to release

Category 3 Low Value Dutiable Consignments
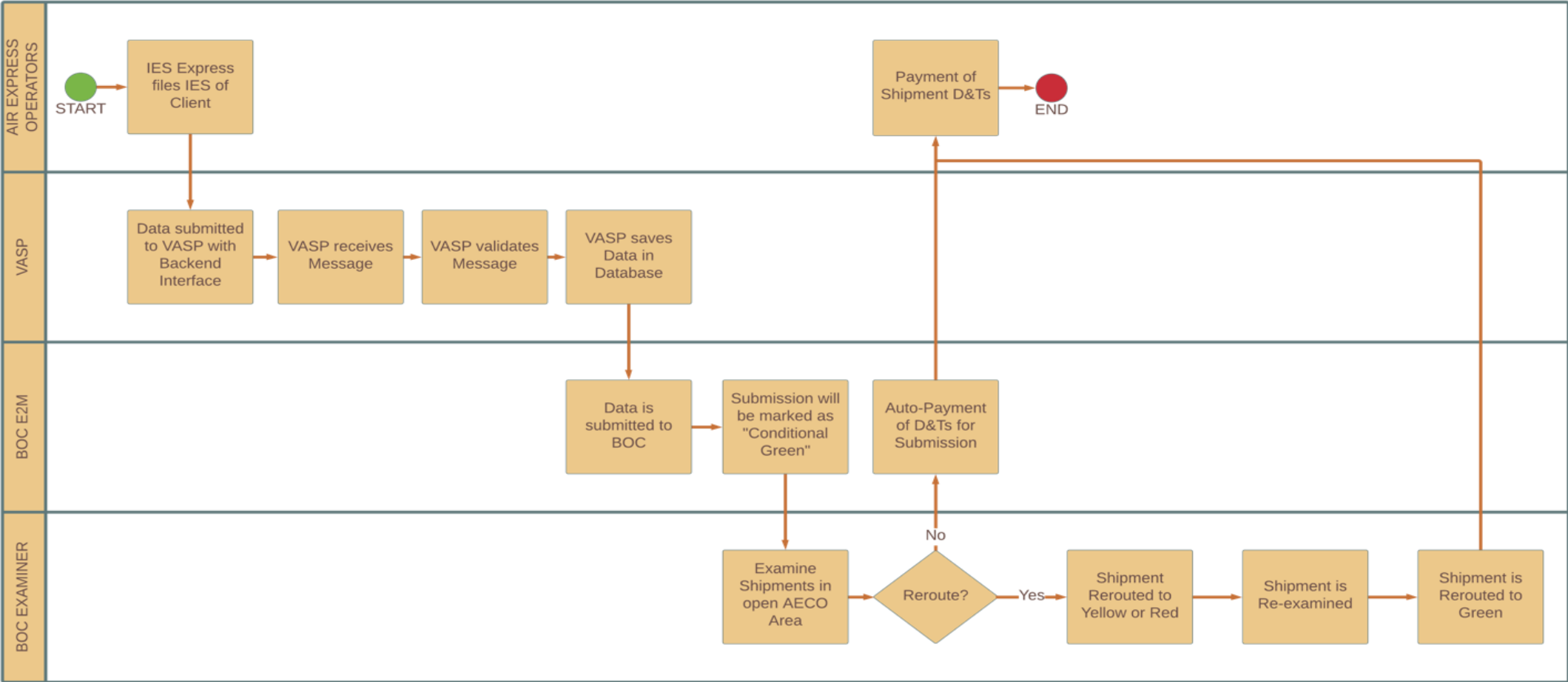
Digitalization Challenges

Customs has identified key gaps for the interoperability of between Customs and Postal Service that have not been fully implemented and which pose as a challenge:

- **No visibility** on the number of receptacles arriving nor on the number of postal items received at the facility.

- **Limited access to the Postal Service** Import Processing System which disallows Customs to update the clearance status of the shipment.

- **Letter Notice signed by Customs and Postal Service is sent by mail** to consignee for compliance of requirements prior to Customs clearance resulting in delays.

- **No access on the release status of postal items** including the released/delivered postal items and the Postal Service inventory system - No data is provided as to the number of postal items: passed by Customs without physical inspection, inspected by Customs, forwarded to Post covered with Informal Entry, abandoned, damaged or return to Sender

Shipping and Incoterms

- The most common incoterms used for e-Commerce shipments are **Delivered Duty Paid (DDP) and Delivered Duty Unpaid (DDU)**.

Buyer

Seller

- Under the Incoterms 2020 rules, **DDP puts the maximum risk and responsibility on the seller**.

- The seller takes responsibility for clearing the goods for export, bears all risks and costs associated with delivering the goods, unloads goods at the terminal at the named port or place of destination, clears the goods for import clearance and payment, and brings the goods to the place of destination.

# Prevailing Challenges on Customs Clearance

- **Risk management for facilitation and control is not yet fully established** to be able to identify high risk shipments and facilitate release of low-risk shipments. Risk assessment for low value e-Commerce consignment, especially postal items is still a manual process, resource intensive, and performed in real time at the border.

- **Shipping and incoterms** commonly used in the transport of goods and its effect on the Customs clearance process, notably in the areas of documentary compliance and readiness of core customs system to accept such method of declaration and terms of delivery especially on most favored incoterms being used in e-Commerce transactions.

- **Occasional buyers and even merchants are not aware of the requirement for regulatory permits**. Information is not readily available on the e-Commerce websites. This leads to misinformation that Customs is responsible for the delays in the shipment release. Awareness campaigns are necessary to inform the transacting public.

Challenges on Transport and Delivery

- **Lack of Visibility across the supply chain** which may be due to the inadequacy of the technology to track and monitor the movement of goods from origin to destination.

- **Technologies such as GPS tracking systems, route planning software, and electric transportation complemented by Internet of Things (IoT), strategies can be devised to combat first and last mile hurdles**. Full visibility helps improve and strengthen the supply chain with readily available data. Lack of transparency over actual reasons of delays from logistics companies.

- **Shipment returns due to a variety of reasons** ranging from unsettled Cash on Delivery payment, cancellations, bad orders and delayed fulfillment. Other reasons for returned shipments are (1) destination country refused to clear due to regulatory requirement, (2) payment issue between shipper and buyer, (3) consignee is no longer in the country.
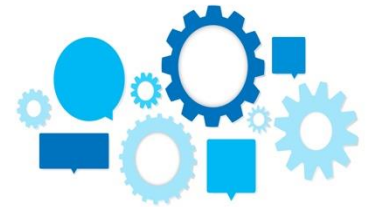
Border Agency Cooperation

- OECD released an abstract on border agency cooperation that states the criticality in increasing operational efficiency and facilitating legitimate trade as well as reducing traders' costs at both the domestic and cross-border levels.

- WTO TFA Article 8 also specifies guidelines on authorities and agencies cooperation and coordination of activities to facilitate trade.

- Border agency cooperation is still a big implementation challenge and given the nature of e-Commerce shipments which are fast-moving, and which capitalizes on speed and reliability of services, it is essential that border agencies cooperate with one another to expedite the clearance and release of low-risk importations.
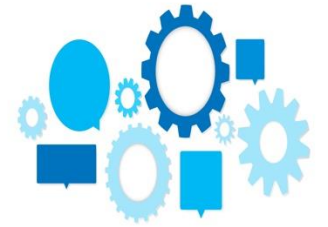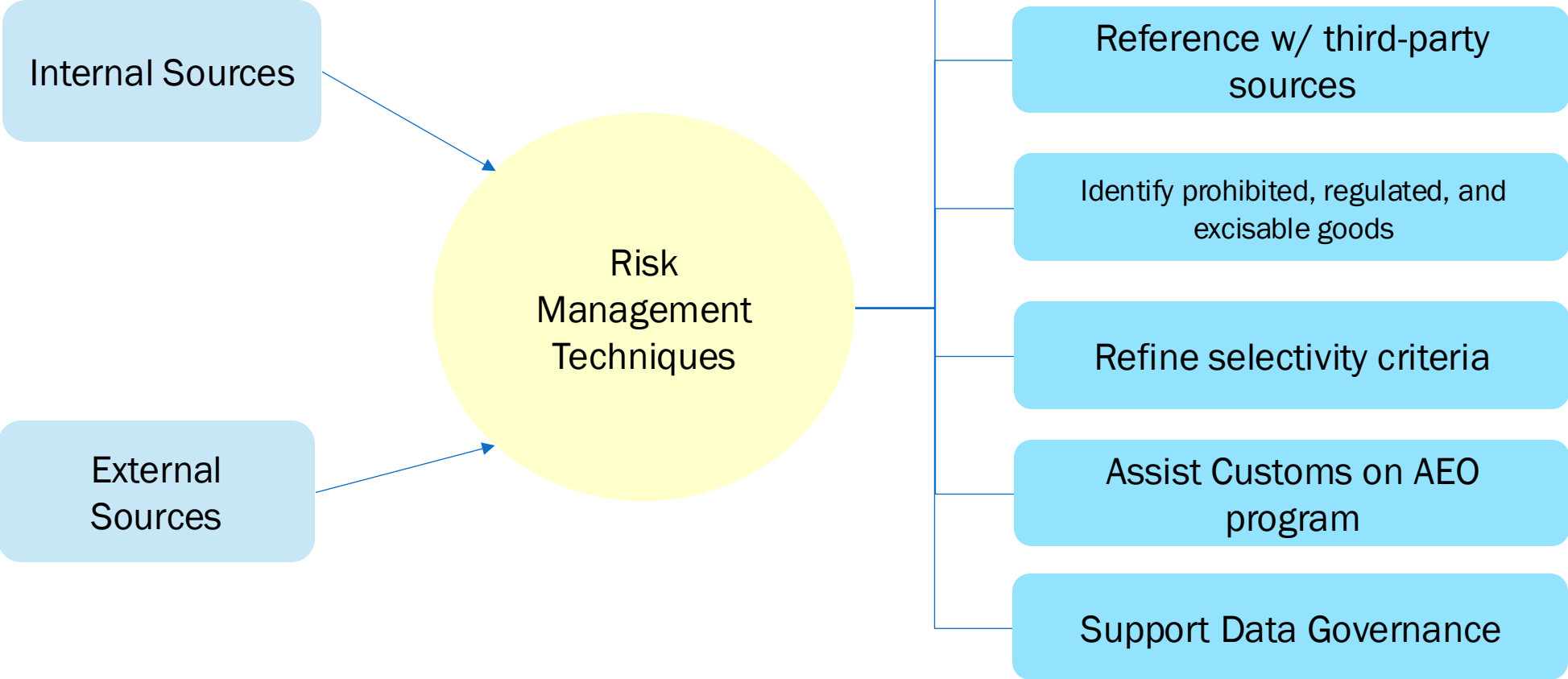
Border Agency Cooperation

- According to OECD, *"an important factor in cementing inter-agency co-operation is the development of a common risk strategy, which enhances control efficiency and greatly facilitates the flow of goods at the border. All concerned agencies need to work together to define priorities and establish common risk profiles."*

- Border Control Agencies should recognize the importance of information sharing to support immediate release and possibly minimize eliminate fraud in the application and utilization of licenses, permits and clearances.

- Significance of risk-based Customs clearance and paperless transactions by making available to these agencies as early as possible the waybill information which they can utilize to assess the level of risk and enable them to issue the corresponding electronic permits/ clearances for those shipments that are considered low risk in nature.

Risk Management Techniques

Internal Sources

External Sources

Risk Management Techniques

Detect Buying Patterns

Reference w/ third-party sources

Identify prohibited, regulated, and excisable goods

Refine selectivity criteria

Assist Customs on AEO program

Support Data Governance

AEO SCHEME FOR SMEs

Main Challenges

SMEs do not have large trade volumes, their participation in the AEO program may not be as attractive from the standpoint of trade-related KPIs.

SMEs generally lack a supply chain security culture and therefore they implement no procedures at all

SMEs have limited access to financing and resources, which restricts their ability to spend time and money on meeting AEO requirements and implementing the program

Lack of SME-specific requirements makes the certification unattractive

Limited access to information and free tools

Suggested Action Items

Include the SME involvement in AEO programs, these SMEs play a central role in achieving balanced economic growth and that they represent an important part of the supply chain.

Expedite AEO authorization examinations for SMEs through various preferential procedural provisions

Provide a mechanisms that will allow prior consultation for SMEs before prior to an application for accreditation

Cooperate with trusted partners on how they intend to support the SMEs in complying with the minimum standards and by working with them to achieve mutually acceptable criteria

Suggested Action Items

Provide capacity building programs to strengthen SMEs' ability to carry out secure and globalized trade

Foster collaboration between SMEs and large enterprises by providing the latter with additional benefits when trading with certified SMEs

Enhance public-private sector collaboration, particularly with SMEs associations, to support SME certification

Customs AEO team should include in their AEO portal explanatory information and specify preferential requirements and benefits to inform and prepare SMEs for the AEO authorization process

Recommendations

Customs AEO Team should work together with businesses to create supply-chain based AEOs for AEO program expansion

Involve OGAs, especially licensing agencies to offer more benefits to encourage supply chain operators, especially SMEs, to participate in the program
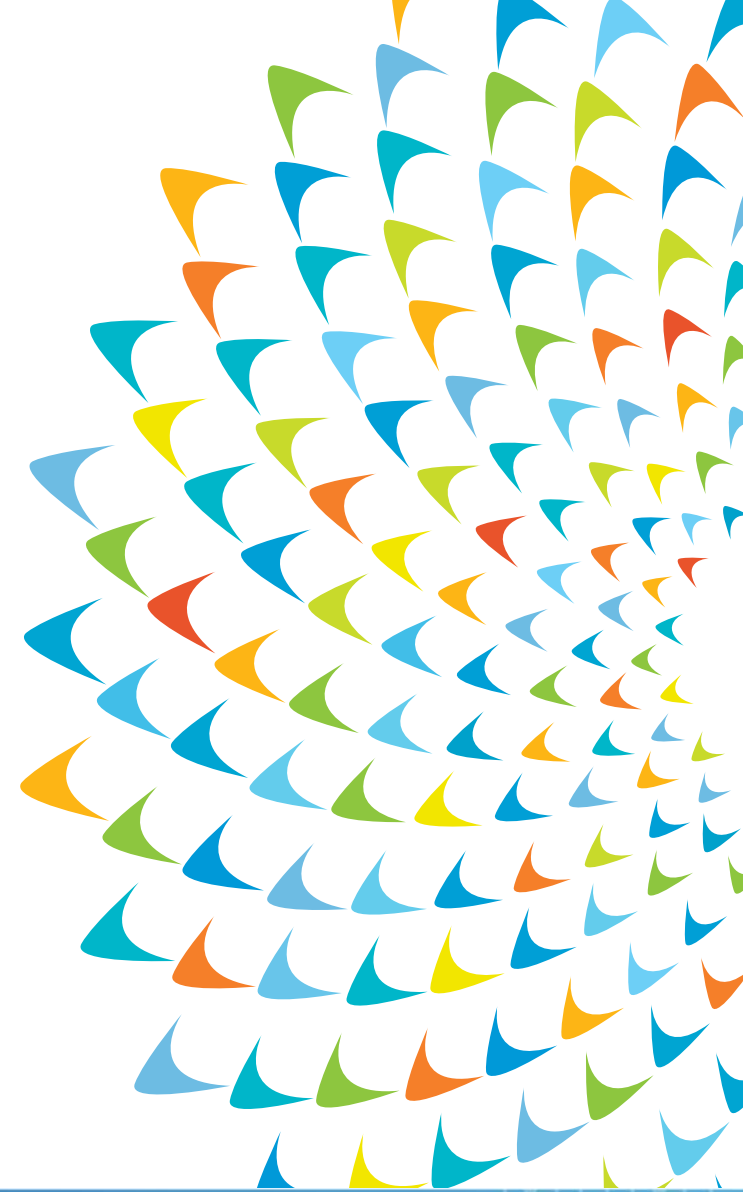
Customs risk management should consider the overall supply chain involving SMEs

SME risk profiling should mainly focus on the compliance rate of customs laws and regulations. The other accreditation criteria should be flexible

Thank you