



3rd Scientific Practical Conference: **Actual problems of customs affairs in the era of digital technology**

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CUSTOMS MODERNIZATION – CONCEPT OF AUTHORIZED ECONOMIC OPERATOR

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Abstract

The intensive growth and development of world trade stimulates the need to accelerate international flow of goods and to reduce costs and related to trade. Customs administrations are most important institutions that are directly involved and affect international trade flows. These institutions are under constant pressure for reorganization and modernization arising from the security challenges on one, and from the requirements for trade facilitation set out in international conventions adopted by relevant international institutions, on the other side.

Special benefits from the process of customs modernization refer to the introduction of simplified customs procedures and greater involvement of trade operators in the customs operations, through the concept of Authorized economic operator (AEO). Simplified customs procedures are considered as one of the most important trade facilitation measures in the customs modernization process as implemented by the revised Kyoto Convention. In general, there are simplified customs procedures related to the customs declaration and simplified transit procedures. The highest level of simplification of customs procedures is the concept of AEO.

The main purpose of the paper is to highlight the importance of the customs modernization process as part of international trade facilitation agenda, with a focus on the concept of the AEO as a tool for expediting the operations in international supply chain. Types of AEO will be recognized in the paper, as well as conditions, criteria and benefits of the status of AEO.

Key words: *Authorised economic operator: AEO; Customs modernization; Trade facilitation; Simplified customs procedures.*

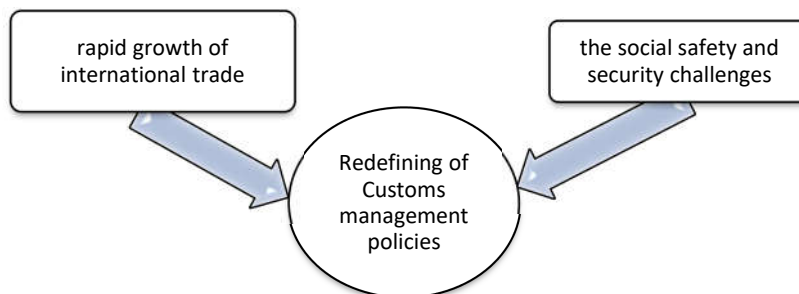


Introduction

The exponential increase in global trade and the changing dynamics of the international supply chain have created new demands and perspectives on the role of Customs administrations. While businesses seek to move goods faster in the supply chain at reduced costs, Customs administrations are required to process increasing volumes of cargo with lesser reliance on physical intervention and with greater efficiency and speed, without compromising on its security, revenue collection and enforcement responsibilities. In order to accomplish this, there is an increasing need for Customs administrations and businesses to collaborate with each other and with other stakeholders to ensure regulations, policies and programs effectively respond to an ever changing environment (World Customs Organization, 2015).

It is considered that the efficiency, security and safety of international supply chains are highly depended by Customs management and instruments, developed by the World Customs Organization (WCO) and other international bodies. Rapid growth of international trade, on one, and the social safety and security challenges, on the other hand are causing redefinition in the Customs management policies. Generally, the main goals of Customs policies along with revenue collection and implementation of trade policy measures are broadened with ensuring trade facilitation and social security and safety. This complex and dynamic process is known as Customs modernization and it represents the most important part of the international trade facilitation agenda. (Biljan, Trajkov, & Dimoska, 2018).

Figure 1. Customs management policies redefinition



Source: Own illustration



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Success in customs modernization is, as importantly, tied to the overall trade policy environment. Simple, transparent, and harmonized trade policies reduce administrative complexities, facilitate transparency, and reduce the incentives and opportunities for rent-seeking and corruption. Customs modernization, therefore, also needs to be examined from the broader and complementary perspective of trade policy reform (De Luc & B. Sokol , 2005).

The main task of Customs modernization process is to put in place a well-functioning Customs administration that provides traders with transparent, predictable and fast clearance of goods.

Trade facilitation and Customs modernization

Trade facilitation measures need to complement trade liberalization if countries are to increase their external competitiveness and become better integrated into the world economy. Both the WCO's AEO programme and the World Trade Organization's (WTO) Trade Facilitation Agreement (TFA), call for trade facilitation benefits for authorized operators who Customs has determine present a low risk of noncompliance with legal requirements.

Customs administrations are taking a number of steps to modernize and simplify trade procedures, and discharge their mandate in an efficient manner. At the same time, Customs must learn as much as possible about business needs and expectations to respond to them effectively (World Customs Organization, 2015).

Customs modernization as a comprehensive streamlining of processes, formalities, procedures and documents handled by Customs administration, is consisted of several interdependent activities related with establishment and implementation of improved law regulations; risk management; simplified customs procedures and post clearance audit; paperless environment and e-customs; improved human resource management and Customs-to-Customs and Customs-to-Business cooperation (Билјан, 2016). Customs modernization also refers to human resources policies of customs administrations, preventing conflict of interest, ICT development, improving the workflow process, managing public finances, transparency etc.



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Special improvements are related to establishment of simplified customs procedures and greater inclusion of trade operators in customs issues, such as local clearance. Simplified Customs procedures are one of the most important trade facilitation measures in the Customs modernization process implemented by the International Convention on the Simplification and Harmonization of Customs Procedures, known as the Revised Kyoto Convention that are imposed in most of the countries legislations as well. Mainly, there are several simplified Customs procedures: (a) simplified declaration; (b) local clearance; (c) simplified transit procedures; (d) authorized exporter and (e) authorized economic operator – AEO (Biljan, Trajkov, & Dimoska, 2018).

Concept of Authorized economic operator in international supply chain

The international end-to-end supply chain from a customs perspective represents the process, e.g. from manufacturing goods destined for export until delivery of the goods to the buyer in another customs territory.

The international supply chain is not a discrete identifiable entity. It is a series of ad hoc constructs comprised of economic operators representing various trade industry segments. In some cases the economic operators are all known and a long-term relationship may exist, whilst in other cases economic operators may change frequently or may only be contractually related for a single operation/shipment.

From an operational point of view the reference to "supply chains" instead of "supply chain" is better, meaning that any economic operator may be involved not just in one theoretical supply chain but in many practical ones.

In practice, many businesses can have more than one role in a particular supply chain and will fulfil more than one of the responsibilities related to these roles. When applying for AEO status the applicant must ensure his or her application includes the customs related activities for all their responsibilities within the international supply chain (Customs Administration of Republic of N. Macedonia, 2019).



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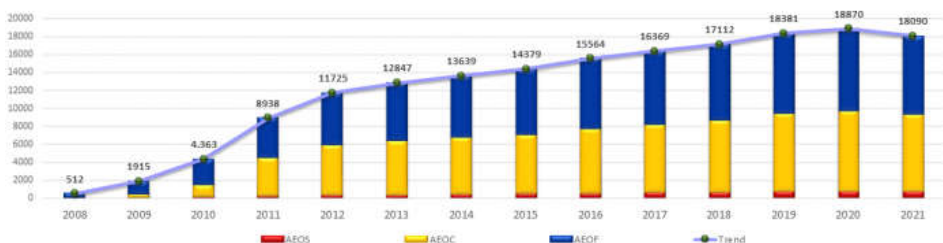
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The AEO concept is based on the Customs-to-Business partnership introduced by the World Customs Organization (WCO). As it is defined by WCO, Authorised economic operator (AEO) is “a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards. AEOs include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses and distributors” (World Customs Organization, 2018).

The AEO concept is a tool for improving and facilitating the operations of all stakeholders in the international supply chain. According to the obtained authorization, three types of economic operators are distinguished (European Commission, 2021):

- AEO for Customs simplification (AEOCS) - enables the economic operator to use Customs simplifications;
- AEO for safety and security (AEOS) – an economic operator is involved in facilitations related to safety and security of international supply chain, and
- AEO for trade facilitation and safety and security (AEOF) - one economic operator, at the same time, has got two previously mentioned types of authorization.

Figure 2. Valid authorizations in EU



Source: (European Commission, 2021)



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An authorized economic operator is electronically connected to the Customs administration and to the related state agencies. It is obligated to permanently exchange and to provide data related to customs operations to the Customs administration and other state agencies.

Conditions and criteria for AEO authorization

An AEO status in the form of an AEOC is envisaged for economic operators established in the Republic of North Macedonia who would like to benefit from the various simplifications specifically provided for under the customs legislation.

Table 1. Conditions and Criteria for AEOC and AEOS

Conditions and criteria	AEOC	AEOS
Compliance with customs legislation and taxation rules and absence of criminal offences related to the economic activity	X	X
Appropriate record keeping	X	X
Financial solvency	X	X
Proven practical standards of competence or professional qualifications.	X	
Appropriate security and safety measure		X

Source: (European Commission, 2021)

The criteria for granting of an AEOC include: the absence of any serious infringement or repeated infringements of customs legislation and taxation rules, including no record of serious criminal offences relating to the economic activity of the applicant; demonstration by the applicant of a high level of control of his or her operations and of the flow of goods, by means of a system of managing commercial and, where appropriate, transport records, which allows appropriate customs controls; financial solvency, which shall be deemed to be proven where the applicant has good financial standing, which enables him or her to fulfil his or her commitments, with due regard to the characteristics of the type of business activity concerned; practical standards of



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competence or professional qualifications directly related to the activity carried out (Customs Administration of Republic of N. Macedonia, 2019).

Benefits of the status of AEO

An AEOC is entitled to: benefit from specific types of simplifications on the basis of the recognition of the AEOC as long as the requirements related to a specific type of simplification provided for in the customs legislation are fulfilled; more favourable treatment than other economic operators in respect of customs controls, including fewer physical and document-based controls, with the exception of controls related to security and safety measures; prior notification in case of selection for customs control; priority treatment if selected for control; possibility to request a specific place for such control; preference in deciding upon a request to the customs authority; free training for customs officers once every two years for the customs officer in charge and an additional five employees, depending on the AEO needs; use of priority lane exit from the customs area (Customs Administration of Republic of N. Macedonia, 2019).

An AEOS is entitled to: facilitations regarding customs declaration; more favourable treatment than other economic operators in respect of customs controls, including fewer physical and document-based controls in respect of security and safety; prior notification in case of selection for customs control; priority treatment if selected for control; possibility to request a specific place for such control; advantage in deciding upon an application to the customs authority; free training for customs officers once every two years for the customs officer in charge and an additional five staff, depending on the AEO needs; use of priority lane exit from the customs area (Customs Administration of Republic of N. Macedonia, 2019).

An AEOS is recognised as an economic operator who has taken appropriate measures to secure his or her business and is thus a reliable actor in the international supply chain both from the perspective of the relevant government authorities and from the perspective of his or her business partners. The AEOS is taken into account with respect to MRAs with third countries.



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Table 2. Benefits for AEOC and AEOS

Benefit	AEOC	AEOS
Easier admittance to customs simplifications	X	
Fewer physical and document-based controls <ul style="list-style-type: none">• related to security & safety• related to other customs legislation	X	X
Prior notification in case of selection for physical control (related to safety and security)		X
Prior notification in case of selection for customs control (related to other customs legislation)	X	
Priority treatment if selected for control	X	X
Possibility to request a specific place for customs controls	X	X
Indirect benefits (Recognition as a secure and safe business partner, Improved relations with Customs and other government authorities; Reduced theft and losses; Fewer delayed shipments; Improved planning; Improved customer service; Improved customer loyalty; Lower inspection costs of suppliers and increased co-operation etc)	X	X
Mutual Recognition with third countries		X

Source: (European Commission, 2021)

Mutual Recognition of AEOs is a key element of the [WCO SAFE Framework of Standards](#) to strengthen end-to-end security of supply chains and to multiply benefits for traders (World Customs Organization, 2005).

By mutual recognition of AEOs two customs administrations agree to (1) recognize the AEO authorization issued under the other programme and (2) provide reciprocal benefits to AEOs of the other programme (World Customs Organization, 2021).

Recognition can be provided on bilateral and regional level. For example, the AEO status granted by one Member State is recognized by the customs



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authorities in all Member States. The EU has concluded and implemented Mutual Recognition of AEO programs with Norway, Switzerland, Japan, Andorra, the US and China.

CONCLUSIONS

- **Customs modernization** relates to the full range of **Customs** operations. Its main objective is to ensure that **Customs** administrations constantly keep pace with developments in international trade, whether of a technological, legal or economic nature.
- Simplified Customs procedures are one of the most important trade facilitation measures in the Customs modernization process involve (a) simplified declaration; (b) local clearance; (c) simplified transit procedures; (d) authorized exporter and (e) authorized economic operator – AEO.
- The AEO concept is a tool for improving and facilitating the operations of all stakeholders in the international supply chain.
- There are three types of Authorization concerning economic operators: (1)AEO for Customs simplification; (2)AEO for safety and security, and (3)AEO for trade facilitation and safety and security.
- Certain criteria has to be fulfilled by economic operator to gain the authorization and the status of AEO provides many benefits for the economic operator
- Mutual Recognition of AEOs is a key element of the WCO SAFE Framework. By mutual recognition of AEOs two customs administrations agree to recognize the AEO authorization issued under the other programme and to provide reciprocal benefits to AEOs of the other programme.



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