



Australian Government
**Australian Customs and
Border Protection Service**

Authorised Economic Operator Pilot Project Report



Acknowledgements

Australian Customs and Border Protection would like to acknowledge the contribution made by the large number of internal and external stakeholders throughout the pilot project.

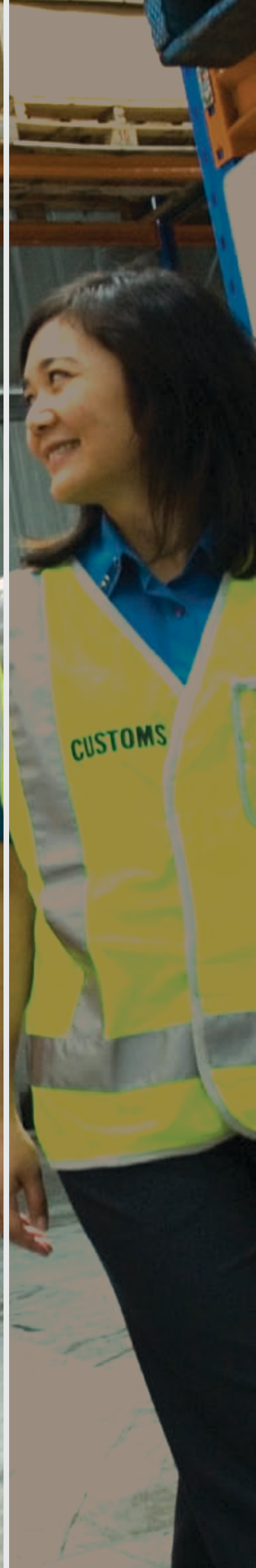
A number of these stakeholders have generously given their time and expertise throughout the project.

This report is the product of a true team effort. We have learned much from the project experience and working closely in partnership with our pilot companies, partner economies, other agencies and industry representatives.

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Introduction

The risk and prevalence of global security concerns, terrorism, and increased compliance and reporting burdens continues to be a threat to international trade. It creates uncertainty, reduces confidence, and increases risk perceptions and risk premiums that could lead to lower rates of investment and economic growth.

Modern supply chains involve a series of parallel, independent activities that must converge at the right times to move cargo and commodities efficiently. These activities are carried out by multiple participants, many of whom do not have visibility of the entire chain, but all of whom are affected by the domestic policy decisions of individual economies.

As Australia's primary border protection agency the Australian Customs and Border Protection Service (Customs and Border Protection) plays a vital role in preventing the illegal movement of people and harmful goods such as illicit drugs and weapons across Australia's borders. We have an equally important role in ensuring that legitimate traders and travellers, and the industries that support them, meet their regulatory obligations.

Supporting Australian industry in achieving international competitiveness is essential in maintaining strong economic trade and investment prosperity, and ensuring that barriers do not impede trade or reduce competitiveness. Further, ensuring the continuation or early resumption of trade in the aftermath of a security incident, terrorist attack or disruption event on any part of the supply chain is essential for the future of Australian international trade and trade facilitation.

Sharing the responsibility for the management of risk, facilitating the sharing of information to maintain an environment of transparency, and the identification of key impediments to trade resumption are key factors that have driven foreign governments (particularly the United States, the European Union, New Zealand and others) to

develop programs that authorise and provide preferential treatment to trading companies who have taken steps to secure their international supply chains.

Customs and Border Protection's consideration of supply chain security, both domestically and internationally, has been of much interest to a number of bodies including the World Customs Organisation (WCO), the Asia Pacific Economic Cooperation (APEC), bilaterally with a number of Australia's key trading partners, and domestically across a range of Government agencies and industry associations.

This discussion paper has been developed to share our experiences and considerations as they relate to the Authorised Economic Operator concept and our ongoing efforts in providing effective border protection for the Australian community that also supports legitimate trade.

The involvement of Australian industry (in particular our pilot partners and associated third parties), has provided Australian Customs and Border Protection with a solid foundation for greater industry and government cooperation in securing Australia's critical economic interests, along with an important opportunity to refine our approach to the consideration of supply chain security within Australia.

Background

In June 2005, all members of the World Customs Organisation endorsed the SAFE Framework of Standards to Secure and Facilitate Global Trade.

The Framework was developed to enhance the end-to-end security of international trade and to strengthen and go beyond existing programmes and practices. The SAFE Framework sets forth the principles and the standards for adoption by WCO Members, aiming to:

- Establish standards that provide supply chain security and facilitation at a global level to promote certainty and predictability.
- Enable integrated supply chain management for all modes of transport.
- Enhance the role, functions and capabilities of Customs to meet the challenges and opportunities of the 21st Century.
- Strengthen co-operation between Customs administrations to improve their capability to detect high-risk consignments.
- Strengthen Customs/Business co-operation.
- Promote the seamless movement of goods through secure international trade supply chains.

Australia has successfully implemented three of the four core elements of the WCO Framework through current advanced electronic reporting requirements; container examination, air cargo and international mail inspection programs; and comprehensive risk management systems.

The remaining key feature of the Framework is the establishment of Customs – Business partnerships. These “joint ventures” between national Customs administrations and the international trading community are aimed at enhancing security over the movement of international cargo, and at the same time providing improved facilitation and clearance processes.

To address this remaining element, Australian Customs and Border Protection has undertaken considerable research and investigation into integrating supply chain security as part of Australia’s border management approach.

This research and investigation has included:

- an Authorised Economic Operator pilot project to test and fine-tune the application and assessment processes for security accreditation of traders; and to explore mutual recognition arrangements with key trading partners
- broad engagement with the Australian export industry to research perspectives on benefits to both Australian exporters and government of facilitated export programs, and perspectives on the impact of international security requirements on Australian exporters
- continued participation and leadership in influencing international considerations for trade recovery.

Conclusions

It is widely acknowledged that governments and the business community need to respond in an appropriate and coordinated manner to address new and emerging supply chain security challenges.

In addressing these challenges supply chain security needs to be a joint responsibility between government and business, achieved through harmonisation of security measures and improved interoperability of supply chain security systems across economies.

Our pilot project demonstrated that the accreditation of security measures is achievable. However the value proposition for the investment by companies, and indeed, government is yet to be settled. In particular, the proposed US 100% screening regime might compromise participation in such a program for many.

In order to consider both the economic and security benefits of an Australian AEO program, the project considered operational models from both an importing and exporting perspective.

Our research concluded that an Australian import accreditation regime would not be the most cost effective or productive means to assess supply chain risk and mitigation measures, due to the high costs involved.

However, leveraging foreign government accreditation of export supply chains could provide the basis for greater confidence and visibility throughout a supply chain. Such an arrangement would see Australian Customs and Border Protection acknowledging and accepting the status of another administration's export AEO scheme.

Our research into Australian exports and the value of an export-focused AEO scheme, exporters' understanding and experiences at foreign borders, and industry knowledge and understanding of international developments in supply chain security has shown that:

- Australian Customs and Border Protection is not a significant impediment to cargo movement – industry

groups have indicated that commercial relationships, rather than government interactions or interventions, are the key factor influencing cargo clearance.

- Australian exporters do not generally encounter problems or issues at foreign borders – customs intervention at foreign borders is not seen as an impediment and accordingly, at this time AEO status is not considered a differentiating factor to enhanced supply chain management.
- There is mixed levels of awareness of, and limited exposure to, supply chain security initiatives from foreign customers.

Following discussions, most exporters did not consider participation in a formal supply chain security program as a priority at this time given current levels of facilitation and the limited tangible benefits evident from investment in an AEO scheme.

Accordingly, the likely limited uptake does not warrant investment at this time.

Australian traders have a general awareness of supply chain security initiatives, but most did not consider them an issue at this time and did not see a direct benefit commensurate to the investment required.

Our research showed that industry knowledge and understanding of supply chain security developments could be categorised as follows:

1. Those companies who had no knowledge of developments in supply chain security internationally and after initial considerations, believed that participation would be a low priority at this time.
2. Those companies who were aware of supply chain security initiatives, and were, in most cases, willing to consider participation in an AEO program if it was mandated or in order to be good corporate citizens.
3. Those companies who had strong visibility or experience of supply chain security developments internationally, had mixed views on participation, but did not see a direct tangible benefit at this time.

Moving forward

Australian Customs and Border Protection will keep supply chain security developments under close review. Australia remains committed to greater cooperation between Customs administrations and with industry in managing the whole supply chain as advocated in the WCO SAFE Framework.

Our research of AEO programs internationally has concluded that in some cases there has been additional drivers or aims that have justified implementation of AEO schemes for other countries. Such aims have included:

- Specific border protection measures designed to safeguard against terrorism
- Customs modernisation reforms that provide opportunities to differentiate traders and levels of service
- Strategic positioning.

The work on trade resumption protocols that Singapore and Australia are leading under the auspices of APEC and the World Customs Organization could shift the value proposition to the extent differential treatment is provided for recognised trusted traders - as would any shift in the proposed US screening regime to a more risk-based one recognising trusted traders from low-risk countries.

We will remain alert to the possibility that any growing international network of Authorised Economic Operator programs may develop into a form of trade barrier for Australian traders.

For the moment, however, we see further exploration on improving risk management through identification of low risk traders and transactions without the high costs of a formal AEO accreditation regime as a more immediate priority.

Pilot Project Approach

The Customs and Border Protection Authorised Economic Operator pilot project was commissioned to examine and consider the options for the establishment of an Australian supply chain security program.

The project, undertaken over a period of 18 months from July 2006 to December 2007 had two primary objectives:

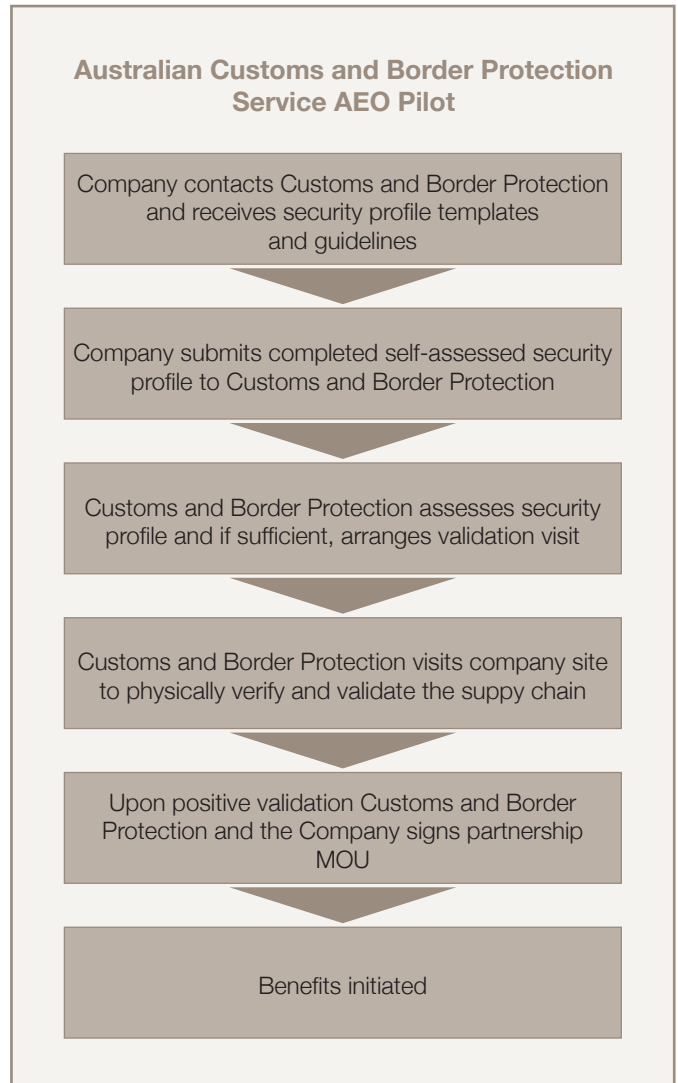
1. Test and fine-tune the application and assessment processes for security accreditation of importers, exporters and other parties in the supply chain.
2. Explore opportunities for future mutual recognition arrangements.

The pilot project involved engaging five Australian companies, and their associated third parties, to test the application and assessment processes to become certified as AEO compliant. Participating companies represented a diverse mix of Australian supply chain operations incorporating numerous links in both the aviation and maritime environments.

As part of the pilot, participating companies completed a process of self assessment followed by a Customs assessment, validation and risk assessment. The project adopted a methodology aligned with the WCO SAFE Framework of Standards and other international best practices (such as the US C-TPAT program and New Zealand Secure Export Scheme) as shown in the table below.

The pilot emphasised the need for a total supply chain security approach to cargo management and a shared responsibility for ensuring the security of trade across all nodes of the supply chain.

Customs and Border Protection worked closely with the participating companies to develop a joint understanding of the security profiles covering the end to end supply chain. These profiles were lodged by industry for initial assessment by Customs and Border Protection and were



followed by a number of validation visits to numerous sites within their operations.

Information was compiled from both the security profile and physical validation steps, and subsequently risk assessed through the post validation process.

The project applied the WCO standards in a method consistent with other economies programs and covered:

- **Physical security** – Site security and access controls for staff and visitors
- **Personnel security** – Vetting, identification, training and procedures
- **IT and information security** – Physical IT security, information security and data integrity
- **Cargo and container security** – Receipt, storage, sealing, inventory and release of cargo and containers
- **Third party relationships** – Screening, contract management and monitoring
- **Security planning** – Planning, contingency arrangements and compliance
- **Transport** – Physical security, monitoring, tracking and procedures.

Some of the key features adopted for the project were:

- a focus on security and assurance of trade for both the importing and exporting communities, and the ability to better focus resources on high risk targets for intervention
- alignment with the WCO Framework, while also recognising and benchmarking against similar international supply chain security programs
- voluntary participation with coverage in both maritime and aviation sectors
- the concept of industry self-assessment followed by Customs validation and ongoing review.

Supporting Australian industry in achieving international competitiveness is essential in maintaining strong economic trade and investment prosperity, and ensuring that barriers do not impede trade or reduce competitiveness.

Benefits explored during the pilot project included:

- reduced intervention and examination in recognition of the lesser risk posed by trusted partners
- priority service in the event of intervention or examination
- access to dedicated points of contact
- mutual recognition amongst trading partners
- opportunities for AEO status to aid rapid resumption of trade given limited available resources to deal with security challenges after a security incident.

Summary of Engagement

Over the course of our research, the project team was involved in:

- **30** validation visits of pilot partners
- **21** validation observations with overseas administrations
- **20+** engagements with other agencies
- **7** validation visits being observed by other agencies.
- **20+** meetings with international economies
- in excess of **50** direct engagements with industry ranging from a diverse group of peak or representative bodies, large multinational companies and small to medium enterprises.

