

What's the benefit? Taking a closer look at AEO in light of the latest Union Customs Code news

Iqbal Pannu, Senior Solutions Consultant at AEB (International) Ltd., explains how managing supply chain risk is of concern to the entire supply chain

Managing supply chain risk remains a complex topic, which - if taken seriously - affects the entire supply chain. The introduction of the Authorised Economic Operator (AEO) in 2007 by the World Customs Organisation (WCO) focused on securing the supply chain against terrorism and on demonstrating this security to customs authorities and business partners. Companies holding AEO status were going to benefit from faster movement of goods across borders and from mutually recognised programmes, e.g. the Customs-Trade Partnership Against Terrorism (C-TPAT), a voluntary programme led by US Customs and Border Protection (CBP).

However, due to a perceived lack of benefits and the high cost of implementation, AEO applications in the United Kingdom are well behind those of other EU member states. But should holding an AEO certification be viewed as a fundamental part of managing supply chain risks, and does it give companies a competitive edge by demonstrating their commitment to managing risks?

The introduction of the new Union Customs Code (UCC) on October 30 last year may mean that the trend for AEO certification in the UK is set to change. The UCC represents a major modernisation of the European Customs legislation, which dates back to 1992. The Union Customs Code (UCC) repeals the Modernised Customs Code (MCC), bringing potentially far-reaching changes to EU customs rules and procedures. However, its substantive provisions will apply only on May 1 2016. Meanwhile, the UCC-related Commission acts (Delegated and Implementing Acts) need to be adopted and the Community Customs Code (CCC) will continue to apply.

The UCC aims to achieve greater legal certainty for businesses and increased clarity for customs officials throughout the EU. It seeks to improve and simplify customs rules and procedures, further harmonise decision-making procedures, and lead to more efficient customs transactions. Expected key amendments include changes to the areas of centralised clearance, self-assessment, penalties, and decisions relating to binding information and valuation. Amongst the fundamental changes is the introduction of mandatory guarantees for customs procedures, which could increase operating costs for trading businesses and significantly affect cash flows. Businesses with AEO status will be able to obtain guarantee waivers or guarantee reductions.

While AEO status isn't compulsory, businesses that ignore it are likely to see significant increases in associated import and export costs. So, the UCC seems to present another opportunity for

companies to gain a competitive advantage by being AEO certified: Businesses holding AEO status will have a number of advantages over businesses that don't, and will also be able to use a simplified fast track application process for other EU customs procedures.

HMRC's policy on AEO status following the introduction of the UCC is clear: Importers and exporters using, or intending to use, simplified customs procedures - e.g. inward processing relief (IPR), customs warehousing, temporary storage, temporary admission or community transit - will have to fulfil AEO criteria or face the prospect of having to provide financial guarantees to cover duties suspended under those schemes. In addition to this, for AEO accredited businesses trading with the US, shipments are far less likely to be examined by U.S. Customs. In the longer term, as part of the UCC proposals, AEO accredited businesses may also be entitled to use 'self-assessment', which would enable them to reduce their administration costs by taking the import function in-house. Plus, being able to make periodic bulk customs declarations would generate significant time and cost savings.

But AEO status is about much more than just benefiting from guarantee waivers and mutual recognition schemes: the actual process of an AEO application harbours many benefits in itself, as it involves close scrutiny of a company's entire supply chain, all involved partners, departments and teams, and all processes from procurement to fulfilment. Preparing for AEO means taking an end-to-end look at your business, connecting otherwise disparate departments to integrate supply chain processes and identify strengths and weaknesses with the ultimate goal to streamline workflows and increase efficiency, introduce best practise procedures and solutions, and achieve comprehensive supply chain transparency, security and compliance.

AEO accreditation benefits companies on many levels and strengthens their market position through commitment to risk management, compliant global trade and streamlined operations. And today, demonstrating you are a safe company to do business with is a strong message that can make a difference and win the business. Considering the length of an AEO accreditation process, which - for larger companies - can take many months to complete, perhaps businesses should start taking a closer look and apply sooner rather than later.