

Authorized Economic Operators

(Salient Features of Korean AEO Program)

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- **Section 1 AEO under WTO TFA/WCO**
- **Section 2 KOREAN AEO program**
- **Section 3 KOREAN Mutual Recognition**

Section 1

AEO

under WTO TFA & WCO Tool

WTO

Facilitation

Trade

Agreement

border cooperation goods transit notification
fees customs clearance legal appeal implementation Committee provisions transparency agency
Organization Special capacity formalities shipment Treatment facilitate
review building assistance Members release World
TFA export publication uniformity expedite
consultation Differential non-discrimination import information technical

S01

• What is TFA?

The WTO Trade Facilitation Agreement (TFA) contains provisions for **expediting the movement**, for effective **cooperation** between customs authorities, and for **technical assistance and capacity building**. (adopted in 2014, **Effective in Feb 2017**)

Section I

Art. 1 Publication and Availability of Information

Art. 2 Consultation

Art. 3 Advance Ruling

Art. 4 Appeal/Review procedures

Art. 5 Other measures for transparency etc.

Art. 6 Fee and Charges

Art. 7 Release and Clearance of goods

Art. 8 Border Agency Cooperation

Art. 9 Movement of goods intended for import

Art. 10 Formalities

Art. 11 Transit

Art. 12 Customs cooperation

7.1 Pre-arrival Processing

7.2 Electronic Payment

.....

7.7. Trade Facilitation Measures For Authorized Operators

.....

7.9 Perishable Goods

S01

- Provisions Implications

02

7.1

03

Each Member **shall provide additional trade facilitation** measuresto operators who meet specified criteria, hereinafter called **authorized operator**.

- Category A:** by the time the Agreement enters into force
- Category B:** after a transitional period following the entry into force
- Category C:** on a date after a transitional period following the entry into force, and requiring the acquisition of assistance and support for capacity building.

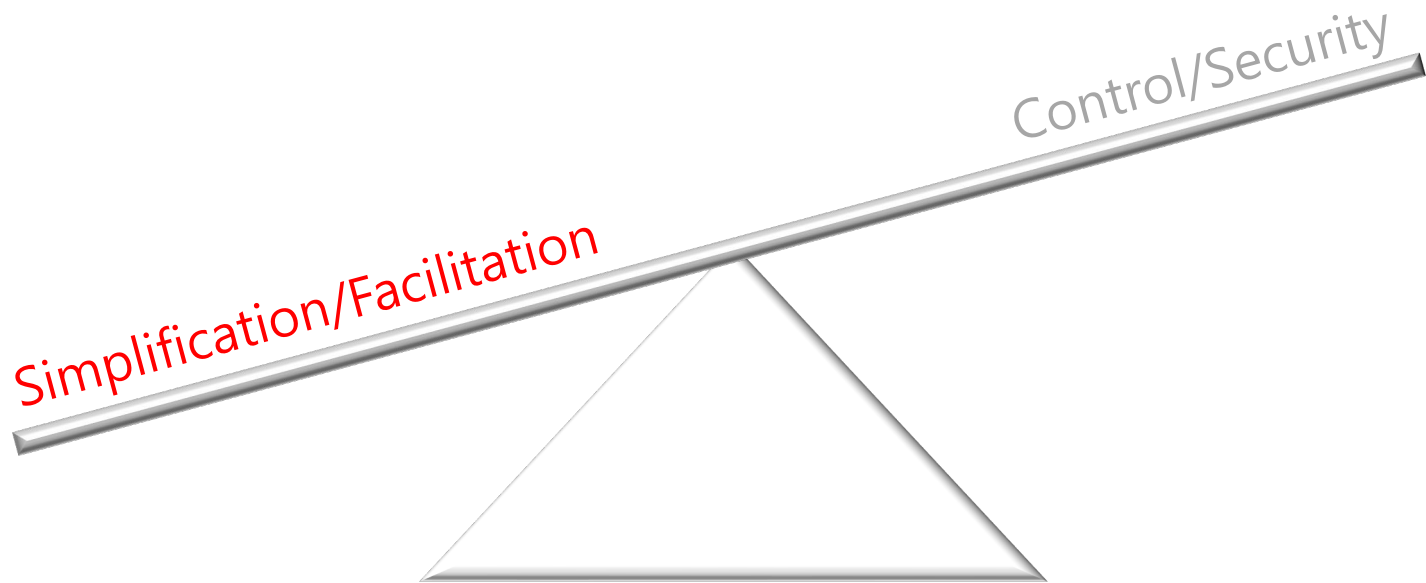


Supply Chain Security



Before 2001

- WCO Kyoto Convention('73)
 - Customs Procedures; Simplification & Standardization
 - Electronic Declaration based on EDI



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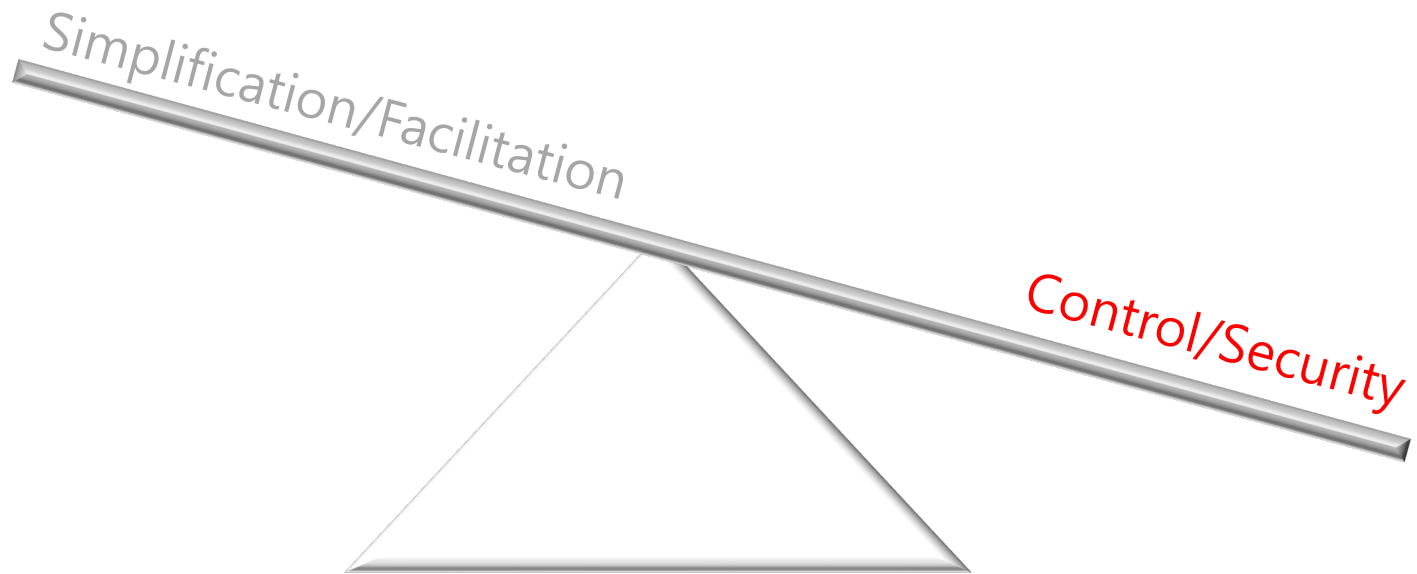
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After 2001

- Container Security Initiatives (CSI)
- 24 Hour Rule
- Customs-Trade Partnership Against Terrorism (C-TPAT)



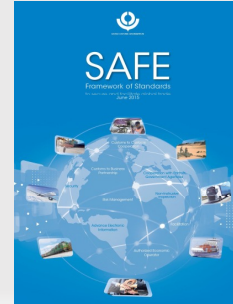
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2005

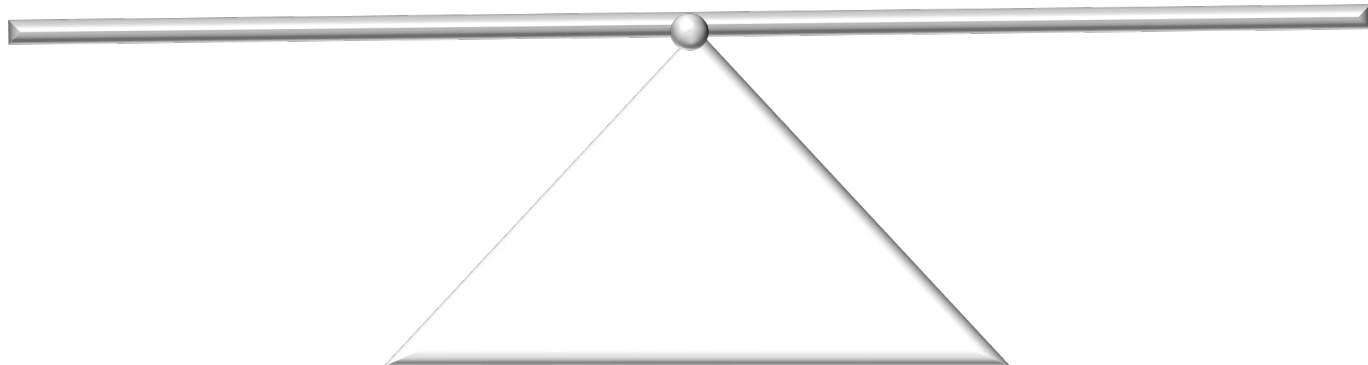
WCO SAFE Framework

- Securing the international trade supply chain, and
- Facilitating the movement of global trade



Simplification
Facilitation

Control
Security



S01

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S01

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SAFE FoS(2021)

Pillar1

Pillar2

Pillar3

Customs-to-Customs

11 Standards

- S1 (Integrated Supply Chain Management)
- S2 (Cargo Inspection Authority)
- ...
- S11 (Outbound Security Inspection)

Customs-to-Business

6 Standards

- S1 Partnership
 - S2 Security
 - S3 Authorization
 - S4 Technology
 - S5 Communication
 - S6 (Facilitation)
- AEO**

Customs-to-OGAs

12 Standards

- S1 Mutual Cooperation
- S2 Cooperative Arrangements
- ...
- S12 Development of Cooperative Arrangements

Added in 2015 Pillar 3

AEO Program

Instruments & Guidelines

AEO Implementation Guidance, AEO Compendium, AEO and the SMEs (FAQ), Model AEO Appeal Procedure, AEO Benefits, Mutual Recognition Arrangement Guideline, AEO Template, Study of APEC Best Practices in AEO Programs, etc.


SECTION 2

Korean AEO Program

01

- Korean AEO Program Trajectory

Preparatory Phase (Jun 2007-Apr 2009)

- 
- Legal basis (Article 255.2 of Customs Act)
 - Pilot Project (Samsung Electronics)

Implementation Phase (May 2009-May 2011)

- 
- **Support for SMEs**
 - **Korea AEO Association**

Mature Phase (Jun 2011-To Date)

- Expanded benefits (Customs Audit Exemption)
- **Broader AEO MRA territory**

S02

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S02

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- Challenges Identified



- **Conflicts** among government agencies
- **Skepticism from within** Korea Customs Service
- **Budget and Personnel Shortage**
- Trade community's **apathy** toward AEO Program

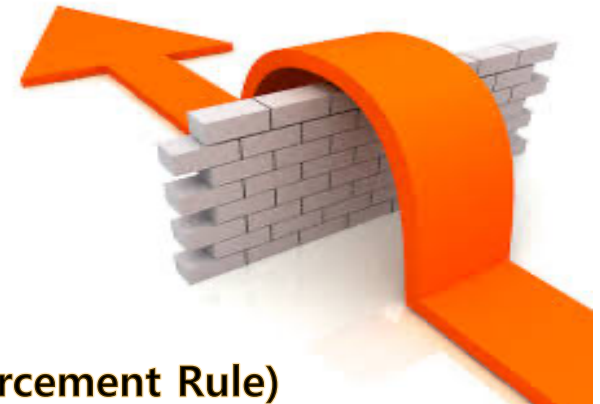
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- **Solutions**

- ✓ **Established legal basis**
(Customs Act, Enforcement Decree, AEO Enforcement Rule)
- ✓ **Reached a consensus through dialogue and consultation**
- ✓ **Secured budget & Established AEO Association**
- ✓ **Initiated consulting service by Customs' officers and by Consultancy**



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- **Where we are standing now**

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- **Reinforcing AEO organization**

- AEO Committee, AEO Center (Headquarters), CVCI(dedicated unit)

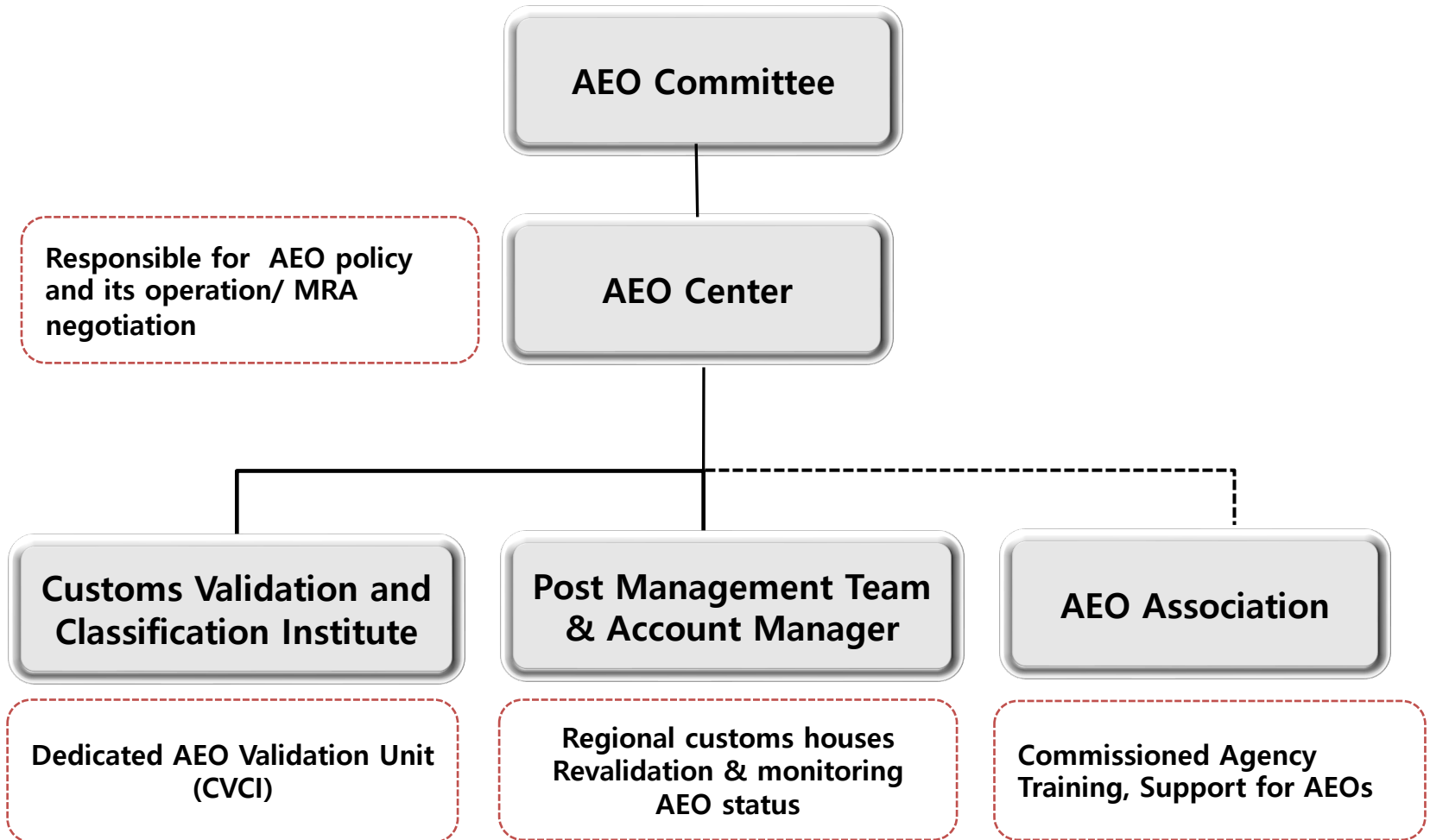
- **Striving to maximize AEO effect**

- Holding 'Annual AEO Contest' for Best Practices
- Exploring incentives of being an AEO

- **Contributing to increased export through AEO MRA**

03

• AEO Organizational Chart



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- Criteria and Sub-criteria for AEO Authorization

Law compliance	Internal control System	Financial Solvency	Security Management
1. Disqualification	1. CEO will , Organization and Budget	1. Audit report	1. Biz partner Mgmt
2. False Declaration	2. Cooperation with Customs	2. Credit ratings	2. Containers and Trailers
3. Violation of Regulation	3. Records Mgmt		3. Access Control
4. Law Compliance	4. Manual on Customs - related Affairs		4. Personnel Mgmt
	5. Management and Improvement of Risk Factors		5. Procedural Mgmt
	6. Information Sharing		6. Facilities and Equipment
		7. IT Mgmt
	13. Integrity Maintenance		8. Education and Training
↓	↓	↓	↓
Score based on automated calculation by KCS system	Score based on validation	Pass/Fail based on documentary validation	Score based on validation

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- AEO Authorization Procedure

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**Applicants**

Check on
disqualification

Self-assessment

Submit application

AEO Association

Documentary
requirement check
(within 60 days)

CVCI Validation Team

on-site
validation
(Within 60 days)

AEO Committee

Authorization

Grade
Adjustment

Cancellation &
Suspension

**Comprehensive
Audit Team**

5 years

Documentary
/ on-site validation

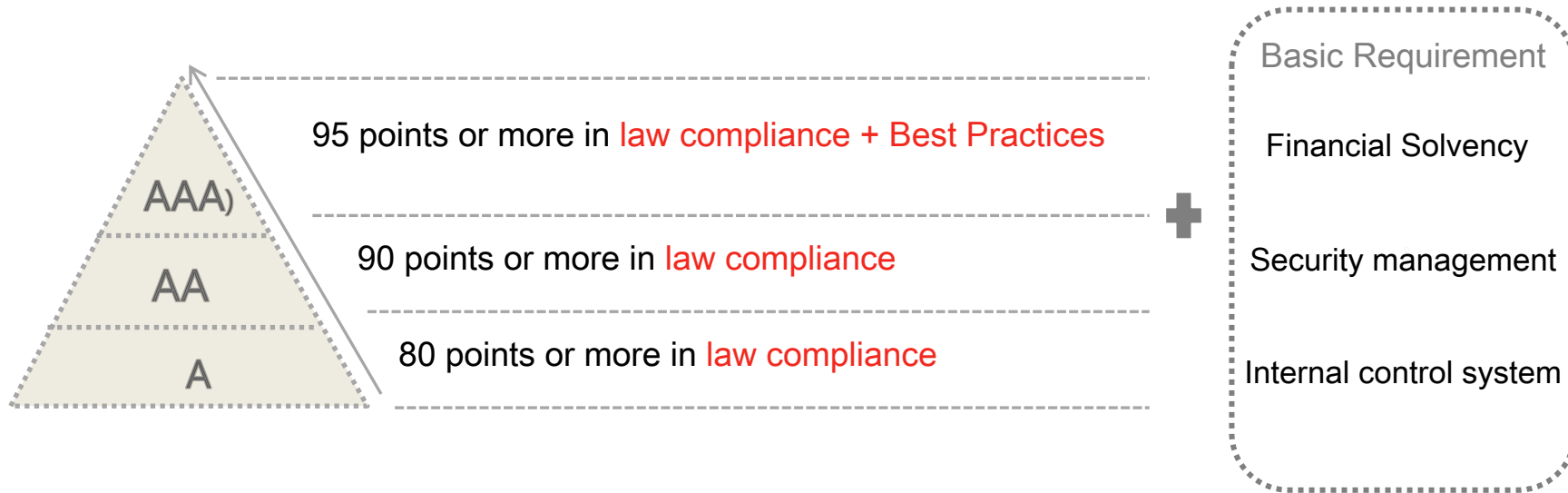
Check criteria

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- AEO TIER SYSTEM

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➤ Validity period : 5 years

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- What benefits are granted?

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Clearance

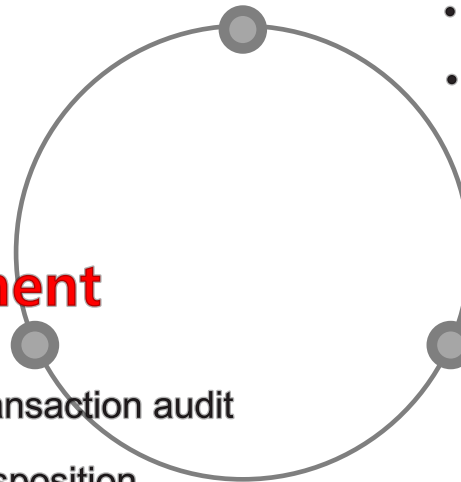
- Reduced inspection rate
- Priority Inspection
- Ex/import declaration by Corporate ERP

Corporate Management

- Minimized foreign currency transaction audit
- Reduced penalty & noticed disposition
- Fast track at airport (for CIP)

Duty Payment

- Exemption from Customs Audit
- Interest reduction for SMEs
- Exemption from Customs Bond



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- **Account Manager (AM)**

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Customs assigns account manager to inform AEOs of what they should know about dealing with trade law, which leads AEOs to voluntarily fulfill **'informed compliance'** responsibility

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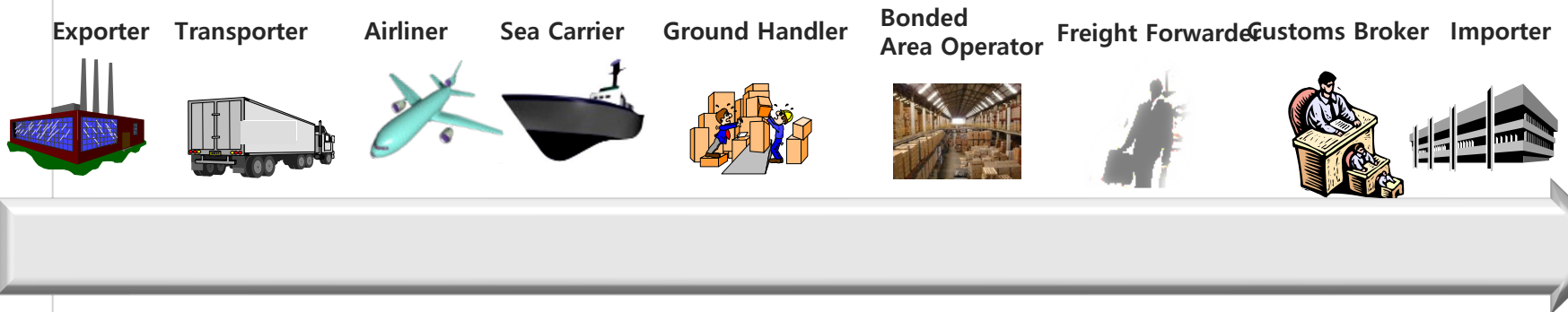
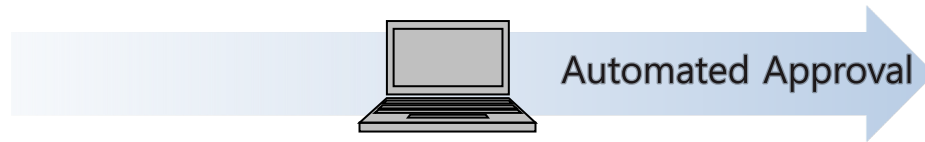
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- A WAY FORWARD

S02

Authorized Supply Chain

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- **Factors Behind Korea's AEO Program Success**

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- **Corporate Acceptance**

- Reduced Non-Tariff Barrier/ Higher Competitiveness

- **KCS Outstanding Capability**

- Commissioner's commitment to AEO Program

- Customs officers' support

- *UNIPASS*, Korea's unique, advanced e-clearance system

- **Strong AEO Organizational Structure**

- AEO Center, AEO Committee, CVCI, AEO Association

Section 3

Mutual Recognition of AEOs



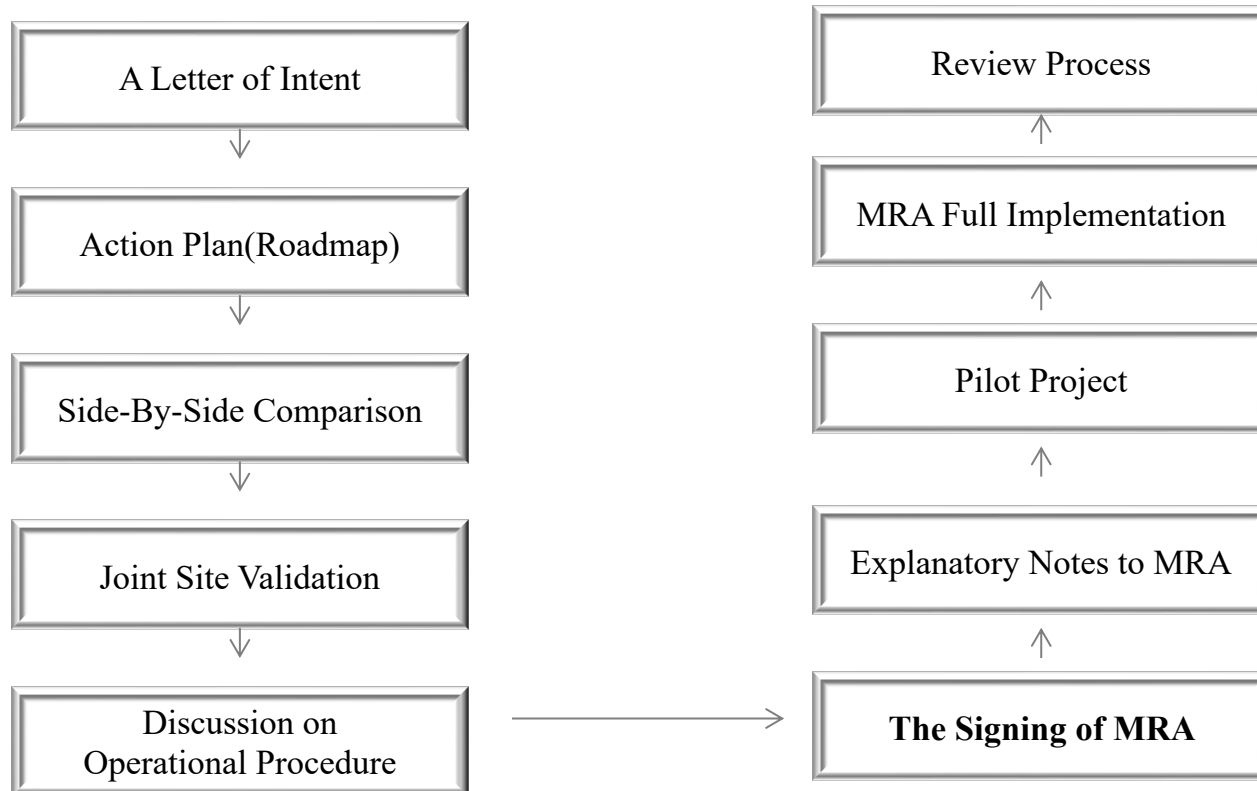
Mutual Recognition (MR) is that one Customs administration recognizes the validation findings and AEO authorizations by the other Customs administration, and provides **substantial, comparable benefits.**

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Mutual Recognition Process

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❖ KOREAN MRA Partners; 22 Countries



USA('10) Canada('10) Singapore('10) Japan('11) New Zealand('11) China('13) Hong Kong('14) Mexico('14)
Turkey('14) Israel('15) Dominican Republic('15) India('15) Taiwan('15) Thailand('16) Australia('17) UAE ('17)
Malaysia('17) Peru ('17) Uruguay('17), Kazakhstan('19), Mongolia('19), Indonesia('20)

Korea is No.1 MRA signing country

The Way Forward : AEO MRA

- ✓ To expand AEO MRAs
 - Viet Nam, United Kingdom, Saudi Arabia (in progress) and other countries
- ✓ To focus on a successful implementation with MRA partners



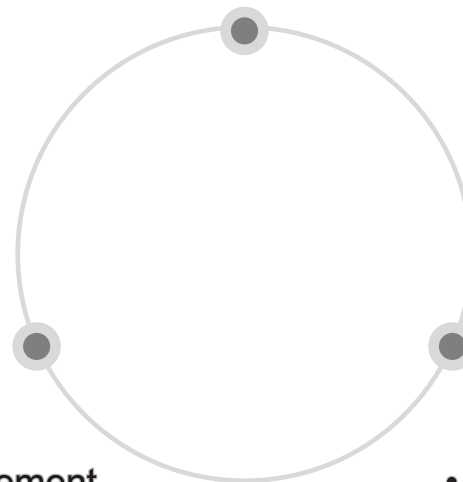
- What MRA Benefits & Effects are generated ?

Faster Clearance

- Reduced import inspection rates
- Simplified verification of import-related documents
- Faster clearance of import cargo
- Priority measures in emergency situation

Customs effect

- Efficient, strategic risk management
- Stronger customs-to-customs cooperation



Business effect

- Fast, predictable delivery of goods
- Avoiding unnecessary inspection or reducing regulatory cost
- Secure overseas business partnership

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Faster Clearance

BENEFITS

Reduced Inspection rates

Simplified Customs procedure

Priority Clearance
Designated Liaison officer



• Measuring & Monetizing AEO & AEO MRA benefits

USD \$ 322 million (2016)



Importers

Faster clearance

- the number of exempted cargo physical inspection x daily warehouse fee

+

Duty payment

- Issuance of revised tax invoice
- Reduced guarantee insurance of tax payment

+

Streamlined procedure

-entry into/from bonded factory
-claiming drawback, etc.

Exporters

Lower inspection fee in overseas customs territory - the number of exportation x reduced inspection rate x inspection fee

+

Non-AEO importers abroad enjoy benefits without any cost incurred, arising from AEO exporters paying to obtain and maintain AEO status (paid money estimated against overseas price)

+

-Rising operating profit due to increased export; **less dwell-time** in customs clearance facilitates more trade, thereby driving up operating profits.

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- **KOREA-CHINA MRA (signed in June 2013)**

Korean Exporter



KOREA Liaison Officer



CHINA Liaison Officer



**Immediate resolution
of clearance difficulties!!!!**

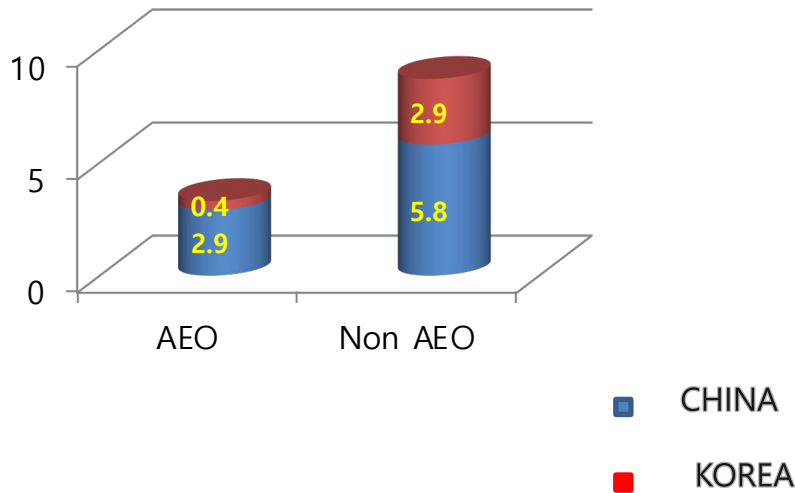
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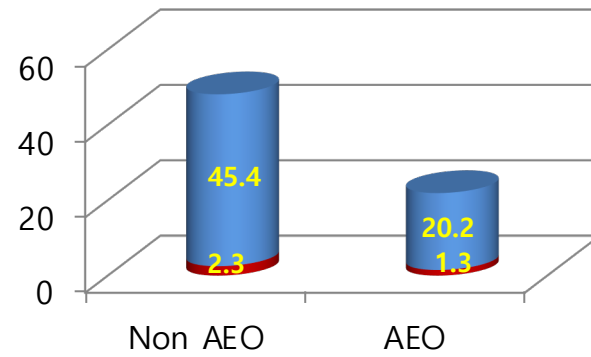
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● **KOREA-CHINA MRA (signed in June 2013)**

Inspection Rate (unit: rate)



TRS (unit: hours)



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● Case Study 1

Changes in import customs time (Korea export → A import)

Timing		AEO importer	Non-AEO	Non-AEO (-) AEO (difference)
Before MRA		0:04:20:00	0:10:17:00	0:06:23:00
After MRA		0:02:10:00	0:03:54:00	0:01:44:00
compar ison	Time	-0:02:10:00	-0:06:23:00	
	%	-50.0	-62.1	

AEO exporter -> AEO importer, reduced by **50.0%**

AEO exporter -> Non-AEO importer, reduced by **62.1%**

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● Case Study 2

Changes in import customs time (A export → Korea import)

Timing		AEO importer	Non-AEO importer	Non-AEO (-) AEO (difference)
Before MRA		0:01:39:22	0:05:10:37	-0:03:31:15
After MRA		0:00:55:00	0:02:16:42	-0:01:21:42
com paris on	Time	-0:00:44:22	-0:02:53:31	
	%	-44.6	-55.9	

AEO exporter -> AEO importer reduced by **44.6%**

AEO exporter -> NON-AEO importer reduced by **55.9%**

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- **Future Strategy**

- AEO : To **Shift focus** from accreditation to **Post-Audit system**
(AM, Comprehensive Audit)
- AEO MRA : To Ensure **effective MRA**
with reciprocal, demonstrable benefit
- To **Share Korea's experience** and knowledge
with global community



Thank You !

