

Authorised Economic Operator - What is a Customs "Trusted Trader"?

Jerry Meredith considers the implications of Authorised Economic Operator post Brexit and how it can benefit your business, how it can help your supply chain and your customers.

Authorised Economic Operator has been in the vocabulary of EU Customs officials, Brokers and Forwarders since its introduction by the EU in 2008. It has been a lesser known anacronym to Irish Businesses before Brexit became a reality. A globally recognised standard for "Customs to Business" relations it was adopted by the EU after its inception by the World Customs Organisation in 2005 and was created to benefit international trade and to insure safety and security in the supply chain. Now adopted by some 168 of the 180 members of the WCO who are committed to providing or introducing an AEO programme. Some 70 of these programmes are active and more will follow.

While different jurisdictions apply different levels of the standard for AEO they all come back to a commitment of the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade as a deterrent to international terrorism, secure revenue collections and promote trade facilitation worldwide. From 9/11 onwards, governments examined how exposed the supply chain of goods was to misuse and adulteration in supporting terrorist and criminal activities.

The EU strand of AEO focuses on 5 major aspects of the trader. 1. Customs compliance, 2. Record keeping, 3. Financial solvency 4. Proven practical standards of competence in Customs matters and 5. Security in the supply chain.

It is perhaps one of the few accreditations that is awarded and overseen directly by Customs of the EU state where the applicant is based. The process involves due diligence and audit checks on all aspects of the trader's business as it relates to international trade. From the decision to apply to obtaining the accreditation it can take up to 9 months depending on the

preparedness of the applicant and the changes that may be required to satisfy the requirements of the audit.

AEO is a much sought after and valued accreditation in the EU however currently Ireland has only in the region of 140 AEO companies. Irish AEO companies are made up of two main types of applicant, those manufacturers heavily engaged in the US markets where AEO is recognised by way of mutual recognition with the US equivalent C-TPAT which is an important requirement for ease of access to US markets. The second are the freight forwarders and logistics providers that are engaged in the carriage and storage of goods for these manufacturers. This link between manufacturers and their logistic providers is important as it introduces strength to the supply chain. The WCO and EU vision is that all participants in the chain large and small will be of AEO standard. From the transport operator to the shipping or airline, the customs brokers and warehouses, all will hold the accreditation and the combination presents a much more secure and robust supply chain. This not only is beneficial to the businesses in the chain but also Customs and government agencies who can have a certainty that because of higher standards the paperwork and declarations accompanying goods will match the goods entering and leaving the country every time and hence reducing the intervention required of Customs.

So why such a small take up in Ireland compared to other EU countries? Geographically Ireland had never been at the forefront of global trade, our main trading partners have been the UK and the European Union. We have been protected by our fringe location and our naturally developed dependency on the Single Market for imports and especially our exports. Our Agri industry has developed into a highly



Jerry Meredith CMILT is Business Services Manager with Freight Transport Association Ireland. FTA Ireland is a not for profit membership association with a mission to promote professionalism in the Logistics, Supply Chain and Transport Industry.

► Continued on Page 24

► Continued from Page 23

complex and efficient trade which spends much of its output stocking the shelves of English supermarkets in a just in time manner ensuring product freshness and longer shelf life.

Up to now Ireland's Non-EU trade has been a marginal amount of the goods entering the state via other EU countries where they make their way on to Ireland by sea, road and air. Containerised sea traffic is entering ports such as Rotterdam, Antwerp and Le Havre on some of the largest vessels in the world with a carrying capacity of up to 18,000 containers which are then transhipped on smaller feeder vessels to Irish ports. Trucks are crossing mainland Europe and the UK landbridge before arriving in Ireland and airfreight is being transhipped at major hubs such as Heathrow, Manchester and Schiphol before transferring to domestic flights or even road transport to Ireland. Issues such as security declarations where in some cases, goods are being released into the single market take place before the goods ever arrive in Ireland. The overarching aim of AEO is to protect the internal market from goods entering from outside the EU and hence AEO has not held the same attraction or necessity for Irish businesses as it has for their EU counterparts who are closer to the entry points in the EU single market for these goods.

Brexit changes everything! The established trading patterns Ireland has been accustomed to will change overnight. Our largest trading partner will instantaneously become a non-EU or third country at 2300 hrs on 29 March 2019. From the aspect of the single market the balance shifts as the volume of our trade from outside the EU will change from 20% to 80 % on the UK departure.

At the time of writing the UK government have just issued their white paper amidst a crisis of indecision created by the polarised opinion of the Tory party which resulted in the departures of David Davis and Boris Johnson from the UK Cabinet and one guarantee is that more distractions are on the way. Theresa May is vulnerable now from the interference of day to day parliamentary business that the disgruntled Brexit MPs will use every opportunity to demand that their opinions be reflected in the outcome of Brexit. Even more difficult for the British Prime Minister is that she is now wed to the Chequers

agreement, a stance that remains far removed from the red line positions of the EU and their need to protect the single market and prevent the potential for any further defections from project EU.

The confusion and lack of direction continues for business as we enter into the second half of 2018, only three months away from when the EU want an agreement on the withdrawal. Only then can discussions on a trade agreement take place by the scheduling that the EU have choreographed for talk. Keep in mind the recent Canadian free trade agreement took over 7 years to agree, prospects for the EU GB trade agreement from Oct 18 to Mar 19 are not optimistic.

The question for Customs formalities is a straight forward one and the answer is one of two options: either an agreement takes place that allows Britain to remain in or create a new Customs Union, or Britain exits the customs union, which is their stated aim. The result of Britain leaving the Customs Union will be Customs declarations. When we speak of Norway, Switzerland, Canada or associate type agreements all trade with these countries require Customs declarations. Anyone of the countries that contribute financially to the EU may well feel aggrieved if the UK is given the selective advantages they seek in the white paper. The risk runs of other member states wanting a taste of the British pie and the whole EU project runs the risk of unravelling. The white paper expresses a desire for no customs declarations but lacks content on how this might be achieved. A complicated process of collecting duties on behalf of the EU and tracking goods to their destination will be a difficult chore to deliver and monitor by both jurisdictions. The white paper is aspirational on the part of the UK part and difficult to balance with the EU 4 freedoms.

We deal with non-EU customs goods every day in our ports and airports; procedures and systems already exist to deal with them but what will change is that the volume of non-EU goods will increase dramatically. We may be tempted to conjure up images of the border crossings back in the 1980's with long queues of trucks waiting between Dundalk and Newry to have documents processed. Thankfully due to improved procedures, IT systems and the elusive back stop agreement it is very unlikely that we will revisit these scenes.

For North/South trade both parties have agreed on the desire of an invisible border, however this may ultimately be achieved, IT will play a major role for sure but the willingness for all parties to continue the stability in the region, from a social, economic and political point of view will make it the main priority in the overall deal.

From an East/West trading perspective, existing IT facilities between traders and Customs mean less direct intervention is required by Customs. Currently Dublin port handles 200,000 freight units per year from outside the EU. This means Customs formalities and checks from the Department of Agriculture are already happening every day, however post Brexit that number will increase from 200,000 to 1,200,000 non-EU freight units per annum. The existing system which works well now may well begin to creak under the added strain and the potential for delays increase. Irish Customs and UK Customs are preparing for such an eventuality, additional staff are being trained in Customs duties, IT Systems are being upgraded in both the UK and Ireland, new facilities for examination and immigration are being planned with port authorities and Customs are actively preparing for the potential outcome of customs declarations for IE/GB trade.

To meet this demand Government bodies in Ireland, UK and Europe are putting additional resources in place to deal with the increased volume. They are working on the premise of prepare for the worst, however industry does not enjoy the luxury of planning on such uncertain outcomes, any expenditure needs to be justified and the return identified before approval will be given on the spend.

There is little doubt at this stage that we will be trading with the UK as a third Country to the single market from 29th March 2019 and that the transition period will leave the status quo in place for trading up to Dec 2020. What then? The EU is a rules-based entity, it depends on the rules and regulations applying equally to all parties to have clarity, transparency and competitiveness in the single market. All Customs activities are conducted under the Union Customs Code which outlines the rules and regulations for allowing third country goods enter into or leave the single market. Within the UCC there is scope for the special treatment of traders, it is called Authorised Economic Operator (“AEO”). As the trade pattern shifts

we begin to see the attraction of AEO to our European counterparts who are one step closer than we currently are in trading with third countries. Trade facilitation will be a major focus for the Governments, one of the three priorities of the Irish Government is "minimising the impact on trade and the economy", this will see businesses being encouraged to make use of the existing simplified customs procedures. The UK white paper calls for trusted traders to be able to make self-assessment on duties and they are calling for mutual recognition of AEO traders. Simplified procedure will be the corner stone of minimising the impact of Customs while remaining inside the existing rules. There are already several different types of simplified procedures in the Union Customs Code and AEO companies can avail of them quicker and more cost effectively than non-AEO companies. AEO companies are already the "trusted trader" that Customs authorities speak of when using the term. Revenue have indicated that they would like to see over 2000 Irish businesses obtaining AEO status. They are encouraging businesses to re-examine their supply chain and the

threat that Brexit poses for them and to give serious consideration to the advantages that AEO status will bring to their business.

Simplified procedures are extended to businesses that already have an existing relationship with Customs. These are companies that Customs have already reviewed their compliance records, their financial solvency and have processes and policies that are part of an ongoing audit based AEO accreditation overseen by Customs. The enhanced trade facilitation to AEO businesses include a lower risk rating from Customs surveillance on the movement of goods, prior notice of customs interventions such as exam or document checks and priority in carrying out these customs control measures.

This will be the value of the spend on AEO that businesses will want to identify, a higher state of preparedness, less customs interventions, fast resolution of interventions and a more accessible route to obtaining simplified procedures. All adding up to a stronger and more efficient supply chain.

There may well be further concessions to AEO companies as clarity begins to appear on the outcome. There is no cost for the application and Customs will work with those that engage with them and display compliance and knowledge of the Customs process. Now is the time to consider AEO and how it can benefit your business, how it can help your supply chain and your customers. Those that plan now will overcome the challenges that Brexit throws up. The time for sitting on the fence and wondering what will happen has passed. Applications for AEO are increasing in the Irish market, businesses are recognising its importance. The application process is anything between 6 and 12 months well into the transition period. Supports and assistance are in place for those starting the process including a self-assessment questionnaire which is an excellent management tool for review of current practices and building new practices for those engaged in international trade.

Further information is available from Jerry Meredith CMILT at jmeredith@ftai.ie or 087 327 0518

Irish Tax Institute

Considering a Professional Tax Qualification?

Chartered Tax Adviser (CTA) - Become a Tax Expert

The gold standard in tax education, the Chartered Tax Adviser (CTA) qualification is Ireland's leading tax advisory qualification for tax professionals. A hallmark of tax expertise worldwide, graduates of the CTA qualification have proven tax technical and legislative expertise, critical to career advancement whether in tax practice, industry or the public sector.

Who is it for? Professionals who wish to develop expertise in tax

What is it? The qualification of choice for Ireland's leading tax experts and advisers

Where is it? Dublin, Cork and online

Exemption: CPA's are exempt from Part 1

To learn more about our **range of tax qualifications** please contact Eimear on: 01 6631748 or email students@taxinstitute.ie

 www.taxinstitute.ie

 Follow us on Facebook: www.facebook.com/ITISStudents

 Follow us on Twitter: @CareerInTax

Course
starts
October
2018