

AEO program

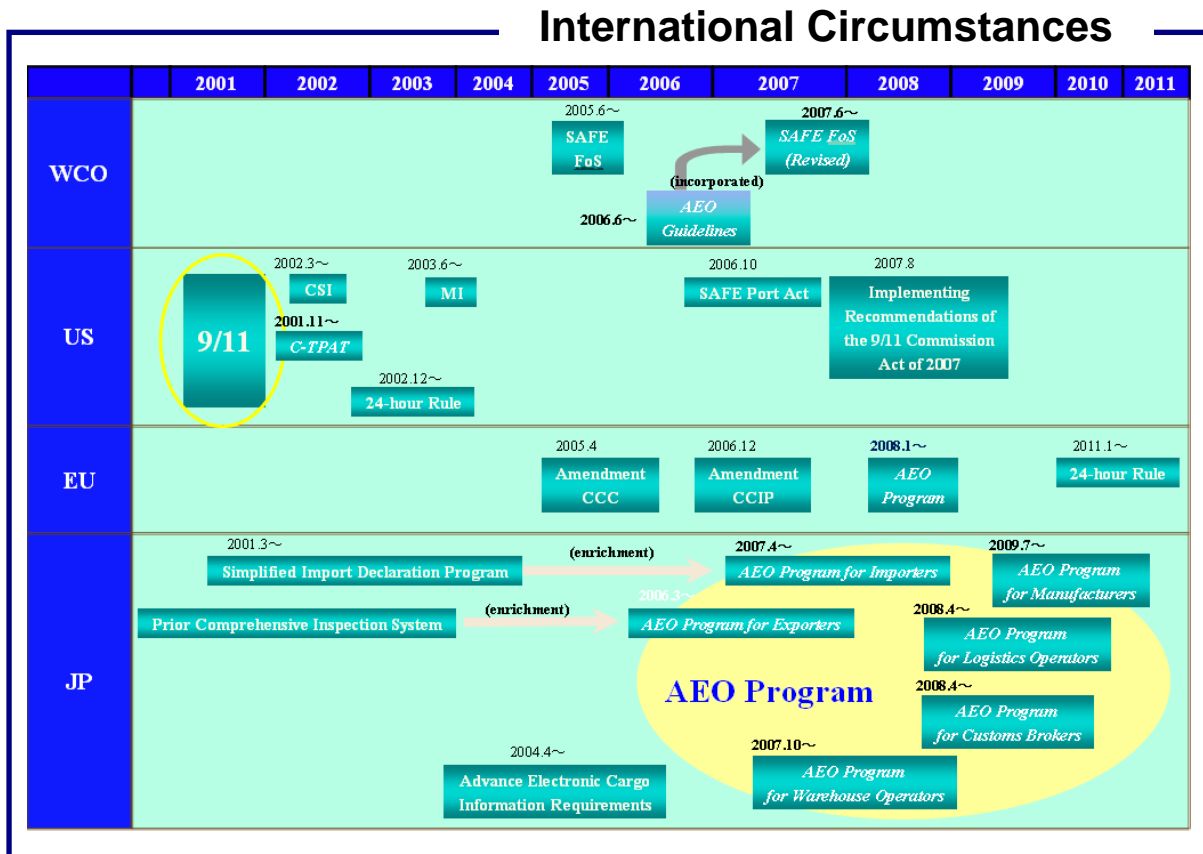
(Authorized Economic Operator)



Customs & Tariff Bureau
Ministry of Finance, Japan

International background

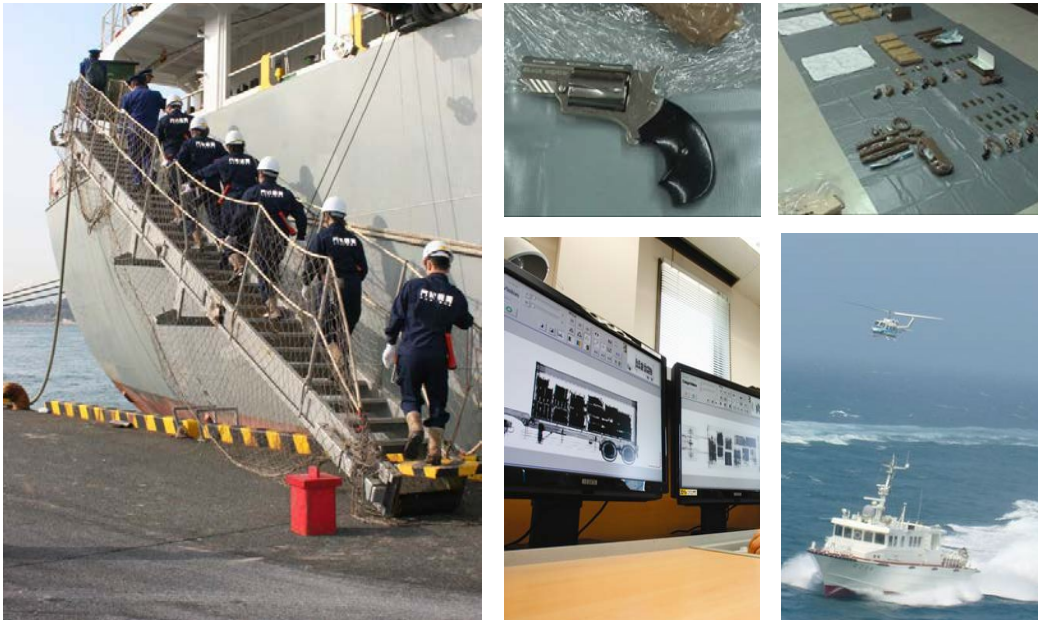
The global trading system is vulnerable to terrorist exploitation while the international trade is an essential element for the economic development. Customs has a unique role in the international trade to provide increased security while ensuring facilitation of the legitimate flow of goods and the role of Customs has become more and more indispensable these days. In response to this trend, the World Customs Organization (WCO), the organization of 184 Customs administrations all over the world, adopted an international framework (“SAFE Framework”) in 2005, which includes the Authorized Economic Operator (AEO) concept, whereby a party involved in the international movement of goods would be approved by Customs as complying with the supply chain security standards, and given benefits, such as simplified Customs procedure and less Customs intervention.



Mission in a new environment

Under the AEO concept, our mission in this new environment has been increasingly focused on **ensuring security** in the international supply chain and safe and secure society, especially preventing terrorism,

Ensuring Security



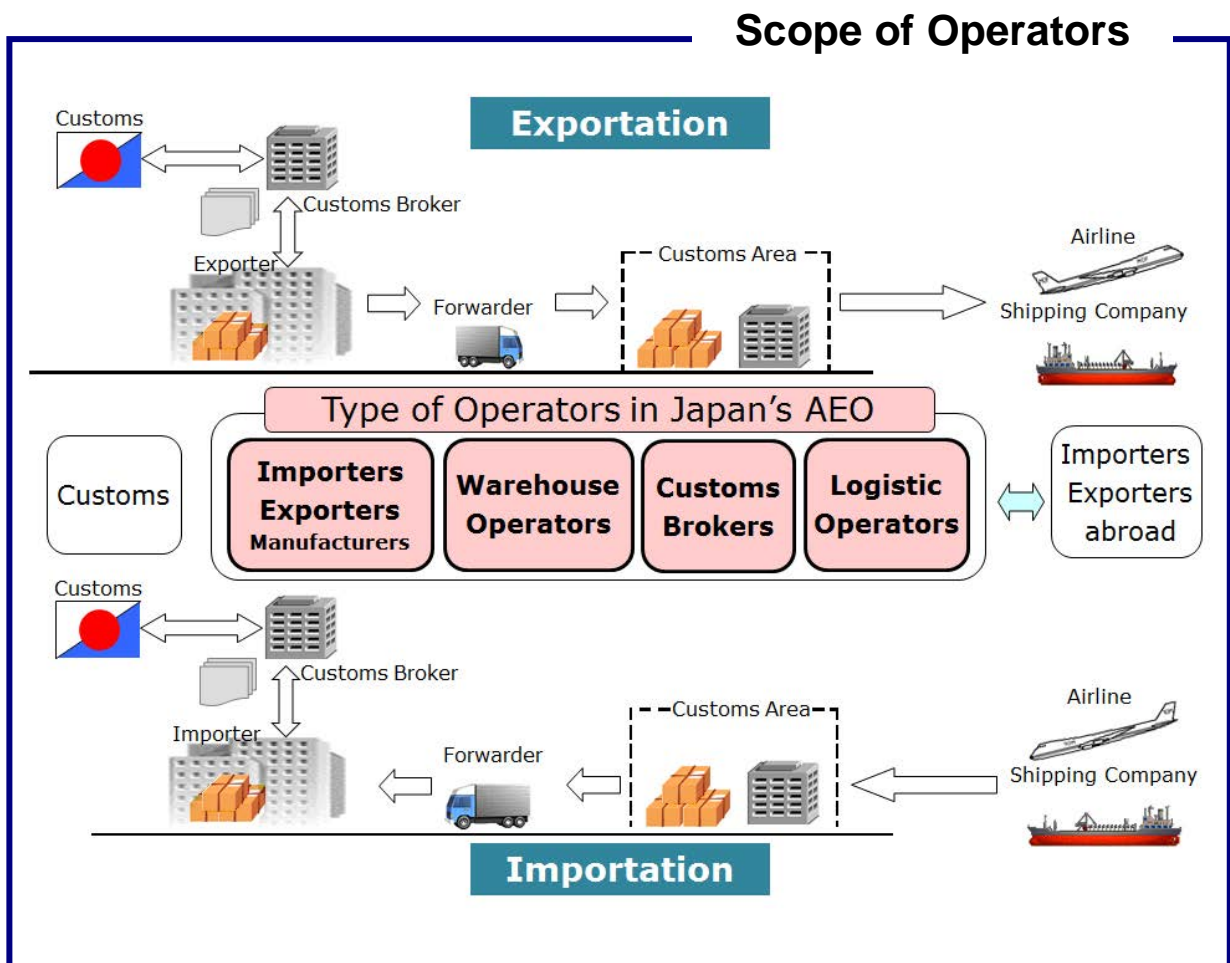
and at the same time, **facilitating legitimate flow of goods**, through providing trade facilitation measures to the operators who are well-compliant with the supply chain security standards.

Trade Facilitation



Key features of AEO program in Japan

In this stream, the Japanese government has developed and promoted AEO Program in close cooperation with the business sector, aiming at ensuring security while facilitating legitimate trade. For that purpose, Japan Customs, as a main entity in the field of international trade, has developed AEO program for importers, exporters, warehouse operators, Customs brokers, logistics operators and manufacturers which is consistent with the “SAFE Framework” developed by the WCO.



Benefits for an AEO

Under this program, an AEO in Japan can enjoy specific benefits according to its type of AEO, in addition to the benefits such as increased reputation as a more compliant and security-oriented company, favorable consideration in Customs enforcement proceedings and better relations with Customs.

For example, the program provides AEO Importers and AEO Exporters with benefits such as compliance-reflected reduced examination and inspection. Furthermore, “pre-arrival lodgment of import declaration and permission”, “release of cargoes before duty/tax payment declaration” and “periodical lodgment of duty/tax payment declaration” are allowed for AEO Importers, and the requirement to deposit cargoes into the Customs area before export permission is waived for AEO Exporters.

With regard to AEO Warehouse Operators, it is allowed to establish additional new bonded warehouses by just notifying it to Customs while permission is necessary for non-AEO warehouse operators. Compliance-reflected reduced audits of warehouses are conducted by Customs, and monthly fee for keeping Customs warehouses is free for AEO Warehouse Operators.

Regarding the AEO Logistics Operators such as forwarders, shipping companies, airlines and transportation companies, processes for customs transit are simplified. For example, AEO carriers and forwarders are not required to obtain permission for each and every customs transit.

As for AEO Customs Brokers, in case a non-AEO importer delegates its import clearance to an AEO Customs Broker, release of goods is allowed before duty/tax payment declaration and duty/tax payment. And, in case a non-AEO exporter delegates its export clearance to an AEO Customs Broker, and an AEO Logistics Operator transports exporting goods to the Customs Area, it is allowed to file an export declaration and given export permission without placing goods into the Customs area.

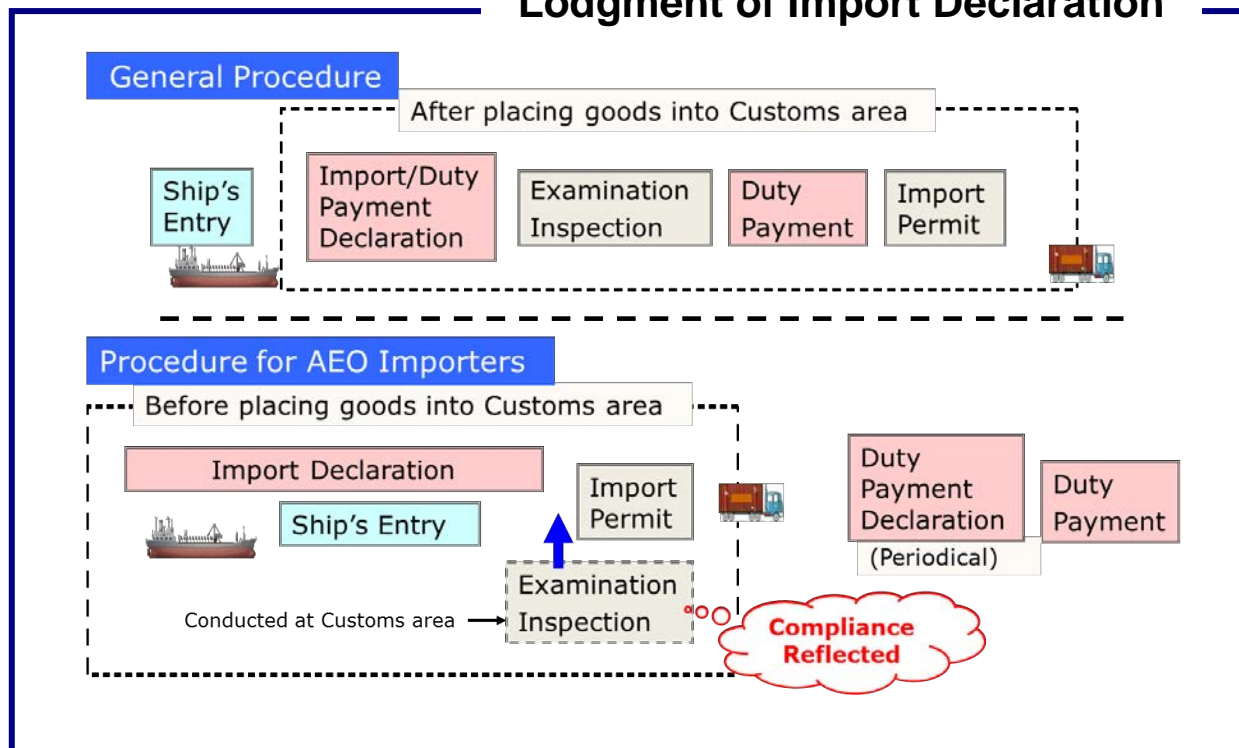
For AEO manufacturers, in case a non-AEO exporter lodges an import declaration for cargoes manufactured by AEO Manufactures, it is allowed to file an export declaration and given export permission without placing goods into Customs area.



AEO Importers

- *Compliance-reflected reduced examination and inspection*
 - *Pre-arrival lodgment of import declaration and permission*
 - *Release of cargoes before duty/tax payment declaration and duty/tax payment*
 - *Periodical lodgment of duty/tax payment declaration*
 - *Can lodge import declaration to any customs offices*
- (Please see page 11 for more detail)

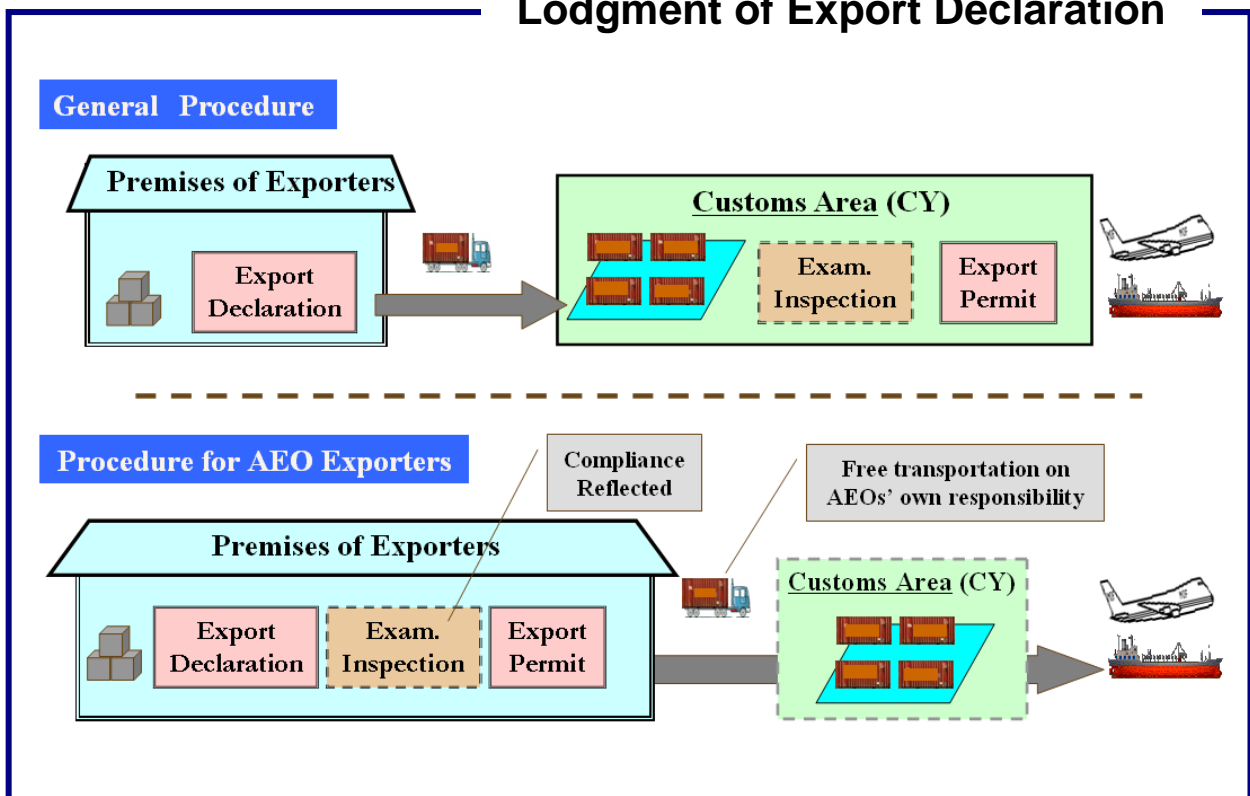
Lodgment of Import Declaration



AEO Exporters

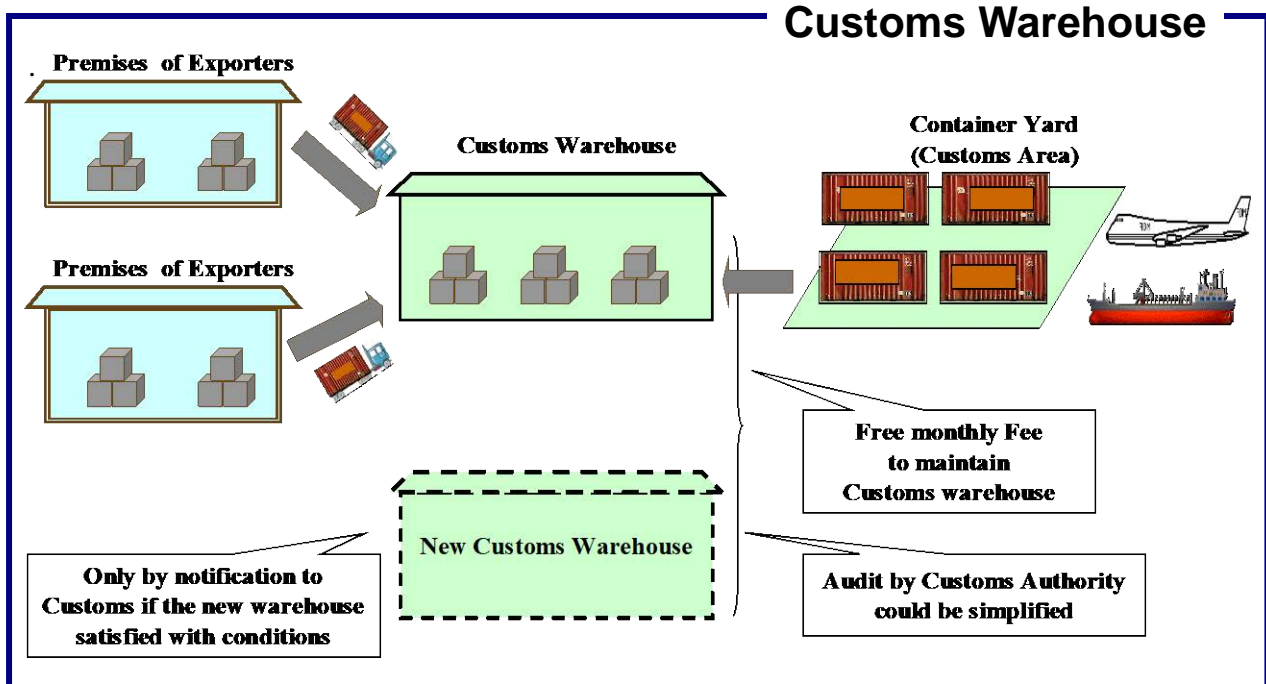
- Waive the requirement to store goods in the Customs area
 - Compliance-reflected reduced examination and inspection
 - Can lodge export declaration to any customs offices
- (Please see page 11 for more detail)

Lodgment of Export Declaration



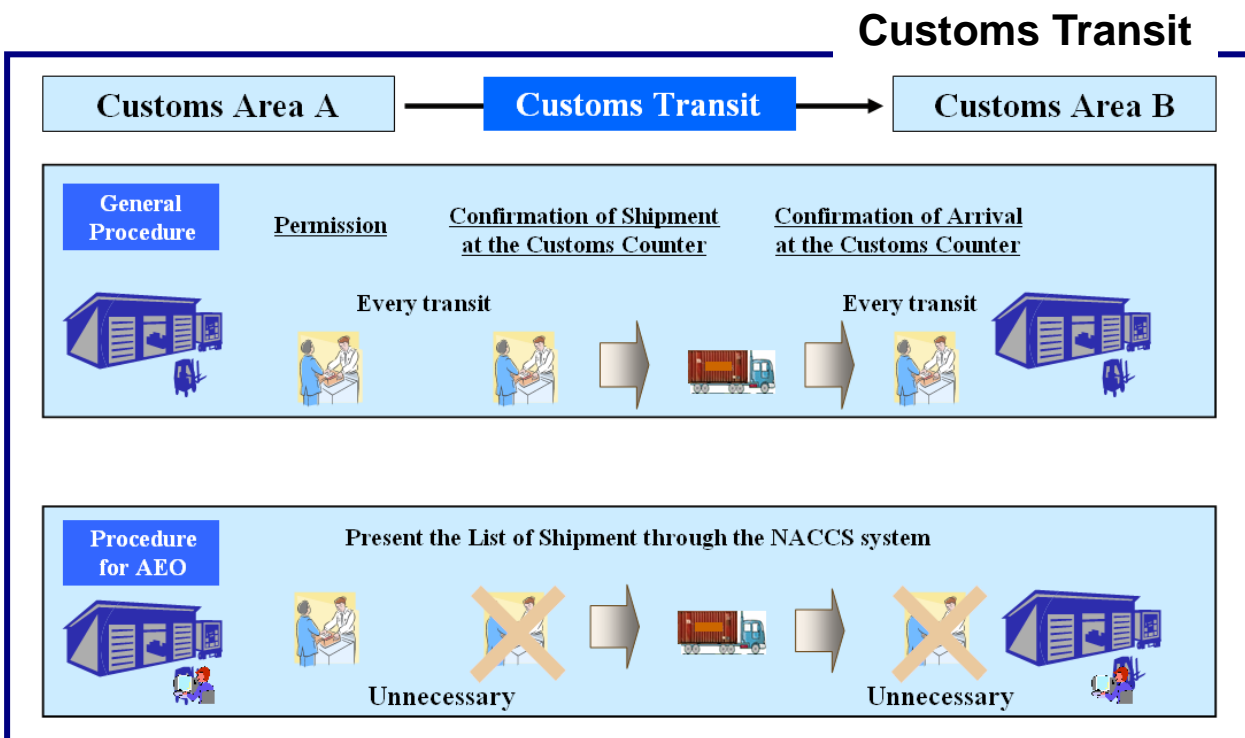
AEO Warehouse Operators

- Establishment of a new Customs warehouse only by notification
- Compliance reflected reduced audit
- Free monthly fee



AEO Logistics Operators

- Customs transit without permission from Customs



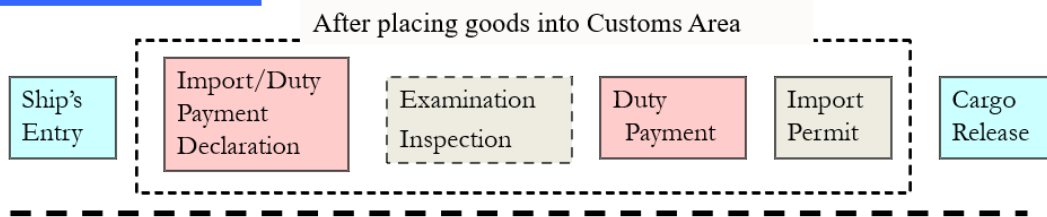
AEO Customs Brokers

In case a non-AEO importer delegates its import clearance to an AEO Customs Broker

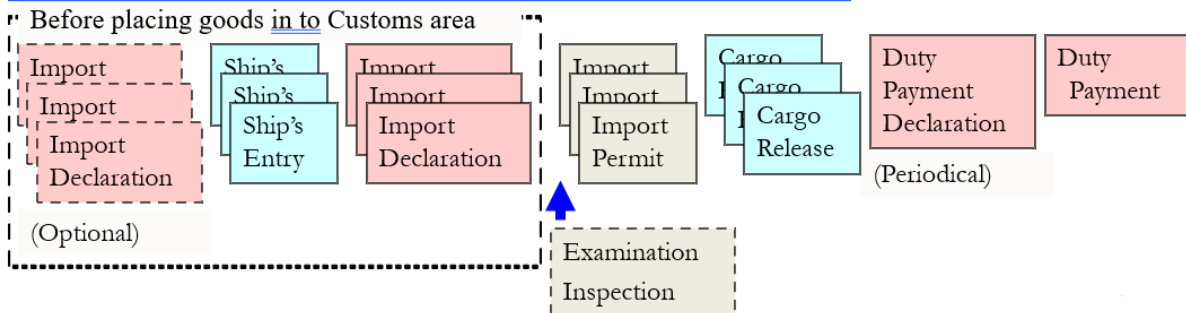
- *Pre-arrival lodgment of import declaration*
- *Release of cargoes before duty/tax payment declaration and duty/tax payment*
- *Periodical lodgment of duty/tax payment declaration*
- *Can lodge import/export declaration to any customs offices*
(Please see page 11 for more detail)

Lodgment of Import Declaration by an AEO Customs Broker

General Procedure



Procedure for Authorized Delegated Import Clearance

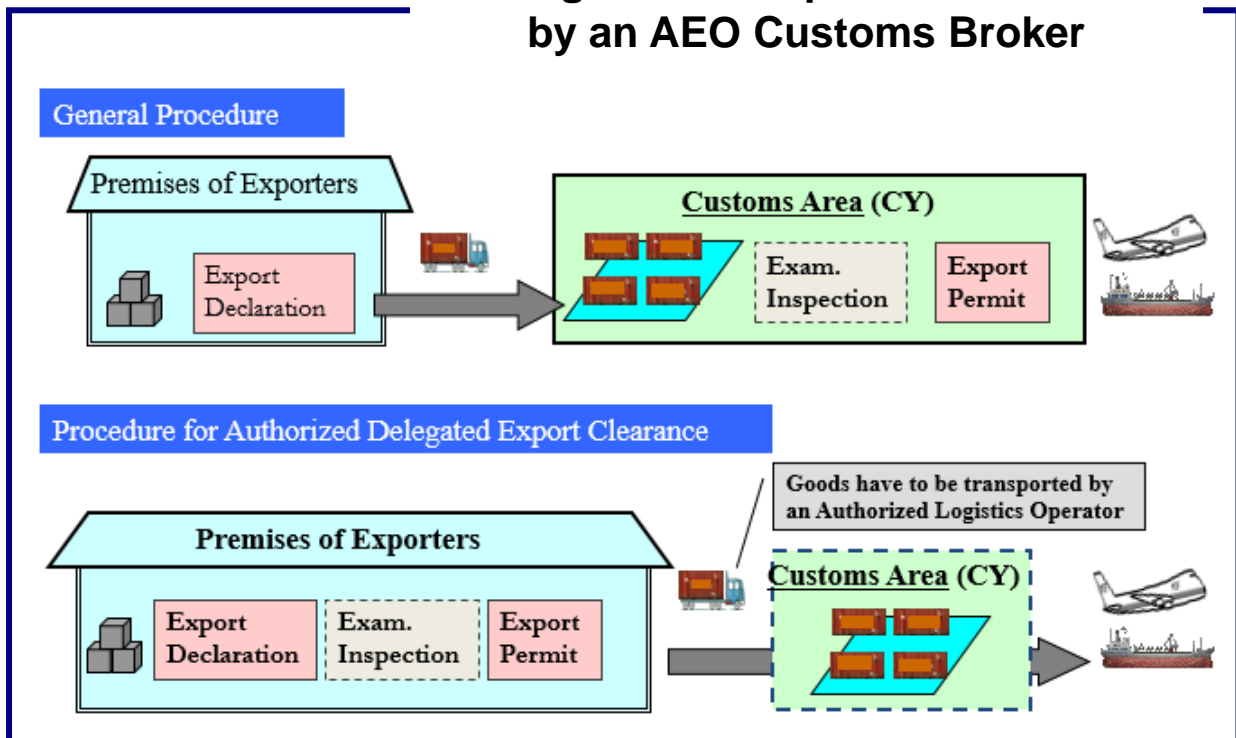


AEO Customs Brokers and AEO Logistics Operators

In case a non-AEO exporter delegates its export clearance to an AEO Customs Broker, and an AEO Logistics Operator transports exporting goods to Customs area

- Waive the requirement to store goods in the Customs area

Lodgment of Export Declaration by an AEO Customs Broker

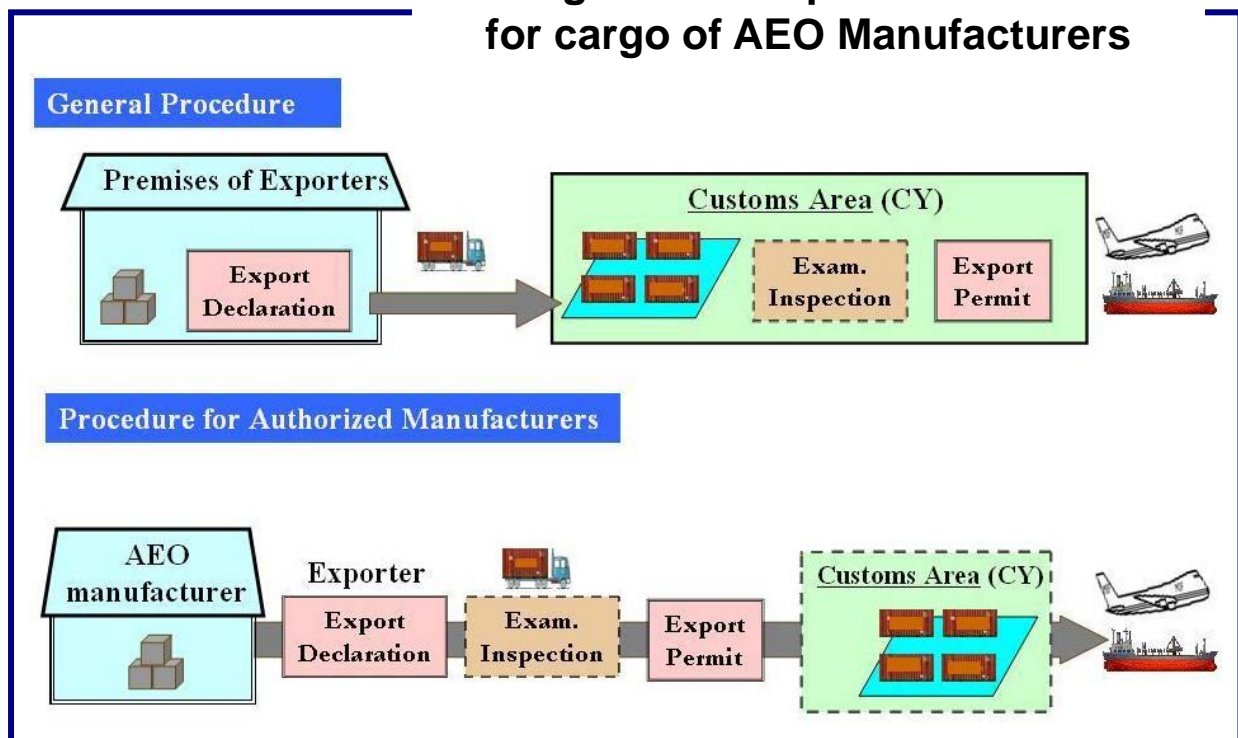


AEO Manufactures

In case a non-AEO exporter lodges export declaration for cargoes manufactured by AEO Manufacturers, and an AEO Manufacturers ensure cargo management together with Exporters

- Waive the requirement to store goods in the Customs area
 - Can lodge import declaration to any customs offices
- (Please see page 11 for more detail)*

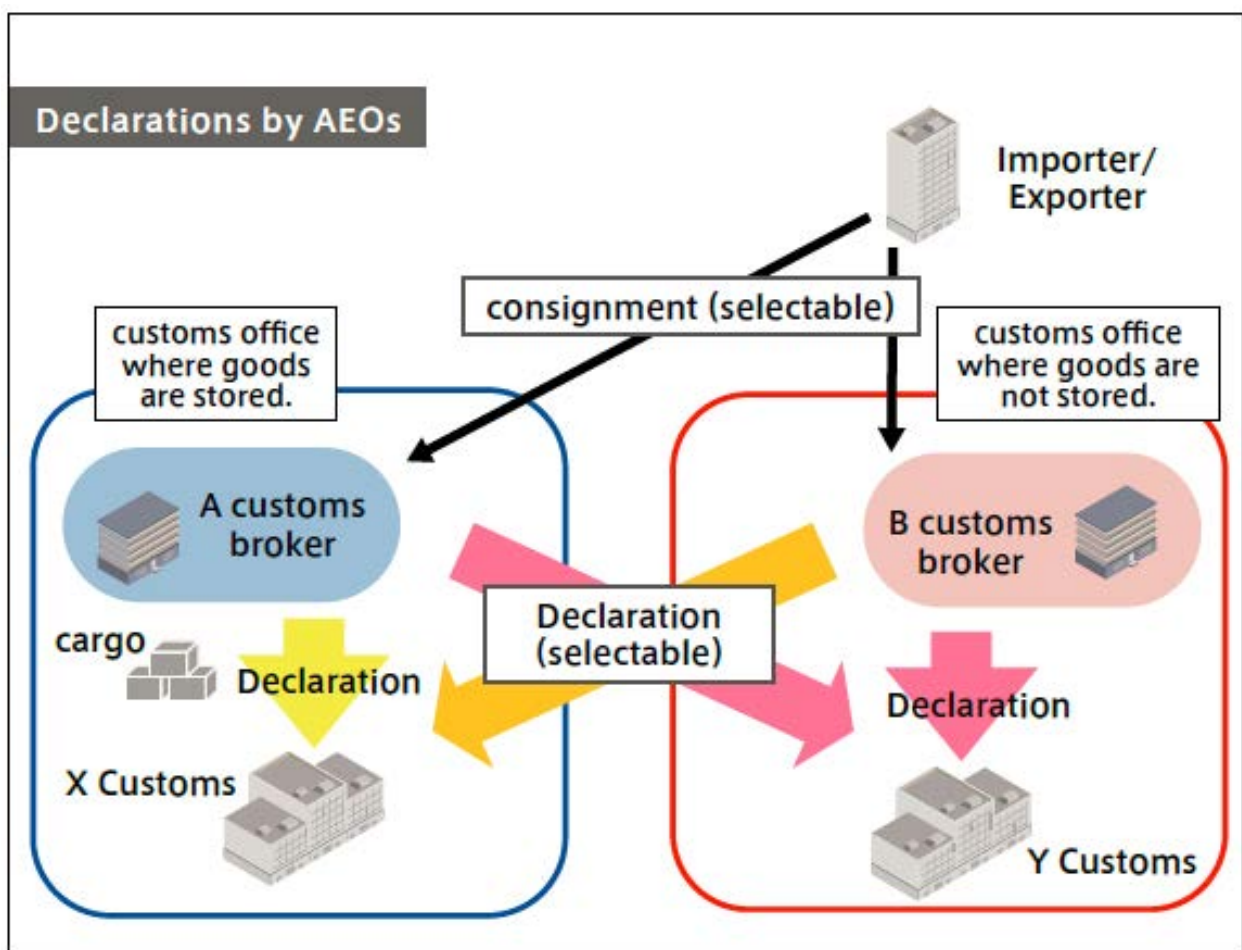
Lodgment of Export Declaration for cargo of AEO Manufacturers



Liberalization of Customs offices to which import/export declarations are submitted

AEOs can lodge import/export declaration to any customs offices, while maintaining the principle that import/export declaration shall be lodged to the customs office where the goods are stored.*

**Only applicable for AEO Importers, AEO Exporters, AEO Customs Brokers and AEO Manufacturers.*



Requirements to be an AEO

1. Eligibility

Eligibility and requirements to be an AEO are consistent with the standards included in the "SAFE Framework" adopted by the WCO. The eligibility consists of four core elements ;

“Appropriate compliance records”, “Capability to use e-system for Customs procedures”, “Capability to conduct related operations properly” and “Establishment of a Compliance Program”. “Appropriate compliance records” means proper records of Customs and trade related compliance such as no commitment over a designated period any violation against Customs Act. “Capability to use e-system for Customs procedures” means the capability to take advantage of NACCS (Nippon Automated Cargo and Port Consolidated System). “Capability to conduct related operation properly” means, for example, capability to securely control cargoes and conduct customs procedures properly, including a good financial standing (financial integrity) which the AEO should maintain. “Establishment of a Compliance Program” means establishment of a CP and capability to maintain the operation in accordance with the CP. The security standards are considered as an important element of the CP.

Eligibility

- *Appropriate compliance records*
- *Capability to use e-system (NACCS) for Customs procedures*
- *Capability to conduct related operation properly (including Financial Integrity)*
- *Establishment of a Compliance Program (including Security Standards)*



2. Requirements

The points to be included in the CP are as follows.

- “Organizational Set-up” includes establishment of a center office to manage CP and CP units in each department and ensuring the proper operation at each department.
- “Contracting Parties (Business Partners) Requirements” includes ensuring the adequacy of business partners in relation to the performance of the CP including security aspects and establishment of a framework to ensure proper operations by business partners.
- “Cargo/Conveyance/Premises/Personnel Security” includes appropriate management of the cargoes and establishment of a framework to check the route and the mode of transportation, as well as proper track of the movement of the cargoes. Use of appropriate locking devices, fencing and lighting, setup of video surveillance cameras, periodic patrolling and introducing employee identification procedures are also included in this category.
- “Due Customs Procedures” includes making a list of cargoes (including description, mark, tariff classification, tariff rate, applicability of trade control laws and regulations) and timely updates of such list.
- “Consultation/Cooperation/Communication with Customs” includes establishment of a route of report to Customs on any accident or misconduct in implementing the CP.
- “Crisis Management” includes establishment of a framework to ensure route of report in case of emergency and to take remedial and preventative measures.
- “Education/Training” includes establishment of a framework to plan education and training programs and to implement those programs on a periodic and continuing bases.
- “Internal Audit” includes establishment of a framework for internal audit to ensure proper implementation of the CP. In other words, self-audit is the obligation for an AEO in Japan.

Compliance Program

- *Organizational Set-up*
- *Contracting Parties (Business Partners) Requirements*
- *Cargo/Conveyance/Premises/Personnel Security*
- *Due Customs Procedures*
- *Consultation/Cooperation/Communication with Customs*
- *Crisis Management*
- *Education/Training*
- *Internal Audit*

Authorization process to be an AEO

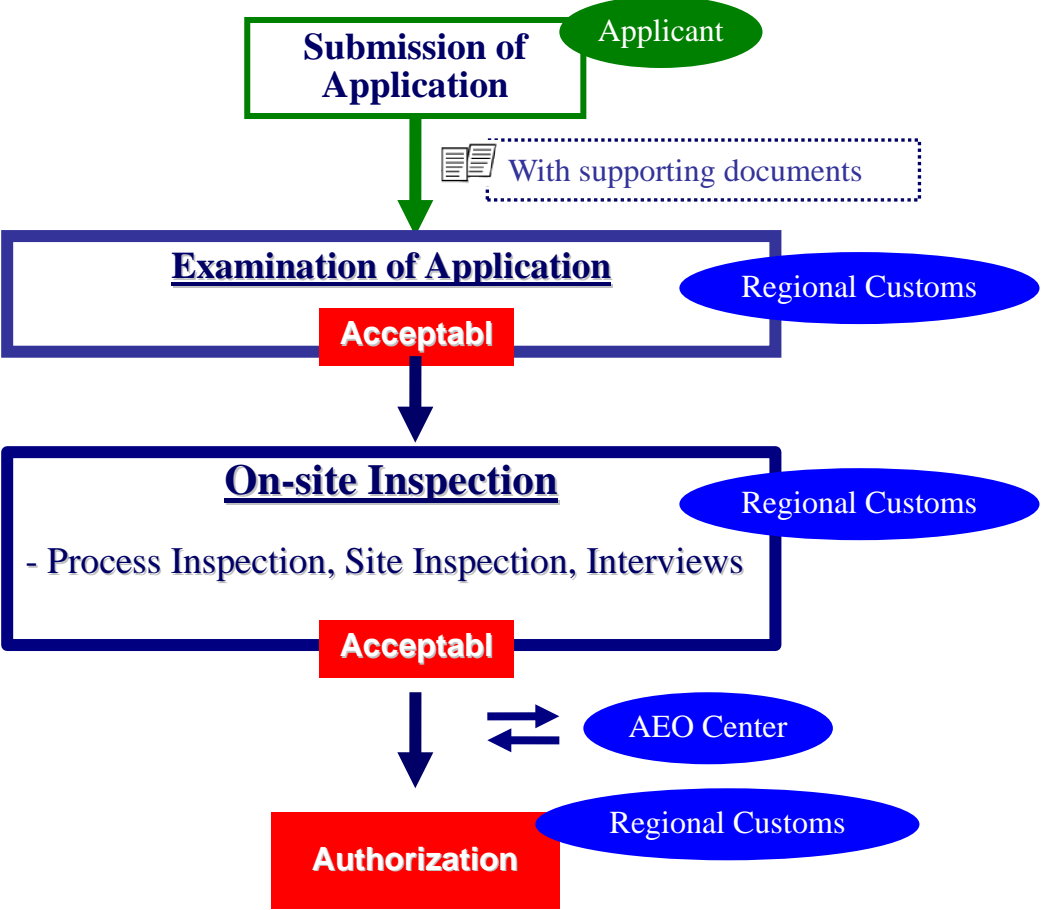
1. Authorization Process

Any operator who wants to become an AEO shall apply to the Director-General of regional Customs. The typical steps are as follows:

- 1) **“Prior Consultation with Customs”**: This process is not mandatory, however, any operator who wants to be an applicant can contact regional Customs to get the necessary information and advice on the application procedures in advance. Customs provides consultation services of AEO program. Only those who are interested will apply.
- 2) **“Submission of Application”**: An applicant submits an application form and supporting documents such as the Compliance Program, Self-Check Sheet, Corporate Registration Certificate and some other documents concerning trade related issues after reviewing its business operation.
- 3) **“Examination of Application”**: Customs examines the submitted application form and all the supporting documents, to confirm whether the applicant satisfies all the eligibility and requirements to be an AEO.
- 4) **“On-site Inspection”**: Customs conducts on-site inspection mainly to confirm the security measures of the cargo storage facilities and the applicant’s operations, including the surroundings of the facilities, cargo segregation, lighting, locking devices, access control, computer system, etc. Customs also checks whether its Customs procedures are conducted in accordance with its Compliance Program.
- 5) **“Authorization”**: When all the results fulfill the requirements designated for approval of each type of AEO, the applicant is approved as an AEO by the Director-General of regional Customs.

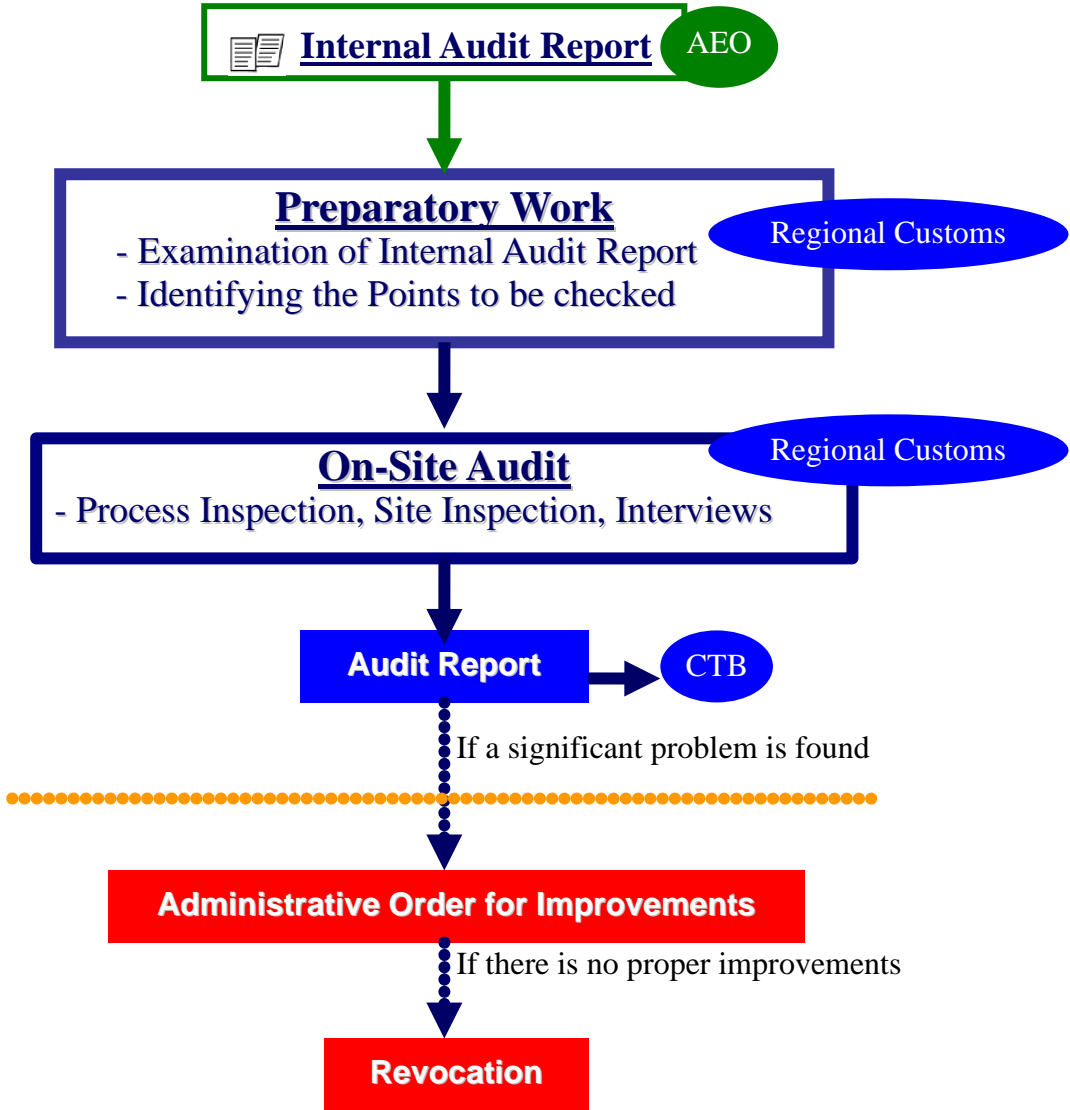


The basic authorization process to be an AEO is illustrated in the following chart.



2. Process of Post-Audit

After the authorization, an AEO will be subject to post authorization audits by Customs. It is obligation of an AEO to conduct internal audit (self-audit) at least once a year. In the post audit process, Customs reviews the results of the internal audit and conducts interviews and on-site inspection of the premises and facilities of the AEO to confirm whether Customs procedures are consistent with the Compliance Program and protocols. Appropriate security measures at the cargo storage facilities, including the surroundings of the facilities are also the points to be reviewed. If a significant problem is found in the audit process, Customs issues an “Administrative order for improvement”. If satisfactory improvement is not completed within a certain period after this order, Customs revokes the AEO status.



Operation of Japan's AEO program

Customs and Tariff Bureau, Ministry of Finance is responsible for the policy and planning function of AEO program. It also develops internal guidelines for proper implementation and operation at regional Customs. Mutual Recognition and international issues of AEO program are also addressed by CTB.

All 9 regional Customs headquarters nationwide have AEO specialists who are responsible for application processes and authorization processes and have an authority to provide authorization to applicants. A national AEO center is established in Tokyo Customs to oversee the operations of the other regional Customs in order to ensure consistency of implementation of AEO program.

Ministry of Finance (CTB)

- Policy and Planning Function of AEO Program.
- Developing Internal Guidelines for Proper Implementation of AEO Program.
- Mutual Recognition and International Issues of AEO Program.

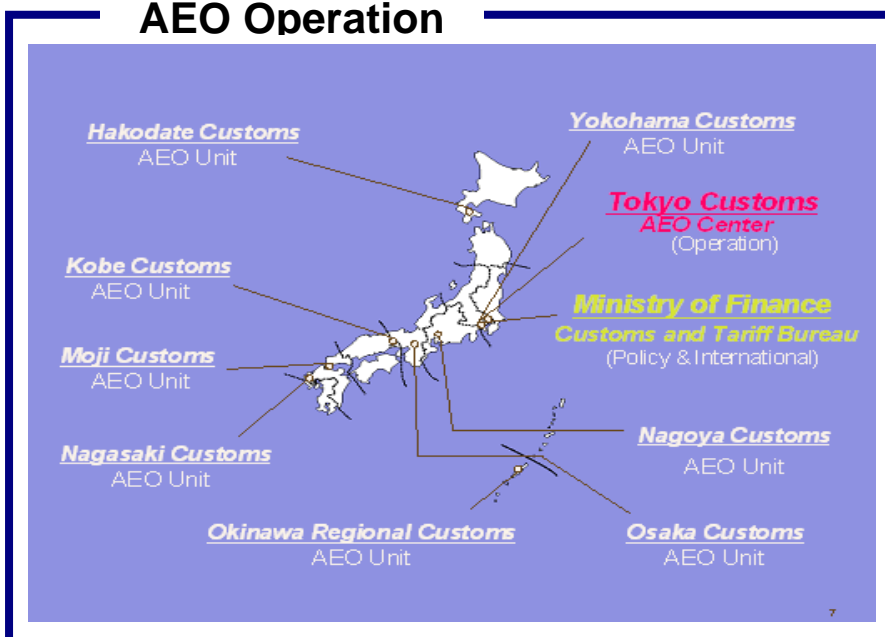
9 Regional Customs

AEO Center (Tokyo Customs)

- Ensuring Consistency of Implementation and Operation of AEO Program.

- Authorization Processes (providing authorization to applicants).
- Conducting Post Audit of AEOs.

AEO Operation



Legal structure of AEO program in Japan

Japan's AEO program consists of provisions under "Customs Act", "Cabinet Order", "Ordinance of the Ministry of Finance (Ministerial Ordinance)" and "Order of the Director General of Customs and Tariff Bureau, Ministry of Finance". Customs Act stipulates benefits to an AEO, requirement (eligibility) to be an AEO, issuance of administrative order for improvement to an AEO, and revocation of the status as an AEO. Cabinet Order stipulates procedures for Customs clearance with benefits and application procedures for authorization. Ministerial Ordinance stipulates particulars to be set forth in the Compliance Program. Order of the DG of CTB, MOF includes specific Customs clearance procedures, exemplification on the particulars of Compliance Program, and guidelines for reviewing the application at Customs.

Act (Customs Act)

Stipulates the rights and obligations of citizens

- *Benefits/requirements, administrative order and revocation*

Cabinet Order (Order for Enforcement of the Customs Act)

Stipulates specific procedures

- *Customs procedures for an AEO, authorization processes*

Ministerial Ordinance

(Ordinance for Enforcement of the Customs Act)

Stipulates details for the implementation of the specific procedures

- *Particulars to be set forth in the Compliance Program.*

Order of the Director General of CTB, MOF

Includes details for AEO program

- *Specific Customs clearance, exemplification on the particulars of Compliance Program, guidelines for reviewing the authorization process*

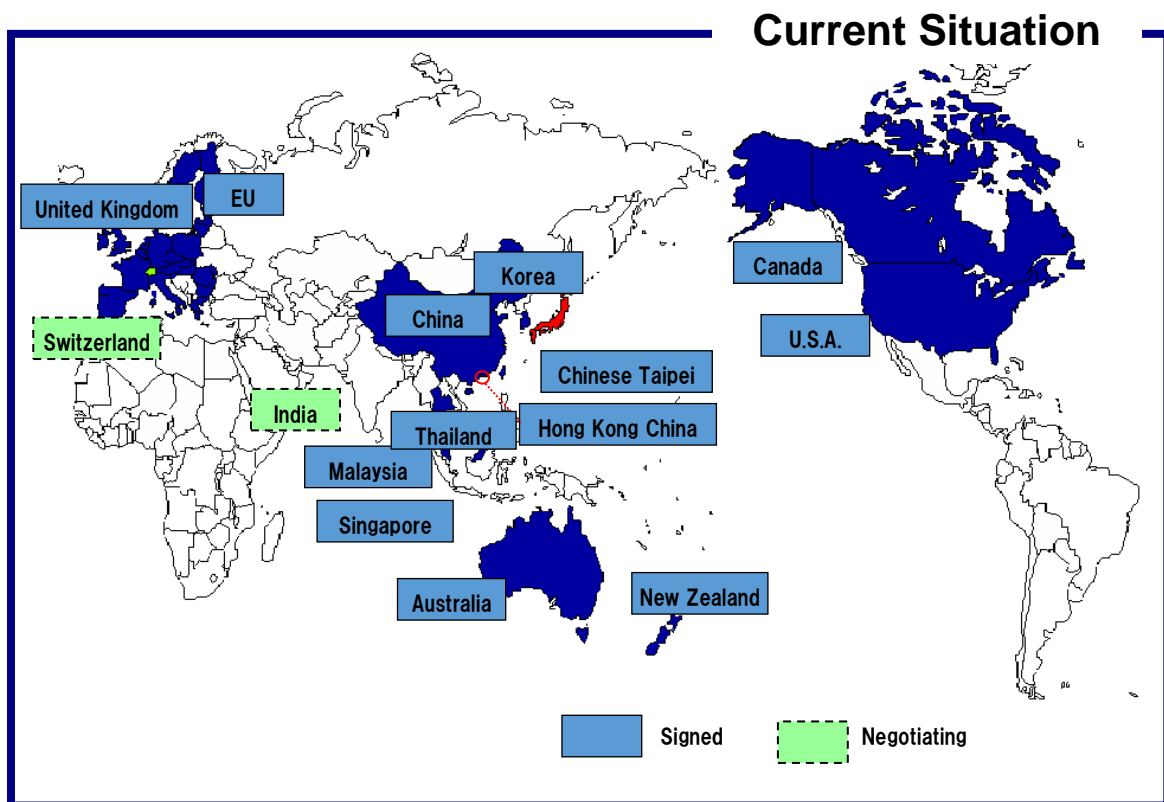
Mutual Recognition

Japan Customs has been working on prevailing AEO program and similar efforts are being made in other countries. Japan, as one of its key tasks, is endeavoring to advance efficiency in distribution, through developing partnerships with overseas AEO programs in order to provide mutual benefits, including smoother and more facilitated import/export Customs clearance for economic operators complying with the supply chain security standards. To date, Japan Customs has signed mutual recognition of AEO programs with New Zealand (May 2008), the U.S. (June 2009), EU and Canada (June 2010), Korea (May 2011), Singapore (June 2011), Malaysia (June 2014), Hong Kong China (August 2016), China (October 2018), Australia (June 2019), United Kingdom(December 2020), Thailand(April 2022). In addition, Japan has the private-sector arrangement* on Mutual Recognition of AEO with Chinese Taipei (November 2018). Also Japan Customs has been negotiating with Switzerland.

Japan Customs is carrying this movement forward based upon the idea that the mutual recognition of AEO programs could maximize the benefits of compliant stakeholders. This is a totally different approach compared with the traditional international Customs cooperation, which had placed its emphasis on information exchange of the “negative” elements for enforcement purpose. In this sense, we could say that this significant development is a turning point for customs administrations around the world.

For facilitating mutual recognition, there are two indispensable elements. One is proper IT system for Customs procedures to operationally realize Mutual Recognition and the other is the steady and well-functioning channel for information exchange for smooth implementation.

* (Note) Mutual recognition with Chinese Taipei is based on a private-sector arrangement signed between the Japan-Taiwan Exchange Association (Japan) and the Taiwan-Japan Relations Association (Taiwan).



Official Logo of Japan's AEO Program

Japan Customs released official logo of Japan's AEO program in July 2011 which contributes to promote the program more among players in the private sector involved in the supply chain in Japan.

In addition to official use by Japan Customs, the logo is supposed to be printed on business cards, corporate documents for enterprises.

Arrows in the logo, composing the letters of AEO, symbolize an ideal state of trade facilitation that Japan Customs continuously pursuing with the program.





This document was prepared by
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