Introduction of Korea AEO

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Korea Customs Service

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I. AEO Background
Environment (Internal)

Trade
- '91: 6 times
- '10: 8.9
- 1.5

Revenue
- '91: 7 times
- '10: 55.9

Illegal Trade
- '01: 1.6 times
- '10: 5.6

Officials
- '91: Same
- '10: 4,502

(Human Resources)

(Workload)
Environment (External)
Challenges

Private Sector

Customs Officials
Role of Customs

- Revenue
- Swift Clearance
- Security
- Valuation
- Export Promotion
- Drugs
- Smuggling
- IPR
- Risk Management
- Valuation
Balance between Security and Facilitation (WCO)

WCO SAFE Framework of Standards
Secure And Facilitate to Global Trade
(v.1 2005, v.2 2007, v.3 2011)

Simplification / Facilitation

Control / Security

Security & Facilitation
History and Structure of SAFE Framework

June 2002
Declaration regarding Security and Facilitation & T/F Team

June 2003
Guideline & WCO Council

June 2004
High-level Strategic Group & SAFE Framework

June 2005
SAFE Framework & WCO Council

SAFE Framework

Pillar1

C to C
11 Standards
• ISCM
• Cargo Inspection
• Risk Management...

Pillar2

C to B
6 Standards
• Partnership
• Security
• Authorization...

Four Core Elements

• Advance Electronic Cargo Information
• Consistent Risk Management
• Outbound Inspection
• Customs to Business Partnership
## Four Core Elements of WCO SAFE Framework

<table>
<thead>
<tr>
<th>4 Core Elements</th>
<th>Advance Electronic Cargo Information</th>
<th>Consistent Risk Management</th>
<th>Outbound Inspection</th>
<th>Customs to Business Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Harmonise the advanced electronic information requirements on inbound, outbound and transit shipments.</strong></td>
<td>Commit to employing a consistent risk management approach to address security threats.</td>
<td>Outbound inspection of high-risk consignments being exported, preferably using non-intrusive inspection methods.</td>
<td>Customs will provide benefits to businesses that meet minimal supply chain security standards and best practices.</td>
<td></td>
</tr>
</tbody>
</table>
Supply Chain and Entities

- Exporter
- Importer
- Broker
- Freight Forwarder
- Sea Carrier
- Air Carrier
- Warehouse Operator
- Transporter
- Terminal Operator
- Customs
II. AEO History
Design of Korean AEO
Selection and Concentration

Number of Traders
- Top 500
- S.Top 500
- 130,000 SMEs

Trade Proportion
- 75%
- 6%
- 19%
Pilot Project

Objective
- Voice of private sectors
- Identify potential problems

Period
- From Sep 2008 to Mar 2009 (7 months)

Participants
- 11 Companies (1 or 2 in each entity)

Result
- 9 Companies Authorized
- Full fledged implementation

Process
- Criteria
- Levels
- Validation Techniques
- Training
- Benefits
- Committee
- Post Management
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun. 2007</td>
<td>• Road Map for AEO Implementation (Task Force)</td>
</tr>
<tr>
<td>Jan. 2008</td>
<td>• Legislation (Customs Act Article 255-2)</td>
</tr>
<tr>
<td>May. 2008</td>
<td>• Detailed Strategy</td>
</tr>
<tr>
<td>Sep. 2008</td>
<td>• Pilot Project (11 companies)</td>
</tr>
<tr>
<td>Apr. 2009</td>
<td>• Officially Launching AEO program (Implementation Provision)</td>
</tr>
<tr>
<td>Jun. 2010</td>
<td>• AEO MRA for the First Time (The US, Canada, Singapore)</td>
</tr>
</tbody>
</table>
Ⅲ. AEO Overview
## General of Korean AEO ①

| Implementation & Legislation | • Customs Act (Jan. 08), Enforcement Decree of Customs Act (Feb. 4 09),
<table>
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<tr>
<th></th>
<th>• AEO Enforcement Notification (Apr. 15 09), and AEO Guideline (Jan. 09)</th>
</tr>
</thead>
</table>
| Organization               | • AEO Center (Headquarters, 8 staffs)
|                            | • Validation Team (24),
|                            | • Post management and Renewal Audit Team (Regional Customs, 26 staffs) |
| Entities (9)               | • Exporter, Importer, Customs Broker, Freight Forwarder, Sea Carrier,
|                            | • Bonded transporter, Air Carrier, Ground Handler, Warehouse Operator |
| Criteria                   | 1. Compliance records
|                            | 2. Internal control system,
|                            | 3. Financial solvency
|                            | 4. Security management |
| Validations                | • Documentary (within 60 days) + On-site (within 60 days) |
# General of Korean AEO ②

| Type and Grade of Authorization | - Basic Requirements: Financial soundness + Meeting security requirement + 80 points or more for internal control system **And**
|                               | - A Level: 80 points or more in law compliance
|                               | - AA Level: 90 points or more in law compliance
|                               | - AAA Level: AEOs in Class AA meeting 95 points or more in law compliance + Best practices |
| Post management               | • Annual internal assessment report |
| Account Manager (AM)          | • Counseling from Customs official designated to each AEO for improving law compliance & satisfying AEO standards |
| Renewal Audit                | • Subject: companies authorized as AEOs
|                               | • Period: no later than 6 months before expiration of authorization
|                               | • Contents: authorization criteria (ex/importer: 8 additional criteria including customs value, tariff classification, etc)
|                               | • Method: on-site audit in principle
|                               | • Use: basis for grade adjustment, cancellation, renewal of authorization |
## General of Korean AEO ③

### Suspension & Revocation of Status
- **Suspension:** partial or entire stoppage with the period of 6 months
  - *Minor offences, no report of change, no submission of annual evaluation*
- **Revocation:** Cancellation procedure will follow.
  - *Major offences, failure to meet criteria, non-implementation of correction order*

### Internal AEO manager
- Internal AEO director, export/import manager
- For internal assessment, staff training, info. exchange, etc

### Validity period
- 3 years (renewal validation required)

### Transitional provisions
- ASC Benefits (Future Plan)
Organization Chart

Organization

AEO Center(HQ), AEO validation team, Post MGMT team

Final decision on AEO Authorization, Grade, and Cancelation

AEO Committee (Deputy Commissioner of Headquarters, KCS)

Audit Policy Division
AEO Center
7 officials

Policy on AM, Post Management & Renewal Audit

AEO Policy, Planning, Operation, MRA, Compliance Policy (Headquarters)

Conducting RA, Operating AM, Post Management & Audit

AEO Validation Team
26 officials

Conducting Authorization Processes (Regional Customs)

Post Management Team
24 officials
AEO Criteria

Law Compliance
1. Disqualification such as Offence on Acts and Customs admin-related compliance

Internal Control System
1. Objective and Operation Policy of AEO
2. Documentation on procedures, Accuracy of information, and Interactions of information.
3. Mgt of risk factors and internal control and Integrity & anti-corruption program
4. Traceable accounting, IT, and goods movement management systems and Safekeeping of Data & Documentation

Financial Solvency
1. Volume of Business
2. Financial soundness

Security MGT
1. Business partner management
2. Conveyance & Container Security
3. Physical access controls
4. Personnel security
5. Procedural security
6. Facility/equipment mgt
7. IT security
8. Training & awareness
AEO Criteria

AEO Criteria (Section 1, 2, 3)
Customs Compliance (Compliance Record + Internal Control)

Section 1
Law Compliance Records
(4 criteria)

Section 2
Internal Control System
(19 criteria)

Section 3
Financial Solvency
(2 Chapters, 3 criteria)
AEO Criteria (Section 4); 60 criteria
Security and Safety Requirement

Chapter 1 Business Partner (9 criteria)
Chapter 2 Conveyance (Container, ULD, Trailer) Security (11 criteria)
Chapter 3 Physical Access Controls (9 criteria)
Chapter 4 Personnel Security (4 criteria)
Chapter 5 Procedural Security (9 criteria)
Chapter 6 Facility & Device Security (12 criteria)
Chapter 7 Information & Technology Security (2 criteria)
Chapter 8 Security Training (4 criteria)
### Number of AEOs

#### Ratio in National Trade Volume

- **Export:** 40.0%
- **Import:** 22.5%

As of October 1st 2012

<table>
<thead>
<tr>
<th></th>
<th>Exporter</th>
<th>Importer</th>
<th>Broker</th>
<th>Forwarder</th>
<th>Warehouse</th>
<th>Carriers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>5</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>AA</td>
<td>21</td>
<td>21</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>56</td>
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<tr>
<td>A</td>
<td>68</td>
<td>76</td>
<td>59</td>
<td>69</td>
<td>14</td>
<td>5</td>
<td>300</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>102</td>
<td>62</td>
<td>72</td>
<td>16</td>
<td>9</td>
<td>366</td>
</tr>
</tbody>
</table>
Mutual Recognition Arrangement Process

Stage 1: Side by side Comparison of AEO Criteria
  - Step 1: Exchange idea by working level meeting & JCCC meeting
  - Step 2: Exchange heads’ letter & hold a meeting
  - Step 3: Agree to start MRA negotiation
  - Step 4: Set up Working Group & conduct Working Group meeting

Stage 2: Joint Validation

Stage 3: Benefits, Conferring condition, MRA text, etc.

Stage 4: Sign

Studying: Study on the Counterpart’s Program
  - Step 1: Exchange idea by working level meeting & JCCC meeting
  - Step 2: Exchange heads’ letter & hold a meeting
  - Step 3: Agree to start MRA negotiation
  - Step 4: Set up Working Group & conduct Working Group meeting
MRA Status

MRA in Progress

- MRA signed: United States, Canada, Singapore, Japan, New Zealand
- Negotiating: China, Israel, India, Mexico, Malaysia
- Studying: EU, Hong Kong, Turkey, Switzerland, Taiwan
IV. AEO Benefits
Principles of AEO Benefits

- Differentiating AEO from Non-AEO
- Giving Benefits according to AEO Grade
- Giving Benefits to meet specific needs
- Giving top priority for the new benefits
AEO Benefits

1. AEO = Money
2. AEO = Faster Customs Procedures
3. AEO = More Capacity in Competition
4. AEO = Stabilization
AEO Benefits

- Simplified and Less Physical Inspection
- Simplified Customs Procedures
- Less Financial Burden
- Others
### Benefits for AEOs in Clearance Process

(Concerning Paragraph 1 of Article 15)

<table>
<thead>
<tr>
<th>AEOs</th>
<th>Benefits</th>
<th>Sort by AEO Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Consideration of disposition notice, administrative penalty, etc. preferably to administrative punishment in case of law violations</td>
<td>○ ○ ○</td>
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</tbody>
</table>
| All Entities | Exemption from planned audit & corporate-based audit  
* Except for flagrant depict or if there is significant, obvious information on offense | ○ ○ ○             |
|           | Reduction of fine  
* Total cases of the 1st exposure in a year  
* Additional 20% cut in case of voluntary payment during the period of opinion statement  
* Applied when imposing the fine | 20% 30% 50%        |
V. Activities to Expand AEO
Supporting SMEs

Providing administrative and financial supports
Technical Assistance for developing countries

CCF-K (Customs Cooperation Fund Korea)

Fiji

Mongolia

Aug 2011

Sep 2011
WCO Regional Seminar

PERIOD: September 19 ~ 23, 2011

VENUE: Customs Border Control Training Center of KCS

PARTICIPANT: 31 members from 25 countries / 2 experts

HOST: World Customs Organization / Korea Customs Service

SUBJECT: Sharing experience and know-how in launching AEO
WCO Regional Seminar
AEO Best Practice Competition

1st BP Completion: July 14, 2011
2nd BP Competition: August 28, 2012

Sharing best practices

Bench marketing others’ practices enhancing productivity and efficiency
AEO Best Practice Competition
WCO Global AEO Conference
VI. Future Plan
Training

Customs Officials

Companies
Raise Awareness
### Etc

<table>
<thead>
<tr>
<th><strong>Enhance Risk Management Measures</strong></th>
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<tbody>
<tr>
<td>- Protect Korean society</td>
</tr>
<tr>
<td>- Customs control: hazardous materials such as radioactive materials, narcotics</td>
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<tr>
<th><strong>Assistance for SMEs</strong></th>
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<tbody>
<tr>
<td>- 99% of business, 49.4% of production and 85.7% of employees</td>
</tr>
<tr>
<td>- Providing them with administrative and financial support</td>
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<table>
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<tr>
<th><strong>Contribution to International Society</strong></th>
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<tr>
<td>- Support other countries to introduce the AEO through the WCO and APEC</td>
</tr>
<tr>
<td>- CCF (Customs Cooperation Fund) at the WCO</td>
</tr>
<tr>
<td>- International Conference on AEO</td>
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<tr>
<th><strong>Research for the WCO</strong></th>
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<table>
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<tr>
<th><strong>Analysis on AEO Benefits</strong></th>
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Thank you

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