

**For discussion on
18 June 2019**

Legislative Council Panel on Commerce and Industry

**Latest Development of the
Hong Kong Authorized Economic Operator Programme
operated by the Customs and Excise Department**

Purpose

This paper briefs Members on the Hong Kong Authorized Economic Operator (“AEO”) Programme operated by the Customs and Excise Department (“C&ED”) for enhancing cargo security and trade facilitation to accredited traders, and the extension of Hong Kong’s network of mutual recognition arrangements (“MRAs”) to other economies for the AEO Programme.

AEO as a concept promulgated by the World Customs Organization (“WCO”)

2. AEO is a concept under the SAFE Framework of Standards to Secure and Facilitate Global Trade (“SAFE Framework”) promulgated by WCO in 2005. It represents a Customs-to-Business partnership to enhance international supply chain security and facilitate movement of legitimate goods. To minimize the risk of security threat to the supply chain, customs authorities of different customs territories may accredit enterprises that adopt appropriate security measures and procedures as AEOs. In return, cargoes handled by AEOs may enjoy customs facilitation such as reduced examination and prioritized clearance.

3. Since WCO’s adoption of the SAFE Framework, the development of AEO programmes has become a global trend. At present, as many as 80 customs administrations have implemented their respective AEO programmes. They cover many of Hong Kong’s major trading partners, e.g. the Mainland of China, the United States, the European Union, Japan,

Singapore and Korea.

4. For Hong Kong, C&ED launched its AEO Programme (known as “Hong Kong AEO Programme”) in April 2012, along the framework promulgated by WCO. The Programme serves as a free, open and voluntary certification scheme to enhance international supply chain security. Local companies (including SMEs) may apply for accreditation and will be so accredited as Hong Kong AEOs, so long as they can meet the prescribed standards. Such accreditation would entitle them to enjoy cargo clearance facilitation in Hong Kong as well as other economies with MRAs signed with Hong Kong.

Accreditation of Hong Kong AEOs

5. The accreditation standards for Hong Kong AEOs are drawn up with reference to the requirements under the SAFE Framework. The 12 accreditation criteria (full list at **Annex A**) cover areas such as track record of customs compliance, internal control of commercial records, and security arrangement for cargoes, conveyance, personnel, premises, business partners and information access. Accreditation is free of charge.

6. Upon receipt of an AEO application, C&ED will carefully consider the application and visit the operation site of the company to ensure that it is capable of meeting all the criteria. C&ED will assign a designated Account Manager to follow up on each AEO application and assist the company in enhancing its internal controls and sharing the best practices in supply chain security. Each application is subject to examination and approval by an Accreditation Panel. The application process leading to the accreditation (known as “Hong Kong AEO Certification”) usually takes three to four months subject to the complexity of a company’s business operation and the number of sites where joint validation will be conducted.

7. After accreditation, C&ED may conduct spot checks on an accredited Hong Kong AEO to ensure that the company continues to meet the accreditation criteria. The accreditation is subject to renewal every three years. When considering each renewal case, C&ED will revisit the operation sites of the company and check if they are in continuous

compliance with the criteria.

8. When C&ED first launched the Hong Kong AEO Programme, only nine companies were accredited in the first year. By now, the number of companies accredited as Hong Kong AEO has risen to 54 (position as at May 2019). C&ED is processing a number of applications, and envisages that the number of accredited companies will continue to grow.

Benefits to companies accredited as Hong Kong AEOs

9. Being accredited as Hong Kong AEO is a manifestation of the outstanding performance of a company in upholding supply chain security. The accreditation qualification represents a reliable and trustworthy international brand. More importantly, Hong Kong AEOs can enjoy benefits in terms of reduced customs inspection and examinations, prioritized customs clearance and rapid release time. In Hong Kong, their goods are also entitled to clearance at designated AEO Priority Service Counters at entry points¹.

10. In Hong Kong, the inspection rate for AEO cargoes is generally 80% lower when compared with that for non-AEO cargoes. The provision of customs clearance facilitation under the Hong Kong AEO Programme is in line with the requirement under the WTO Agreement on Trade Facilitation², that WTO Members shall provide additional trade facilitation measures to “authorized operators” meeting specified criteria.

11. In 2018, the Hong Kong AEO Programme has provided facilitation to a total of 4.5 million consignments of cargo, representing 4.7% of Hong Kong’s overall trade volume. The value of the consignments involved amounted to \$535 billion, representing 6% of the overall value of Hong Kong’s external merchandise trade during the year. The Hong Kong AEO Programme is an important on-going initiative for

¹ C&ED set up designated "AEO Priority Service Counter" and "AEO Priority Parking Space" at various control points. Customs officers will give priority on handling the AEOs' consignments thereby shortening the time required for customs clearance.

² The WTO Agreement on Trade Facilitation (“TFA”), which is the first multilateral trade agreement concluded by the WTO since its establishment, entered into force on 22 February 2017 following its ratification by two-thirds of the WTO membership. Hong Kong is the first WTO Member to accept the TFA in December 2014.

Hong Kong in the area of customs clearance facilitation.

Mutual Recognition Arrangements with other economies

12. Hong Kong AEOs stand to benefit from clearance facilitation not only in Hong Kong, but also in other economies which have entered into MRAs with Hong Kong. Through MRAs, AEOs of one economy may enjoy customs facilitation provided by its MRA partners. MRAs are therefore instrumental in facilitating seamless cross-boundary movement of goods throughout the supply chain.

13. Hong Kong is a staunch supporter of MRA. As of May 2019, Hong Kong has entered into **MRAs with nine economies**, comprising the Mainland of China, India, Korea, Singapore, Thailand, Malaysia, Japan, Australia, and New Zealand. Most of them are within the scope of Belt and Road related countries and regions.

14. Hong Kong is now ranked **the fifth**³ worldwide in terms of the number of MRAs signed. Since a few more MRAs will likely be signed in the coming months (see paragraph 19 below), we envisage that Hong Kong's ranking will rise further in this regard. Expanding the coverage of Hong Kong's MRA network will complement the Government's efforts of encouraging enterprises to capitalise on the new business opportunities arising from the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA") development.

Publicity of the Hong Kong AEO Programme

15. To strengthen promotion of the Hong Kong AEO Programme and its branding effect, C&ED introduced a specially designed logo (see **Annex B**) in January 2014. C&ED encourages the Hong Kong AEOs to use the logo in their business operation, such as their websites, vehicles, premises, and advertisements⁴. Moreover, C&ED has also been promoting the Hong Kong AEO Programme through seminars for trade associations and out-reaching visits to enterprises.

³ As at May 2019, Korea has signed MRA with 19 economies, the Mainland of China with 13 economies, US with 12 economies, Japan with ten economies, and Hong Kong and Singapore with nine economies each.

⁴ As at May 2019, the AEO logo has been borne by over 200 conveyances of the Hong Kong AEOs.

16. In addition, C&ED has arranged AEO Certificate Presentation Ceremony from time to time (and will continue to do so) to recognise the efforts of Hong Kong AEOs in securing accreditation and renewal. The most recent AEO Certificate Presentation Ceremony took place on 22 February 2019. Representatives from the Mainland Customs also attended the ceremony and took the opportunity to encourage the Hong Kong AEOs to tap the new opportunities arising from the Belt and Road Initiative and the GBA development by making good use of the facilitation provided to Hong Kong AEOs in the relevant markets under the MRAs.

17. To further promote the Hong Kong AEO Programme, C&ED has launched the webpage of “AEO Blogger” earlier this year, and has solicited the support of the top management of some Hong Kong AEOs to share their valuable experience on how the Hong Kong AEO Programme has helped their enterprises in upgrading, enhancing and improving their operational management and supply chain security, and in exploring new markets. C&ED has uploaded the first episode onto the webpage and will continue to disseminate more success stories under Hong Kong AEO Programme via the platform.

18. Moreover, C&ED has also rolled out a set of online self-learning kit to assist interested local companies in assessing their readiness for accreditation and making preparation for application. This kit is composed of 15 modules. Apart from some basic introduction on the Hong Kong AEO Programme, the kit also covers one module for each of the 12 accreditation criteria adopted for the Programme.

Way forward

19. Looking ahead, C&ED will continue to keep track of the AEO global development and take active steps to reach MRAs with other customs administrations, particularly those of the Belt and Road related countries and regions, with a view to bringing further benefits to the trade and the overall economy of Hong Kong. C&ED is expected to sign MRAs with Mexico, Canada and Israel later this year, and is pursuing MRA discussion with some other economies such as the European Union and Indonesia. Hong Kong’s MRA network will extend further upon

conclusion and signing of these MRAs.

20. On the local front, C&ED will continue to promote the Hong Kong AEO Programme to the trade and stakeholders, with a view to enhancing international supply chain security and facilitating legitimate trade by enterprises with high security standard.

Advice sought

21. Members are invited to take note of the latest progress of the Hong Kong AEO Programme and the efforts in expanding our MRA network to other economies.

Commerce and Economic Development Bureau
Customs and Excise Department
June 2019

Accreditation Criteria adopted for the Hong Kong AEO Programme

General Criteria

1. Customs Compliance
2. Maintenance of Commercial Records
3. Financial Soundness

Security Criteria

4. Premises Security and Access Control
5. Personnel Security
6. Cargo Security
7. Conveyance Security
8. Business Partner Security
9. Security Education and Training
10. Information Exchange, Access and Confidentiality
11. Crisis Management and Incident Recovery
12. Measurement, Analysis and Improvement

Hong Kong AEO Logo

