



Indian AEO Programme – Key Initiatives



15 June 2021

Agenda

- WCO SAFE Framework of Standards
 - ✓ Overview
 - ✓ Objectives of SAFE Framework of Standards
 - ✓ SAFE Framework: Customs to Business Cooperation
- Indian AEO Programme
 - ✓ Overview
 - ✓ Eligibility and Compliance criteria
 - ✓ Legal and Financial Compliance
 - ✓ Benefits for AEO T1/ T2/ T3/ LO
 - ✓ AEO – MRA
 - ✓ Recent reforms undertaken: Special measures to facilitate MSME for AEO T1 and T2 accreditation; Online filing of AEO T2/ T3 application and launch of v2.0 of AEO web portal; Auto renewal of AEO T1 application



Overview of WCO SAFE Framework of Standards



In June 2005, the World Customs Organization (WCO) adopted the SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework) that would act as a deterrent to international terrorism, to secure revenue collections and to promote trade facilitation worldwide

The **5 core elements of the SAFE Framework** are:

- **Harmonize advance electronic cargo information** requirements on inbound, outbound and transit shipments
- Each country that joins, **commits to employing a consistent risk management approach** to address security threats
- Require that at a reasonable request of the receiving nation, based upon a comparable risk targeting methodology, the sending nation's Customs administration will **perform an outbound inspection of high-risk cargo and/or transport conveyances, preferably using non-intrusive detection equipment** such as large-scale X-ray machines and radiation detectors
- Suggest benefits that Customs will provide to businesses that **meet minimal supply chain security standards and best practices**
- **Promote close cooperation with other governmental agencies** representing different regulatory areas, to keep societies safe and secure while facilitating movement of goods



Objectives of SAFE Framework of Standards



Establish standards that provide supply chain security and facilitation at a global level to promote certainty and predictability

Strengthen co-operation between Customs administrations, for e.g. through exchange of information, mutual recognition of controls, mutual recognition of Authorized Economic Operators (AEOs), and mutual administrative assistance

Enable integrated and harmonized supply chain management for all modes of transport

Strengthen co-operation between Customs administrations and other Government agencies involved in international trade and security such as through Single Window

Enhance the role, functions and capabilities of Customs to meet the challenges and opportunities of the 21st Century

Strengthen Customs/ Business co-operation

Strengthen co-operation between Customs administrations to improve their capability to detect high-risk consignments.

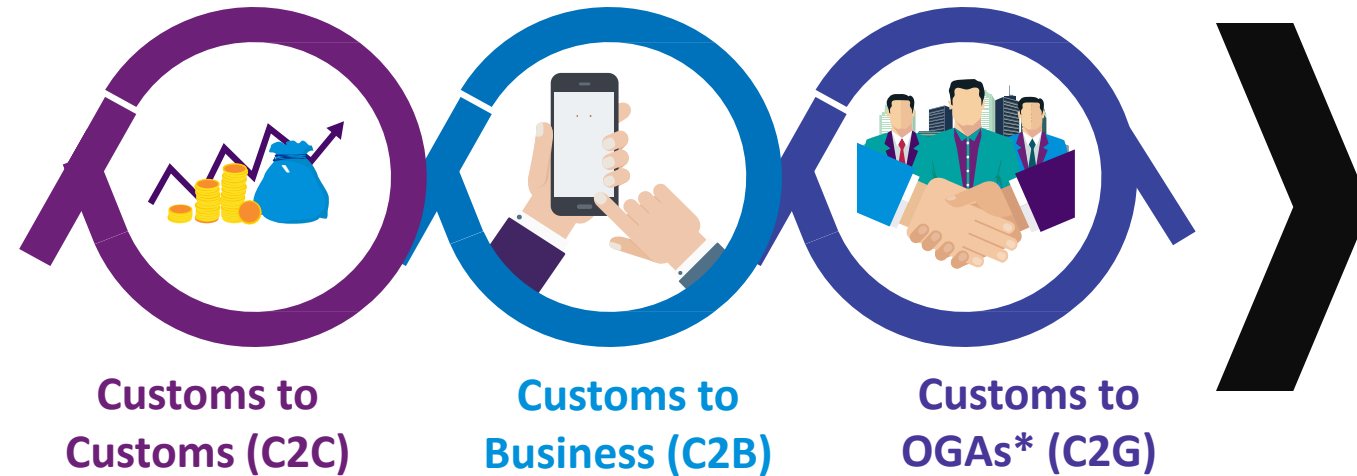
Promote the seamless movement of goods through secure international trade supply chains

SAFE Framework: Customs to Business Cooperation



3 Pillars of SAFE Framework

6 Aims of SAFE Framework for C2B



- Partnership
- Security
- Authorization

- Technology
- Communication
- Facilitation

Pillar 2 – Customs-to-Business

- Create an international system for identifying private businesses that offer a high degree of security guarantees in respect of their role in the supply chain
- Business partners should receive tangible benefits in such partnerships in the form of expedited processing and other measures
- SAFE AEO is a comprehensive and all-encompassing programme
- **Benefits** include quicker movement of low-risk cargo through Customs, improved security levels, optimized supply chain cost through security efficiencies, enhanced reputation for the organization, increased business opportunities, improved understanding of Customs requirements, and better communication between the AEO and the Customs administration.

Overview of Indian AEO programme (1/2)



- ▶ Voluntary trade facilitation programme of Indian Customs, with the aim to enhance international supply chain security and facilitate movement of legitimate goods.
- ▶ Varies across - AEO tier I, II, and III for importers/ exporters based on the benefits extended. Has a separate tier - AEO LO for all other supply chain participants
- ▶ Has a separate tier - AEO LO for all other supply chain participants
- ▶ Augmentation of the AEO and MRA programme is part of National Trade Facilitation Action Plan (NTFAP) 2020 – 23 and monitored at the level of the Cabinet Secretary to Government of India

| Category | Numbers (as on 01.06.2022) |
|--------------|----------------------------|
| AEO T1 | 2803 |
| AEO T2 | 630 |
| AEO T3 | 66 |
| AEO LO | 950 |
| Total | 4449 |

Overview of Indian AEO programme (2/2)



Implementation

- Process, approve and manage AEO
- Assist field formations in resolving issues
- Coordinate with different line verticals of CBIC for smooth implementation
- Issue directive and guidance note to field formations for implementation

01

Policy related work

- Provide policy inputs to CBIC related to AEO matters
- Issue circulars/ guidelines pertaining to AEO
- Recent inclusion of MSME in AEO programme

02

EoDB initiatives

- Undertake initiatives for improving World Bank Doing Business Ranking
- Facilitate paperless process through development of AEO Web Application

03

Capacity Building/Outreach

- Train officers of CBIC as well as SASEC, Small Island Nations etc.
- Assist in training of officers of foreign customs administrations (Maldives)
- Undertake AEO outreach for targeted enrollment

04

Eligibility and Compliance Criteria



Eligibility

- Legal entity established in India
- Should be involved in customs related activity
- Should have been in business atleast for three Financial Years (MSME- 2 FY)
- Should have dealt with 25 customs document during last Financial Year (MSME- 10 documents)



Compliance Requirements

- Legal compliance
- Commercial Record Management compliance
- Financial Solvency compliance



Security Requirements

- Premises Security
- Cargo Security
- Conveyance Security
- Personnel Security
- Business Partner Security
- Security Training & Threat Awareness



Certification Requirements

- AEO Tier I (Compliance requirements only; desk - based review)
- AEO Tier II (Compliance and Security requirements; onsite validation along with desk - based review)
- AEO Tier III (Continuously AEO Tier II for two years or all business partners are AEO certified entities)
- AEO LO (Compliance and Security requirements [pertaining to the operator]; onsite validation along with desk - based review)

Brief on AEO Master Circular



✓ In 2016, CBIC merged 2 facilitation schemes namely ACP and AEO into a combined three-tier AEO programme (as a comprehensive unified trade facilitation programme) based on WCO AEO SAFE Framework, Revised Kyoto Convention's "authorized persons" provisions and Article 7.7 (Trade Facilitation Measures for Authorized Operators) of the WTO Trade Facilitation Agreement (TFA)

✓ AEO Master Master Circular 33/ 2016 - Customs dated 22.07.2016 lay down the key details regarding:

- Benefits of different tiers
- Application process and associated annexures
- Eligibility conditions and criteria
- Legal complinace
- Commercial and transport records
- Financial solvency
- Procedure for issuing AEO certificate
- Processing/ rejecting application
- Post-Certification Provision etc.
- Revocation of AEO status

Detailing out Legal Compliance criteria



This is as per AEO Master Circular 33/ 2016 - Customs dated 22.07.2016:

Section 3.2: Legal Compliance

3.2.1 There should be **no show cause notice issued during last 3 FY** involving fraud, forgery, outright smuggling, clandestine removal of excisable goods or cases where Service Tax has been collected from customers but not deposited to the Government

3.2.2 There should be **no case wherein prosecution has been launched or is being contemplated against the applicant** or its senior management.

3.2.3 If the **ratio of disputed duty demanded or drawback demanded or sought to be denied**, in all the show cause notices issued under the Customs Act, 1962 (other than those mentioned in Para 3.2.1 and 3.2.2) during the last 3 FY, **to the total duty paid and drawback claimed during the said period is more than 10%**, a review would be taken of the nature of cases and decision would be taken on issue or continuance of AEO status by AEO programme manager.

Explanation: for para 3.2.1, 3.2.2 and 3.2.3 above, the cases where the show cause notices have been dropped or decided in favour of the applicant by the adjudicating or appellate authorities will not be considered.

3.2.4 An applicant will also need to demonstrate that he has:

- i. **procedures in place to identify and disclose any irregularities or errors** to the Customs authorities or, where appropriate, other regulatory bodies
- ii. **taken appropriate remedial action when irregularities or errors are identified**

3.2.5 Once an error has been identified, the applicant is expected to **take steps to ensure that they do not happen again** or, at least, to **ensure that they are immediately remedied** if they do arise. Failure to take such steps could count against applicant.

Detailing out Financial Solvency criteria



This is as per AEO Master Circular 33/ 2016 - Customs dated 22.07.2016 and amendment Circular No. 2/ 2018 - Customs dated 17.01.2018:

Section 3.4: Financial Solvency

- An applicant must be financially solvent during the three FY preceding the date of application. The applicant should not be listed currently as insolvent, or in liquidation or bankruptcy. Further, the applicant should not have defaulted in payment of due Customs duties during the past three years.
- The applicants applying for AEO T1 and T2 status, can either submit a solvency certificate by a statutory auditor, or a solvency certificate from an independent reputed chartered accountant made on the basis of audited balance sheet of the company, discussing the parameters of solvency (for last 3 FY).
- Further, the applicants applying for T3 and LO (and T2 applicants in review) must submit a Solvency Certificate from the Statutory Auditor of the applicant.

For the purpose of ascertaining financial solvency, the customs officer shall evaluate that there is positive Net Current Assets and Net Worth of the applicant.

Benefits associated with AEO T1/ T2/ T3 Programme



| Benefits | Tier - T1 | Tier - T2 | Tier - T3 |
|---|-----------|-----------|-------------------|
| High facilitation | Y | Y | Y |
| Direct Port Delivery/Direct Port Entry | Y | Y | Y |
| BG 50% (25% in case of MSME) | Y | 25%/ 10% | No Bank Guarantee |
| Expedited investigation-dispute resolution | Y | Y | Y |
| On request 24 x 7 at all sea-ports and airports | Y | Y | Y |
| OSPCA once in 2 years | Y | 3 years | OSPCA on request |
| E mail on arrival/departure | Y | Y | Y |
| Deferred duty payment | N | Y | Y |
| MRA benefits in other countries | N | Y | Y |
| Waiver of seal verification | N | Y | Y |
| Refund/ Rebate and Faster drawback | N | 45 days | 30 days |

Benefits of AEO LO Programme



AEO LO programme

Granted to categories of economic operators other than importers and exporters, namely Logistics Providers, Custodians or Terminal Operators, Customs Brokers and Warehouse Operators.

| S. No. | Type of Entity | Benefits extended |
|--------|----------------------------------|--|
| 1 | Logistics service providers | (a) Waiver of bank Guarantee in case of trans-shipment of goods (b) Facility of Execution of running bond (c) Exemption from permission on case-to-case basis in case of transit of goods. |
| 2 | Custodians or Terminal Operators | (a) Waiver of bank Guarantee under Handling of cargo in Customs Area Regulations 2009 (b) Extension of approval for custodians under regulation 10 (2) of the 'Handling of cargo in Customs Area Regulation 2009' for period of 10 years |
| 3 | Custom Brokers | (a) Waiver of Bank Guarantee to be furnished (b) Extended validity (till validity of AEO status) of licenses granted. System Manager to incorporate date of validity of AEO from time to time in the System Directory (c) Waiver from fee for renewal of license |
| 4 | Warehouse Operators | (a) Faster approval for new warehouses within 7 days of submission of complete documents (b) Waiver of antecedent verification envisaged for grant of license for warehouse (c) Waiver of solvency certificate requirement (d) Waiver of security for obtaining extension in warehousing period (e) Waiver of security required for warehousing of sensitive goods |

Increasing coverage of AEO – MRA for traders



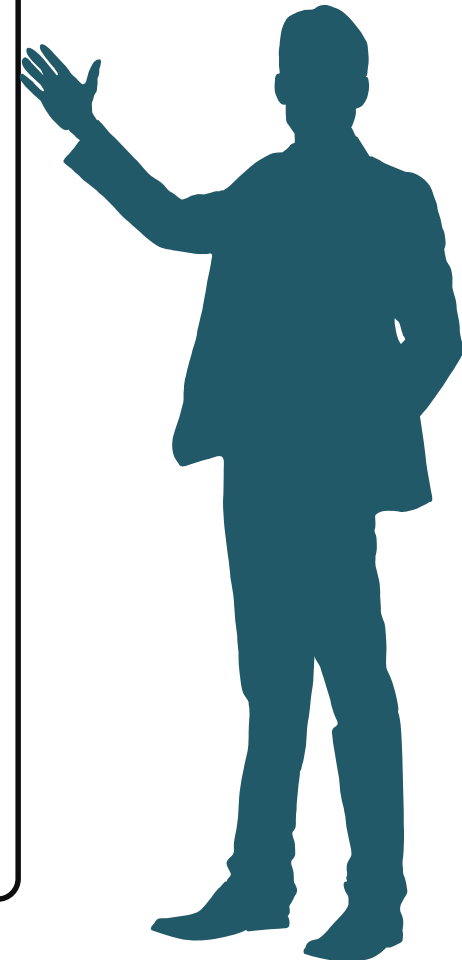
- Mutual Recognition Agreement (MRA) is the international face and connecting link of domestic AEO programme of various countries
- Mutual Recognition of AEOs is a key element of the WCO SAFE Framework to strengthen end to end security of supply chains and to multiply benefits for traders at a global level.
- By mutual recognition of AEOs, two Customs Administrations agree to recognize the AEO authorization issued under the other countries programmed and provide reciprocal benefits to AEOs of the other countries
- CBIC's MRA Engagements:
 - MRA signed with 4 countries (South Korea, Hong Kong, Taiwan, USA)
 - JAP signed with 5 countries (Uganda, UAE, Australia, South Africa, East African Community)
 - Negotiations ongoing with Turkey, Japan, Singapore, Philippines, Malaysia, Thailand, European Commission, Russia, Qatar, Bahrain

Special measures to facilitate MSME for AEO T1 and T2 accreditation



CBIC examined the difficulties faced by MSME (Micro, Small and Medium Enterprises) especially during COVID 19 pandemic and created flexibilities around the compliance and security requirements, with the aim of inducing more MSMEs in the supply chain [*vide Circular No. 54/ 2020 - Customs dated 15.12.2020*]

- The relaxations include:
 - ✓ **Eligibility requirement reduced** from 25 to 10 documents during last FY (subject to handling atleast 5 documents in each half year period of preceding FY)
 - ✓ **Requirement for business activity reduced** from 3 years to 2 years, preceding the date of application
 - ✓ **Qualifying period for legal and financial compliance reduced** from last 3 FY to last 2 FY
- Other benefits:
 - ✓ **Time limit for application processing reduced** to 15 days (from 1 month) and 3 months (from 6 months) for MSME AEO T1 and T2, respectively (post submission of complete documentation)
 - ✓ **Reduced number of annexures for accreditation and certification**
 - ✓ **Relaxation in furnishing Bank Guarantee (BG)** to 25% (from 50%) and 10% (from 25%) for MSME AEO T1 and T2, respectively



Online filing of AEO T2/ T3 application and launch of v2.0 of AEO web portal



- Web application v2.0 accessible for customs and trade since 07.07.2021 [*vide Circular No. 13/ 2021 - Customs dated 01.07.2021*]
- Procedure for online filing of application:
 - ✓ AEO T2/ T3 applicants, on submission of physical documents in the jurisdictional Pr. CC/ CC (AEO cell) to register on the AEO application
 - ✓ On successful registration, applicant to upload duly filled annexures
 - ✓ In case the applicant is already registered (existing T1 holder applying for T2), existing login credentials to be used for uploading annexures
 - ✓ Applicant to monitor the processing of application on a real time basis
 - ✓ In case of any deficiencies, applicant to respond through online upload of required additional documents
- A step wise guide for filing the T2/ T3 application is available on CBIC website under the 'Indian AEO Programme' section as well as under the ' Download' section of the aeoindia.go.in. website. This acts as a ready reckoner for applicants

Submission of documents in jurisdictional Customs office

Registration and filing of annexures online

Real time monitoring of application by the applicant

Auto renewal of AEO T1 application (1/2)



- With the aim of reducing compliance burden and enabling higher facilitation, CBIC has permitted the facility of continuous AEO certification/ auto renewal for T1 entities subject to submission of annual self declaration (during 1st October – 31st December every year) and its review [*vide Circular No. 18/ 2021 - Customs dated 31.07.2021*] which is to be uploaded on the AEO online web portal
- All AEO entities certified on or after 01.04.2019 to be migrated for auto renewal w.e.f. 01.08.2021. AEO entities certified from 1st January – 31st December to be exempted from filing the annual self declaration for that year
- Zonal AEO programme manager to approve the annual self declaration. In case of any changes observed or adverse findings received, suitable action to be taken as per guidelines of AEO Master Circular No. 33/ 2016 dated 22.07.2016
- Based on annual self declaration, concerned zone to initiate a comprehensive compliance review:
 - ✓ Review to be conducted based on at least 2 annual self declarations filed after issuance of T1 certificate, or from date of last auto renewal of certification on account of successful review (whichever is later)
 - ✓ Review process to be completed before commencement of due date for submission of 3rd annual self declaration from the date of certification or from date of last auto renewal of certification on account of successful review (whichever is later)
 - ✓ Zonal AEO programme manager to seek additional documentation/ information (as desired)

Auto renewal of AEO T1 application (2/2)



Login on AEO online web portal by applicant

Self declaration submission (yearly) by applicant

Review and auto renewal by zonal customs officer

Timelines

| Period of certification of AEO T1 Entity | Last date of filing of first annual Self Declaration | Last date of completing review by the Zone |
|--|--|--|
| 01.04.2019 – 31.12.2019 | 31.12.2021 | 28.02.2022 |
| 01.01.2020 – 31.12.2020 | 31.12.2022 | 28.02.2023 |
| 01.01.2021 – 31.12.2021 | 31.12.2022 | 31.10.2024 |



Thank You

AUTHORIZED ECONOMIC OPERATOR PROGRAMME

