Customs and Excise Department

AEO
HONG KONG
Authorized Economic Operator
香港認可經濟營運商

Marketability

Security

Reduced Cost

EXPORT

IMPORT

Facilitation

Prestige

Partnership

Guidelines on Hong Kong Authorized Economic Operator (HKAEO) Programme

Preface

Along with globalization, activities in the international supply chain today are becoming more complex and interconnected, making it more vulnerable to severe disruptions. Any major incidents such as natural disasters or terrorist attacks in the international supply chain would have serious impacts on its entire operation and result in partial or complete paralysis, shaking the economy of many countries / regions. The security of the international supply chain is thus receiving growing attention.

2. As a regional logistics hub, Hong Kong plays an important and active part in the international supply chain. To fulfill our role in safeguarding the international supply chain while further facilitating global trade, the Customs and Excise Department (C&ED) has formally rolled out the Hong Kong Authorized Economic Operator Programme (Programme). Companies participating in the Programme will be accredited as Authorized Economic Operators (AEOs) and enjoy the appropriate Customs facilitation if they meet the pre-determined security standards.

3. The Programme not only complies with the requirements stipulated under the World Customs Organization (WCO) SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework), but also fits the local trading environment. Being a voluntary certification regime, the Programme aims at enhancing the Customs-to-Business partnership, and is open to all local companies engaging in the international supply chain activities.

4. This set of Guidelines provides companies with information on the operation mechanism of the Programme. It assists companies to assess their readiness for applying for an AEO status in Hong Kong. It also provides details of the accreditation procedures for interested companies to follow in making applications.

5. The implementation of the Programme enhances our trading partners' confidence in our exports. It will help bring more business opportunities to the industries by improving their corporate images and competitiveness. Through closer cooperation between the Customs and the industries, Hong Kong's position as an international trading centre and a regional logistics hub can be further consolidated, thereby sustaining Hong Kong's long-term economic development.

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Chapter 1 - Introduction

The Programme is administered by C&ED under an open and voluntary certification regime. Under the Programme, local companies of different sizes that have met pre-determined security standards will be accredited as AEOs, and enjoy appropriate Customs facilitation.

Programme Features

2. C&ED recognizes the importance of a close partnership between the government and the industries to secure and facilitate global trade. This partnership programme is designed to fit the local trading environment and open to enterprises of different sizes and nature of businesses.

3. Stakeholders such as manufacturers, importers, exporters, carriers, terminal operators, freight forwarders, warehouse operators, etc. involved in the international supply chain may apply for the AEO status. All participating enterprises are accredited on the same set of criteria. While there is a need to align with international standards, the Programme allows for a flexible customization of security measures based on individual company's business model.

Accreditation Overview

4. Companies participating in the Programme should commit to adopting a set of appropriate security measures for securing their supply chains.

5. Before submitting applications, they have to conduct a self-assessment on their companies' internal policies and operational procedures against the criteria under the Programme, which are in line with the requirements of the WCO SAFE Framework[1] and with reference to relevant standards set out under the following documents of the International Organization for Standardization (ISO):

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[1] For details, please visit WCO's official website at
http://www.wcoomd.org/en/topics/facilitation/instrument-and-tools/frameworks-of-standards/safe_package.aspx

(a) ISO 9001:2015 on Quality Management Systems - Requirements;

(b) ISO 27001:2017 on Information Security Management Systems - Requirements; and

(c) ISO 28001:2007 on Security Management Systems for the Supply Chain - Best Practices for Implementing Supply Chain Security - Requirements and Guidance.

6.   C&ED will initiate validation process to accredit suitable companies as AEOs upon receipt of the application documents.

Types of Authorized Economic Operators

7.   Having regard to the different operating environment and the needs of the industries, C&ED will grant AEO status to qualified companies in two tiers.   This tiered accreditation will be made according to their level of compliance with the pre-determined criteria tabulated below:

Levels of Compliance	Tier 1	Tier 2
General Criteria		
(a) Customs Compliance	✓	✓
(b) Maintenance of Commercial Records	✓	✓
(c) Financial Soundness	✓	✓
Security and Safety Criteria		
(d) Premises Security and Access Control	✓	✓
(e) Personnel Security	✓	✓
(f) Cargo Security	✓	✓
(g) Conveyance Security	✓	✓
(h) Business Partner Security	✓	✓
(i) Security Education and Training	✓	✓
(j) Information Exchange, Access and Confidentiality	✓	✓
Extra Security and Safety Criteria (for Tier 2 only)		
(k) Crisis Management and Incident Recovery	-	✓
(l) Measurement, Analysis and Improvement	-	✓

Benefits

8. The Programme not only encourages the industries to ensure integrity of their security practices when engaging in the supply chain, but also helps them to optimize the management of internal assets and functions. While performing self-assessment during the initial stage of AEO application, individual companies are able to streamline their operations to achieve better output.

9. The integration of enhanced supply chain security and improved business performance is a major target of the Programme.   Beyond security benefits, AEOs will enjoy other trade facilitation and advantages such as:

 (a) reduced Customs inspection;

 (b) prioritized Customs clearance;

 (c) prioritized processing under the application of the Free Trade Agreement Transhipment Facilitation Scheme;

 (d) expedited review of ATA Carnet Applications;

 (e) enhanced goodwill as a secure trader with industry quality mark;

 (f) strengthened competitiveness and marketability;

 (g) reduced stock loss, theft and pilferage; and

 (h) privileged benefits under a mutual recognition arrangement (MRA).

10. Through the cooperative endeavour of the government and the industries, the Programme will strengthen both the security and efficiency of legitimate global trade.

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Chapter 2 - Criteria

C&ED will grant AEO status to companies in two tiers according to their level of compliance with the pre-determined criteria, which are in line with the requirements of the WCO SAFE Framework and with reference to relevant ISO standards. The twelve accreditation criteria including three general criteria and nine security / safety criteria are elaborated in the ensuing paragraphs.

General Criteria

2.   There are three general criteria which are pre-requisites for acquiring either the Tier 1 or Tier 2 AEO status.   Details of these criteria are as follows:

    (a) <u>Customs Compliance</u>

        A history of good compliance with Customs requirements is of paramount importance to an AEO.   An applicant thus shall have a clear record of Customs offences or other offences involving fraudulence, corruption or dishonesty, or offences under Safeguarding National Security Ordinance in the past two years when submitting the applications.

    (b) <u>Maintenance of Commercial Records</u>

        A responsible trader will document management decisions and business activities to sustain efficient operations and ensure accountability in the company. An applicant shall maintain verifiable commercial records up to a satisfactory level. as required by the relevant provisions under ISO 9001:2015.   These measures include:

        (i)   maintaining a system to keep commercial records, authorizations, licences, permits, certificates or other relevant documents relating to the importation or exportation of goods;

        (ii)   conducting internal audit on systems and records at planned intervals;

       (iii)   putting in place procedures to define the controls for identification, storage, protection, retrieval, retention and disposition of the commercial records; and

       (iv)   devising security measures to protect computerized record system from unauthorized access.

(c)   <u>Financial Soundness</u>

Strong financial position enables a company to withstand external risk and demonstrate resilience during global crisis. Financial soundness is an essential indicator to show an applicant's ability in maintaining and improving the supply chain security measures. An applicant shall:

       (i)   have a good financial standing to fulfill the commitments relating to its business activities; and

       (ii)   allow C&ED to assess its financial status by making reference to various reports including the Director's Report, Auditor's Report, professional accountant's reports, other relevant documents, etc.

Security and Safety Criteria

3.   C&ED adopts a dynamic framework to address the complexity of international supply chain, particularly the variation of business operation sizes and risks across different sectors.

4.   While there is a need for alignment with international standards to pursue MRAs in the long run, C&ED allows for a flexible customization of security measures based on individual company's business model when accrediting an applicant.

5.   Details of the security and safety criteria are as follows:

<u>Security and Safety Criteria for Tier 1 Applications</u>

(d) <u>Premises Security and Access Control</u>

An applicant shall adopt appropriate measures to secure, monitor and control its premises including the exterior and interior perimeters up to a satisfactory level as required by the relevant provisions under ISO 28001:2007.   These requirements include:

(i)   ensuring that main entrance(s) / exit(s), external and internal windows and doors are secured with locking devices or other access monitoring / control measures;

(ii)   inspecting regularly main entrance(s) / exit(s), external and internal windows and doors, and making repairs expeditiously where necessary;

(iii)   keeping and managing properly the locks, keys and access devices by designated staff;

(iv)   providing adequate lighting within the premises;

(v)   monitoring and controlling properly vehicles and persons entering or exiting the premises;

(vi)   devising procedures and providing suitable training for staff to report any unauthorized access to the premises and irregularities detected;

(vii) designating areas specifically for cargo processing and storage; and

(viii) adopting appropriate security technologies or measures (e.g. theft alarm, CCTV monitoring system, security guards, etc.) to safeguard the premises.

An applicant shall, upon request, permit C&ED to gain access to relevant security monitoring systems if circumstances require.

(e) <u>Personnel Security</u>

An applicant shall screen the background of prospective staff to the extent that is legally possible, and prohibit unauthorized access to facilities, transport conveyances, loading docks and cargo areas that may reasonably affect the security of the supply chain under the applicant's responsibilities.

In safeguarding personnel security, an applicant shall take appropriate measures up to a satisfactory level as required by the relevant provisions of ISO 28001:2007. These requirements include:

(i) requiring prospective staff to declare any previous conviction of Customs offences or other offences involving fraudulence, corruption or dishonesty during the recruitment stage;

(ii) requiring current staff to report to the management any conviction of Customs offences or other offences involving fraudulence, corruption or dishonesty;

(iii) requiring staff to display their staff identity cards prominently at all times within the company premises; and

(iv) cancelling immediately the authorization of a terminated staff member to gain access to premises and information systems.

(f) <u>Cargo Security</u>

An applicant shall implement measures to ensure that the integrity and security of cargo, as well as the access control, are maintained at the highest appropriate level as required by the relevant provisions under ISO 28001:2007. These measures include:

(i) compiling security policy manual or guidelines to uphold cargo integrity;

(ii) keeping cargo in a secure area and devising procedures to restrict and detect unauthorized access and report the same to the appropriate law enforcement agencies;

(iii) putting in place a mechanism to identify persons delivering or receiving cargo to or from the applicant's company;

(iv) designating qualified personnel to supervise cargo operations and handle any irregularities detected in accordance with the established procedures;

(v) devising procedures to secure and control the cargo under the applicant's custody throughout the course of delivery;

(vi) devising measures to prevent security seals from being tampered with and handle irregularities detected;

(vii) devising a mechanism to ensure that the physical structures and locking facilities of cargo conveyances are kept in good condition without being tampered with; and

(viii) monitoring cargo storages and inventory kept therein by conducting inspections and audit checks regularly.

(g) <u>Conveyance Security</u>

An applicant shall take measures to ensure its conveyances are effectively secured and maintained up to a satisfactory level as required by the relevant provisions of ISO 28001:2007. These measures include:

(i) keeping conveyances in a secure area;

(ii) ensuring that potential places for concealment of illegal goods on conveyances are regularly inspected, and related inspection records are properly kept;

(iii) providing security rules, procedures or guidance to conveyance operators;

(iv) tracking and monitoring the movement of the conveyances and cargo; and

(v) reporting any irregularities of the conveyances to the appropriate law enforcement agencies.

(h) <u>Business Partner Security</u>

An applicant shall put in place a mechanism to help strengthen the international supply chain security through the commitments of its business partners. The measures adopted should be up to a satisfactory level as required by the relevant provisions under ISO 28001:2007. These measures include:

(i) screening and selecting business partners before entering into contractual relations;

(ii) incorporating security requirements into written contracts / agreements with business partners or requesting business partners to provide security declarations with a view to ascertaining security compliance; and

(iii) reviewing regularly business partners' practices to see if they are in conformity with the security requirements under contract.

(i) <u>Security Education and Training</u>

An applicant shall implement a training system to ensure that its staff are well aware of the company's security policies, and capable of recognizing shortfalls of security standards and taking appropriate rectification measures. The system should be operated up to a satisfactory level as required by the relevant provisions under ISO 28001:2007. These measures include:

(i) providing specific security training to staff, particularly those engaging in tasks associated with the international supply chain activities;

(ii) keeping staff well aware of the security and safety measures of the company through a proper communication channel; and

(iii) maintaining a system to ensure that training records and guidance / handouts are properly kept.

(j) Information Exchange, Access and Confidentiality

An applicant shall ensure that entrusted information is protected from misuse or unauthorized access / alteration.   These measures should be in line with the relevant provisions under ISO 27001:2017 and ISO 28001:2007 including:

(i) devising security policies and control measures to protect information system against unauthorized access and misuse;

(ii) ensuring that cargo information is legible, complete and accurate, and protected from unauthorized alteration;

(iii) appointing designated staff to identify any breaches or attempted breaches of information security;

(iv) implementing a proper system to ensure that sensitive data are made available only to authorized staff, and documents are properly kept, transferred, and disposed of; and

(v) setting up backup facilities to safeguard business data against loss or accidental deletion.

Additional Security and Safety Criteria for Tier 2 Applications

To acquire Tier 2 AEO status, an applicant should comply with two additional security and safety criteria on top of the ones mentioned above. These criteria are:

(k) Crisis Management and Incident Recovery

An applicant shall have a set of crisis management and recovery plan to minimize the impact created by a disaster or security incident.   A contingency plan should be devised in accordance with the relevant provisions under ISO 28001:2007 with measures including:

(i) putting in place a contingency plan to deal with crisis, ensure business continuity and reactivate the entire security system;

(ii) ensuring that staff are well informed of the details of the contingency plan, and will take timely and appropriate remedial measures to respond to security threat scenarios, such as intrusion or unlawful control of an asset within the supply chain, smuggling, breach of information security or cargo integrity, etc.;

(iii) devising procedures to timely report an incident or a risk situation to the appropriate law enforcement agencies;

(iv) ensuring that incidents are properly investigated and analyzed to identify rooms for improvement; and

(v) conducting proper training and regular drills for staff to acquaint them with the contingency measures.

(l) <u>Measurement, Analysis and Improvement</u>

An applicant shall implement measures to ensure that its company's security and safety policies and practices are in conformity with the requirements spelt out in the relevant provisions under ISO 28001:2007. These requirements include:

(i) appointing designated staff to assess regularly the security risks within the business ambit, and take appropriate measures to mitigate the potential risks;

(ii) reviewing regularly the security management system including the revision of security policies and practices;

(iii) devising a system to ensure that staff designated to conduct security and risk assessments are well acquainted with their responsibilities, and all assessment procedures and records are properly kept for inspection; and

(iv) ensuring that recommendations adopted for enhancing the overall security management system are timely and properly implemented.

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Jan 2025 version

Chapter 3 - Application Procedures

Information Required

An applicant shall provide C&ED with the following information when applying for AEO status:

(a) a completed application form (Annex 1);

(b) an introduction of the company, outlining its:

    (i)   background;

    (ii)   major business activities;

    (iii)   organizational structure with the total number of staff and key personnel shown;

    (iv)   major operational procedures; and

    (v)   awarded accreditations where appropriate;

(c) a completed self-assessment questionnaire (Annex 2);

(d) a folder containing all necessary documents to ensure conformity with the accreditation criteria; and

(e) supporting documents which include:

    (i)   process map(s) [specimen at Annex 3] to illustrate the flow of goods and information along the company's supply chain;

    (ii)   site plan(s) [specimen at Annex 4] to show the layout of the company's premises with clear depiction of the location(s) of the structure(s), perimeters, access areas, security and control measures adopted, cargo loading / unloading areas, etc.; and

    (iii)   relevant documents including those mentioned in the self-assessment questionnaire.

Submission of Application

2.   Completed application documents can be submitted in one of the following ways:

In person or by post:	Customs and Excise Department Office of Trade Relations and Public Communication Room 3219, 32/F Customs Headquarters Building 222 Java Road, North Point Hong Kong
Online application	https://eform.one.gov.hk/form/ced007/en/
Enquiry E-mail:	aeo@customs.gov.hk

Application Fee

3.   Application for the AEO status is free of charge.

Joint Validation

4.   Apart from documentary inspection, Customs officers will visit a company on different occasions to verify the accuracy of the information outlined in the application and the implementation of measures required. As part of the Customs-to-Business partnership programme, the joint validation will enable the participating company to review its security profile with the assistance of the Customs officers.

5.   Validation will include the verification of supply chain security processes and procedures that a company agrees to perform under the auspices of the Programme. Reliability and effectiveness of key security measures will be evaluated with reference to risk management principles, whereas best practices for securing supply chain will be shared during the validation.

6.   The company will be notified by C&ED in advance of the validation along with the need for supporting documentation. If situation requires, selective validation on the company's business partners may be arranged.

Duration of Accreditation

7.   C&ED will assess the level of compliance with the accreditation criteria of a company and give advice for rectification whenever appropriate.   The duration of accreditation process will depend on the completeness of information submitted to C&ED, the complexity of a company's business operations and the number of sites where joint validation will be conducted.

Assistance / Enquiries

8.   C&ED will offer guidance to interested local enterprises during the application process whenever required.   The companies may contact C&ED for assistance or enquiries:

> Customs and Excise Department
> Office of Trade Relations and Public Communication
> Room 3219, 32/F
> Customs Headquarters Building
> 222 Java Road, North Point
> Hong Kong
>
> Telephone: (852) 3759 2153 (Monday to Friday 9:00 am to
>   6:00 pm (except public holidays))
> Fax: (852) 3108 2311
>
> E-mail: aeo@customs.gov.hk

9.   Under the Programme, there is no requirement for an applicant to hire a professional consultant to make risk assessment during the application, which is totally up to the applicant's discretion.

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Chapter 4 - Post Accreditation Management

As a voluntary partnership initiative, the Programme is largely built on traders' commitment to supply chain security. C&ED will monitor the continuous compliance of the relevant security / safety standards by the accredited companies.

Accountability

2.   A company will be granted a Hong Kong AEO certificate upon successful accreditation. The accredited company should ensure the maintenance of appropriate standards granted in the AEO certification. Non-compliance with the standards should be reported to C&ED as soon as possible.

3.   Any changes to the company's business that may affect its AEO status should be timely reported to C&ED. These changes include, but not limited to:

      (a) legal entity;

      (b) business address / nature / structure;

      (c) senior personnel responsible for customs-related matters;

      (d) accounting / information system; and

      (e) security management system.

4.   Upon receipt of the notification, C&ED will evaluate the implications arising from such change(s) for the AEO status granted to a company on a case-by-case basis. An AEO should note that changes of a company's information (e.g. legal entity, business nature, etc.) may result in the invalidation of the AEO status. Re-application for the AEO status in the name of the new legal entity may be required.

Validity, Renewal and Withdrawal

5.   A Hong Kong AEO certification is valid for three years. A company can renew its certification by writing to C&ED six months before the expiry of its AEO status.

6. Likewise, the company can lodge a written request with reasons for withdrawal from the Programme. The AEO status and associated benefits will be removed upon its withdrawal.

Suspension and Revocation

7. C&ED may suspend a company's AEO status on several occasions including:

(a) non-compliance with the criteria for the AEO certification;

(b) existence of non-rectified security weaknesses; or

(c) commission of a Customs offence or an offence involving fraudulence, corruption or dishonesty.

8. In addition, an AEO status can be revoked if the company:

(a) fails to make necessary rectifications after a suspension of status; or

(b) has committed a serious Customs offence or an offence involving fraudulence, corruption or dishonesty.

9. Upon revocation, the company will have its AEO status and associated benefits removed and may not re-apply for AEO certification within two years.

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