



Grant Thornton

An instinct for growth™

A guide to Authorised Economic Operator (AEO)

‘trusted trader’ status

2018



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Introduction

As the UK prepares to leave the EU, there is an ever increasing focus on the many ways in which international supply chains may be adversely affected by security issues and Customs controls with significant cost implications.

Authorised Economic Operator (AEO) accreditation, while not mandatory, sends an important message to other parties in your supply chain, as it signifies that your role in that chain is secure. It can also facilitate trade movements, by providing quicker access to simplified customs procedures, and may reduce the frequency of physical customs checks – potentially bringing significant advantages to business importing to, and exporting from, the UK post-Brexit.

As at 1 June 2018, however, only 626 UK businesses had been registered by HM Revenue & Customs (HMRC) as an AEO, accounting for only 4% of AEO businesses registered across the EU. In Germany alone 6,197 businesses have attained AEO status to date.

In light of the UK's impending departure from the EU, the trend is now reversing, with more and more UK businesses beginning to review their Customs infrastructure and start the AEO application process.

This guidebook provides a high-level overview of the key areas that businesses should be aware of when considering AEO status and how Grant Thornton UK LLP can help.



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What is AEO status?

The AEO concept is based on the World Customs Organization (WCO) 'Framework of Standards to Secure and Facilitate Global Trade', known as the SAFE Framework, which seeks to strengthen end-to-end security of international supply chains.

The EU AEO regime was introduced in 2005 and is recognised by all current EU customs administrations, in addition to those outside the EU where a 'Mutual Recognition Agreement' (MRA) is in place.

If AEO status is granted by a customs administration in the EU, it is, therefore, recognised by all other EU Customs administrations and those with whom there is an MRA.

Post Brexit, the UK is expected to introduce its own AEO status equivalent, whilst seeking mutual recognition with other jurisdictions, in line with the EU existing regime.

AEO status is an internationally recognised quality mark indicating that a business' role in the international supply chain is secure

(AEOS), and that their customs controls and procedures (AEOC) are efficient and compliant.

AEO status is not mandatory, but it gives the business quicker access to simplified customs procedures and, in some cases, the right to 'fast track' shipments through some customs, safety and security procedures.

There are two types of AEO status:

- AEOC – Customs simplification
- AEOS – Security and safety

It is possible for a business to apply for, and to hold, either AEOC, AEOS, or both.

How will being an AEO benefit my business?

AEO status offers numerous benefits to internationally trading businesses. Many of these benefits can be obtained now and will remain available irrespective of the Brexit outcome, so including achieving AEO status in your Brexit strategy really is a 'no regrets' step.



Customs simplifications

These are simplifications that customs administrations grant to AEO status businesses:

- Fewer physical and document-based controls.
- Priority treatment of consignments if selected for control, including the ability to choose the location at which HMRC applies the customs controls (eg inspection of the goods)
- Easier admittance to customs simplifications and authorisations.



International recognition

The AEO status of a business is also recognised by other countries, where 'Mutual Recognition Agreements' have been signed.

The UK's objective is to reach Mutual Recognition with all countries with a similar scheme, including the EU post-Brexit.

Mutual Recognition means customs administrations agree to:

- Recognise accreditations issued under each other's jurisdiction.
- Provide reciprocal benefits to AEOs in such jurisdictions.



Commercial benefits

The AEO status enhances the reputation of a business, as it signals the high standards to which it operates.

Benefitting from a faster application process for customs simplifications and authorisations, meaning duty reliefs are available sooner and working capital can be better managed.

Each of these benefits will help to keep supply chains flowing now and in the post Brexit environment.

How will being an AEO benefit my business?



Secure supply chain

An AEO status business which meets the security and safety criteria is considered to be a secure and safe partner in the supply chain.

This means that an AEO status business continuously does everything in its power to reduce threats in the international supply chain.

This should result in improved relations with business partners, customs administrations and, most importantly, existing and new customers.



Financial

Under the Union Customs Code (UCC), a waiver for the new financial guarantee requirement for suspended duty is granted to AEO certified businesses.

Non-AEO businesses are required to secure financial guarantees, often at a significant cost to the business.

With the level of guarantees required potentially set to increase post-Brexit, due to additional duty payable on movements of goods from and to the EU27, this is potentially a very valuable benefit to importers to, and exporters from, the UK.



Business benefits

The AEO accreditation process requires businesses to install 'best-practice' processes and procedures. As a result, indirect business benefits from AEO status could include:

- Reduced theft and losses.
- Fewer delayed shipments.
- Improved planning.
- Improved customer loyalty.
- Reduced security and safety incidents.
- Lower inspection costs of suppliers and increased co-operation.
- Reduced costs for the operation of customs special procedures (CSP) under the UCC.

Who can apply?



Who can apply for AEO status?

Any business can apply for AEO status, irrespective of size as long as it:

- Is established in the EU (or the UK post Brexit)
- Holds an Economic Operator Registration and Identification (EORI) number.
- Is involved in customs activities.
- Forms part of the international supply chain.

Applicants can include a broad range of businesses, for example, manufacturers, importers, exporters, freight forwarders, warehouse keepers, customs agents and carriers.

At present, there is an increase in applications from a wide variety of businesses covering a multitude of sectors, as businesses start to role out their Brexit contingency plans.



AEO criteria

To attain AEO status, businesses must meet the following criteria:

- An appropriate record of compliance with customs requirements.
- A satisfactory system of managing commercial and transport records.
- Proven financial solvency.
- Appropriate security and safety standards.

We also understand that, for businesses which have only traded with the EU to date, HMRC will accept alternative forms of evidence to support AEO applications in lieu of historic evidence of trading with non-EU businesses, which is normally required.

The AEO application process

In broad brushstrokes, the AEO status application process can be summarised as follows:



Prior to submitting the AEO application:

- Cost-benefit analysis.
- Senior management buy-in and sign-off.
- Development of AEO project plan.
- Self-assessment.
- Identification of compliance gaps, if any.
- Remediation of compliance gaps encountered.
- Documentation of all relevant processes, to a standard which is accepted by customs administrations.
- Readiness assessment.

Once these steps have been completed, the AEO status application pack can be submitted to the customs administration.

It is essential that an AEO status application is completed accurately and double-checked before submission, if a business is to ensure the application will be accepted and process by HMRC.

After submitting the AEO application:

- Answer follow-up questions from customs administration.
- Preparation for an official audit by customs administration.
- Design, and/or implement, monitoring plan to ensure that the business will continuously meet AEO status criteria in the future.
- Regular internal/external AEO status compliance reviews.



CONTACT INFORMATION

- sole proprietorship
- partnership
- corporation
- other

Date business commenced

Maintaining your AEO status

Once a business has been granted its AEO status, customs administrations will review the AEO status periodically to ensure that the relevant conditions and criteria continue to be met.

It is, therefore, critical for the business to ensure that it remains AEO status compliant after obtaining approval.

The business should, for example:

- Stay updated and informed of changes to customs legislation.
- Regularly update the internal policies and procedures.
- Communicate to HMRC any changes in the business's details.
- Disclose errors proactively.
- Provide training.
- Undertake AEO status compliance reviews.

Businesses must self-monitor their operations.

At any time, customs administrations may visit a business to verify AEO status compliance.

An AEO status business must monitor and review its operations continuously. It must also be able to produce supporting evidence to provide sufficient assurances to customs administrations that it has full control and visibility of its operations, engagements and its role in the international supply chain.

If HMRC is not satisfied, AEO status can be suspended or even withdrawn.

Counting the costs of not being an AEO

Gaining AEO status is not mandatory. It is a commercial decision a business will need to take once all the benefits and the costs of non-AEO status have been considered.

Without AEO status, the requirement for payment of guarantees can introduce significant costs to businesses.

Typically, commercial banks will provide guarantees but they may also take security in the form of a cash deposit, or by a reduction in lending facility.

As the UK moves towards exiting the EU, movements of goods between the UK and EU27 countries will be reclassified as imports and exports, Duty and VAT may have to be accounted for and there may be a need to increase existing deferment accounts.

Absent AEO status, this is likely to mean guarantee requirements and costs will increase.

Following Brexit, with up to 180,000 businesses being caught in the Customs regime for the first time, commercial banks may become increasingly reluctant to provide potentially very high amounts of guarantees, so we expect to see their charges increase and, perhaps, the introduction of new customs-related risk assessment criteria being applied to guarantees.

It is quite possible that it will become increasingly difficult and more costly for non-AEO status business to obtain a guarantee and make use of simplified or special customs procedures going forward.

How Grant Thornton can help



A helping hand

Obtaining AEO status can be perceived as a lengthy and complicated process.

A helping hand can often contribute to faster AEO certification whilst keeping costs manageable and under control.

Grant Thornton's flexible approach of obtaining AEO status is based on a set of proven methodologies that we have refined through experience in conducting various AEO status projects across the EU.



A complete support solution

We support businesses with all aspects of AEO status, from the initial preparation to, application and monitoring of AEO compliance requirements.

We offer a tailor-made approach that allows our clients to benefit from our expertise with the AEO regime, while doing as much of the work in-house, as required.

Our AEO services and support include:



Cost-benefit analysis.



Development of AEO project plan.



AEO gap reviews and support with self-assessment.



Remediation of gaps identified.



Assistance with writing or up-dating processes and procedures.



Readiness assessment.



Completion and submission of your AEO application pack.



Liaison with HMRC.



Designing and implementing a monitoring programme.



AEO and customs legislative and administrative update service.

Case study – demonstrating our value



Case study

Confidence in the security of a complex supply chain

Fine art storage and logistics

Our client, an international fine art storage and logistics company, wished to obtain AEO certification for its international supply chain. Due to the nature of its business, the company had certain recognised security and safety standards in place and did not, therefore, wish to apply for AEO accreditation.

The company was using a number of customs reliefs and was familiar with customs guarantees and associated waivers, though the time and effort involved in obtaining these was significant.

The objective

The company wished to achieve AEO accreditation, so that it could benefit from faster application processes for customs simplifications and authorisations, and obtain reductions in, or waivers of, comprehensive guarantees.

Meeting the challenge

Working alongside our client's in-house team we helped to prepare the company for the AEOC application process. We began by documenting internal customs procedures and controls and completing a 'gap analysis'. The next step was to help refine our client's processes, taking corrective action in respect of the gaps identified.

We then assisted our client to complete the application paperwork, collating and presenting evidence to substantiate the responses given. We also prepared our client for HMRC's on site audit, being present to provide support and clarification to the visiting Officers.

Delivering value

Our client received the AEO accreditation it was so keen to achieve and is now benefitting from expedited simplifications, as well as an internationally recognised accreditation that demonstrates the robustness of its customs process and controls

Your International Trade Team



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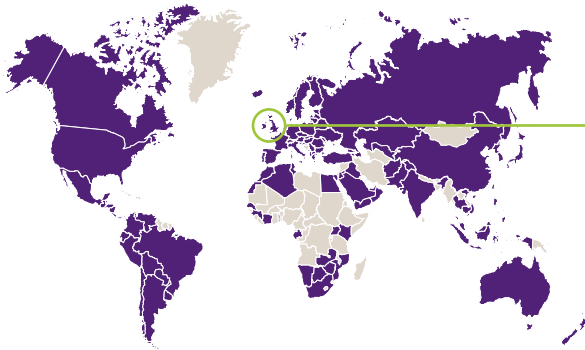
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International Accounting Bulletin Network of the Year 2013



Private Client Practitioner Top 25 Most Admired Companies 2013, 2012, 2011, 2010



Best Tax Team in a National Firm National Employer Solutions, LexisNexis Awards 2013



Ranked number one corporate finance adviser in the UK (Source: Experian Corpfin 2012)



Corporate Finance Advisory Team of the Year, Gatwick Corporate Finance team, South East Insider DealMakers Awards 2013, 2012, 2011



Global Firm of the Year British Accountancy Awards 2013



Global Top 50 World's Most Attractive Employers 2013



International Tax Review European Tax Awards 2013, UK Transfer Pricing Firm of the Year



Pension Scheme Accountant of the Year, UK Pensions Awards 2013



Private Client Practitioner Top 25 Accountancy Firms 2013



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