

**World Customs Organization Framework of Standards
to Secure and Facilitate Global Trade
and
Asia Pacific Economic Cooperation
Framework for Secure Trade**

This paper introduces the World Customs Organization¹ (WCO) Framework of Standards to Secure and Facilitate Global Trade and the Asia Pacific Economic Cooperation² (APEC) Framework for Secure Trade and outlines the pragmatic approach that Hong Kong will adopt to implement the standards.

The WCO/APEC Framework

2. With the aim of enhancing the security of international trade, improving the ability of customs authorities to detect and deal with high-risk consignments and facilitating legitimate trade, the WCO adopted the Framework of Standards to Secure and Facilitate Global Trade (WCO Framework) at its Council meeting in June 2005. Concurrently in the APEC forum, the Ministers Responsible for Trade agreed in principle at its meeting in June 2005 to implement the APEC Framework for Secure Trade (APEC framework which is identical to the WCO Framework).

3. The WCO/APEC Framework has received wide support from individual customs authorities and APEC member economies. Out of

¹ The WCO is an independent intergovernmental body whose mission is to enhance the effectiveness and efficiency of customs administrations. As at 20 October 2005, membership of the WCO comprises 168 customs administration which, together, process 99% of international trade. Hong Kong has been a member of the WCO since 1987.

² APEC is an informal forum set up in 1989 for high level government-to-government dialogue on trade and economic issues. The objectives of APEC are to: (a) sustain the growth and development of the region; (b) enhance the positive gains of increasing economic inter-dependence for both the region and the world economy; (c) develop and strengthen the open multilateral trading system; and (d) reduce barriers to trade and investment among members. It has 21 member economies, namely, Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; the Philippines; Russia; Singapore; Chinese Taipei; Thailand; the United States and Viet Nam. Hong Kong joined APEC in 1991.

the 168 WCO members and 21 APEC member economies, over two thirds (including Mainland China, the United States (US), Australia, Japan, Korea, Singapore, all member states of the European Union, Brazil, India, South Africa, Macao, etc) have already declared their intention to take affirmative steps to begin implementation of the Framework.

4. The Framework comprises 17 standards grouped under two pillars, viz. Customs-to-Customs network arrangements and Customs-to-Business partnerships. The standards under the Customs-to-Customs pillar mainly concern enhancing the enforcement capabilities, cooperation and communication of customs authorities; requiring advance electronic submission of cargo information; and introducing risk assessment and inspection procedures. The major standard under the Customs-to-Business pillar concerns the introduction of an “authorized economic operators (AEOs)” arrangement whereby parties involved in the international movement of goods and willing to comply with pre-determined security standards and best practices can become AEOs and can enjoy appropriate incentives given by customs authorities (e.g. facilitation in customs controls and procedures). A summary of the 17 standards of the Framework is set out in the Annex. The full text of the standards is available in English at the WCO website <http://www.wcoomd.org/ie/en/en.html>.

Annex

5. Since the terrorist attack on 11 September 2001 in the US, we have witnessed significant changes in the international trading environment with a growing emphasis on the need to safeguard the international supply chain against possible terrorist attacks. As a major international trading centre and regional logistics hub, Hong Kong needs to cooperate with and contribute to the international community’s efforts to secure the international supply chain. Hence, we have also declared Hong Kong’s intention to implement the Framework and this should help enhance our trading partners’ confidence in the security of our exports and facilitate clearance of goods originated from or transshipped through Hong Kong by overseas Customs administrations.

Implementation of the Framework by Hong Kong

6. Like many other economies which have subscribed to the Framework, Hong Kong is not yet ready to fully implement all the standards even though our preliminary analysis shows that some elements of each of the standards have been implemented in Hong Kong. For those standards on enforcement capabilities (e.g. control and risk management, power to inspect cargo, use of non-intrusive inspection equipment and radiation detection equipment, submission of statistical reports to WCO, etc) and on cooperation among customs authorities (e.g. joint targetting and screening, use of standardized sets of targetting criteria among customs administrations), the Customs & Excise Department (C&ED) is able to meet the requirements of the standards to a large extent. It is envisaged that further actions required are mainly of an administrative upgrading nature and that compliance with these standards should not have much impact on legitimate trading activities.

7. Some standards, however, still need to be better defined by the WCO in terms of requirements for full compliance or will require us to introduce new legislation and/or changes to the mode of operation of business stakeholders in the supply chain. These include introducing AEO schemes, requiring advance electronic submission of cargo information for all modes of transport and operating a customs seal integrity programme.

8. Given the fact that the Framework is not legally binding, the implementation details of a number of standards are still evolving and there is no specific timeframe for the full implementation of all the standards in the Framework, Hong Kong will adopt a pragmatic approach in implementing the Framework. We will begin with those standards for which our implementation readiness is high, e.g. the standards referred to in paragraph 6 above.

9. For those standards which need further clarification or will require legislative amendments and/or significant changes in the existing mode of operation of stakeholders in the supply chain, e.g. the standards referred to in paragraph 7 above, we will take an active part in the formulation of the implementation details by the WCO; and identify

their implications, including the costs and benefits of additional compliance requirements to private sector operators and the possible impact on Hong Kong's competitiveness as a logistics hub. We will also undertake thorough consultations with stakeholders in the course of formulating an implementation plan; and ensure that the standards of control proposed are commensurate with the assessed level of threats.

10. The Government will continue to keep the local trading and logistics community and other concerned stakeholders informed of significant international and local developments relating to the implementation of the WCO/APEC Framework. If you need further information or clarification concerning the Framework, please contact the Customs and Excise Department by :

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Commerce, Industry and Technology Bureau
Customs and Excise Department
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WCO Standards to Secure and Facilitate Global Trade

I. Standards under the Customs-to-Customs Pillar

Standard 1 – Integrated Supply Chain Management

The Customs administration will follow integrated Customs control procedures as outlined in the WCO Customs Guidelines on Integrated Supply Chain Management (ISCM Guidelines).

Standard 2 – Cargo Inspection Authority

The Customs administration will have the authority to inspect cargo originating, exiting, transiting (including remaining on board), or being transhipped through a country.

Standard 3 – Modern Technology in Inspection Equipment

Non-intrusive inspection (NII) equipment and radiation detection equipment will be available and used for conducting inspections, where available and in accordance with risk assessment. This equipment is necessary to inspect high-risk containers or cargo quickly, without disrupting the flow of legitimate trade.

Standard 4 – Risk-Management Systems

The Customs administration will establish a risk-management system to identify potentially high-risk shipments and automate that system. The system will include a mechanism for validating threat assessments and targeting decisions and identifying best practices.

Standard 5 – High-risk Cargo or Container

High-risk cargo and container shipments are those for which there is inadequate information to deem shipments as low-risk, that tactical intelligence indicates as highrisk, or that a risk-scoring assessment methodology based on security-related data elements identifies the shipment as high-risk.

Standard 6 – Advance Electronic Information

The Customs administration will require advance electronic information on cargo and container shipments in time for adequate risk assessment to take place.

Standard 7 – Targeting and Communication

Customs administrations will provide for joint targeting and screening, the use of standardized sets of targeting criteria, and compatible communication and/or information exchange mechanisms. These elements will assist in the future development of a system of mutual recognition of controls.

Standard 8 – Performance Measures

The Customs administration will maintain statistical reports that contain performance measures including, but not limited to, the number of shipments reviewed, the subset of high-risk shipments, examinations of high-risk shipments conducted, examinations of high-risk shipments by NII technology, examinations of high-risk shipments by NII and physical means, examinations of high-risk shipments by physical means only, Customs clearance times and positive and negative results. Those reports will be consolidated by the WCO.

Standard 9 – Security Assessments

The Customs administration will work with other competent authorities to conduct security assessments involving the movement of goods in the international supply chain and to commit to resolving identified gaps expeditiously.

Standard 10 – Employee Integrity

The Customs administration and other competent authorities will be encouraged to require programmes to prevent lapses in employee integrity and to identify and combat breaches in integrity.

Standard 11 – Outbound Security Inspections

The Customs administration will conduct outbound security inspection of high-risk containers and cargo at the reasonable request of the importing country.

II. Standards under the Customs-to-Business Pillar

Standard 1 – Partnership

Authorized Economic Operators¹ involved in the international trade supply chain will engage in a self-assessment process measured against pre-determined security standards and best practices to ensure that their internal policies and procedures provide adequate safeguards against the compromise of their shipments and containers until they are released from Customs control at destination.

Standard 2 – Security

Authorized Economic Operators will incorporate pre-determined security best practices into their existing business practices.

Standard 3 – Authorization

The Customs administration, together with representatives from the trade community, will design validation processes or quality accreditation procedures that offer incentives to businesses through their status as Authorized Economic Operators.

Standard 4 – Technology

All parties will maintain cargo and container integrity by facilitating the use of modern technology.

Standard 5 – Communication

The Customs administration will regularly update Customs-Business partnership programmes to promote minimum security standards and supply chain security best practices.

Standard 6 – Facilitation

The Customs administration will work co-operatively with Authorized Economic Operators to maximize security and facilitation of the international trade supply chain originating in or moving through its Customs territory.

¹ Authorized Economic Operator is a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a separate Customs administration as complying with WCO or equivalent supply chain security standards. Authorized Economic Operators include, inter alia, manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, distributors.