



# SOCIAL MENTALITY AND RESEARCHER THINKERS JOURNAL

Open Access Refereed E-Journal & Refereed & Indexed

ISSN: 2630-631X



Social Sciences Indexed

www.smartofjournal.com / editorsmartjournal@gmail.com

January 2019

Article Arrival Date: 11.12.2018 Published Date:16.01.2019 Vol 5 / Issue 15 / pp:70-76

## PROBLEMS ENCOUNTERED IN THE IMPLEMENTATION OF AEO IN DEVELOPING COUNTRIES, TURKEY CASE

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### ABSTRACT

Following the September 11 terrorist attacks in the US in 2001, the first security-oriented AEO (Authorized Economic Operator) implementation, C-TPAT (Customs-Trade Partnership Against Terrorism), began to be implemented. The objective of the C-TPAT security partnership is to safeguard supply chains, identify security gaps and implement special measures to strengthen the border security and secure the United States. The World Customs Organization Council adopted the SAFE Framework of Standards document at its June 2005 meeting to secure and facilitate global trade and detailed provisions on the conditions and requirements for the AEO Program have been included in the 2007 version of this international framework. This system, which aims at facilitating trade by providing supply chain security in international trade, is the same as the objective, but the names used in country implementations differ. Turkey which is in the category of developing countries has launched its AEO implementation in order to adapt EU legislation and changes in global trade and make trade safe and easy. Within the scope of this study, a questionnaire was applied to 25 companies with AEO certificates in order to determine the problems encountered in the implementation of Turkey AEO program which has been applied since 2013. The main purpose of this study is to determine the current problems in Turkey AEO implementation within the scope of developing countries in order for the elimination of problems in the implementation. As a result of the research, it has been identified that improvements are needed in the fields of cost, legislation, private sector - state cooperation, promotion and internal audit.

**Keywords:** AEO, Supply Chain, Problems in AEO Implementation

### ÖZET

Bu çalışmada, küresel ticareti basitleştirmek ve güvence altına almak amacıyla uygulanmaya başlanan AEO programının Türkiye uygulanmasında istenen başarıya ulaşılmamasının nedenlerini belirlemeye çalışılmıştır. Türkiye'de AEO sertifikası alan firma sayısının düşük olmasının nedenini belirleyerek, bu tür sorunların çözümü için yapılacak çalışmalar için bir veri kaynağı yaratılmaya çalışılmaktadır. Çalışmanın yapıldığı tarihte AEO sertifikası alan 53 firmadan 25'ine ve bu firmalara danışmanlık hizmeti veren kurumlara sertifikalandırma sürecinde yaşadıkları sorunlarının ve çözüm önerileri tespiti için açık uçlu anket kullanarak sorular sorulmuştur. Anket sonucunda Gümrük İdareleri ve firmalardan kaynaklanan sorunlar 6 ana başlık altında belirlenmiştir. AEO sertifikası başvurusu kabul edilmeyen firmaların isimlerine gümrük idareleri tarafından izin verilmediğinden tarafından anket uygulamasına dahil edilmemiştir. Araştırmadan elde edilen veriler, AEO başvurusunun daha etkili bir şekilde uygulanması için yapılacak çalışmaların temeli oluşturacak ve AEO uygulamasından kaynaklanan sorunların Türkiye ve diğer gelişmekte olan ülkelerde karşılaştırılmasına referans olacaktır.

**Anahtar Kelimeler:** Yetkilendirilmiş Yükümlü, Arz güvenliği-Yetkilendirilmiş Yükümlü Uygulamasında sorunlar

### 1. INTRODUCTION

Concerns such as increased global trade volume, increased security threats to the international movement of goods, and international terrorism emerging after September 11, 2001, and the subsequent implementation of the US C-TPAT program forced the World Customs Organization (WCO) to take a number of new measures. (McNicholas,2016,22). In the light of these developments, the WCO has introduced the Authorized Economic Operator (AEO) concept for the first time in 2005 by publishing the SAFE Framework of Standards to create a regime that will ensure the security and facilitation of international trade. (Gerard, Enrique, David, Tom Doyle. 2010,187)

According to the WCO's SAFE-Framework of Standards document, the "AEO" is defined as; "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs Administration as complying with WCO or equivalent supply chain security standards. (Rowbotham,2008,231).AEO include inter alia manufacturers, importers,

exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, distributors". (Polner,2010,6)

As of 2010, one hundred sixty-three out of 177 WCO Member States expressed their intention to implement the WCO Framework of Standards which aims to make global trade safe and easy. (Weerth, 2011,377). However, according to the World Customs Organization's 2017 statistics, there are 73 countries that implement the AEO program worldwide and Turkey takes place in the category of developing countries with 30 countries. In addition, pilot implementations are underway to launch the program in 17 countries. (WCOOMD-media, [16/12/2017])

In this study, under the title of Problems Encountered in the Implementation of AEO in Developing Countries, Turkey Case has been examined. For this purpose, the implementation was firstly outlined and a questionnaire was applied to 25 of the 53 certificate holders who received the AEO certificate as of 02.05.2017 to determine the problems they faced during the AEO process. It is considered that the results obtained from this study will contribute to the literature, and also to the related institutions, organizations and administrators.

## **2. AEO PROGRAM OF TURKEY**

### **2.1. Emergence of the Turkey AEO Program**

Along with having scope and implementation differences according to the countries, the AEO implementation, which basically aims at facilitating customs regime and implementations and ensuring supply chain security, has been put into practice in our country under the name of "Authorized Economic Operator" in line with the targets such as increasing our international competitive power, supporting exports and harmonizing with the EU. (RISK.GTB-kurumsal-haberler, [12/12/2017])

For this purpose, the implementation of the "AEO" program has entered into force under the "Regulation on Facilitation of Customs Procedures" numbered 28524 and dated 10 January 2013 and again with the new Regulation No. 29006 published in the Official Gazette on 21.05.2014, the regulations regarding the implementation of AEO have been made and the scope of the implementation has been expanded. (Çalışkan, 2015, 78)

### **2.2. AEO Status**

The Authorized Economic Operator, which is an International status pursuant to Article 4 of the Customs Procedures Facilitation Regulation (GIKY), is the granting of rights and privileges by the customs administration to organizations that operate at least 3 years, fulfill their obligations related to the customs, keep records on a regular basis and record them, comply with the norms of financial adequacy and security, and have the ability to conduct self-audit (Sofyalıoğlu, Kartal, 2013,527)

According to the section entitled "Purpose and Scope" of GIKY, the AEO status which described as a symbol of trust in the international arena, provides competitive advantage to the firms on a global scale and a number of privileges including authorized consignor, authorized consignee, on-site customs clearance at importation, authorized exporter, underdeclaration, summary declaration with reduced data, priority crossing from border gates, partial guarantees, lump sum guarantees, facilitation of control of declaration, safety and security facilitation. (RISK.GTB-guide, [17/12/2017])

### **2.3. Conditions of AEO Implementation**

The general requirements for applicants to obtain an authorized economic operator certificate are stated in the GIKY regulation. These conditions are grouped under 4 main headings.

### 2.3.1. Reliability Condition

Accordingly, members of the board of directors, real persons having more than ten percent of the capital of the company and employees having the authority to represent the company in customs and foreign trade transactions should not be convicted of serious crime threatening public safety or serious financial crime. Applicants must not have been punished by the customs administration for exceeding the number of penalties specified in Article 5 of the Regulations within the period of three years consists of three periods of twelve months retrospectively from the first day of the month on which the implementation is received. Again, under the condition, the applicants are required not to have a definite social security premium liability in accordance with the customs and tax regulations in accordance with the finalized tax and penalty liability provisions, and these persons are required to have 100 customs declaration transactions within 1 year retrospectively from the date of the certificate application. . (RISK.GTB-GIKY, 4,[17/12/2017])

### 2.3.2. Reliability and Traceability of Commercial Records

Under the condition, the applicant's commercial and if available transportation records must be traceable to ensure that customs controls can be carried out correctly and efficiently and that goods movements are observed. However, the applicant must have taken the necessary information technology security measures to safeguard the computer system from unauthorized access and to secure the data for proper archiving and protection of documents relating to its commercial activities. (RISK.GTB-guide, 9,[17/12/2017])

### 2.3.3. Financial Sufficiency Condition

Within the GIKY regulation, the financial structure of the applicant must be examined by a certified financial consultant based on three years preceding the application date and must be affixed to the report in a favorable opinion. In the implementation of this condition, in order to meet the financial sufficiency taking into consideration the characteristics of the business field, the applicant must be in a sufficient financial position to meet his commitments and no bankruptcy proceedings have been initiated. RISK.GTB-GIKY, 6,[17/12/2017])

### 2.3.4. Safety and Security Condition

Under the condition, the applicant must ensure that its own premises, shipping areas and cargo departments are in a condition to prevent unauthorized access and infiltration. Applicant must have taken measures to prevent unauthorized interventions on the goods and transport vehicles. Applicant must be able to provide its own autocontrol and should be able to control the work done by the people and organizations they work with. Applicant should conduct regular security investigations of employees in vulnerable positions. (RISK.GTB-GIKY, 7,[17/12/2017])

## 3. RESEARCH

In the AEO program, which has been implemented in our country since 2013, the presence of only 53 companies that have earned the AEO status as of April 13, 2017 indicates that there are serious problems with the implementation of AEO. (RISK.GTB-aeo listeleri [14.11.2017])

In this direction, 25 questionnaires were applied to 25 of the 53 companies that earned AEO status in order to determine the problems in the implementation. For this purpose, a questionnaire was applied to the members of İstanbul, İzmir Customs Brokers Association and 23 customs consultants who were expert in their field, operating in different cities to determine their views, and was asked to identify at least 3 problems they experienced during AEO implementation.

### 3.1. Method

Quantitative data were used in the research by field scanning and in the analysis of the obtained data; Descriptive statistics are presented with frequency and percentage values. The data of the research were collected by means of a questionnaire consisting of open-ended questions and the answers were

collected under 6 headings and transformed into categorical variables and frequency analysis was carried out to examine the results. Statistical analyzes were performed with SPSS 22.0 package program.

### 3.2. Survey Findings And Analysis

#### 3.2.1. Survey Findings

**Table:** Problems encountered in the implementation of the Authorized Economic Operator Program in Turkey

Please indicate at least 3 problems you have identified associated with Authorized Economic Operator Program in Turkey.	N=25	Percentage (%)
<p><b>The costs incurred in the process of receiving AEO certificate and lack of government incentives.</b> The high cost of investments to acquire AEO documents and the fact that these costs are not supported by instruments such as government incentives or tax deductions. High costs can only be met by a certain number of companies without support. Certified companies are not given support such as collective payment of taxes at the end of the year or postponement of taxes.</p>	14	28,00
<p><b>Problems arising from customs legislation in the AEO certification process.</b> The questions on the AEO evaluation form, which consist of 108 questions, are similar and the question form is very complex. The assessment is not made properly because the staff to evaluate the 108 question form is not Supply Chain Expert. Despite the fact that AEO-certified companies are aware of the mistakes they have made in the transactions and have notified the Customs authorities, there is no penalty reduction. It is unfair to take back AEO status because the error rate of the company submitting the 1000 declaration and the error rate of the company submitting the 20 declaration are evaluated at the same rate. AEO Certificate can not provide cost-effective legislative arrangement for AEO - certified companies. There are reservations about the access of the auditing customs administration to the company information.</p>	12	24,00
<p><b>The inability of the State and Private Sector cooperation, the lack of necessary knowledge of the personnel.</b> There is no personnel in the Customs offices and the private sector who have been trained in supply chain expertise and have provided consulting services in this field. The absence of private sector personnel who fully dominate the customs legislation and the lack of training in this regard. The lack of ongoing meetings between the government and the private sector to solve the problems arising from the system.</p>	10	20,00
<p><b>The lack of the necessary infrastructure to provide conveniences in the AEO implementation.</b> Some of the rights given in AEO implementation can not be used because adequate infrastructure and necessary legal regulations are missing. AEO - certified companies can not be given priority when undertaking customs procedures for documents requested by custom offices and other institutions. The waiting period is long due to the inadequate communication infrastructure with other institutions.</p>	8	16,00
<p><b>Inadequate Information about the implementation of AEO</b> In the process of transition to the AEO application, the information and promotion to the private sector required by the government is not made. Companies are cautious about the application because the necessary trainings are not held, and companies are lack of knowledge about the system.</p>	4	8,00
<p><b>The lack of in-house internal audit units</b> Since the companies in Turkey are family-owned, they have not completed the institutionalization process. Firms can not create an effective internal audit unit in their own structures.</p>	2	4,00

#### 3.2.2. Analysis of Findings

According to the findings obtained from the study, the first problem (%28, n=7) that participants expressed regarding the implementation of the Authorized Economic Operator program that started to have implemented in Turkey is " The costs incurred in the process of obtaining AEO status and the incentives of the State are insufficient". Internal and external physical and electronic security

precautions that firms will take to obtain AEO certificate together with the establishment of internal audit mechanisms mean investment and personnel expenses for the companies. (Yetgin,2014,69)

It is also desirable to provide up-to-date versions of the 27001 and ISO 9001 certifications, which allow companies' commercial records to be trusted and traceable. The companies undertake a serious financial burden for the retrieval and renewal of these documents. Moreover, given the penalties resulting from the mistakes that will arise in the transactions that will take place after the companies receive the AEO certificate, it seems quite difficult without the state subsidy to fulfill the conditions of the enterprises that do not have the institutional structure and to maintain the sustainability of the status.

The second (24%, n = 6) problem is "problems arising from customs legislation in the process of obtaining the AEO certificate". Our country's AEO legislation is regulated by taking into account the EU legislation on which we conduct extensive foreign trade and carry out membership negotiations. (Aynagöz Çakmak,2016,7). The acceptance of the application can take up to 4 months, given the fact that lengthy duration of the examination in the various preliminary checks made and the circumstances that would increase bureaucratic procedures such as the missing document. It has been determined that the questions on the 108-question form, which are required to be answered within the scope of the on-site audit during the implementation process, are long and complicated, and that the staff to evaluate the form is not a supply chain specialist. Regardless of the business volume, the certificate is taken back or canceled in the context of the regulation regarding the error rate, which is also shown as the reason for taking back the certificate in the legislation (The error rate is considered to be equal to the one that issued 1000 declarations and 50 declarations). Taken back of the AEO certificate obtained after a long and difficult process in a simple way due to the misstatement in the legislation makes the companies suspicious about the program.

The third problem (% 20, n=5) identified in the questionnaire is "lack of knowledge necessary for the security of the supply chain of personnel working in the State and the Private Sector and lack of adequate regular education". Due to the fact that some authorities and responsibilities of customs administrations are given to firms in the scope of implementation, firms are punished for lack of sufficient in-house training and knowledge of the personnel to work in this field and they are deprived of some rights related to their status. Moreover, due to the continuously updated customs legislation, it has been determined that there is a need to provide adequate and continuous training to the public personnel working in the relevant units.

The fourth problem (%16, n=4) identified is the lack of the infrastructure required to provide conveniences for implementation of AEO. In AEO implementation, certificate holders are not able to use some of the rights they have gained due to the lack of adequate technical and legal infrastructure arrangements. Participants in the questionnaire stated that they should be given priority not only to the documents required for customs clearance from the customs authorities but also to the documents requested by other institutions. It has been stated that the transaction time is long, since the electronic infrastructure and integration between public administrations have not been established.

The fifth problem (%8, n=2) mentioned in the questionnaire is "Inadequate Information about the implementation of AEO ". The core of the program is that the customs administration and the private sector create a mutually beneficial and sustainable cooperation relationship and mutual trust. According to the results of the questionnaire, it was understood that necessary informing and promotion activities related to the application were missing. The number of companies with certificate can be increased by informing about the facilitation related to customs procedures, explaining and informing about the application and the benefits they will gain from the commercial field and raising awareness. (Tempier,2014, [18.12.2017]).

The last problem (%4 n=1) participants expressed is that "The lack of in-house internal audit units". It is known that in many companies in the private sector in our country, there is no awareness of what

internal audit is and what the benefits of internal audit are. In Turkey, many of the companies engaged in foreign trade are in a SME scale family-owned company and corporate structure is not observed (Ulusoy,Akarsu,2012,108). However, since firms do not have the corporate structure requirements, they do not have expert personnel in customs legislation and supply chain security issues, and also they do not have a unit to fulfill the internal audit function and they are trying to establish this unit in the application phase. Establishment of internal audit mechanisms is an important element in achieving the goal of meeting regulatory compliance and fulfilling AEO status obligations. (Yörük,2006,188).

#### 4. RESULT

The aim of this study is to determine the effectiveness of AEO initiated to make global trade simpler and safer and more efficient operation of customs administrations which are among the priority targets of the countries. As a result of the questionnaire conducted with companies providing consulting services to 25 companies with certificate, it was determined that firms should be informed about this implementation in the beginning phase of the implementation and that the promotion of the implementation will play an important role in increasing the effectiveness and spread of implementation. It has been determined that the current implementation has brought heavy financial obligations to the certified companies, that these obligations are not supported by the government, and that the procedures of certification process are excessive and complicated.

In the implementation process of the program, it is necessary that the government should participate not only in the auditing process but also in the role of providing consultancy and guidance to the companies, inform the companies about the current implementation and have regular meetings in order to determine the problems. Establishment of close cooperation based on trust between the Customs Administration and the Private Sector is also another important factor.

It has been determined that incentive applications such as tax deduction of costs occurred in the process of obtaining AEO certificate of certified companies, tax postponing, collective tax payments will play an important role in increasing the program's prevalence.

If legislative arrangements and certifications can be established by determining the firm's scale, it is possible that companies on the SME scale are involved in the application and can perform transactions within the application scope. . Otherwise the costs will increase and the need for new investments will be a deterrent, especially for small and medium sized enterprises. (Bolhöfer, 2007: 31, Zhang, & Preece, 2011: 42) Foreign trade companies also need to follow developments in their sectors, evaluate their own implementations, and be in a ready situation.

With a flexible and feasible AEO program, the application will gain a more functional dimension in solving the problems identified by the questionnaire. This will ensure that more companies will benefit from the program and achieve the desired objectives. It has been tried to determine the problems encountered in the AEO program of Turkey which is among the developing countries, with information obtained from this questionnaire. These identified problems will be the source for the articles to be prepared in order to implement the AEO program more effectively in developing countries.

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