

# AEO

## Study report



**US·INDIA**

STRATEGIC PARTNERSHIP FORUM

Knowledge Partner

**Deloitte.**



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# US India Strategic Partnership Forum (USISPF)



## About US

The US-India Strategic Partnership Forum (USISPF), formed in 2017, is an independent non-profit, non-governmental, and non-partisan organization headquartered in Washington, D.C., with offices across both countries. Through its network of 400+ global companies, USISPF bridges the gap between business and government and fosters closer public-private sector partnerships across all facets of the economy and society in the United States and India. The USISPF mission is to build, enable, advocate, and facilitate partnerships between the United States and India by providing a platform for all stakeholders to come together in new ways that will create meaningful opportunities with the power to change the lives of citizens in both countries.

The US-India Tax Forum is USISPF's dedicated Tax Policy Forum which enables focused discussion on important advocacy areas across tax regimes in India. The Tax Forum is an initiative to provide member companies with a platform to engage with relevant Government officials on tax issues as they conduct business in the US-India corridor. The Tax Forum was officially launched on February 25, 2020 and since then it has been a trusted platform bringing together policymakers and tax experts to discuss the future of taxation and how businesses and Governments can work together in a global world.

## Chapter 1: Introduction and objectives



International trade has been recognised as an engine of growth, which aids the development and aspirations of growing economies through multilateral initiatives, streamlining and minimising trade cost and time. One such initiative is trade facilitation, which is defined as “the simplification, modernisation and harmonisation of import, export and transit processes.”

The Trade Facilitation Agreement, 2016 (TFA), negotiated under the aegis of the World Trade Organisation (WTO), requires the implementation of specific commitments by the member states in a staggered but time-bound manner. One such commitment relates to implementing an Authorised Operator (AO) Scheme, which is included in Article 7.7 of the TFA.<sup>1</sup> The idea of an Authorised Economic Operator (AEO) is also included in the SAFE Framework of Standards to secure and facilitate global trade of the World Customs Organisation (WCO).<sup>2</sup>

<sup>1</sup> Sub-section 7.3 requires the members to put in place a programme that includes at least three of the seven trade facilitation measures listed therein.

<sup>2</sup> Standard 2.1.6 titled “Authorised Supply Chain” provides for AEOs “who meet criteria specified by the should reasonably expect to participate in simplified and rapid release procedures on the provision of minimum information” and describes the concept of “Authorised Supply Chain” as one “under which all participants in an international trade transaction are approved by Customs as observing specified standards in the secure handling of goods and relevant information.”



The fundamental principle underlying the authorised operator scheme is to bring about a paradigm shift in the functioning of customs and other border agencies from a transactional to an entity/client approach. It adopts a methodology for recognising trusted clients and accords various levels of facilitation and benefits based on well-defined risk parameters.<sup>3</sup> It requires clients to adhere to stringent security standards and best practices and allows facilitated cargo clearance based on self-assessment, adopting the principle of “trust but verify.”

Consistent with the global best practices, Indian customs introduced an Accredited Clients Programme (ACP) in 2005; the programme has regularly been upgraded. After that, an AEO programme was launched in 2011. Under TFA, the two entity-based programmes were merged into a single three-tier AEO programme vide Circular No.33/2016-Customs, dated 22.07.2016,<sup>4</sup> also referred to as the Master Circular.

The ACP had focused primarily on streamlining customs processes for trusted traders, offering benefits such as expedited clearance and reduced documentation requirements. However, with the changing landscape of international trade and the growing emphasis on supply chain security, the AEO programme was introduced to provide a more comprehensive framework. Unlike the ACP, which primarily focuses on customs facilitation, the AEO programme builds upon the foundation of the ACP by incorporating robust security measures and compliance standards.

Under this programme, businesses, including logistics operators, may enrol in the scheme upon meeting specific prerequisites and demonstrating a high level of compliance with security standards, customs laws and financial stability, thereby attaining AEO status.

### **The important features of the scheme, as enumerated in para 2 of the said Circular 33/2016, are:**

- Inclusion of Direct Port Delivery of imports to ensure just-in-time inventory management by manufacturers—clearance from wharf to warehouse
- Inclusion of Direct Port Entry for factory-stuffed containers meant for export by AEOs
- Special focus on small and medium scale entities—any entity handling 25 import or export documents annually can become part of this programme
- Provision of deferred payment of duties—delinking duty payment and customs clearance
- Mutual recognition agreements with other customs administrations
- Faster disbursal of drawback amount
- Fast tracking of refunds and adjudications
- Extension of facilitation to exports in addition to imports
- Self-certified copies of FTA/PTA origin-related, or any other certificates required for clearance would be accepted

<sup>3</sup> Sub-section 7.2 refers to four criteria relating to (i) appropriate record of compliance with customs and other related laws and regulations; (ii) a system of managing records to allow for necessary internal controls; (iii) financial solvency; and (iv) supply chain security.

<sup>4</sup> [https://old.cbic.gov.in/resources//htdocs-cbec/deptt\\_offcr/aeo-progm/Circular-332016-Customs22.07.2016.pdf](https://old.cbic.gov.in/resources//htdocs-cbec/deptt_offcr/aeo-progm/Circular-332016-Customs22.07.2016.pdf)

- Request based on-site inspection/examination
- Paperless declarations with no supporting documents
- Recognition by partner government agencies and other stakeholders as part of this programme

### After that, the following significant measures have been incorporated into the AEO scheme:

- Circular No. 3/2018-Customs dated 17.01.2018 provided for certain additional benefits to AEO-certified entities following the announcement in the Foreign Trade Policy (FTP) and to decentralise the processing of AEO applications to meet the objective of trade facilitation and ease of doing business.
- Circular No. 26/2018-Customs, dated 10.08.2018, simplified and rationalised the AEO tier-1 application process considering the limited benefits available. This was followed by a web-based application process for tier-1 vide Circular No. 51/2018-Customs dated 07.12.2018.
- Circular No. 13/2021-Customs dated 21.07.2021 extended the facility of online submission, real-time monitoring and digital certification for AEO tier-2 and tier-3 clients.
- Circular No. 54/2020-Customs dated 15.12.2020 put special measures to facilitate MSMEs for tier 1 and tier 2 enrolment, which, inter alia, relaxation in eligibility conditions regarding: (a) number of documents handled (from 25 to 10); (b) requirement of having business activities (from 3 to 2 years); (c) qualifying period for legal and financial compliance (from last 3 to 2 years); and (d) relaxation in furnishing bank guarantee for MSME tier 1 and tier 2 clients.
- Deferred Payment of Import Duty Rules, 2016, issued vide notification No. 134/2016-Customs (N.T.) dated 2.11. 2016, as amended, provides for duty deferment to eligible importers who have been notified under the provision to sub-section (1) of section 47 of the Act, which includes AEO tier-2 and tier-3 clients.

Thus, it is seen that the transition from ACP to AEO and subsequent reforms in the AEO scheme signify a broader and more integrated approach to customs management. This change will expand the eligibility criteria and streamline enrolment and available benefits. These reforms have incorporated facilitation and security aspects to ensure the smooth flow of legitimate trade while mitigating risks associated with international supply chains.

By establishing a trust-based agreement between the trade and customs authorities, the AEO programme endeavours to reduce direct and indirect trade time and minimise trade costs. This agreement will reduce uncertainty, by securing an efficient and resilient supply chain and simultaneously achieving a high level of regulatory compliance at minimal fiscal cost. It is a win-win solution in a world that has grappled with the conflict between ensuring regulatory compliance and facilitating trade.

With continuous streamlining of the application process and relaxation of the eligibility criteria, particularly for MSMEs and multiple benefits, trade would eagerly enrol under the AEO programme. The JNCH Time Release Study 2018 initially provides quantitative benefits of AEO in terms of higher levels of facilitation, lower examination and more expeditious cargo clearance, recognising the same as one of the pillars of “Path to Promptness.” Since 2021, the subsequent annual JNCH and National TRS<sup>5</sup> provide compelling evidence of the positive impact of AEO programme

<sup>5</sup> National TRS, which covers 15 major customs ports in the country, presents detailed quantitative aspects of the import and export release time through four different modes of cargo clearance, viz. seaport, dry ports (Inland Container Depots), air cargo complex and land ports (also known as Integrated Check Posts).

enrolment. The following table presents the average import release time for Bills of Entry (BEs) (statutory import documents) submitted by AEO clients at the seaports, along with the comparative average time taken for non-AEO and AEO BEs. This also includes the other two features of the “Path to Promptness,” viz., recourse to pre-arrival processing and risk-based facilitation, both being TFA commitments.

Table 2: Average cargo release time at seaports (in hours)						
Year	2018*	2019*	2020*	2021**	2022**	2023**
Advance facilitated AEO BEs	69	47	51	49	49	48
AEO BEs	103	75	74	62	62	60
Non-AEO BEs	161	123	114	98	109	97

**Source:** \*Time Release Study 2020 published by the Central Board of Excise and Customs, Jawaharlal Nehru Customs House

\*\*National Time Release Study (NTRS) published by the Central Board of Indirect Taxes and Customs

**Similar benefits of enrolment under AEO are reported with respect to imports through ICDs and ACCs, as presented in the given table:**

Average release time (rounded off in hours)						
	Overall		AEO		AEO advance facilitated	
	2023	2022	2023	2022	2023	2022
Seaport	86	95	60	62	48	49
ICDs	72	90	63	56	43	53
ACCs	44	50	35	37	26	27
ICPs	32	17	62	27	8	27

**Source:** Extracted from table 2, NTRS 2023

One of the reasons for better average release time for AEO BEs is attributed to higher levels of risk-based facilitation at about 90 percent as against about 70 percent for non-AEO BEs.<sup>6</sup> Higher levels of facilitation result in lower direct and indirect trade costs.

The benefits of AEO enrolment in export release time are also discernible and significantly less. This is mainly because regulatory clearance in exports is done quickly, wherein a very high percentage of export release time (between 59 percent for ICPs to 89 percent for seaports) is taken after the Let Export Order (LEO) grant.

However, despite the evident and quantifiable benefits of enrolment for AEO (in terms of trade time as reflected in Table 2 above and trade cost directly on account of deferred duty payment, lower charges for examination, lower requirement for bank guarantees and indirectly due to lower trade time), the share of AEO BEs in the total number of BEs has not shown an expected increase. Per NTRS 2023, it remains lukewarm at 35 percent in 2023, showing no increase after 2022. The port category breakdown also indicates that the share of AEO BEs is much lower at the ICDs, which often function in the hinterlands and are more likely to be used by medium and small traders.

<sup>6</sup> Source: NTRS 2023. There was a similar difference of about 20 percentage points in the facilitation levels for AEO vis a vis non-AEO BEs in 2022, even as the share of facilitated BEs in 2022 was about 5 percentage points higher.

**Table 3: Percentage share in total BEs**

Ports	Advanced BEs			Facilitated BEs			AEO BEs		
	2023	2022	2021	2023	2022	2021	2023	2022	2021
<b>Seaports</b>	92%	89%	51%	77%	81%	76%	31%	31%	31%
<b>ICDs</b>	74%	85%	0%	83%	75%	72%	21%	20%	12%
<b>ACCs</b>	62%	58%	26%	87%	90%	87%	40%	31%	47%
<b>ICPs</b>	27%	17%	26%	81%	84%	60%	13%	7%	0%
<b>Overall</b>	76%	74%	37%	82%	85%	81%	35%	35%	38%

*Source: NTRS 2023*

This low and stagnant share of AEO BEs reported by NTRS 2023, when viewed along with the consistent growth in the numbers of enrolled AEO clients (which is discussed in the next chapter), merits deeper analysis. It has been a struggle to achieve the average release time targets of 48 hours for average import release time through seaport, ICDs and ICPs and 24 hours for ACC, with export release time for the four modes of exports being half of the stipulated average import release time, as prescribed by the National Committee on Trade Facilitation in the National Trade Facilitation Action Plan (NTFAP) 2017-2020 and reiterated in NTFAP 2020-23.

Thus, despite the quantitative benefits of the AEO scheme and the government's efforts through outreach and continuous improvement, the trader's response to the programme has been lukewarm despite the reported increase in the number of clients. While the number of AEO clients has been increasing consistently, the share of BEs submitted by them has remained low and stagnant. Therefore, conducting a user assessment of the AEO scheme was appropriate, particularly among large traders whose participation will increase the share of AEO BEs, further improving the average release time and ensuring a more trade facilitation environment in the country.

It was in the above context that the **US-India Strategic Partnership Forum (USISPF)**, along with **Deloitte Touche Tohmatsu India LLP (DTTI LLP)** as its knowledge partner, conducted this study to provide a comprehensive assessment of the AEO programme of the Central Board of Indirect Taxes and Customs (CBIC) and formulate a broad set of recommendations to increase the number and share of trusted clients to achieve trust-based economic and trade facilitative environment in the country.



## Chapter 2: Methodology



The study is based mainly on user feedback regarding various aspects of the extant AEO programme. Its objective is to provide a comprehensive third-party assessment of the AEO-scheme and understand why many large entities have not found its benefits attractive. For completeness, it includes a review of publicly available secondary data sources, including JNCH and National Time Release Study; a questionnaire-based sample survey, which was followed by one-to-one interviews with willing respondents, adopting a case study method; and non-structured discussions with AEO clients, non-AEO companies and tax professionals with relevant experience and insights.

The survey questionnaire and interviews were designed to assess the application process, the beneficial impact of enrolment on trade costs, trade time, the ease of doing business; challenges faced by the trade, including attractiveness of the scheme and cost of compliance; awareness about and eligibility under the scheme; and expectations from the AEO scheme.

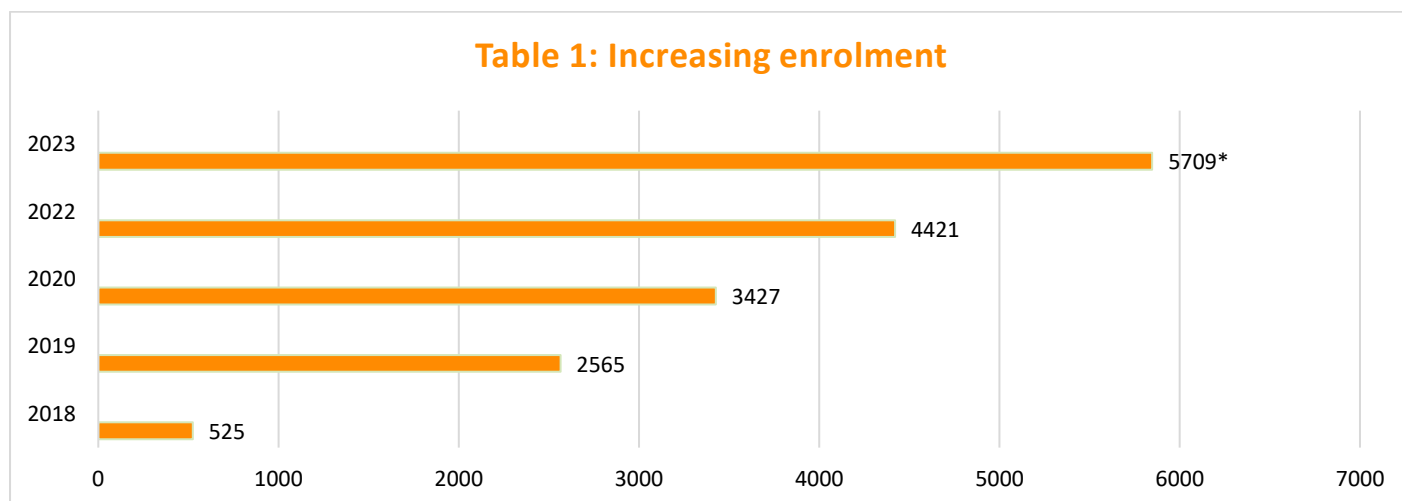
The non-structured discussions were used to identify various aspects of the eligibility criteria restricting enrolment of major large clients who were interested in joining such a trust-based scheme and would generally be considered worthy of regulatory trust.

The study took note of the fact that the Indian AEO programme has four categories of clients. The three tiers for exporters and importers are AEO T1, AEO T2 and AEO T3, wherein AEO T3 is the highest level of accreditation with the most benefits. In addition, AEO-Logistics Operator (AEO-LO, from now on) is granted to categories of economic operators other than importers and exporters, namely logistics providers, custodians or terminal operators, customs brokers and warehouse operators.<sup>7</sup> This study has restricted its scope to importers and exporters, excluding the AEO-

<sup>7</sup> CBIC Circular No. 33/2016 – Customs, dated 22.07.2016, which prescribed the revised guidelines consequent to the merger of the entity-based facilitation programmes viz. Accredited Client Programmes (ACP) and Authorised Economic Operator (AEO) programmes.

Los. However, it is acknowledged that trusted logistics operators are crucial in securing the supply chain and facilitating trade without compromising regulatory and revenue concerns.

As on 31 March 2024,<sup>8</sup> 5709 entities were enrolled under the AEO programme, registering a continuous increase in clients since 2018, when CBIC and its field formations gave impetus to increase enrolment under the scheme. This was also driven by the restructuring of the scheme and its quantifiable benefits, as brought out by the JNCH TRS 2018. Table 1 below shows the steady growth in the AEO enrolment since 2018.



**Source:** \*AEO Certified entities as on 31.03.2024 as published by the CBIC. For all other years, the number of certified entities has been taken from the Time Release study published by the CBIC.

Recognising the tiered structure of the scheme, it is important to note the breakdown of AEO clients; of which, 4685 are non-AEO-LO clients.

Category	January 2023	October 2023	Share (%age, rounded off)
<b>T1</b>	3227	3607	75
<b>T2</b>	781	1073	22
<b>T3</b>	97	139	3
<b>Total</b>	<b>4105</b>	<b>4819</b>	<b>100</b>
<b>LO</b>	1026	890	
<b>Grand Total</b>	<b>5131</b>	<b>5709</b>	

**Source:** CBIC website

Note: The CBIC AEO portal reports monthly category-wise AEO enrolment data, which reflects slight changes in the numbers, including a decrease in some months for specific categories, often due to non-renewable, suspension, or downgrading. The enrolment under AEO-LO in the table above is an example.

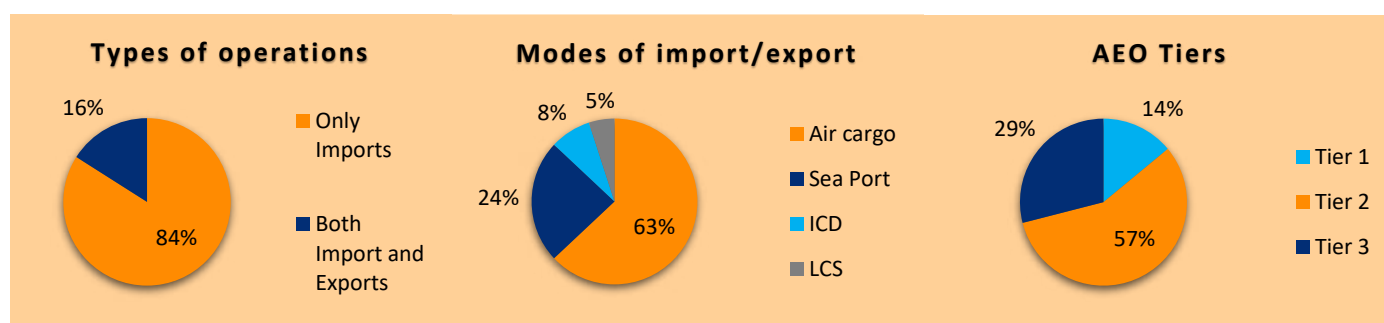
For this study, survey questionnaires were circulated to many entities using USISPF and **DTTI LLP** connections. However, it was observed that the trade was not enthusiastic in responding to the detailed questionnaire containing 47 questions. Based on non-structured responses, the lukewarm response is attributable, inter alia, to the non-availability of centralised information with the client to respond to the detailed questionnaire.

Nonetheless, this small sample of 19 respondents represents the AEO clients' population, as evident from the typology of respondents summarised in the graph below. However, it must be noted that the sample of respondents is not

<sup>8</sup> blob:<https://www.cbic.gov.in/35bf1401-a491-4f93-a72f-fe6f1345e863>

aligned with the three-tier breakdown of the AEO entities, and the respondents represent older, larger and more AEO T2 and T3 holders.

### Typology of respondents



In addition, it is observed that most of the AEO entities had enrolled before 2021. Further, a significant 74 percent of respondents reported handling more than 15 BEs in a typical week. On the export side, more than 50 percent of the respondents filed more than 15 Shipping Bills (SBs) every week. Further, while the study could not discern any significant pattern among the modes of import, it is important to recognise that the respondents had experience with cargo clearance across seaports, ICDS and air cargo spread across the country.

One distinct advantage of this non-representative sample of respondents is that due to their long and voluminous experience of cargo clearance and having enjoyed higher levels of benefits, they are in a better position to provide informed feedback about the AEO scheme.

One of the questions included in the survey was whether they were willing to spare time for a one-to-one interview with the study team. Interestingly, over half of the respondents expressed willingness to be interviewed, which was completed through a virtual medium. This study has been immensely enriched by their insightful and precise comments, which have been referred to in the feedback section, and in drawing up the recommendations without specifically attributing those to the respondents concerned.

The informal discussions with the AEO clients of different tiers, such as those who have not signed up for the scheme, provided validation or further elaboration of the experienced benefits, challenges and expectations for the next generation of reforms. One of the attempted areas was to understand how to increase enrolment under the AEO scheme, particularly for large global firms having significant trading activities that would increase the share of BEs submitted in the country.

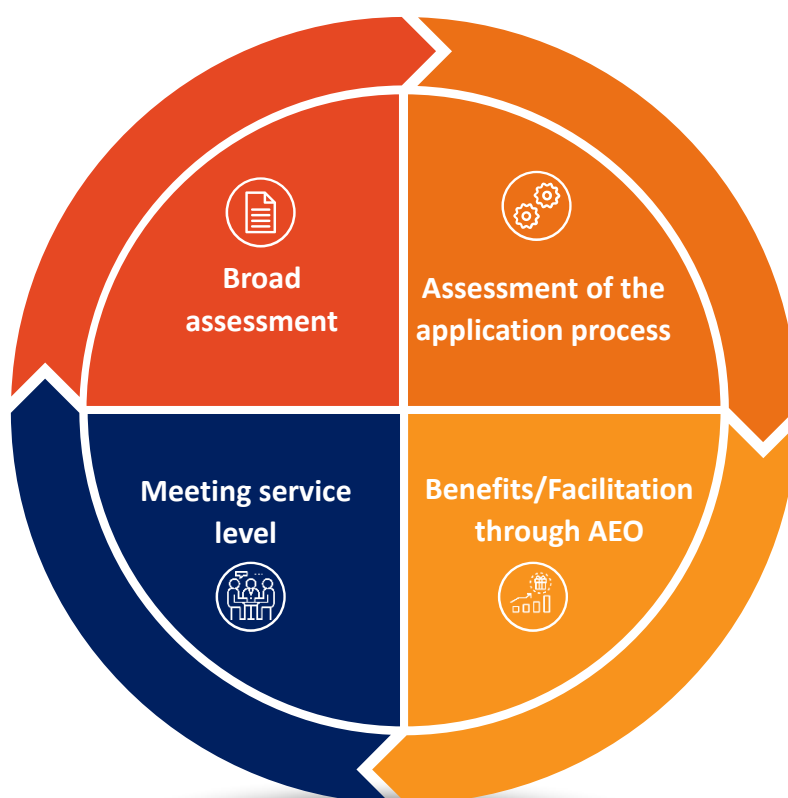
The study has also reviewed the existing AEO Policy documents and examined the findings of the JNCH and NTRS, which have influenced the questions in the survey questionnaire and stakeholder consultations. Based on the comprehensive understanding of the feedback of the trade, detailed recommendations have been made to reform the extant AEO programme as a trust-based, efficient and resilient cargo clearance process that ensures the highest degree of voluntary compliance, with minimal trade costs, essentially promoting trade facilitation and ease of doing business to the larger cohort of trade.



## Chapter 3: Analysis of the feedback



This chapter analyses the responses to the survey questionnaire, supplementing the same with interview feedback. These responses are presented under the following broad categories:



This chapter also discusses various reasons cited for the non-eligibility of large and trusted clients under the extant AEO programme. These merits encourage more trustworthy clients to enrol on the programme and weed out the less-compliant clients regularly.

## Broad assessment

The stakeholders have a high level of awareness about the existence of the AEO scheme. However, many of the stakeholders, excluding those whom the one-to-one interview has covered, were not aware of the details of the scheme or its benefits. Per the enrolled respondents, the most attractive feature was the *government/regulatory recognition*. However, their trusted status was not recognised at the field levels, and the benefits promised under the scheme were often not delivered on the ground, causing dissatisfaction amongst users. Among the non-AEO large clients, the most common reason stated was either ineligibility, per extant guidelines, high cost of compliance, or minimal differential benefits with a high level of overall facilitation. There was near consensus that a trust-based, effectively implemented AEO programme would be a *sine qua non* for the next generation of trade facilitation reforms.

At a more granular level, the result indicated an almost equal mix of traders expressing high satisfaction and dissatisfaction with the AEO programme, indicating areas of concern or discontent that need to be addressed. Even those who were optimistic about the AEO programme, opted for less favourable responses when specifically questioned about the benefits offered to AEO clients.

Thus, the overall satisfaction rates suggest that most participants see value in the AEO programme, although they indicated areas for improvement.

Based on the responses of the non-AEO entities, the following major factors have been identified as a result of not enrolling under the AEO programme.

### Lack of detailed information regarding the scheme—

Participants identified insufficient information as a notable obstacle. Specifically, some respondents highlighted the uncertainty regarding the continuation of AEO status following the issue of a show cause notice, adjudication order or appeals, even when the case is a commercial dispute relating to classification, valuation or notification benefits.

### Cumbersome enrolment process

The second deterrent is the complex enrolment process, involving extensive documentation, verification and compliance steps, depending on the chosen tier. While one respondent specifically requested streamlining and simplifying the standard operating procedures within the department, another suggested that a specific period for disposal of application may be prescribed in line with other provisions in the Customs Act.

### High compliance burden versus relatively low benefits

Participants feel that the efforts and resources required to meet the programme's stringent standards, including the uncertainty associated with selection and timing for Onsite Post Clearance Audit (OSPCA), outweigh the advantages of slightly higher facilitation and faster clearance they receive.

Despite benefits such as streamlined customs procedures, lower bank guarantee requirements and duty deferment, participants view these benefits as relatively low compared with the compliance burden; this includes a large volume of information sought for OSPCA in a piecemeal manner.

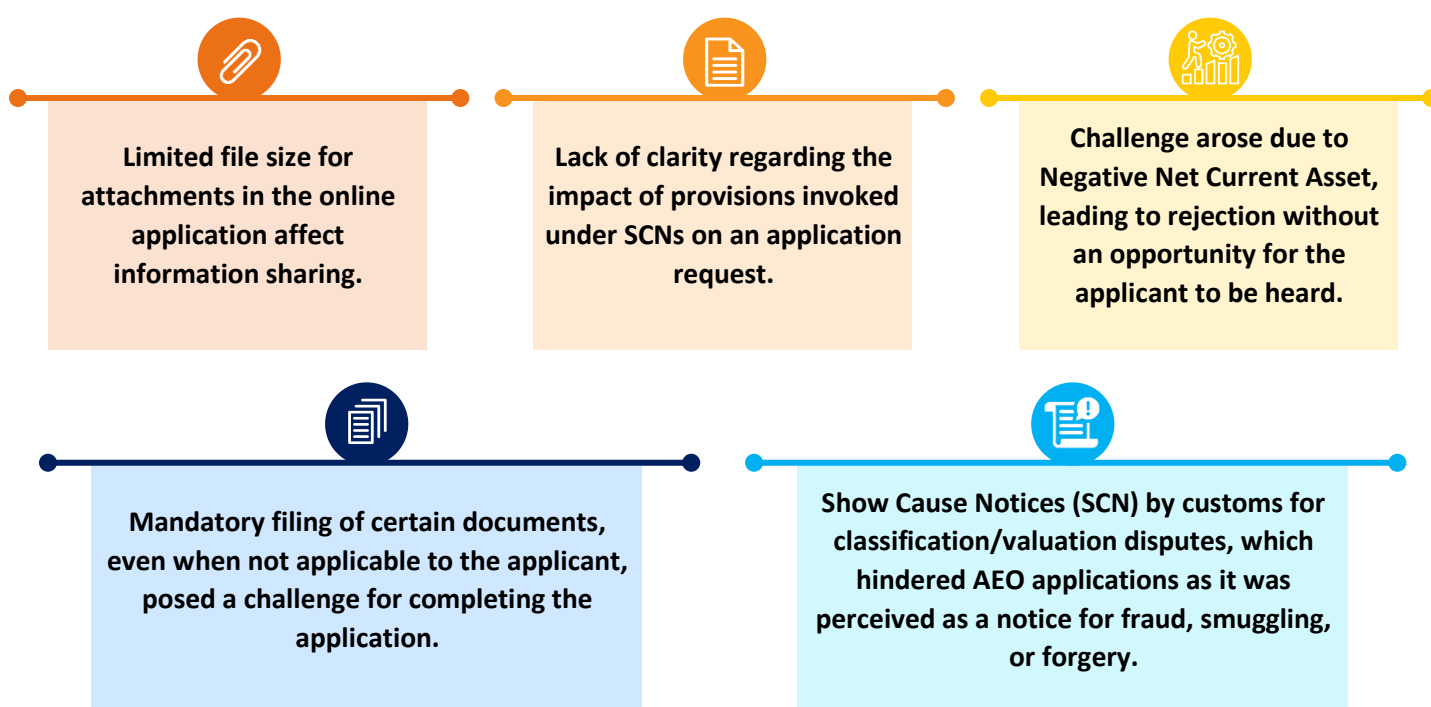
**Fewer respondents highlighted the application's long pendency of more than seven months and denial of the bank guarantee waiver benefits under CAROTAR verification.**

## Assessment of the AEO application process

The study analysed respondents' assessment of the current AEO application process and its clarity and documentation.

The results indicated that 41 percent of the respondents believed the enrolment process was highly transparent and easily understandable. However, over half of the participants found the process ambiguous and lacking clarity. This contradictory response was sought to be understood further through interviews. Given the wide variety of ground realities of different applicants, the extant process does not provide ready answers to the concerns of a smaller number of clients.

Based on the feedback, the following specific areas of weakness in the application process are highlighted, which may be addressed to better support the enrolment process. In this regard, the initiative to notify DIC as a zone for direct AEO application was appreciated with the expectation that this office would be able to take a more liberal view and minimise the time taken in the process.



The study also identified certain challenges confronting the officials manning the AEO cells in the field formations. Many respondents referred to insufficient or sub-par responsiveness/guidance demonstrated by the AEO authorities, particularly when the concerns were beyond those mentioned in the FAQ. It was noted that such concerns raised by the officers caused delays during the application process, wherein the field officers took much longer time than anticipated before the application was either approved or rejected. During the interviews, the overall impression communicated was favourable, with some instances of adverse user experiences based mainly on the lack of bandwidth of the field-level officers to handle the nuanced factual matrix of the applicant or implied regulatory concerns. The expectation of constant handholding between the Client Relationship Manager (CRM) and the entity was not fulfilled.



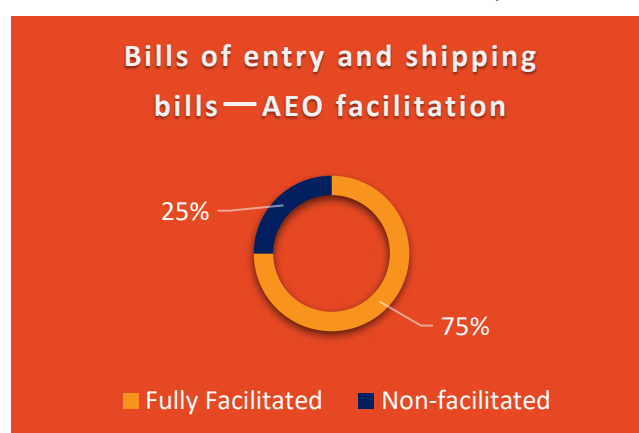
## Benefits/facilitation through AEO

Businesses that demonstrate compliance with customs regulations and supply chain security standards are granted AEO status. This recognition provides benefits such as expedited customs clearance, reduced inspections, decreased trade time, deferred duty payment and (partial) waiver from bank guarantees that directly reduce trade costs. The AEO scheme aims to foster a more efficient and facilitated global trade environment. The assessment of the AEO programme revealed varying perceptions among respondents regarding its impact on customs facilitation and procedures.

Overall, 65 percent of the respondents reported experiencing a discernible improvement in customs facilitation after obtaining AEO status. In contrast, others indicated that benefits and facilitation had not been substantially enhanced.

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The survey data indicated that about 75 percent of the BEs and SBs are accorded full facilitation. In contrast, the Customs Risk Management System did not facilitate 25 percent of the BEs/SBs. The reported typical processing time for these BEs was between 1 and 2 days that is broadly consistent with the average release time for AEO BEs reported by the NTRS 2023. Despite having a larger share of tier 2 and tier 3 clients than the overall AEO population, the study indicated a slightly lower level of full facilitation than the 82 percent reported in NTRS 2023.<sup>9</sup>



Questions were asked about the frequency of change to understand whether this difference could be due to a change in the status of fully facilitated BE/SB to non-facilitated at the port level by the Risk Management System (RMS). In response, it was reported that the frequency of status transitions from fully facilitated to non-facilitated for BEs was minimal despite the notable instances brought out in the interviews.

Further, while about 65 percent of respondents acknowledged that cargo inspections for AEO entities are lower, they still occur based on specific risk factors identified in the supply chain. In this regard, most respondents disagreed with the hypothesis that physical inspections for AEO entities are significantly lower. This feedback is inconsistent with the NTRS 2023 findings and the provisions of the AEO scheme, which show substantially lower levels of examination for AEO BEs.

The conclusion from the responses to the above questions, along with the assumption that treatment of AEO BEs is uniformly distributed across AEO clients, shows that AEO clients have three of every four BEs being fully facilitated by the RMS. More significantly, with respect to every one of four BEs, the respondent must engage with the department either for additional documentary verification or examination of the cargo. This was pointed out as a major challenge for AEO clients. This response may be viewed in conjunction with about 79 percent of the respondents indicating that there had not been any significant improvement in the simplification and streamlining of customs procedures they face during assessment in the cases wherein self-assessment is not entirely accepted.

Recognising that faceless assessment has been one of the major initiatives of CBIC that may affect the client experience, the study sought to evaluate the experiences under the faceless assessment regime. In this regard, the

<sup>9</sup> Table 6 titled Progress on Path to Promptness, page 17, NTRS 2023.

overall response was largely satisfactory, with only a small percentage of participants reporting poor implementation of faceless assessment for AEO entities.

Another desirable benefit offered by the AEO programme that directly affects trade costs, is the postponement of duty for participating entities. In response to the questions relating to this benefit, most respondents expressed satisfaction, with few concerns voiced regarding challenges faced due to the downtime of the Customs portal. One significant challenge raised in the interviews was the difficulty in making duty payments precisely at the end of the deferment period.<sup>10</sup> Their internal processes required about 48–72 hours to compute the exact quantum of duty, which postponed the payments that should be done immediately. It was mentioned that the problem gets accentuated if the relevant date falls on a weekend or public holiday. The response to specific queries regarding the impact of this problem after the implementation of the Electronic Cash Ledger, effective from 1 April 2023, was ambiguous.<sup>11</sup>

The second major benefit of the AEO programme with direct cost benefit is a waiver from submission of bank guarantees, which provides a graded waiver from submission of bank guarantees for three tiers of AEO clients to 50 percent, about 25 percent and nil under specified conditions.<sup>12</sup> Further, for MSMEs, the deeper rates of waiver to 25 percent and 10 percent, respectively, have been provided.<sup>13</sup> This benefit of the AEO scheme was highly appreciated as it was treated as direct savings flowing from AEO enrolment. The requirement for bank guarantee results in the blocking of working capital arrangements with their banks, which is understood to be an even bigger problem than the direct cost. In this regard, it was pointed out that the waiver from the bank guarantee is not available if a claim for preferential rates of duties is taken up for investigation under CAROTAR 2020 issued after the insertion of section 28 DA in the Customs Act.<sup>14</sup> It was submitted that a waiver from bank guarantee under CAROTAR investigations for AEO clients would make the scheme attractive to a larger set of importers, at least for those with manufacturing business in India as part of the GVC.

One of the respondents in the interview highlighted the increasing importance of research and development in India. For this purpose, companies bring in equipment, materials, prototypes, or samples under temporary import provisions. The extant guidelines require such goods to be re-exported within 12 months, which is too short. The request was to make these guidelines lenient for top-tier AEO clients in terms of the time period and the mandatory mode of re-export.

Client satisfaction and ease of doing business require AEO-accredited entities to be accorded trusted status by the customs department and other regulatory agencies. Specific questions were asked regarding their experience with the PGAs to ascertain whether respondents experienced heightened facilitation for certification requirements under allied laws. In response, nearly 50 percent of the respondents affirmed experiencing increased facilitation. However, an equal proportion of respondents expressed dissatisfaction with the PGA facilitation for AEO entities. In this regard, it is observed that only FSSAI has a publicly stated policy of providing higher facilitation to the AEO clients.<sup>15</sup> FSSAI has issued a direction under section 16(5) of the Food Safety and Standards Act, 2006, dated 18.10.2022, to issue a Provisional No Objection Certificate (P-NOC) to AEO clients upon visual inspection and without waiting for the analysis report from the laboratory. Respondents welcomed this measure since it reduced the time taken to get cargo clearance. Similar facilitative dispensation by other regulatory authorities was requested, including Bureau of Indian

<sup>10</sup> Rule 5 of the Deferred Payment of Import Duty Rules, 2016, as amended, provides for the following: “(a) for goods corresponding to Bill of Entry returned for payment from 1st day to 15th day of any month, the duty shall be paid by the 16th day of that month; (b) for goods corresponding to Bill of Entry returned for payment from 16<sup>th</sup> day till the last day of any month other than March, the duty shall be paid by the 1st day of the following month; and (c) for goods corresponding to Bill of Entry returned for payment from 16th day till the 31st day of March, the duty shall be paid by the 31st March”.

<sup>11</sup> Implemented vide Customs (Electronic Cash Ledger) Regulations, 2022 issued vide Notification No.20/2022-Customs, dated 30.03.2022.

<sup>12</sup> CBIC Circular No. 38/2016 dated 22.08.2016 list out the situations where amount of BG is reduced to 50%, 25% and Nil.

<sup>13</sup> Circular No. 54/2020-Customs dated 15.12.2020.

<sup>14</sup> Circular No. 02/2022- Customs dated 19.01.2022.

<sup>15</sup> [https://fssai.gov.in/upload/advisories/2022/10/634e7c7e7e6a5Direction\\_NOC\\_AEOs\\_18\\_10\\_2022.pdf](https://fssai.gov.in/upload/advisories/2022/10/634e7c7e7e6a5Direction_NOC_AEOs_18_10_2022.pdf)

Standards (BIS), Textiles Committee, Animal Quarantine and Drug Controller, given the slew of non-tariff measures announced by the government, particularly through the issue of Quality Control Orders (QCOs).

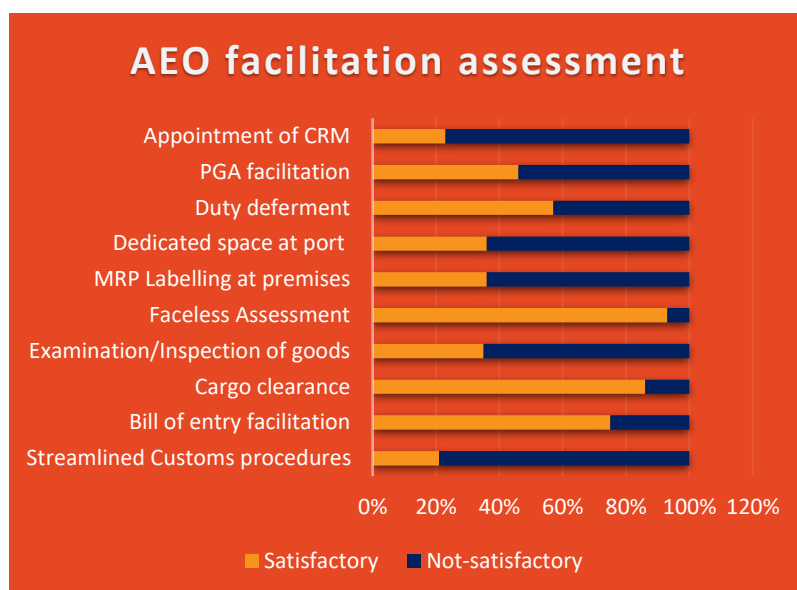
Some benefits outlined in the AEO policy document include MRP stickering at importer premises, a dedicated space at the port and appointment of a CRM. The study found that most responses were negative regarding the ground-level implementation of these benefits.

It was pointed out that the most readily available FAQs on the AEO programme were issued in 2019.<sup>16</sup> An updated FAQ from CBIC would be of immense help.

The above graph summarises the satisfaction levels with respect to specific questions included in the survey regarding various aspects of the AEO programme. Based on the feedback, one major conclusion is that clients are satisfied with the higher levels of facilitation, faceless assessment scheme and expeditious cargo clearance, presumably of such facilitated consignments. However, the satisfaction levels with other aspects of the scheme are less impressive, leaving scope for substantial improvements, inter alia, through more awareness and sensitisation of field-level officers.

### Facilitation for exporters

The general observation was that the AEO Scheme couldn't attract Indian exporters. However, it is equally important that trust-based facilitation must assist Indian exporters, including the large number of MSMEs, often located in the hinterlands. The general feedback is that an Indian exporter under the AEO scheme will not receive benefits. On being queried about the benefits flowing from Mutual Recognition Agreements (MRA), it was found that many respondents/clients were unaware of these benefits and the countries with whom India has signed MRAs. Therefore, it was also suggested that a separate section in the FAQ might be devoted to benefits available to Indian exporters, particularly those relating to MRA and in getting regulatory approvals from PGAs, as and when they are agreed upon.



<sup>16</sup> [https://www.jawaharcustoms.gov.in/pdf/Authorised%20Economic%20Operator%20\(AEO\)\\_FAQ\\_English.pdf](https://www.jawaharcustoms.gov.in/pdf/Authorised%20Economic%20Operator%20(AEO)_FAQ_English.pdf)



## Meeting service level commitments

The survey delved into the awareness and experiences of AEOs regarding the additional service level commitments promised under the AEO programme. Achieving service-level commitments within the AEO programme involves fulfilling predetermined standards and timelines for customs-related processes. This entails ensuring prompt and efficient handling of customs procedures, such as clearance of goods, inspections and document processing, in line with agreed-upon service levels.

Initially, respondents lacked awareness regarding the service level commitments beyond customs facilitation offered to AEO status holders. Subsequently, we delved deeper into this issue by inquiring about experiences concerning expedited dispute resolution, swift investigations and prompt refund processes, among others.

<i>Refunds within prescribed limits</i>	<i>Expedited investigations</i>	<i>Faster dispute resolution</i>	<i>Waiver on bank guarantee</i>	<i>Post Clearance Audits</i>	<i>Priority adjudication</i>	<i>Reduced litigations</i>	<i>Issuance of AEO ID cards</i>
<b>36%</b>	<b>27%</b>	<b>18%</b>	<b>77%</b>	<b>58%</b>	<b>33%</b>	<b>42%</b>	<b>20%</b>

### Level of satisfaction reported by the respondents.

Among these factors, the highest level of satisfaction was observed with the waiver on bank guarantee, with 77 percent of respondents expressing contentment. Post Clearance Audits followed closely behind, with 58 percent of respondents opting for post-clearance audits instead of live transactional audits, as promised under the AEO programme. The reported satisfaction levels were below the majority of 50 percent for all other commitments, including reduced litigations and refunds within prescribed limits.

Based on these findings, it is concluded that current practices do not fully or substantially meet the expectations or requirements of AEO status holders in these critical areas. Therefore, an effective delivery mechanism is needed, particularly for those relating to modalities and speed of resolution of differences of opinion between the department and the trade. Based on the survey responses and interview feedback, differences of opinion on purely technical matters are treated as serious legal disputes that involve prolonged and often intrusive investigations, unnecessarily holding up cargo release. Certain instances of simple classification disputes that were referred to investigative wings, such as SIIB and DRI, resulting in the invocation of extended period provisions under section 28 (4) of the Customs Act were mentioned. In such cases, the spirit of pre-notice consultations was given a go-by, investigations were prolonged, and even the adjudication was not completed within the statutorily provided time period, seeking extensions for their completion. In this regard, it was also mentioned that Post-Clearance Audits (PCA) were not conducted regularly. Therefore, when a simple technical dispute arose during the PCA, an extended period was invoked in the Show Cause Notice (SCN). More significantly, invocation of an extended period resulted in revocation or downgrading of the AEO status or fear thereof. Per an MNC representative, such downgrade/revocation of AEO status following the issue of SCN makes it difficult for them to explain the matter to their global heads, ultimately affecting the trusted relationship.

In the same vein, a few respondents, during the formal interview and informal discussions, raised the issue of long delays in completing the provisional assessment of related party transactions, leading to uncertainty regarding their financial implications. Upon detailed discussions, the reason for pending provisional assessment was due to the delays in finalisation in SVB investigations or simple queries pertaining to related party transactions. It appeared that while senior management was concerned; however, the delay could often happen due to non-submission/availability of information sought by the department. Some of the respondents, particularly MNCs having operations that are part of Global Supply Chain (GVC), suggested that resolution of legacy provisional assessment, inter alia, through speedy

conclusion of SVB investigation and priority in completion of SVB investigation, would make the AEO scheme more useful for clients and more attractive to non-AEO clients. An interesting suggestion was made to introduce a provision of a time bar similar to the one introduced with respect to adjudication of the show cause notices. This means that if the SVB did not issue an investigation report within the specified time period, it would be presumed that the claim of the importer was found to be accepted.

The respondents appreciated the improvement in the time taken to grant refunds, drawbacks, etc., in the case of exports. Still, they pointed out that there is virtually no preferential treatment for AEO clients. Further, in case of delays, the resolution process is quite cumbersome and inefficient.

This is an interesting discussion area related to the linkage between PCA, mainly on-site PCA and AEO enrolment. While the cumbersome nature of the audit was often cited as the reason for non-enrolment, most of those who had signed up for the scheme found the process quite satisfactory. Many respondents informed that they were yet to face their first on-site audit. In the interviews, it was mentioned that while the process of preparation for on-site audits has greatly improved over the years, much scope remains for improvement. The Directorate of Audit/Audit Commissionerate should prepare a detailed Standard Operating Procedure (SOP) to guide the trade and the departmental officers, particularly regarding the data and document requirements.

CBIC could specify the precise format for reporting data with prescribed frequency and fields that could be auto-populated sourcing information from the customs automated system. With streamlined departmental audits, such initiatives will help clients undertake regular self-check. Considering the risk identified from such reported data and the workforce constraints of the department, it is crucial to select only a smaller percentage of entities for on-site audits. Such an initiative would meet multiple objectives: (i) it would ensure regular client-level data verification; (ii) it may enable a reduction in the share of AEO clients subjected to on-site audit, which can significantly enhance the attractiveness of the scheme; (iii) minimise the compliance cost through streamlining and automating the data collection and its analyses, relying inter alia on sophisticated data analysis tools at the disposal of the department.

As mentioned earlier, one major focus of the study was to understand what would make the AEO scheme attractive for these two categories of entities: (i) large existing players in the economy who have still not signed up for the AEO scheme, and (ii) those that may be planning to establish trading or manufacturing presence in the economy, attracted by a slew of government initiatives, coupled with the emergence of India as a large domestic market and global player.

Further, enrolment under the AEO scheme seems to offer greater benefits for importers, which is also reported by NTRS 2023. An attempt was made to understand what features need to be added to the AEO scheme to support India's export push.

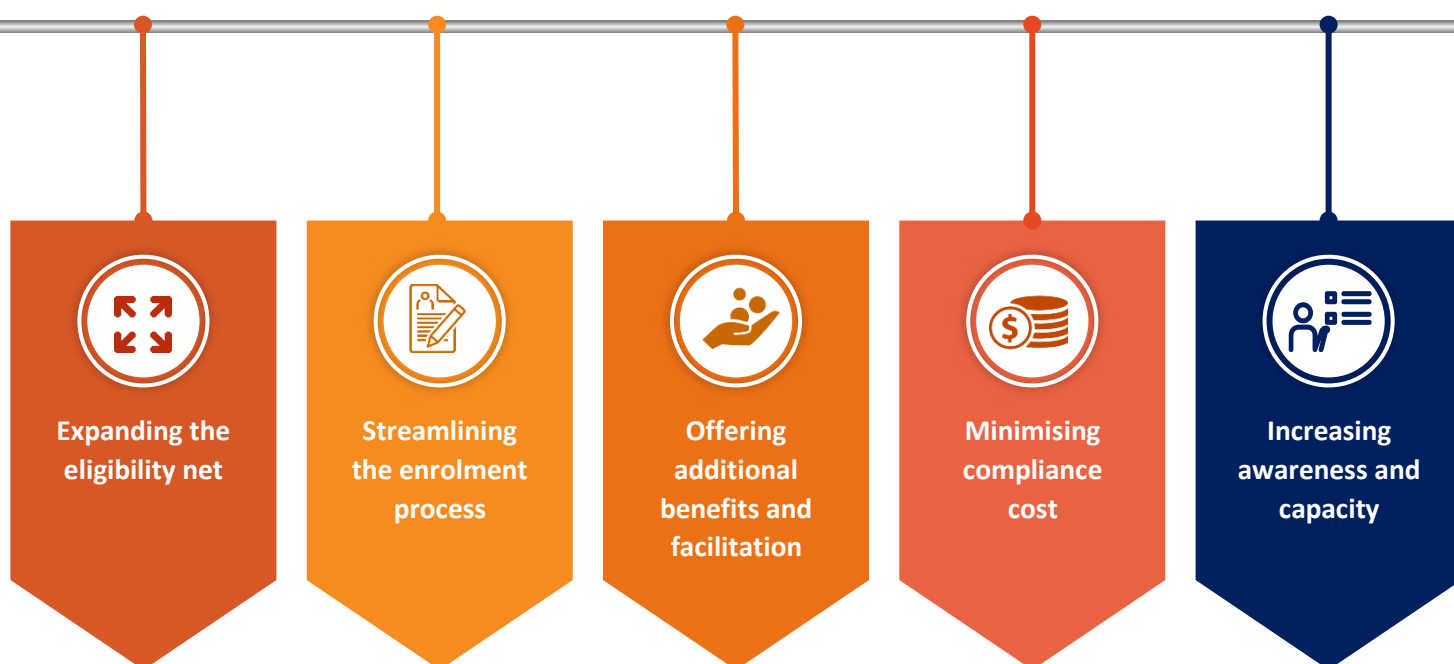
In the interest of brevity, the findings are included in the next chapter on recommendations.

## Chapter 4: Recommendations



While the current AEO policy outlines facilitation measures, a more facilitative framework and application could ensure that these measures are not just theoretical but translate into tangible benefits for participants.

Based on the survey responses, detailed consultations and input from various industry stakeholders, the following recommendations are presented under these broad categories.





## Expanding the eligibility net

### 1 Requirement to be in business activity for specified number of years shall be removed

The current stipulation requiring businesses to have at least three years of operational history (reduced to two years for MSMEs) presents a barrier for new entities looking to establish themselves as trusted clients in India. This limitation also proves challenging for existing AEO status holders who wish to develop new subsidiaries, whether wholly or majorly owned, as part of their business restructuring efforts.

Moreover, this requirement is perceived as a disadvantage for large multinational corporations seeking to relocate segments of their Global Value Chains (GVC) to India, especially given the current geopolitical landscape.

To address this issue and promote greater inclusivity in the scheme, establishing an alternative is essential for assessing the reliability and trustworthiness of such entities beyond strict operational history requirements. Such a criterion could consider factors such as the financial stability of the company, the reputation of its directors or key stakeholders and any existing compliance or accreditation measures in place. By implementing a more flexible approach that accommodates the unique circumstances of new businesses, the scheme can encourage their participation and support their growth trajectory.

Facilitating the entry of new companies into the scheme is beneficial for businesses and aligns with the broader objectives of attracting new investments in India.

In this regard, a suggestion was, to begin with making a distinction between manufacturers and traders and dispense with this requirement for the former as they are likely to have concrete physical a

### 2 Requirement to have dealt with minimum customs documents pose another hurdle.

The requirement for entities to have dealt with a minimum of 25 Customs documents (either BEs or SBs) in the last fiscal year, reduced for MSMEs, limits group entities primarily engaged in domestic business activities to apply for AEO status.

It is advisable to reconsider the eligibility criterion related to the minimum number of customs documents processed, particularly for entities focused on domestic business. Adjusting this requirement would allow a broader range of entities, including those with a predominantly domestic focus, to qualify for AEO status. This revision would not only promote inclusivity but also encourage greater participation in the AEO programme, thereby enhancing supply chain security and facilitation benefits across diverse business sectors.

## 3

### Encourage group company transactions through extending the AEO status to group entities.

The requirement that an application for AEO status will solely cover the legal entity of the applicant and not automatically extend to a group of companies fails to acknowledge the growing prevalence of inter-company transactions. This oversight particularly disregards the business reality of Contract Manufacturing (CM), which is becoming more prevalent, especially in sectors such as Information Technology (IT) and automobile.

It is essential to reassess the existing policy framework to acknowledge and accommodate the increasing complexity of inter-company relationships, particularly in industries reliant on contract manufacturing arrangements. By recognising the interconnected nature of group entities and their collaborative operations, the AEO programme can better enhance supply chain security and facilitation. This adjustment would not only reflect contemporary business practices but also contribute to improving the overall effectiveness and relevance of the AEO programme in modern business landscapes.

## 4

### Clear identification of fraud, forgery, clandestine removal and smuggling cases without citing pendency of every SCN as deterrent

Generally, the entities facing investigations, which are likely to result in the issue of SCN with the demand of duty, etc., under the extended period provision of section 28 (4) are ineligible for AEO enrolment. While some respondents were aware that the ratio of duty demanded to duty paid to be more than 10 percent, being the general ineligibility criteria. However, there is a lack of clarity regarding the guidelines followed by the programme manager while exercising discretion vested in him to examine the merits of the SCN or consequences that would follow upon confirmation of such demand by the adjudicating authority. Given the threat and ambiguity in this regard, the clients prefer not to explore the possibility of enrolment.

This recommendation suggests the need for a more precise and efficient process for identifying cases related to fraud, forgery, clandestine removal and smuggling within the AEO programme. Currently, the practice of citing the pendency of every SCN issued under Section 28(4) of the Customs Act may act as a deterrent to AEO enrolment, particularly as some notices might relate to traders involved in classification or valuation matters with bona fide intent.

To address this issue, customs authorities could implement mechanisms to streamline the identification of cases involving fraudulent activities without relying solely on the pendency of SCNs. Clear Standard Operating Procedures (SOPs) regarding the criteria and process for identifying fraud cases can be issued to the AEO Zonal officers across India. This shall help provide detailed guidance and support to the stakeholders on compliance requirements, which can help alleviate concerns and foster greater trust in the programme.

## 5

### Foster collaboration and coordination with the PGAs to extend preferential treatments for AEO status holder.

While AEO status offers certain benefits, such as expedited customs clearance and reduced inspections, some stakeholders argue that these advantages may be limited if other government agencies (PGAs) do not extend similar preferential treatment to AEO clients.

This issue underscores the interconnected nature of trade processes. Even if customs procedures are streamlined, the efficiency gains may be offset if other regulatory bodies involved in trade do not align their practices with those of customs authorities. For instance, if agencies responsible for food safety, environmental regulations, or product standards maintain stringent inspection protocols for AEO clients, the benefits of expedited customs clearance may be diluted. This misalignment can lead to inefficiencies, increased costs and regulatory burdens for AEO-certified businesses, potentially negating the intended advantages of AEO status.

To fully use the advantages of AEO programmes and enhance trade facilitation, customs authorities and partner government agencies must establish robust mechanisms to improve coordination and communication. This may entail organising regular meetings, conducting joint training sessions, integrating online portals and implementing standardised procedures to maintain regulatory consistency.

## 6

### Distinct category under AEO programme for e-commerce entities

The recommendation suggests the creation of a distinct category of AEO tailored specifically for e-commerce entities. This specialised AEO designation aims to address the unique requirements and challenges faced by e-commerce platforms and vendors, particularly by MSMEs in India, thereby fostering export growth and enhancing trade facilitation.

To encourage broader participation for such entities, we may design streamlined application procedures and assessment methodologies tailored to the e-commerce sector. We may also develop eligibility criteria for e-commerce AEO status that align with the operational dynamics of online marketplaces. This may include transaction volume, compliance track record, cyber-security measures, digitisation, technology adoption and transparency in supply chain management.

CBIC may also engage stakeholders from the e-commerce industry, including marketplaces, MSME associations, trade bodies and regulatory agencies, in designing and implementing the e-commerce AEO programme. Soliciting feedback and fostering collaboration will ensure that the programme effectively addresses the needs and concerns of all stakeholders.

## 7

**Distinct category under AEO programme for SCOMET license holders**

The recommendation proposes the establishment of a specialised category of AEO specifically tailored for Strategic Commodities (SCOMET) to alleviate the challenges faced by Indian exporters in meeting SCOMET licensing requirements. This initiative aims to streamline the export process for goods classified under SCOMET, which are subject to stringent export controls due to their sensitive nature and potential dual-use applications. Some of the key considerations in this regard could be as follows:

- Developing a criterion for the AEO-SCOMET category, which would be granted to exporters with a proven track record of compliance, reliability and security measures in handling SCOMET items. This designation signifies a high level of trustworthiness and adherence to export control regulations.
- Empower AEO-SCOMET holders with the authority of self-licensing, allowing them to export SCOMET items without obtaining individual licenses for each transaction. This streamlines the export process, reduces administrative burden and expedites the movement of goods, especially for legitimate trade activities.
- Implement a rigorous pre-verification process by the Directorate General of Foreign Trade (DGFT) to assess the eligibility of exporters for AEO-SCOMET status. This involves thoroughly scrutinising compliance history, security measures, internal controls and adherence to export control regulations.
- Establish a post-audit mechanism similar to customs practices to ensure ongoing compliance with SCOMET regulations by AEO-SCOMET holders. Regular audits and inspections serve as a safeguard against potential misuse or diversion of sensitive goods and reinforce the integrity of the self-licensing regime.



## Streamlining the AEO enrolment process

### 1

#### Time-bound issuance of AEO certificate

Expediting the issuance of AEO certificates within a time-bound framework is crucial to enhance the efficiency and effectiveness of the AEO programme.

This involves simplifying application forms, clearly outlining documentation requirements and providing online communication options to reduce administrative burden and processing time.

Further, establishing clear and defined timelines for each stage of the AEO certification process is crucial to ensure transparency and accountability.

By implementing these measures, customs administrations can ensure the time-bound issuance of AEO certificates, thereby providing businesses with expedited access to facilitation benefits, fostering greater compliance and enhancing trade facilitation outcomes.

### 2

#### Simplification of the renewal process for AEO T2 and AEO T3 entities

Currently, the renewal process for AEO T2 and AEO T3 entities resembles a fresh application procedure, characterised by cumbersome documentation, prolonged processing durations, site visits and administrative intricacies. These challenges discourage involvement and impede the advantages of the AEO programme.

To address these challenges, it is essential to introduce reforms that enhance the efficiency, user-friendliness, and expediency of the renewal process. Any of the below key initiatives could be adopted in this regard:

- **Annual self-declaration process for renewal of AEO status**—The study suggests implementing an annual self-declaration process to renew AEO status, mirroring the streamlined approach seen in the AEO T1 auto-renewal process. In this proposed system, AEO T2 and AEO T3 entities would be required to submit an annual self-declaration affirming their continued compliance with AEO criteria and regulations. This declaration would confirm their ongoing commitment to maintaining the highest security, safety and compliance standards in their trade operations.
- **Self-intimation in case of change in business circumstances**—Allowing AEO entities to self-intimate changes in business circumstances eliminates the need for time-based renewals. Instead of waiting for scheduled renewals, entities can promptly notify customs authorities of any alterations in their operations or sourcing patterns. This proactive approach ensures that AEO status remains current and reflects the entity's evolving business environment. Additionally, it reduces administrative burdens associated with periodic renewals, promoting agility and responsiveness within the AEO programme.
- **Renewal based on findings made during the post-clearance audits**—Renewal based on findings from Post-Clearance Audits offers a proactive approach to maintaining AEO status. Entities can undergo auto-renewal if audits reveal continued compliance with AEO criteria. This process ensures that entities demonstrating ongoing adherence to security and compliance standards can swiftly renew their status, reflecting their commitment to best practices.

## Enhanced facilitation and benefits for AEO-certified entities

### 1 Assigning specific set of officers to clear the AEO BEs through faceless assessment groups

Designating a dedicated team of highly experienced and senior officers to clear AEO BEs within Faceless Assessment Groups enhances efficiency and accuracy. These officers possess specialised knowledge and expertise, enabling them to expedite the assessment process while ensuring thorough compliance checks.

By leveraging their extensive experience, they can effectively address complex issues and provide valuable guidance to AEO entities, promoting smoother clearance procedures and fostering trust in the assessment process. Additionally, assigning such officers to handle AEO BEs underscores the importance of AEO status and signals a commitment to facilitating trade for compliant and trusted entities.

### 2 Limited queries for AEO shipment for out-of-charge-order

Limiting the number of queries for AEO shipments related to out-of-charge orders streamlines the clearance process while maintaining security standards. Under this approach, customs authorities may impose a percentage cap on the inquiries or requests for additional information made to AEO entities regarding shipments flagged for out-of-charge-orders. By restricting unnecessary queries, customs can expedite the release of goods, benefiting both AEO entities and customs operations.

However, it's crucial to balance between minimising disruptions to trade flows and ensuring thorough risk assessment and compliance verification. Therefore, customs may implement selective querying based on risk profiles, previous compliance history and the nature of the goods being cleared, optimising efficiency without compromising security.

### 3 Fast track resolution of disputes and liquidation of historical pendency using trust to progress

To facilitate AEO entities, it is essential to fast-track the resolution of disputes and liquidate the historical pendency of cases using trust as a driving force. This may involve the following:

- Creating dedicated teams or panels composed of trusted experts who are empowered to resolve disputes concerning AEO entities
- Encouraging methods such as mediation or arbitration to resolve disputes outside the formal legal proceedings; these faster and more cost-effective approaches can preserve business relationships
- Giving priority status to AEO entities in the dispute resolution queue, ensuring that their cases are addressed promptly and without unnecessary delays

By implementing these strategies, customs authorities can expedite the resolution of disputes and liquidation of historical pendency cases, demonstrating a commitment to fostering trust and cooperation within the AEO programme.

## Minimising compliance cost

### 1

### Measures to minimise compliance cost

Given the resources available with the department and the ever-increasing number of AEO clients, automation of the process appears to be the best available course.

- CBIC may develop and prescribe a format for AEO clients to submit electronic reports of EXIM details regularly, which will be differentiated for the three tiers.
- These data can be mainly sourced from the customs automated system and would be facilitated by DG systems.
- To the extent possible, various data fields sourced from the customs automated system can be auto-populated.
- Additional corroborative data from companies and other internal and public reports (such as balance sheet and P&L account), which are presently being asked for OSPCA, will also be prescribed.
- A standardised reporting format, combined with the availability of major data fields from electronic data sources, will minimise the compliance cost and burden, as one or more vendors will develop electronic compliance tools.
- The audit team can scrutinise the submitted reports to audit at regular intervals, along with self-certification, by using appropriate data analytics tools to ensure scrutiny of compliance and consequent action following PNCL under section 28 (2).
- This analysis will also enable the Audit Commissionerate to zero in on a limited number of high-risk clients for more detailed audit action under section 28(4) based inter alia on misstatement at the self-certification stage.

## Increasing awareness and capacity

### 1

### Need for increasing awareness and capacity building

More awareness is needed about the beneficial impact of the AEO programme among the stakeholders at policymaking levels. This procedure may require the involvement of third-party industry and trade fora and large consulting firms to supplement the initiatives of the Directorate of International Customs.

Furthermore, updating and publishing an FAQ document would help disseminate accurate information about the AEO programme. Also, revamping the AEO India portal to meet the evolving needs of stakeholders by incorporating updated information, improving navigation and integrating AI-based tools may be relevant. The portal can be a comprehensive and user-friendly platform for accessing critical information and resources related to the AEO programme.

The revamped portal should feature up-to-date information on AEO eligibility criteria, application procedures, benefits and compliance requirements. Regular updates and notifications regarding changes in regulations, policies and procedures ensure that stakeholders have access to the latest information.

In addition to textual information, the portal can incorporate interactive resources such as videos, tutorials and case studies to educate stakeholders about the benefits of the AEO programme and interactive training modules to understand the application process.

Further, integrating AI-based tools such as chatbots or virtual assistants can provide instant support and guidance to users seeking information or assistance with AEO-related queries. These tools can offer personalised recommendations, answer frequently asked questions and guide users through the application process or compliance requirements.

While the upgraded web portal allows for online tracking of application status, ongoing efforts to enhance field officers' capacity are essential. This includes providing training on the benefits available to AEO clients and fostering an understanding of their trusted status. Field officers should be equipped to avoid unnecessary delays in processing consignments, such as holding them at ports for technical queries, thus ensuring smooth trade operations for AEO-certified businesses.



## Conclusion



The findings and recommendations from this study are quite intuitive and validate the informally held views of many professionals. The AEO scheme is transformative in its premise and design. It has brought significant benefits to the international trade ecosystem in the country. However, in delivering results that are perceptibly short of the aspirations espoused by CBIC, they have fuelled dissatisfaction and yearned for dynamic moves by the next generation. The next generation of reforms needs to be broader and cater to categories of trusted clients; some of whom cannot meet standards that are viewed as archaic or restrictive. More importantly, the expectation is that what is promised under the scheme is delivered on the ground. Trust begets trust, and it is time for the government to trust those who deserve to be trusted. Objectively defined trust parameters must be implemented for those who fail to regularly weed out the non-compliant entities. For the scheme to be more widely adopted, the focus on outreach to the right cohort of clients and building capacity among cutting-edge revenue and regulatory officials to service the clients is significant. Finally, to provide the highest-class service experience, the entire process of the AEO relationship, including the post-clearance audit, must be automated. This will guarantee transparency, certainty, cost reduction, trade facilitation and economic development for the country.



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**Sangita Prakash**

*Director – Indirect Tax*

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Thank you