

Institutional fundamentals of authorized supply chains formation

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Abstract – This paper is addressing the issues regarding formation of authorized supply chains in international trade with reference to the World Customs Organization (WCO) standards and specific aspects of customs administration. The paper is evaluating the WCO imperatives and modern information technologies used in the sphere of customs risks management. It is defining the weak points of international China to Russia supply chains. It is substantiating the necessity to make analytical assessment of evolution of institute of authorized economic operators in China and in the RF. The paper brings to light particular features of institute of authorized economic operators in China and defines directions of its further development. It is evaluating specificity of evolution of institute of authorized economic operators in the RF under the conditions of customs regulations harmonization in Eurasian economic Union (EAEU). It was noted that innovation of the EAEU customs' Code consists in possibility to issue three types of certificates which are verifying party's incorporating into the Register of authorized economic operators and (2) differentiation of special simplifications depending on the type of a certificate.

Key words – China, Russia, international trade, international supply chains, customs administration, customs risks, authorized economic operator, authorized supply chains

I. INTRODUCTION

Increasingly growing trade cooperation between China and Russia makes transition from one-off deals between the enterprises to integrated interaction within international supply chains a crucial task. However, the problem associated with customs administration in the international trade comes into the spotlight against the background of these positive trends. Probably, this problem may be solved due to the fact that in both countries institutional measures intended to establish "authorized economic operator" (AEO) category into legal and business practice were taken. Interaction between the foreign economic activities FEA participants and the AEO is not only shifting "gravity center" of customs administration on such operator but is also decreasing logistics risks in international supply chains. The WCO Framework of Standards to Secure and Facilitate Global Trade envisages [1] that customs services of the WCO member states must use modern information technologies to reveal increased-risk cargoes and transportation facilities at an earliest possible stage of international goods supply chain - in goods shipment port or even in goods production and distribution areas. At that, AEO operators belong to low-risk category of international supply chains participants and, as a consequence, they

receive considerable benefits due to expeditious customs processing of goods. In case AEO operators are reciprocally recognized by customs offices of importing and exporting parties it is expected that international supply chains will obtain the status of authorized goods supply chains. Despite the fact that the RF and China have been for a long time using the institute of AEO and modern information technologies in risks management there is still no agreement between them regarding reciprocal recognition of AEO status. Conspicuous is the fact that main logistics operators participating in China-Russia supply chains like JSC Russian Railways and FSUE Russian Post are still without the status of AEO although they are fully complying with all requirements put forward to them including safety standards. All this makes research of institutional features of authorized supply chains formation within the framework of China-Russia international trade under the condition of customs operations digitization a crucial task.

II. MATERIALS AND METHODS

Poor efficiency of customs administration is an acute problem of Russian economy. Solving of this problem is the prerogative right of the state. However, it should be preceded by scientific research conducted in line with the RF legislation and with account to specific features of the EAEU customs regulations. This circumstance is objectively shifting the field of research to the side of Russian specialists. Analysis of scientific research papers shows that such research are focusing mainly on two basic directions: 1) ascertaining of new amendments in customs legislations; 2) analysis of customs practices with reference to goods-related and country-related features of. Besides, focus in such publications is made on "risk-free" customs processing regardless of attempts to find optimized combination between inter-company cooperation maintained within international supply chains and mechanisms of customs processing. Solution of this problem demands understanding of institutional features of such regulating and of customs administration evolution directions forecasting as well. The latter issue is given sporadic attention to (exclusion - publication [3]). This issue within international supply chains under the condition of globalization characterized by the total expansion of the WCO standards and digital risks management technologies is becoming crucial. Positive dynamics of goods exchange between China and Russia (China being the basic trade partner of Russia) adds acuteness thereto [4]. This dynamics facilitates logistics convergence of the RF and Chinese national economies,

making transition of both countries to higher level of customs relations a crucial issue [5]. Implementation of this condition is to the great extent connected with reciprocal recognition of their AEO operators' status and employment of harmonized digital technologies in customs administration. Chinese and Russian FEA participants must be ready to such scenario. This provision stipulates the necessity to perform analytical assessment of evolution of the AEO institute in Russia and China proceeding from these countries' customs legislation and international standards of customs operations digitization.

III. RESULTS

The institute of AEO within the framework of international law was for the first time adopted by the Framework of Standards to Secure and Facilitate Global Trade in 2005 at annual WCO Council session [1]. 2007 year version of these standards was supplemented by provisions and requirements put forward to customs administrations and the AEO which were originally developed as a standalone document. In 2010 the WCO issued a document represented as a Complex of customs actions taken in order to ensure security of customs operations and facilitate international trade which integrated entire documents supporting these standards implementation [1].

The AEO satisfying the criteria established by national customs services are entitled to employ simplified and fast-track goods release procedures, for example, through the decrease of proportion of goods under inspection in case of minimum required information submission. This, in turn, allows to reduce costs for entire participants of international supply chain and to accelerate customs processing of goods. Framework of standards assumes that customs services of the WCO member states must come to a reciprocal recognition of the AEO status in order to improve goods supply chain security and harmonize customs procedures [1]. In case of reciprocal recognition of the AEO status it is expected that international supply chains where target companies are represented by the AEO from the WCO member states will acquire the status of "authorized goods supply chains".

China entered the WCO Framework of Standards to Secure and Facilitate Global Trade in June 2005 and since that time implemented a number of institutional measures to create and improve national authorized economic operators system. Basic difference of this system from the US AEOs system is that it was created on the basis of enterprise credit rating assessment. Where an enterprise commits essential breach of law it is expected that level of its credit rating will decrease and the state will undertake more strict customs control measures in respect thereof [6]. In 2008 China put in force "Administrative measures to classify national customs enterprises" according to which all FEA participants and customs brokers were differentiated into five categories - AA, A, B, C and D. Out of them only three categories: AA - high level, A - standard level and B - normal level (trustworthy) could be referred to the AEO system. Enterprises belonging to categories C and D had to be subjected to credit rating re-testing so as to be further referred either to category B or to "bad-faith enterprise" category. In 2014 China put into force "Temporary

measures aiming to execute Chinese customs enterprises' credits management", classification into five categories (AA, A, B, C, D) was cancelled and differentiation of entire Chinese FEA participants into five groups was standardized as follows: senior certification enterprise, general certification enterprise, general credit enterprise and bad-faith enterprise. This document distinctively stipulates that only senior certification enterprises could acquire the status of AEO and, accordingly, the right to use customs preferences in the company economic activities. It is also establishing 18 certified corporate standards including in-house audit, financial compliance, conformity standards and trade security. In 2018 China put into force new document entitled "Measures intended to manage the credits of Chinese customs enterprises" [7] according to which customs authorities are obliged to classify FEA participants, with reference to their credit status, into certified enterprises, enterprises of general financing and insolvent enterprises. At that, only certified enterprises may be referred to the category of certified operators (AEOs) of Chinese customs and they can be classified into two types: advanced certified enterprises and general certified enterprises. At the same time, "certified operator (AEO)" is understood as an enterprise which in any way participates in international goods exchange, complies with provisions stipulated herein and observes enterprise's certified Customs standards and which successfully passed customs certification [7]. In 2019 China achieved reciprocal recognition of "certified operator" (AEO) status with 36 countries and regions including Singapore, South Korea, Hong Kong, European Union, Switzerland, New Zealand, Israel, Australia, Japan and today is delivering about 45% of total Chinese export to the said countries and areas [8]. China is conducting consultations regarding reciprocal recognition of AEO status with Russia, Mongolia, Kazakhstan, Belarus, Malaysia, Iran, Mexico and Serbia. At the same time, progress of forming the institute of AEO in RF is rather poor [9].

Institute of AEO was for the first time standardized in the RF in 2010 by the Customs Code of the Customs Union (CU) [11, 12]. According to [12], the AEO status may be assigned to legal entity (LE) registered in line with applicable RF legislation, performing importation of goods to the RF for use in production and other business activities, exportation of goods from the RF and included in the AEO Register.

Further development of the AEO institute continued upon enforcement of the EAEU Customs Code and respective Federal Law [13, 14]. According to the EAEU Customs Code [13], the AEO is a LE established in line with member state's legislation and included in the AEO Register in accordance and with observance of conditions set forth by [13].

Innovation proposed by the EAEU Customs' Code consists in (1) possibility to issue three types of certificates which are verifying party's incorporating in the AEO Register and (2) differentiation of special simplifications depending on the type of certificate. Besides, customs legislation of member states is for the first time not only listing special simplifications but is also giving their legal interpretation - they are presented as (i) specific conditions of conducting particular customs operations and customs

control and (ii) other specific conditions of applying the provisions of the EAEU Customs Code depending on the type of the AEO certificate [13].

Table 1 presents logistics interpretation and substantial characteristic of these simplifications which may be used by AEOs of the member states which obtained certificate of 1st or 2nd type. At that, it is necessary to take into account that, according to [13], a certificate which is verifying inclusion into 3rd type register entitles the AEO to use all special simplifications which are provided by certificates of types 1 and 2.

TABLE 1. LOGISTICS INTERPRETATION OF SPECIAL SIMPLIFICATIONS PROVIDED TO AEO

Operations	Certificate	
	type 1	type 2
Transportation of goods	1) execution of customs operations associated with goods arrival to the customs territory of the CU, goods departure from the customs territory of the CU, custom declaring and releasing of goods as a matter of priority; 2) acceptance of lead seals applied by the AEO on cargo compartments (sections) of vehicles or parts thereof as identification means; 3) failure to identify routing in respect of goods carried by AEO; 4) execution by AEO-goods carrier of (i) unloading, transshipment and other cargo handling operations with goods being under customs supervision and intended for export from the customs territory of the CU except goods transferred (transported) in compliance with customs transit procedure and (ii) replacement of international transportation vehicle carrying such goods by other transport vehicles with, inter alia, removal of lead seals and stamps without approval by customs authority in whose activities area respective operation is carried out or without notifying the latter.	1) delivery of goods to customs zone organized in AEO-owned facilities, premises (parts of premises) and/or open areas (parts of open areas), placement of these goods in such customs zone, execution of customs processing and customs operations aiming to close customs transit procedure in aforesaid facilities, premises (parts of premises) and/or open areas (parts of open areas); 2) employment by the AEO of identification facilities used by customs authorities according to the procedure set forth by item [13].
Temporary storage of goods		1) temporary storage of goods in AEO-owned facilities, premises (parts of premises) and/or open areas (parts of open areas); 2) temporary storage (in AEO-owned facilities, premises (parts of premises) and/or open areas (parts of open areas)) of goods owned by entities

		having no AEO status where it is stipulated by applicable legislation of the member states.
Financial support	1) failure to provide security of fulfilling commitments regarding payment of custom duties, taxes, special, anti-damping and compensation duties at the stage of AEO-declared goods releasing, with peculiarities specified in [13]; 2) failure to provide security of fulfilling commitments regarding payment of custom duties, taxes, special, anti-damping and compensation duties if requirement to fulfill such commitments is set forth by [13] where goods have been put under customs transit procedure.	1) failure to provide security of fulfilling commitments regarding payment of custom duties, taxes, special, anti-damping and compensation duties at the stage of AEO-declared goods releasing, with peculiarities specified in [13]; 2) failure to provide security of fulfilling commitments regarding payment of import customs duties where payment of import customs duties is deferred according to [13] if the AEO acts in capacity of goods declarant.
Customs processing	1) releasing of goods prior to declaration submission according to [13]; 2) execution of customs control where it is assigned in the form of customs examination which should be done as a matter of priority; 3) priority-oriented participating in pilot projects and experiments (intended to reduce time and optimize the procedure of customs operations execution) organized by customs authorities.	1) releasing of goods prior to declaration submission according to [13]; 2) execution of customs control where it is assigned in the form of customs examination which should be done as a matter of priority; 3) execution of customs control in AEO-owned facilities, premises (parts of premises) and/or open areas (parts of open areas); 4) execution of customs operations associated with customs declaring and releasing of goods with customs authority other than custom authority in whose activities area these goods are placed on condition that such customs authorities are located in member state territory.

Conditions of LE inclusion in the AEO Register with issuing of the 1st, 2nd and 3rd type certificate are set forth by [13] and may be differentiated into general conditions of inclusion in the Register and specific conditions which are foreseen for the AEO holding particular type of certificate (Table 2). Besides, [13] defines minimum quantitative

and/or cost-related indices required for the AEO status acquisition (Table 3) and cases and amounts of the AEO commitments fulfillment security.

TABLE II. CONDITIONS OF LEGAL ENTITY INCLUSION IN AEO REGISTER

Conditions of inclusion in AEO Register	Type of certificate		
	I	II	III
1. LE AEO performed in the sphere of customs services in capacity of customs representative, owner of temporary storage facility, customs warehouse performed during minimum 3 years or performing customs carrier activities during minimum 2 years.	+	+	+
2. AEO commitments fulfillment security.	+	-	-
3. Absence (in entire member states) of overdue commitments regarding special, anti-dumping, compensation duties, fines and percents.	+	+	+
4. Absence (in member state of the LE registration) of indebtedness (arrears) associated with member states' tax legislation.	+	+	+
5. Absence of facts of holding this LE administratively liable (in entire member states during 1 year prior to customs authority's registration of the case) for certain breach of the law.	+	+	+
6. Absence of facts evidencing that in entire member states (i) any physical persons-residents thereof holding the status of this LE shareholders with 10% of shares and more, (ii) its founders (participants), managers and chief accountants were brought to criminal responsibility for certain breach of the law.	+	+	+
7. Availability of goods record keeping system satisfying requirements set forth by applicable legislation of member states and enabling the user to compare information provided to customs authorities in the course of customs processing which includes data concerning economic operations and ensures access (including remote access) to such data for the customs authorities.	+	+	+
8. Compliance of this LE financial stability with values established by the Commission and by member states' legislations.	-	+	+
9. Requirement for facilities, premises (parts of premises) and/or open areas (parts of open areas) intended for temporary goods storage to be in the status of ownership, operational control or leasing.	-	+	+
10. Observance of requirements put forward towards (i) facilities, premises (parts of premises) and/or open areas (parts of open areas) on whose territory temporary goods storage, completion of customs transit procedure will be organized and/or customs control will be carried out, (ii) to transport vehicles and (iii) LE employees.	-	+	+
11. LE is included in the AEO Register with the 1st or 2nd type certificate issuing within minimum 2 years to the date of application registration by customs authority.	-	-	+

TABLE III. QUANTITATIVE AND COST-RELATED INDICES OF AEO STATUS ACQUISITION

Types of activities	Quantitative indices	Cost-related indices
Persons involved in FEA	Quantity of goods declarations furnished annually in quantities established by applicable legislation of member states, however, not less than 10.	Total cost of goods carried across the customs border of the CU in each year reaches the amount established by applicable legislation of member states, however, not less than

		amount equivalent to 500 thousand Euro.
Customs representatives	In each year quantity of goods declarations furnished annually in quantities established by applicable legislation of member states, however, not less than 200.	Total cost of goods declared in customs declarations submitted by them in each year is reaching the amount established by applicable legislation of member states, however, not less than amount equivalent to 500 thousand Euro.
Owners of temporary storage areas, customs warehouses		Performed storage of goods whose total cost in each year reaches the amount established by applicable legislation of member states, however, not less than amount equivalent to 500 thousand Euro.
Customs carriers	In each year minimum 250 customs declarations were submitted.	
International cargo carriers	In each year minimum 250 customs declarations were submitted.	

As set forth by [13], legislation of the member states regarding customs regulation may specify additional conditions of LE inclusion in the AEO Register. In Russia additional conditions of a LE inclusion in the AEO Register are set forth by [14]:

According to [13], such operator, beginning from the date of enforcement of the certificate verifying LE inclusion in the AEO Register, belongs to low risk category and, therefore, simplified accelerated customs processing procedure may be applied thereto.

IV. DISCUSSION

Wide development of the RF market by Chinese enterprises demands from them more active logistics position. It must foresee establishment of international supply chains under the authority thereof and organization of well coordinated contract-based management with the use of ISO standards [15, 16]. At the same time, for the time being is it quixotic to expect total transition, in Chinese enterprises' attitude to FEA, from one-off deal to far-reaching transformations in the sphere of customs administration in China and the RF. However, analysis of evolution of customs regulation in these countries shows that breakthrough may be anticipated in the coming years. We dovetail such breakthrough with further development of the AEO institute in these countries, reciprocal AEO institute recognition in China and the RF and formation of authorized supply chains. This situation is, in our opinion, makes requirement for Chinese enterprises to establish economic relations with active and potential AEOs a crucial issue.

V. CONCLUSION

Taking the aforesaid into account, we can specify the following ways to establish the chains of Chinese goods supply to Russia with a purpose to minimize overall logistics costs and to decrease the customs risks:

- obtaining (by the target company) of certificate verifying inclusion in the AEO Register of type 2 entitling the holder to use special simplifications regarding temporary storage and customs declaring of imported goods in AEO-owned facilities, premises and/or open areas;

- selection (in capacity of target company within Chinese goods supply chains) of national and/or regional distributors satisfying the established requirements regarding absolute and relative indices of financial stability;

- selection (in capacity of the target company within the chains of auxiliary logistic services supply) of integrated providers capable to organize international transportation, temporary storage, customs declaring and delivery of Chinese goods up to distribution centers of retail networks and/or non-networked shops;

- obtaining of “authorized goods supply chain” status through (i) execution of the RF-China agreement regarding reciprocal recognition of the AEO institute or (ii) involvement of Russian AEO and certified Chinese operator in capacity of international supply chain participants.

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