

TRUSTED TRADER SCHEMES AS A BORDER MANAGEMENT TOOL

TRADE
FACILITATION
COMMISSION

Policy and Practicality in Partnership



EXECUTIVE SUMMARY

This report advocates for modernising the UK's Trusted Trader Programme (TTP), mirroring successful international models like the Authorised Economic Operator (AEO) scheme. It highlights the current UK system's limitations, with low adoption and minimal practical benefits, proposing a tiered system offering varying levels of benefits based on compliance.

The benefits for businesses include reduced costs and delays, while governments gain improved risk management. The report further suggests integrating TTP with supply chain data for enhanced security and efficiency, using examples like the UK's Border Trade Demonstrators and the Brazilian AEO programme's significant economic impact. Addresses challenges in applying TTP to Sanitary and Phytosanitary (SPS) goods, proposing a risk-scoring system to differentiate between traders and products for more efficient border controls.

Trusted trader schemes are increasingly recognised as a vital component for modern border management, promoting both trade facilitation and security. These schemes, such as the Authorised Economic Operator (AEO) model, help streamline the movement of goods by pre-qualifying compliant businesses for fast-track processes at borders. Trusted traders, who consistently meet compliance standards, can benefit from reduced customs delays, faster border crossings, and lower transaction costs, all of which contribute to economic growth.

In the UK, however, the adoption of such schemes remains limited, with only 1,200 traders currently holding AEO status and only 20 new applicants last year. The UK's scheme needs to be modernised and expanded to cover not just customs but the entire government, including agencies like Border Force and DEFRA, to ensure that goods crossing the border are secure, without unnecessary barriers. A tiered trusted trader system, where different levels of compliance receive different benefits, is proposed to encourage participation from both large and small businesses.

Trusted Trader schemes and benefits

Modern Trusted Trader Programmes (TTP) are a VIP pass to international trade. They have proven to be one of the most efficient instruments for creating safe and secure border processes and generating trade facilitation benefits across the globe. The UK is behind the curve here when it should be innovating and leading the way.

TTPs are based on the World Customs Organisation (WCO) SAFE Framework of Standards, are backed by the WTO Trade Facilitation Agreement, and are strongly promoted by the international community, almost without exception. The SAFE Framework has been adopted by 172 countries around the world and there are now TTPs operating in more than 155 of these countries. This WCO model, known as the Authorised Economic Operator (AEO) model, generally includes both security and compliance elements combined with trade facilitation benefits. Modern and comprehensive TTPs cover all border agencies and supply chain stakeholders, are fully digital and more cost efficient.

The WCO is now working to include various new ESG (Environment, Social Protection and Governance) supply chain regulations in the scope of TTP/AEO to recognise low-risk operators that are compliant with sustainability regulations. One of the challenges in modernising TTPs are legacy programmes that have not been updated with new benefits. New programmes today have a wider range of benefits available for all stakeholders involved in international trade and supply chains. TTP benefits for the private sector are categorised into four groups:

- Predictability – fewer delays and better planning
- Speed – through use of fast-track lanes and simplified border processes
- Cost – lower costs for guarantees and fast-track applications (licences, approvals etc)
- Administration – aggregated and/or consolidated reporting.

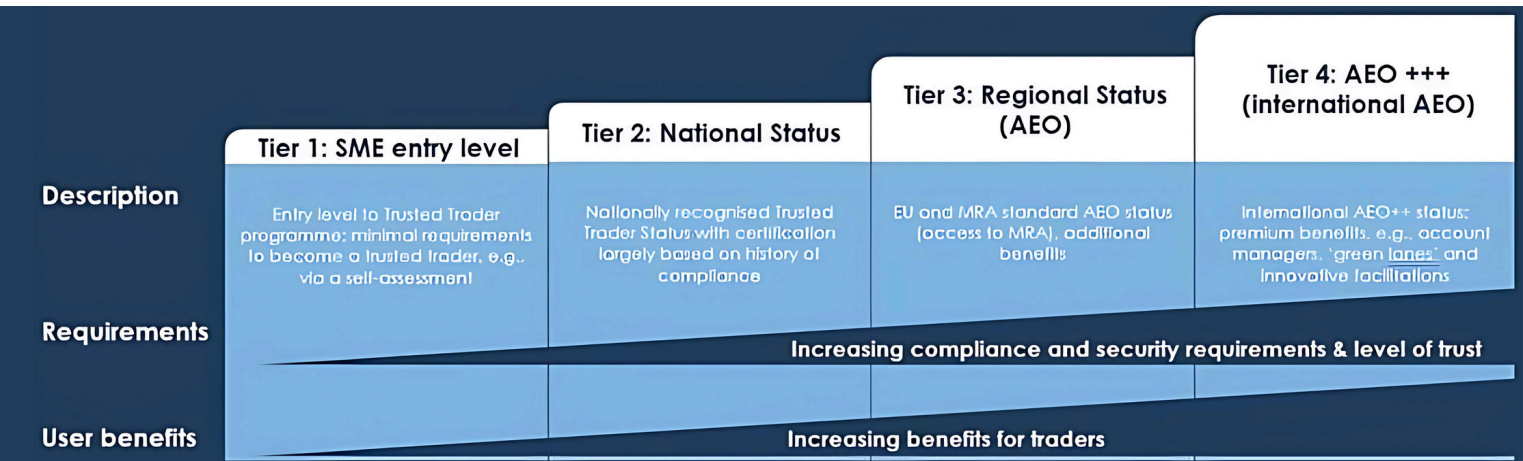
There are also significant cashflow gains, lower carbon emissions, less food waste and more efficient use of storage and warehousing as the need for built-in dwell times is significantly reduced. For governments, TTPs mean improved risk management and improved compliance. There are many international examples of how modern Trusted Trader programmes can revolutionise border processes offering trade facilitation and simplifications for approved and low-risk traders that have a proven track record of compliance and professional obligation.

Best practice countries provide examples of over fifty benefits that could be included in a new TTP and offered to UK businesses based on international conventions and within existing UK legislation. These trade facilitation benefits and simplifications would have a positive impact on international trade and the cost of doing business for UK companies.



To illustrate the potential of a modern TTP, one should look at the AEO programme in Brazil. A study from the National Confederation of Industries in Brazil showed that the benefits provided to certified AEO companies led to savings of USD 1.5 billion. These savings are expected to increase to USD 17 billion by 2030. This money can be ploughed back into AEO companies, allowing them to grow, which in turn creates jobs and promotes economic growth. The study also found that the AEO Brazil programme will have added more than USD 50 billion to Brazil's GDP by 2030.

One of the first steps when implementing a modern TTP solution is to develop a tiered Trusted Trader concept. This means different levels of benefits representing different levels of compliance and trust. Smaller companies can then take advantage of Trusted Trader status at a lower cost while allowing larger businesses to benefit from the additional resources they can apply to compliance.



Trust is not given, it is earned and there is sometimes a misunderstanding in the enforcement community that the use of TTPs has a negative impact on border controls. Research and documented results from TTP/AEO programmes from recent decades shows that TTPs enhance all aspects of the border environment, including enforcement, security, and safety. TTPs should be intelligent, multi-layered control systems that complement transaction level inspections and controls. They should include self-assessment as well as system based data-driven controls. Modern TTPs increase safety and security while contributing to improved compliance levels, better targeted inspections, and smarter risking.

A new tiered TTP should be fully digital to avoid additional bureaucracy for both companies and government agencies, including HMRC, Border Force, DEFRA, FSA etc.

The current trend is towards Trusted Trade Lanes, (interconnected) intelligent Digital Trade Corridors, Trusted Supply Chains, and Trusted Value Chains. In these concepts, TT status is connected with existing commercial supply chain data, supply chain stakeholder mapping, the supervision of goods through the use of smart containers and the official reporting through different declarations. Connecting TT status with this information creates a 'Trust Badge', providing a 'passport for goods' level of approval.

Another benefit for government agencies through the application of Trusted Supply Chains is access to voluntary commercial source data early in the trade process. This leads to more effective risk management, including having access to early warning signals from trusted traders in supply and value chains. When trade compliance records are generated, this source of information can be an essential element for efficient border management and creates a "tell us more, so we can intervene less" concept which senior border officials have stated to us more than once.

A demonstration of how Trusted Trade Lanes can work was the UK Ecosystem of Trust (EOT) pilots which are now being further developed as part of the UK government's Border Trade Demonstrators (BTD).

This is the future of border management and is already here. A modern border should be designed using a tiered trusted trader programme to optimise the requirements for growth through international trade for all types of companies. This can be further enhanced with a progressive Mutual Recognition programme so trusted UK exporters can carry that trust with them as they explore new opportunities globally.



UK's Current AEO/TT programme

Many government departments are sceptical about trusted trader schemes for fear of letting in products that could be dangerous. This is especially true of SPS goods. It is an understandable view; the current UK AEO scheme is not effective aside from certain guarantee waivers associated with customs simplifications and/or authorisations. Aside from that, the practical benefit is currently very limited and the adoption of a true trusted trader scheme is feared by many officials as they have perhaps failed to appreciate (a) the tiered nature of trust and (b) the benefits which can be derived from an effective scheme. Trusted trader schemes are also powerful compliance tools enabling agencies to have more visibility into goods movements and more intervention points.

Trade and particularly short distance EU trade is largely repetitive, involving large, professional and mature organisations. There is no need to clutter the border process with this legitimate trade but, equally, there is no need to completely abdicate the ability to risk profile these flows. The current 'catch-all' trusted trader approach is perhaps too much too soon for the UK and thus is often left on the shelf. It does not need to be this way.

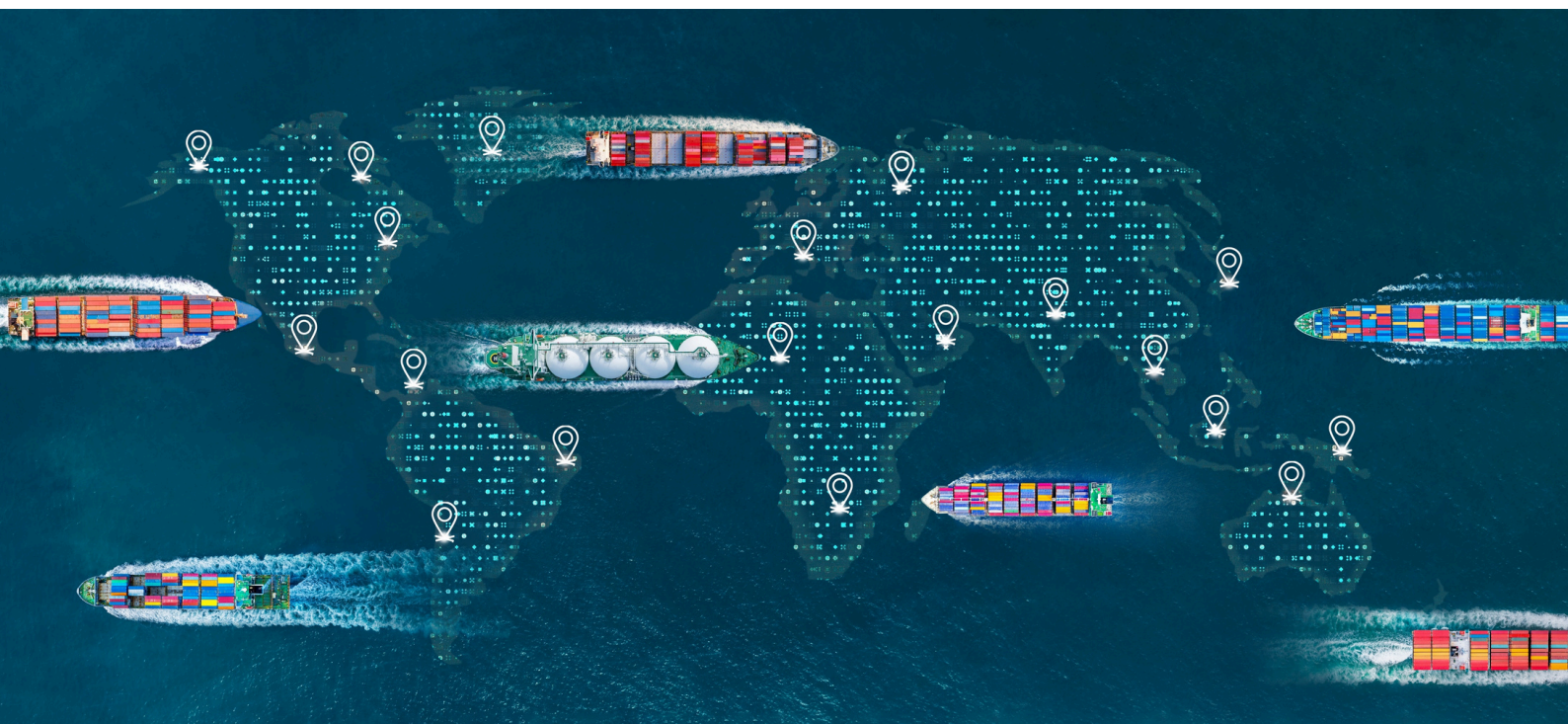
The UK only has roughly 1,200 AEO approved traders and/or intermediaries and freight forwarders. Perhaps more significantly, there have only been 20 new approvals this year. Germany has 6,300 AEO approved firms and the EU as a whole (including the 75 in Northern Ireland) has over 17,000.

Right now, in the UK, AEO is an accreditation with little or no impact on the ground and little appetite from the relevant authorities to adopt a trusted trader programme as is.

Rather than moth-balling the scheme or, at best, placing it in the 'nice-to-have' tray, one should look closer to home to see how a dual process can exist and be effective. We refer, of course, to the Northern Ireland process whereby traders and goods can move either 'at risk' or 'not at risk' (more commonly referred to as the 'green lane', although not its official term). The NI process has been designed to recognise the difference between an internal market movement and one that could, potentially, be a GB to EU movement. Substitute 'internal market' with 'trusted trader' and you very quickly have the framework for a process that recognises the trader, the goods and the need for a smoother process in some... but not necessarily all, cases.

Unless the UK AEO scheme is correctly attached to simplified procedures, cost savings and real practical benefits it will never gather any true momentum. Roughly 50% of the current UK AEO accreditations belong to freight forwarders and/or customs agents, two groups who have much to gain in terms of the financial waivers and the least to gain in terms of facilitation at the frontier.

Similarly, unless the scheme can be multi-layered it will lack support from relevant government agencies as it will be viewed as too far reaching and thus too risky, at least at the moment and perhaps indefinitely. There is no need, if one has a vibrant tiered trusted trader scheme to require the UK to be inside the EU's safety and security zone. The UK should remain outside the EU's Safety and Security Zone because this gives it more freedom over its own customs processes, and regulatory controls and does not require it to follow EU customs approaches in areas like trade remedies. However, given the data that can be acquired by governments based on trusted trader schemes and digital trade corridors as we note elsewhere, we question the necessity for an Entry Summary Declaration at all. We certainly question its need for internal market movements between GB and NI.



Trusted Trader Status for SPS goods

SPS goods are perhaps the most challenging element as the risk to UK health and farming is often greater and more immediate. Proof of this is the recent outbreak of African Swine Flu and the unilateral measures which the UK have been able to employ. DEFRA could be justifiably concerned that a trusted trader scheme could weaken this response and protection mechanism and they would be right to seek comfort in this respect.

That does not mean that trusted status cannot be applied to SPS goods (particularly fast moving EU goods) only that it needs an innovative approach. Currently all low, medium or high risk SPS import goods require at least a Simplified Frontier Declaration (SFD) at the border and an IPAFFS declaration to notify DEFRA of the imminent arrival. Taking flows arriving via Dover or Eurotunnel; those SPS goods that are selected for documentary or physical examination are directed to the BCP (Border Control Post) at Sevington and are not allowed to leave until the controls have been satisfied. DEFRA introduced a Common User Charge (CUC), despite market engagement showing that trade was very much against the idea. In addition to the CUC there are also charges levied by Ashford Port Health (APH), regardless of the control applied to the shipment at Sevington. There are no additional charges for examination as these are covered by the standard CUC and the APH fees which apply whether or not a physical inspection is required.



The charges are based on the type of product and the associated risk profile. For example, cheese made from pasteurised milk is LOW risk whereas cheese made from unpasteurised milk is considered MEDIUM risk. These risk categories have a major impact on the process and costs involved and this is precisely where the need for a better, more innovative and intuitive solution is called for.

A summary of the charges is below:-

Commodity	Risk Category	DEFRA elements		Ashford Port Health Charge (APH) elements			
		GB imports	GB transits (landbridge)	GB imports**	GB transits (landbridge)**	Fish & Aqua IUU LOW	Fish & Aqua IUU HIGH
POAO Products of Animal Origin	LOW	£10 per CHED line subject to max £50 per CHED	£10 per CHED line subject to max £50 per CHED	£10 fixed fee to verify risk category per CHED	Min £109	Min £28.00	Min £56.00
	MEDIUM / HIGH	£29 per CHED line subject to max £145 per CHED	£10 per CHED line subject to max £50 per CHED	£11 per tonne (or part thereof) fixed charge subject to minimum of 6 tonnes per CHED	Min £109	Min £28.00	Min £56.00
HRFNAO – High Risk Foods (and feed) Not of Animal Origin	HIGH	£29 per CHED line subject to max £145 per CHED	no charge	£69 fixed fee for documentary check – inspection and sampling fees may also apply	Min £109	-	-
Plants and plant products	LOW (no IPAFFS)	no charge*	no charge*	No APH charge but might be fees from APHA	No APH charge but might be fees from APHA	-	-
	MEDIUM/HIGH	£29 per CHED line subject to max £145 per CHED	no charge*	No APH charge but might be fees from APHA	No APH charge but might be fees from APHA	-	-

Importers of SPS goods and specifically POAO and HRFNAO (products of animal origin and high risk foods not of animal origin) come in all shapes and sizes. The Border Target Operating Model (BTOM) introduced the ATTS scheme (Accredited Trusted Trader Scheme) with the following associated text:

Further modules are being considered as part of the Accredited Trusted Trader Scheme, one of these will consider how supply chain data and technology already utilised by businesses could be drawn upon to provide biosecurity and public health assurances. This will build on the findings from our Ecosystem of Trust pilots.

Initially, it will be considered whether a module could be designed which draws upon environmental sensor data from devices which record the temperature, humidity and carbon dioxide levels, as well as smart seals, which can track unlocking events and location, to determine whether journey assurance evidence can be utilised as part of sanitary/phytosanitary controls.

The precise benefits associated with this module would need to be determined as part of the co-design and pilot phases, but we initially envisage a proportionate reduction in the level of checks based on the assurance secured via the relevant technology.

Over time there is scope for the technology module of Accredited Trusted Trader Scheme to be expanded, to utilise technological advancements as they become available to provide further benefits to traders, and when the Single Trade Window has full functionality.

Whilst this is a welcome development it may face implementation challenges. Since it is the process, not just the physical checks that impede trade flows, we will need to ensure that any tiered offering minimises process as well as lowering the intensity of required checks.

As it currently stands, most traders are considered the same, ie NOT trusted and the risk levels associated with SPS goods are equally binary and not specific to a particular commodity code. LOW risk is a far simpler process than MEDIUM risk so it is important to know which risk category your products fall into.

We looked at a common scenario; parmesan cheese (Grana Padano) and Reggiano – very similar looking products, both Italian hard cheeses protected by geographical provenance. The commodity code is the same for both : 0406 9061 00. Looking at the DEFRA risk categories we see that this commodity code can be either LOW or MEDIUM, depending on the type of milk used.

▼ Of a fat content, by weight, not exceeding 40% and a water content, by weight, in the non-fatty matter			
- ▼ Not exceeding 47%			
-	Grana padano, parmigiano reggiano	157.00 GBP / 100 kg	0406 9061 00
-	▼ Fiore sardo, pecorino		0406 9063
- -	Pecorino	157.00 GBP / 100 kg	0406 9063 10
- - -	Other	157.00 GBP / 100 kg	0406 9063 90

0406906100	040690	Grana padano or parmigiano reggiano, fat not >40%, water in non-fatty matter not >47%	Medium or low risk	Products of animal origin (POAO): If dairy product: If produced from non-raw milk (see note 3 on Tab 4. Reference note) or shelf stable at ambient temperature: Low. If containing raw milk and chilled/frozen: Medium. Animal by-products (ABP): For animal feed use: Medium. Uses outside the feed chain: Low	Refer to the risk category summary classification is categorised for	https://www.gov.uk/government/publications/risk-categories-for-animal-and-animal-product-imports-to-great-britain/target-operating-model-tom-risk-categories-for-animal-and-animal-product-imports-from-the-eu-to-great-britain - Click once to follow. Click and hold to select this cell.
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Having this confusion over the relationship between commodity code and risk category creates real issues on the ground. The product could be LOW or MEDIUM. If MEDIUM, an export health certificate is required – should it not be present does the broker or logistics provider assume:-

- 1 That the exporter has assessed the need and decided that it is LOW risk (not requiring an export health certificate) or
- 2 It is actually MEDIUM risk but the trader has failed to obtain a health certificate

It is dangerous to assume either and therefore requires further contact with the trader to ascertain the exact risk category and therefore the documentation required. All of this introduces cost and delay which could so easily be avoided. Better use of commodity codes (the last two digits can be used by the UK as we see fit) would prevent confusion. Grana Padano is LOW risk, Reggiano is MEDIUM – the last two digits of the commodity code could have been used to establish the differential and avoid the confusion over risk category. A consignment of Grana Padano would require an IPAFFS only and incur a £10 CUC charge and a £10 APH charge to confirm the risk level. Whereas the MEDIUM risk Reggiano would require an export health certificate (circa £200), a CUC charge of £29 and an APH fee of £66. Clearly a huge difference; £20 versus £295.

The DEFRA risk categories are also too simplistic and do not reflect the reality of trade. Better to have a staged risk score (which can be amended as risks emerge, African Swine Flu for example). Say for example LOW risk was scored at product level from 1 to 10 and MEDIUM from 11 to 20. Grana Padano might be 5 for example and Reggiano 15.

The UK has stated it has moved from a hazard-based to a risk-based approach to SPS issues, but what is being rolled out looks more like a modified hazard-based system. A genuine risk-based system would seek to understand the nature of the risk from the product, the country where it is coming from and the trader who is bringing it and would aggregate these different trust/risk levels in a composite score that properly evaluates the risk presented.

We suggest the following. *The trader should be risk-scored so that trusted status is multi-layered and not simply off or on. Each trusted trader is also given a score depending on their level of trust. The trader score, the product score and the country score can be aggregated in order to calculate an overall risk score. Suppose we have a trusted trader bringing in cheese from France on a trust scale of 1-10 where 10 represents the highest level of trust, the trader trust score is an 8, the product score is a 5, and the country score an 8. The aggregated trust score is 320. Compare this with an unknown trader bringing cheese from India. We assume a trader trust score of 2, a product score remaining at 5, and the country score of 3. Now the overall trust score has dropped to 30, clearly in the zone for higher scrutiny. This formula can be adjusted to reflect the different weightings between these three categories of trader, country and product.*

We have included this example to show the value of tiered trusted trader schemes and the ability to incorporate the tiers at the trader and individual product levels. This would be the first of its kind and immediately elevate the UK to the innovative standards-setting status that our skills and experience should offer.



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