

NZIER REPORT: The value of Authorised Economic Operators (AEOs) and Mutual Recognition Agreements (MRAs)

In 2019 the New Zealand Institute of Economic Research (NZIER) prepared two reports for Customs exploring the potential economic benefits customs agreements can bring. The reports used literature reviews as well as economic modelling and data.

The reports looked at Authorised Economic Operators (AEOs) and Mutual Recognition Agreements (MRAs).

The reports were prepared when New Zealand had six bilateral Customs agreements (Australia, China, Hong Kong, Japan, Korea and the United States). We now have eight, including Canada and Singapore.

Trust the key to mutual recognition agreements

NZIER prepared two reports for NZCS in March 2019. They showed the benefits of special Customs agreements that facilitate international trade. One report using a literature scan on these agreements globally, highlights benefits that are important but unmeasurable (Williams and Maralani, 2019a) The companion report reveals the potential economic benefits that trade economists can quantify using models and data (Williams and Maralani, 2019b)

Each special agreement is made up of two different trust relationships. One is about trust between two nations and the other is about trust between a nation's Customs agencies and its selected firms.

On the nation-to-firm level, within each nation, the authorised firms, called authorised economic operators (AEOs), are trusted by the respective Customs agencies to meet high standards of compliance with Customs procedures. The standards are set by the World Customs Organization (WCO). Each nation accepts that compliance of AEOs with Customs standards in the other nation amounts to compliance with its own Customs standards.

The reports were prepared when New Zealand had six bilateral Customs agreements (currently it has eight), called mutual recognition agreements (MRAs). The bilateral partners were Australia, China, Hong Kong, Japan, Korea and the United States. Under each MRA, the special nation-to-nation bilateral agreement extends the trust enjoyed by an AEO of one nation across to a Customs agency of the partner nation. Each nation enjoys the trust of the other for its selected trading firms.

MRAs are catalytic. Increasing the number of bilateral MRAs will increase the number of nation-to-nation links and therefore the associated supply chains for AEO trust to work over. The overall level of trust produced by each AEO firm multiplies accordingly, with no further effort of the AEO firm.

Trust is valuable. Relying on trusted partnerships reduces the duplication of authorisation and validation of Customs agencies across global supply chains. Less duplication means trade facilitation for firms and this has a sizeable potential economic benefit for New Zealand and for partner economies. More than reducing duplication, MRA-AEO agreements reduce the sheer volume of work for Customs agencies. The compliance checking employed by one nation is completed before the cargo has even left the nation of origin.

Presently, NZCS confers AEOs trusted status to selected exporters under its Secure Export Scheme (SES). NZIER's Report 1 quantifies the potential economic benefits using a global trade analysis model, in an ideal scenario where all trade is covered by MRA-AEOs.

Using a global trade analysis model and some simplifying assumptions about the amount of time saving and its value, NZIER's analysis reveals sizeable benefits. The annual and ongoing potential benefits for New Zealand are of the order of about: USD\$370 million in increased real Gross Domestic Product; USD\$450 million in increased consumer spending power; USD\$90 million in the balance of trade. Our bilateral trading partners also benefit in consumer spending power.

NZIER's model allows testing impacts of hypothetical cases, such as for the European Union joining New Zealand as an MRA partner. This type of hypothetical analysis is helpful to illustrate to NZCS the size of the benefits available when negotiating the MRA-AEOs. In the European Union case, NZIER estimates benefits for both New Zealand and the European Union of about USD \$100 million annually.

What if the MRA with the United States no longer existed? NZIER's model of hypothetical impacts estimates consumer spending power decreases in both economies by about USD\$70 million annually.

NZIER's Report 2 reveals other benefits reported in global studies that are not directly quantifiable but are recognised at several different levels. On a nation-to-nation level, there are benefits for national security since Customs agencies can be assured of compliance with security standards in global supply chains beyond their borders but connected to their own domestic supply chains. On a firm-to-nation level, being a trusted MRA-AEO is a signal of quality that can be necessary for access of trader firms to foreign licences or for inclusion in foreign government programmes. On a firm-to-firm level, MRA-AEO status can potentially become a quality standard that the world trade community will demand of its firms for assurance of security in globalised supply chains. In such a case, MRA-AEO status will confer a competitive advantage.

At the level of the individual firm, working with MRA-AEOs processes will be different to working with conventional Customs compliance processes. This will potentially mean different and higher skilled jobs for trading firms as well as different operating practices since MRA-AEOs eliminate the need for multiple verification of compliance status across the supply chain.

Unsurprisingly, New Zealand and other members of the WCO agree to actively provide *substantial, comparable and – where possible – reciprocal benefits/facilitation to the mutually recognised AEOs*. (World Customs Organisation 2018, 148). Understandably, NZCS is interested in increasing the number of MRAs as well as increasing the number of SES firms.

NZIER's Report 2 records that as of July 2018, according to the WCO (2018), globally, there were 77 operational AEO programmes and 17 non-operational programmes yet to be initiated. It also noted there were 57 concluded MRAs and 35 MRAs that are being negotiated.

References

World Customs Organization. 2018. 'Compendium of Authorized Economic Operator Programmes'.

Williams, Julian and Milad Maralani. 2019a. *Economic benefits of MRAs for authorised economic operators Part 1: Literature scan*. NZIER report to New Zealand Customs Service. March 2019.

Williams, Julian and Milad Maralani. 2019b. *Economic benefits of MRAs for authorised economic operators Part 2: Quantitative modelling report*. NZIER report to New Zealand Customs Service. March 2019.

