

**GOVERNMENT OF PAKISTAN
(REVENUE DIVISION)
CENTRAL BOARD OF REVENUE**

Islamabad, the 18th June, 2001

**NOTIFICATION
(CUSTOMS)**

S.R.O. 450(I)/2001.-¹[In exercise of the powers conferred by section 219 of the Customs Act, 1969 (IV of 1969), section 50 of the Sales Tax Act, 1990, section 40 of the Federal Excise Act, 2005 and section 237 of the Income Tax Ordinance, 2001 (XLIX of 2001), the Federal Board of Revenue is pleased to make the following rules, namely:-]

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²[**Chapter XXXII
Authorized Economic Operator Rules**

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744. Eligibility conditions and criteria for grant of AEO status.-(1) Any economic operator applying for AEO status must fulfill the following criteria in order to qualify for an AEO authorization-

- (a) have an appropriate record of compliance with customs requirements;
 - (b) have a satisfactory system of managing commercial and, where appropriate, transport records, which allows appropriate customs controls;
 - (c) demonstrate, where appropriate, proven financial solvency;
 - (d) practical standards of competence or professional qualifications directly related to the activity carried out; and
 - (e) maintenance of appropriate security and safety standards.
- (2) Eligibility to apply for AEO certificate-
- (a) any entity involved in the international supply chain that undertakes Customs related activity in Pakistan can apply for AEO status. Such entity may include³[manufacturers, importers, exporters, customs house clearing agents, brokers, shipping lines, carriers, consolidators, intermediaries, ports operators, airports operators, airlines, custodians or terminal operators, stevedores, integrated operators, warehouses, authorized couriers, ground handling agents, freight forwarders and logistics service providers]. In case of importers and exporters, at the time of filing of AEO application, annual turnover of the business must be 2.5 million USD or above while applying for gold or platinum status;
 - (b) businesses that are not involved in Customs related work or activities will not be entitled to apply. Thus banks, insurance companies, consultants and the like categories of businesses shall not be eligible for AEO status;

¹ Existing preamble substituted and shall be deemed always to have been so substituted vide SRO 831(I)/2018 dated 2nd July, 2018. At the time of substitution was as under:-

“In exercise of the powers conferred by section 219 of the Customs Act, 1969 (IV of 1969), the Central Board of Revenue is pleased to make the following rules, namely:-”

² Added vide SRO 1114(I)/2020 dated 26th October, 2020

³ Substituted for the words “exporters, importers, logistic providers such as carriers, airlines, freight forwarders, etc., custodians or terminal operators, Customs House Agents and Warehouse Owners, port operators, authorized couriers, stevedores etc” vide SRO 378(I)/2021 dated 29th March, 2021

- (c) application for AEO status will only cover the legal entity of the applicant and shall not automatically apply to a group of companies;
- (d) there is no provision to grant AEO status to specific site, division or branch of legal entity of the applicant. The application must cover all the activities and locations of the legal entity involved in the international supply chain and the prescribed criteria will be applied across all those activities and locations;
- (e) in order to apply for AEO status, the office of the applicant must be established in Pakistan. For this purpose, the applicant should provide evidence which may include-
 - (i) NTN and STRN certificates;
 - (ii) a certificate of registration issued by the Registrar of Companies;
 - (iii) details of places and locations where goods are being handled, e.g. loading, unloading, storage etc., in the course of supply to or from international supply chain; and
 - (iv) proof that the business has its own accounts;
- (f) the applicant should have business activities for at least three financial years preceding the date of application. However, in exceptional cases, on the basis of physical verification of internal controls of a newly established business entity, the Director or Collector AEO may consider it for certification;
- (g) an AEO status shall apply only to the legal entity applying for such status in its own capacity and covering only its role in the international supply chain, and will not confer similar status on its business partners or clients who will need to apply separately for that status;
- (3) Legal Compliance-
 - (a) an entity must have a clean tax profile which means that there should be no adjudged arrears during last three financial years involving serious violations of law including fraud, forgery, outright smuggling, illegal removal of goods, illegal claim of duty drawback or sales tax refunds, illegal availing of tax exemptions;
 - (b) there should be no case wherein prosecution has been launched or is being contemplated against the applicant or its senior management;
 - (c) if the quantum of disputed duty demanded or drawback demanded or sought to be denied, as adjudged under the Act other than those mentioned in clause (a) and (b) during the last three financial years, is less than ten percent of the total duty paid and drawback claimed during the same period, a review would be taken of the nature of cases and decision for eligibility may be taken by the Director or Collector AEO after taking into account all aspects and circumstances of the disputed cases.
Explanation: for clauses (a), (b) and (c) the cases where the proceedings have been dropped or decided in favour of the applicant by the adjudicating or appellate authorities shall not be considered;
 - (d) where applicable, the applicant has satisfactory procedures in place for the handling of imports and exports connected to prohibitions and restrictions including measures to distinguish goods subject to the prohibitions or restrictions from other goods and measures to ensure compliance with those prohibitions and restrictions;
 - (e) an applicant will also need to demonstrate that he has-
 - (i) procedures in place to identify and disclose any irregularities or errors to the Customs authorities or, where appropriate, other regulatory bodies; and
 - (ii) taken appropriate remedial action when irregularities or errors are identified;

- (f) once an error has been identified, the applicant is expected to take steps to ensure that they do not happen again or, at least, to ensure that they are immediately rectified if they do arise. Failure to take such steps could count against applicant;
- (g) in case of applicant being a sole proprietorship, the criteria laid down in clauses (a) to (f) shall be considered to be fulfilled if, over the last three years, the applicant and where applicable the person in charge of the applicant's customs matters have not committed any serious infringement or repeated infringements of customs legislation and taxation rules and have had no record of serious criminal offences relating to their economic activity;
- (h) in case of applicant not being a sole proprietorship, the criterion laid down in clauses (a) to (f) shall be considered to be fulfilled where, over the last, three years, none of the following persons has committed a serious infringements of customs legislation and taxation rules or has had a record of serious criminal offences relating to his economic activity-
 - (i) the applicant;
 - (ii) the persons in charge of the applicant company or exercising control over its management; and
 - (iii) the person in charge of the applicant's customs matters:

Provided that the criterion referred to in sub-rules (a) to (f) may be considered to be fulfilled where the regulatory directorate or collectorate considers an infringement to be of minor importance, in relation to the number or size of the related operations, and the customs authority has no doubt as to the good faith of the applicant;

- (i) in case the applicant entity is established for less than three years as a result of a corporate re-organization, the customs authorities shall consider the customs activities performed by the pre-existing company provided that they are unchanged;
- (j) the applicant or the person in charge of the applicant's customs matters complies with one of the following practical standards of competence-
 - (i) a proven practical experience of a minimum of three years in customs matters; and
 - (ii) the applicant or the person in charge of the applicant's customs matters has successfully completed training covering customs legislation consistent with and relevant to the extent of his or her involvement in customs related activities, provided by any of the following, namely:-
 - (A) a customs training authority providing such qualification;
 - (B) a national or foreign educational establishment recognized by the customs authorities, for the purposes of providing such qualification; and
 - (C) a national or foreign professional or trade association recognized by the customs authorities for the purpose of providing such qualification;
- (k) it should be noted that the person in charge of the applicant's customs matters can be an employee of the applicant or a contracted person. The applicant has to prove that the contracted person is actually the one in charge of the applicant's customs matters;
- (l) in case of outsourced customs activities, it is sufficient that either the applicant, the applicant's employee in charge of customs matters or contracted person fulfils the criterion. If the applicant outsources its customs activities to more than one contracted person, the criterion must be fulfilled by all of them; and

- (m) it should be noted that when the applicant has an internal office or department involved in customs matters which allows the supervision and control on the customs formalities that have been outsourced, the criterion can be fulfilled by the applicant.
- (4) Managing commercial and (where appropriate) transport records.-
 - (a) the applicant must have a satisfactory system of managing commercial and, where appropriate, transport records. To enable the regulatory directorate or collectorate to establish that the applicant indeed has such a system, the applicant shall
 - (i) maintain an accounting system consistent with Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS) which facilitates audit-based Customs control;
 - (ii) have an administrative set up which corresponds to the type and size of business and which is suitable for the management of the flow of goods and have internal controls capable of detecting illegal or irregular transactions;
 - (iii) wherever applicable, have satisfactory procedures in place for the handling of licenses and authorizations connected to export or import;
 - (iv) have satisfactory procedures in place for archiving of the company's records and information, and also for protection against the loss of information;
 - (v) ensure that employees are made aware of the need to inform the Customs authorities whenever compliance difficulties are discovered and establish suitable contacts to inform the Customs authorities of such occurrences;
 - (vi) have satisfactory procedures for verifying the accuracy of Customs declarations; and
 - (vii) have appropriate information technology security measures to protect the applicant's computer system from unauthorized intrusion and to secure the applicant's documentation;
 - (b) allow the customs authority physical access to its accounting systems and where applicable, to its commercial and transport records; and
 - (c) allow the customs authority electronic access to its accounting systems and where applicable to its commercial and transport records where those systems or records are kept electronically ⁴[to the extent deemed necessary by the regulatory Collector];
 - (d) have satisfactory procedures in place for the archiving of its records and information and for protection against the loss of information; and
 - (e) have appropriate security measures in place to protect the applicant's computer system from un-authorised intrusion and to secure the applicant's documentation.
- (5) Financial solvency-
 - (a) financial solvency shall mean a good financial standing which is sufficient to fulfill the commitments of the applicant, with due regard to the characteristics of the type of business activity. Generally, consistent profitability of a business (importers or exporters), having annual turnover of 2.5 million USD or above, will be considered financially solvent, however, there may be exceptions in certain cases when sister companies operate and consistent profitability of one business provides financial support to the related business which might not be profitable directly, but it contributes to the profitability of the other related business. For instance, a marketing company and a manufacturing company can operate as sister concerns in such a way that the marketing company only incurs expenditure while promoting sales of the manufacturing company and the considerable or consistent profits made by the

manufacturing company, then, render both sister-concern companies as financial solvent. Thus, in case of group of companies, over all model of operations and profitability needs to be observed while deciding the condition of financial solvency;

- (b) the applicant's financial solvency shall be deemed to have been met if his solvency can be proven for the last three years. If the applicant has been established for less than three years, his financial solvency shall be judged on the basis of records and information that are available;
- (c) evidence of financial solvency can be provided through any of the following, namely:-
 - (ii) a statement from the applicant's auditors or an audited report;
 - (i) a copy of their finalised accounts if the accounts have not been audited;
 - (iii) evidence from a bank or financial institution;
 - (iv) a guarantee from a parent company regarding financial support;
 - (v) a list of any personal assets that are used to support the solvency of the business;
 - (vi) official records of insolvencies, liquidations and administrations;
 - (vii) the record for the payment of customs duties and all other duties, taxes or charges which are collected on or in connection with the importation or exportation of goods during the last three years;
 - (viii) the published financial statements and balance sheets of the applicant covering the last three years in order to analyse the applicant's ability to pay their legal debts;
 - (ix) draft accounts or management accounts, in particular any interim reports and the latest cash flow, balance sheet and profit and loss forecasts approved by the directors or partners or sole proprietor, in particular where the latest published financial statements do not provide the necessary evidence of the current financial position or the applicant has a newly established business;
 - (x) the applicant's business case where the applicant is financed by a loan from a financial institution and confirmation from that institution;
 - (xi) the conclusions of credit rating agencies or credit protection associations;
 - (xii) other evidence which the applicant may provide, for example a guarantee from a parent (or other group) company that demonstrates that the applicant is financially solvent; and
 - (xiii) higher annual turnovers with consistent net profits will be an important indication that a business is financially viable and solvent; and
- (d) an applicant must be financially solvent during the three financial years preceding the date of application. The applicant should not be listed currently as insolvent, or in liquidation or bankruptcy. Further, the applicant should not have defaulted in payment of due Customs duties during the past three years. The applicants must submit an undertaking regarding its solvency and a Solvency Certificate issued by the Statutory Auditor of the applicant.

(6) Safety and security- The applicant must have in place appropriate internal controls and measures to ensure safety and security of applicant's business and supply chain, in addition to any specific legal requirements that may be applicable to the business. In order to satisfy the requirements of AEO status, the applicant shall need to ensure security of procedures, cargo, conveyances, premises, personnel and business partners. The applicant's security and safety standards shall be considered to be appropriate if the following conditions are fulfilled, namely:-

- (a) Procedural Security-
- (i) in order to ensure security of the international supply chain, the applicant must have in place appropriate internal controls and measures to ensure safety and security of procedures relating to applicant's business and his supply chain. With this view, following criteria should be fulfilled by the applicant;
 - (ii) the applicant must develop and maintain a security policy and procedure manual containing detailed guidelines on procedures to be followed to preserve the integrity of the cargo while in custody, during loading and unloading from transport conveyance and during transport. The manual should also stipulate how seals are to be controlled and affixed to cargo and transport conveyances;
 - (iii) security measures must be in place to ensure the integrity and security of processes relevant to the transportation, handling, and storage of cargo in the supply chain;
 - (iv) proper documentation of management procedure must be in place to ensure that all documentation used in the clearing of cargo is legible, complete, accurate and protected against the exchange, loss or introduction of erroneous information;
 - (v) procedure must be in place to ensure that information received from business partners is reported accurately and timely as well as declared in the time limit regulated by Customs; and
 - (vi) procedure must be in place to ensure that-
 - (A) import and export cargo are reconciled against the information on the bill of lading;
 - (B) the weights, labels, marks and piece count of the import or export cargo are accurately indicated;
 - (C) import and export cargo are verified against purchase or delivery orders;
 - (D) drivers delivering or receiving cargo are positively identified before cargo is received or released; and
 - (E) all shortages, overages, and other significant discrepancies or anomalies must be resolved or to be investigated appropriately;
- (b) premises security, in order to ensure security of the international supply chain, the applicant must ensure that the buildings to be used in connection with the operations to be covered by the certificate are constructed of materials which resist unlawful entry and provide protection against unlawful intrusion. In addition, the applicant must ensure that appropriate access control measures are in place to prevent unauthorized access to loading, unloading areas and cargo areas. The following criteria shall be fulfilled by the applicant, namely:-
- (i) buildings must be secure against unlawful entry;
 - (ii) all gates, fences and windows must be secured with locking devices or alternative access monitoring or control measures;
 - (iii) authorized personnel must control the issuance of locks and keys;
 - (iv) adequate internal and external lighting must be provided especially for entrances and exits, cargo handling and storage areas, fence lines and parking areas;

- (v) gates through which vehicles or personnel enter or exit must be manned, monitored or otherwise controlled. Vehicles accessing restricted areas must be parked in approved area and their license plate numbers furnished to Customs upon request;
 - (vi) only properly identified and authorized persons, vehicles and goods may be permitted access;
 - (vii) access to document or cargo storage areas may be restricted;
 - (viii) there should be appropriate security systems for access control;
 - (ix) restricted areas should be clearly identified;
 - (x) integrity of structures and systems must be periodically inspected;
 - (xi) perimeter fencing should enclose the areas around cargo handling and storage facilities;
 - (xii) clear demarcation within a cargo handling structure should be created to segregate domestic, international, high value and hazardous cargo;
 - (xiii) the number of gates should be kept to the minimum necessary for proper access and safety;
 - (xiv) unauthorized vehicles should be prohibited from parking in or adjacent, to cargo handling and storage areas;
 - (xv) a large manufacturer might have to have a perimeter wall or fence, security guards, and CCTV; and
 - (xvi) cameras etc. while for a customs agent operating from a single room in a building with locks on doors, windows and filing cabinets it may be sufficient to have a detailed procedure for access control including responsibilities;
- (c) Cargo security- in order to ensure security of the international supply chain, the applicant must have in place appropriate measures for the handling of goods which include protection against the introduction, exchange or loss of any material and tampering with cargo units. The following criteria shall be fulfilled by the applicant, namely:-
- (i) only properly identified and authorized persons should have access to the cargo;
 - (ii) integrity of cargo should be ensured by permanent monitoring or keeping in a safe, locked area;
 - (iii) all seals must meet the international standards for high security seals, for containerized cargo, only PAS or ISO 17712 seals shall be used, however in case of loose cargo, security seals compatible with international standards shall be used;
 - (iv) the integrity of container seals should be checked by the authorized person by following the procedure prescribed in the security policy manual;
 - (v) only authorized personnel should distribute container seals and safeguard their appropriate and legitimate use;
 - (vi) when appropriate to the type of cargo container used, a seven-point inspection process is recommended: front wall, left side, right side, floor, ceiling or roof, inside or outside doors, outside or undercarriage;
 - (vii) appropriate procedures should be laid down on measures to be taken when an unauthorized access or tampering is discovered;

- (viii) goods should be uniformly marked or stored in designated areas and procedures should exist to weigh and tally them and also to compare these against transport documents, purchase or sales orders and customs documents;
 - (ix) internal control procedures should exist when discrepancies or any irregularities are discovered;
 - (x) there must be designated areas for all stages. Goods shall not be left unsupervised outside of their designated areas; and
 - (xi) if the company uses container seals, they must be stored, handled and fixed appropriately. They shall be stored under lock and key, removal recorded, and fixed by two persons.
- (d) Conveyance security- In order to ensure security of the international supply chain, the applicant must ensure that the conveyances to be used in connection with the operations to be covered by the certificate are handled in a manner which ensures security of the cargo. With this view, the applicant shall-
- (i) ensure to the extent possible that all conveyances used for the transportation of cargo within the supply chain are capable of being effectively secured;
 - (ii) ensure to the extent possible that all operators of conveyances used for transport of cargo are trained to maintain the security of the conveyance and the cargo at all times while in its custody;
 - (iii) require operators to report actual or suspicious incident to designated security department staff of the applicant company as well as to maintain records of these reports, which should be available to the regulatory directorate or collectorate;
 - (iv) ensure that potential places of concealment of illegal goods on conveyances are regularly inspected;
 - (vi) ensure that transporters make sure that conveyance integrity is maintained while the conveyance is en-route transporting cargo to export and import points or import or transit containers by utilizing a tracking and monitoring activity log or records;
 - (vi) ensure that pre-determined routes are identified by the dispatcher, and procedures must consist of random route checks along with documenting and verifying the length of time between the loading point or trailer pickup and the delivery destinations;
 - (vii) ensure that drivers must notify the dispatcher of any route delays due to weather, traffic and re-routing; and
 - (viii) ensure that the management of transporters must perform a documented, periodic, and random verification process to ensure the logs are maintained and conveyance tracking and monitoring procedures are being followed and enforced;
- (e) Personnel security: In order to secure the international supply chain, the applicant must conduct, as far as possible, security screening of prospective employees to be employed in security sensitive positions, and carry out periodic background checks. With this view, following criteria should be fulfilled by the applicant, namely:-
- (i) all reasonable precautions must be taken when recruiting new staff to verify that they are not previously convicted of security-related, Customs or other criminal offences;
 - (ii) periodic background checks must be conducted on employees working in security sensitive positions;

- (iii) employee identification procedures should require all employees to carry proper identification that uniquely identifies the employee and organization;
 - (iv) procedures to identify, record and deal with unauthorized or unidentified persons, such as photo identification and sign-in registers for visitors etc. must be ensured at all points of entry; and
 - (v) procedures must be in place to expeditiously remove identification and access to premises and information for employees whose employment is terminated;
- (f) Business partner security: In order to secure the international supply chain, the applicant must have implemented measures to ensure a clear identification of his business partners. With this view, following criteria should be fulfilled by the applicant, namely:-
 - (i) the applicant must have written and verifiable process, including the capability of financial soundness and compliance with the safety requirement set by the contracts as well as the capability of detection and correction of safety defects, for the selection of business partners;
 - (ii) for those business partners having AEO certification, the applicant must get those business partners' copies of certification;
 - (iii) for non-AEO partners, the applicant must get written confirmation of meeting AEO equivalent security criteria. Such business partners must have one of the following written documents demonstrating their compliance with security criteria, namely:-
 - (A) contractual document;
 - (B) a completed self-assessment security questionnaire from the applicant;
 - (C) a written statement from the business partner demonstrating their compliance with AEO security criteria provided under these rules;.
 - (D) senior business partner officer attesting to compliance; and
 - (E) documents from the business partners demonstrating their compliance with and equivalent and accredited security program administered by a foreign Customs authority; and
 - (iv) periodic reviews of business partner's processes and facilities must be conducted based on risk, and must maintain the security standards required by the applicant; and
- (g) Security Training and Threat Awareness,-In order to secure the international supply chain, the applicant must ensure that its concerned employees actively participate in security awareness programmes. With this view, following criteria should be fulfilled by the applicant, namely:-
 - (i) the applicant should ensure that-
 - (A) a threat awareness program is established and maintained for employees to foster awareness of the threat at each point in the supply chain;
 - (B) employees are aware of the procedures the company has in place to address a situation and how to report it; and
 - (C) specific training is offered to assist employees in maintaining cargo integrity, recognizing internal conspiracies and protecting access controls;

- (ii) supply chain security training of employees must include the following items, namely:-
 - (A) security policy of the company;
 - (B) potential risk to internal security of the company;
 - (C) maintaining cargo security;
 - (D) access control measures of the company;
 - (E) identifying and reporting suspicious cargo and personnel; and
 - (F) conveyance management and cargo security for conveyance management personnel;
 - (iii) Records of security training must be maintained and made available for verification by the AEO Team and the Customs.
- (7) Risk based Management System
- (a) a risk based management system shall be in place, which shall allow for-
 - (i) a continual cycle of identifying needs or requirements;
 - (ii) evaluating the best means for complying with the requirements;
 - (iii) implementing a managed process for applying the selected management actions;
 - (iv) monitoring the performance of the system; and
 - (v) maintaining evidence of the application of processes used to meet business objectives, and identify functional or business improvement opportunities, including reporting mechanisms on gaps, incidental mistakes and possible structural errors;
 - (b) above aspects shall be in place within the framework of complying with the legal and regulatory requirements to which the organization subscribes or is required to comply;
 - (c) risk and threat assessment should cover all risks relevant for AEO status, keeping in mind the role of the economic operator in the supply chain and shall include, namely:-
 - (i) security and safety threats to premises and goods;
 - (ii) fiscal threats;
 - (iii) reliability of information related to customs operations and logistics of goods;
 - (iv) visible audit trail and prevention and detection of fraud and errors; and
 - (v) contractual arrangements for business partners in the supply chain; and
 - (d) the risk and threat assessment for security and safety purposes should cover all the premises that are relevant to the economic operator's customs related activities.