

Supply Chain Connectivity

Impact of Supply Chain Chokepoints and Opportunities for Private Sector Action:

<u>Chokepoint #1: Lack of transparency/awareness</u>		
<p><u>Impact on Business:</u></p> <p>85.7% of the business community feels that existing regulations create a significant barrier to trade due to increased confusion and costs, and 86.0% of respondents believed that opportunities for corruption arose from non-transparent regulations. An opportunity exists for the simplification of regulations.</p> <p>Costs associated with lack of transparency are usually carried through the supply chain and passed on to the end consumer. Transparency, in particular predictability and simplification, affects border transaction costs, time, and decisions on whether to enter a market or not. Transparency impacts multiple chokepoints, including clearance, documentation, standards and regulations, and logistics.</p>		
<p><u>What ABAC wants to see:</u></p> <ul style="list-style-type: none"> • A compendium of Acts and Regulations related to logistics of each economy in APEC for better transparency and awareness of existing laws. The compendium should be made available on single window APEC website. • A list of services operated by logistics service providers, which can be used to offer a better definition of logistics services. Without a full understanding of the scope of business, it is challenging for economies to coordinate policies to holistically address supply chain connectivity. • A study on postal reform in APEC economies and its implications. Focus on creating a level playing field for express delivery services. • Capacity building to assist in the development of single co-ordination bodies on logistics matters and benchmarking other economies with similar structures in place. • Annual Supply Chain Conference/Customs Business Consultations to illustrate how the global supply/value chain works; explore how supply chain chokepoints affect companies' decisions with respect to sourcing, investment, transportation and other logistics matters • Best practices approach on WCO SAFE Framework ARI requirements, which relate to customs information, data elements, technical transmission formats, and time frames. • Single Window APEC Tariff Database 	<p><u>What APEC has done:</u></p> <ul style="list-style-type: none"> • A general survey on advance rulings to assist in the development of a capacity building program was conducted. The results of the survey indicated a need to focus technical assistance on the issuance of advance rulings for valuation and other practices related to the use of binding rulings. • A trade policy dialogue (TPD) on <i>Advance Rulings: Increasing Certainty and Predictability in Supply Chains</i> was held on 21 September in San Francisco. The TPD was a follow up to the <i>2010 APEC Guidelines for Advance Rulings</i> and the <i>2011 Advance Rulings General Survey</i>. 	<p><u>Next Steps:</u></p> <ul style="list-style-type: none"> • Support a central database Information needs to be available in accessible locations (e.g. website) and in multiple languages to increase transparency in the APEC region. <ul style="list-style-type: none"> ○ Information needs to be available in accessible locations (e.g. website) and in multiple languages to increase transparency in the APEC region. • Support a study on the economic impact to APEC economies due to protectionist policies.

Chokepoint #2: Inefficient or inadequate transport infrastructure

Impact on Business:

USC survey responses indicated that 79.5% of respondents believe that inadequate transport infrastructure was a significant barrier to trade. Infrastructure improvements in themselves do not completely relieve frictions – improvements must be accompanied by process improvements in customs, clearance, and etc.

What ABAC wants to see:

- Policies that promote construction of road links from airports/ports into the cities
- Investment in capacity building, specifically in cross border physical linkages
- Increased focus on the roles of international aid programs and PPPs to supplement public sector investment
- Improved river transportation and river port infrastructure to facilitate international intermodal transportation, especially in inland economies.
- Improved cross-border railway systems and roads to enhance supply chain connectivity within APEC

What APEC has done:

- A Workshop on Performance Measurement of Supply Chains was held on 18 September in San Francisco with the objective to determine the status of performance measurement of supply chains within APEC organization and the situation leading to the identification of bottlenecks for an optimization of inter-regional supply chains within APEC. Experts of the OECD and World Bank shared experiences on tools they used to assess and measure connectivity, and logistics performance.

Next Steps:

- APEC economies will require \$8 trillion of infrastructure investments over the next 10 years. The private sector should be actively involved in helping the growth of PPPs that can help fund this investment by:
 - Engage with government to conduct studies of projects to maximize the chances of a successful PPP.
 - Support harmonized procedures on infrastructure finance to facilitate cross-border investments.
 - Work with development banks to guarantee PPP loans to promote private sector financing.

Chokepoint #3: Lack of capacity of local/regional logistics sub-providers.

Impact on Business:

- Many of the APEC economies do not have enough skilled logistics services workers.
- Protectionism within economies impairs competition, efficiency, and innovation.
- Larger economies have more domestic competition and therefore lower cost logistics services.
- Logistics Services costs are higher in emerging economies.

What ABAC wants to see:

- Promotion of capacity building and knowledge growth to improve IT capability, truck tracking systems, and warehouse management skills
 - Continuous mentoring and capacity building programs are required to assist local/regional logistics service providers to elevate their capabilities to meet current business requirement.
 - Encourage a dialogue for developed economies to share advanced logistics operational experience with emerging economies.
- Eased congestion of transit ports which cause unpredictable delays in trans-shipment operation from APEC economies.

What APEC has done:

- CTI agreed to a program for enhancing the capacity of APEC local/regional logistics sub-providers. The program comprised two parts:
 - a survey of the existing policy and institutional arrangements related to logistics development in APEC region; status quo of small and medium logistics enterprises and other related enterprises; constraints affecting engagement of SMEs and overall trend for development of regional logistics; and
 - a seminar including a field visit, which served as a follow-up discussion based on the findings of the survey. The seminar, including a field visit, was held on 24-25 August in Suzhou, China. Various issues constraining the logistics sub-providers were discussed, and some recommendations for further enhancing their capacity were generated from the seminar. The preliminary results of the survey were also presented in the seminar to facilitate the discussions.
 - ECSG completed an “APEC E-Trade and Supply Management Training Course which sought to introduce the latest logistic management models for SMEs through education, to identify the role of logistics supply chain management and its impact on SMEs as well as policy makers.

Next Steps:

- Support a study (possibly through ABAC) to evaluate the effectiveness of two potential methods for addressing skilled labor shortages impacting logistics: 1. Invest in educating people in the domestic economy or 2. Decrease or eliminate regulations that deter labor mobility so that foreigners can contribute skills in lacking areas.

Chokepoint #4: Inefficient clearance of goods at the border:

Impact on Business:

USC Survey indicated that 86.4% of respondents found inefficient customs clearance processes a significant barrier to trade. Clearance issues result from the complexity of documents and policies involved.

- Improvements in documentation and standards and regulations will also impact clearance.
- Digitization of documents and data will help reduce clearance issues.
- Time to clearance varies widely between APEC economies. Generally, emerging economies require more time.

What ABAC wants to see:

- Full implementation of the WCO Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures
- Implementation of an internationally accessible Single Window and AEO Mutual Recognition Schemes
 - Unified custom declaration between two economies to allow logistics services providers to declare custom at the same time for both economies in a common platform
 - Fast track Customs initiatives aimed at establishing AEO status for designated companies
 - Common AEO application/self-assessment form and verification process
- An APEC wide de minimis level. An appropriate de minimis will promote the growth of e-commerce, ease the workload for customs administrations, and facilitate trade.
- Facilitate the creation and enforcement of similar standards for regulated goods such as health and food products. Focus on educating importers and foreign exporters on safety requirements as well as working with foreign authorities in ensuring that safety standards are met.
- Advance trade data systems to expedite the processing and assessment of goods at the border.
- Establish an independent, transparent and time-bound advance binding ruling mechanism on all customs issues including classification, valuation, and ROO in FTAs.
- Implement WCO Immediate Release Guidelines in order to further accelerate the customs clearance process.
- Implementation of the WCO updated HTS codes.

What APEC has done:

- CTI discussed a proposal to establish a commercially useful de minimis value baseline for APEC. The objective of the proposal was to help further integrate supply chains by providing businesses with an additional level of predictability for low value shipments. CTI agreed to adopt a pathfinder approach to take the proposal forward. The APEC *Pathfinder to Enhance Supply Chain Connectivity by Establishing a Baseline De Minimis Value* will include a capacity building program to enhance economies' understanding of the benefits of higher de minimis values and assist economies in joining the pathfinder.
- SCCP continued to work on the development of Single Window (SW) system by 2020 and accelerate seamless data sharing between/among SW systems. SCCP organized a Regional Workshop on Single Window on 3-6 October in Chinese Taipei. The objective of the workshop was to identify the bottlenecks that APEC economies are facing in implementing SW systems.

Next Steps:

- Encourage the adoption and implementation of compatible ICT systems. Act as a source of expertise and engage with ABAC to become a resource on this topic for APEC economies.
- Support a movement towards fewer FTAs that incorporate larger groups of economies seems to be the most efficient way to address the complexities of existing FTAs.

Chokepoint #5: Burdensome customs documentation and other procedures

Impact on Business:

77.3% of respondents found burdensome documentation a significant barrier to accessing preferential trade benefits, 81.8% of respondents believed that burdensome customs documentation was a significant barrier to trade, and 90.9% of respondents found that paper-based customs systems were significant barriers.

What ABAC wants to see:

- Support for an agreement on common forms and online processing for customs clearance
- Support for initiatives related to self-certification of origin with FTA partners based on a set of common operating guidelines.
- Uniformity of documents required for shipments using multi-modes of transport.
- Streamlined procedures and elimination of unnecessary and inconsistent paperwork through interactive digitized customs platform.
- Cooperation with regional forwarders to enable seamless, efficient and cost effective door to door delivery of goods by improving the clearance of regulated goods at the border.
- AEO scheme to increase supply chain security whilst offering advantages in terms of improved efficiency by reducing burdensome customs documentation and procedures.
- Agreement that certificates of origin with non-substantive discrepancies will be sufficient for duty free claims.
- Common rules providing for blanket annual certificates of origin that are incumbent on the exporter to notify the national agency on any material change in the composition of the export product.
- Robust, uniform, and transparent dispute resolution mechanism in the event of a disagreement between the importer and customs.

What APEC has done:

- CTI/MAG successfully completed the APEC Self-Certification of Origin Capacity Building program that was adopted in 2010. Three in-economy self-certification workshops were held in Manila, the Philippines on 10-11 February; Banda Seri Begawan, Brunei Darussalam on 4-5 April and Ha Noi, Viet Nam on 28-29 July. MAG to consider in 2012 possible next steps to build on the momentum generated by these workshops, including possible use of targeted case studies.
- MAG agreed on the desirability of expanding the scope and functionality of the APEC Website on Tariff and Rules of Origin (ROOs) (WebTR).
- The electronic certificate of origin (ECO) project has been successfully implemented between two member economies since May 2010.
- ECSG held a workshop on Supply Chain Connectivity: e-Commerce as a Main Driver and Integration Tool in San Francisco on 19 September to discuss ways for improving the “soft infrastructure” of supply chain by e-commerce tools implementation.

Next Steps:

- Encourage the adoption of PCS systems across the APEC region.
- Economies have successfully realized savings and reduced documents, proving there are viable options that can be rolled out throughout the APEC region. Work towards standardization by identifying practices that can be replicated in other economies.
- Economies currently are focused on internal harmonization as opposed to cross economy harmonization, but collaborating to establish a vision for the future of the APEC region will help reduce future integration costs. Private sector should support a regional approach to a harmonized approach.

Chokepoint #6: Underdeveloped multi-modal transport capabilities

Impact on Business:

83.7% of respondents of the USC Study found inadequate capacity of multi-modal transportation a significant barrier to trade, and 86.0% of respondents believed that inadequate connectivity of multi-modal transportation was a significant barrier to trade.

- Inefficiencies in connectivity can create real costs to the transportation of goods.
- The multitude of regulations and tariffs between different economies have created a scattered mess of custom rules and trade barriers.
- Standardization is seen as a key method to remedy the issues, but standardization is a slow and difficult process. PCS and ICT systems can create a workaround.
- ICTs and PCS systems can help automate the process to meet current regulatory rules and allow companies to make better business decisions.

What ABAC wants to see:

- A harmonized legal environment for multimodal transport to ensure uniform liability regime that protects the interest of all stakeholders
- Support for aviation liberalization
- Best practices on better connectivity between marine and land.
- Regional business plans addressing identified flaws and gaps.
- Dialogues on sharing multi-modal transport experience and increased cooperation between developed and emerging economies.

What APEC has done:

- Work is underway to implement the Supply Chain Visibility (SCV) Initiative in SCSC by recommending a set of standards to APEC members for the purpose of the realization of the SCV.

Next Steps:

- Support standardization by identifying practices that can be replicated in other economies.
- Encourage the adoption and implementation of compatible ICT systems by acting as the central resource on this topic for the 21 economies.

Chokepoint #7: Variations in cross-border standards and regulations

Impact on Business:

The complexity of standards and regulations in other economies causes anxiety to businesses in emerging economies and thereby deterring participation. Those who do participate are incurring redundant costs related to compliance with requirements that are similar to those in their home economy. 77.3% of the USC survey respondents found inconsistent standards and regulations across economies to be a significant barrier to trade.

- Costs associated with product re-design, building administrative system, maintaining quality control, testing, and certification.
- Higher up-front costs related to market entry barriers and higher marginal costs related to maintaining quality standards.
- Costs related to conformity (i.e. product inspections)
- Market distortion related to pricing, causing inefficiency in resource allocation.
- Reduced capacity to innovate and adapt.

What ABAC wants to see:

- Exploration of how measures, such as faster visa issuance, can help facilitate the movement of professionals across the APEC region and establish best practices and benchmarks.
- Standardized transport regulations to prevent implementation of regulations that are counteractive to trade facilitation.
- An APEC wide MRA on international standards.
- Free movement of service suppliers to carry out repairs and support services without requiring the need to establish local presence.
- Extend the APEC Business Travel Card to include non-APEC economies
- Harmonized secure trade initiatives and supply chains security measures under the WCO SAFE Framework that reflects the appropriate balance between risk management and trade facilitation.

What APEC has done:

The following actions will be taken by 2013:

- Develop, use, or strengthen processes, mechanisms, or bodies to enable a whole of government approach in the development of regulations, including coordination across regulatory, standards, and trade agencies.
- Develop, use, or strengthen mechanisms for assessing the impact of regulations, which involves effective and consistent use of the tools and best practices for developing new regulations and reviewing existing regulations.
- Implement the principles related to public consultation of the 2005 APEC-OECD Integrated Checklist on Regulatory Reform section on regulatory policy and the 2004 Leaders' Statement to Implement the APEC Transparency Standards.

Next Steps:

- Highlight the commercial impact to APEC economies due to protectionist policies.
- The National Center has developed a publication that takes a sectoral approach to identifying a framework for regulatory coherence in APEC. This publication highlights the impact of regulatory coherence on businesses. Continued input into this document from additional companies will improve its breadth and make it more relevant to the APEC process.

Chokepoint #8: Lack of regional cross-border customs-transit arrangements.

Impact on Business:

- A lack of trust between economies results in unnecessary and redundant customs clearance procedures.
- Reducing the differences in customs clearance procedures within the region can increase the likelihood of individual economies using customs transit agreements that are standardized across multiple economies

What ABAC wants to see:

- Regulatory improvements to reduce customs procedures
- Third party arbiters of allocation of profit resulting from cross-border trade for the transit economy
- Harmonized border transit agreements among member economies to avoid conflicting and overlapping components.
- Specific queues for empty vehicles or vehicles in transit.

What APEC has done:

- At CTI1, seven impediments that companies operating in the APEC region faced in cross-border customs-transit arrangements were identified⁶. At CTI2, the Committee took note of the compilation of suggested approaches in addressing the impediments, based on industry feedback and inputs from economies⁷.
- SCCP completed a questionnaire on the treatment of transit by a non-party for application of preferential treatment, including how and which documents are required for this compliance at the customs administration of the importing economy.
- CTI took note of the progress in developing a set of Customs-Transit Guidelines for APEC FTAs and looks forward to its completion in 2012. The objective of the guidelines is to develop a common understanding (not only for APEC Customs Administrations but also for trade operators), concerning the most suitable way of regulating direct transit of goods with a view to claiming preferential tariff treatment.

Next Steps:

- Promote standardization - this will help decrease the differences between economies and move them towards a unified set of procedures.
- Work towards standardization by identifying practices that can be replicated in other economies.