

Suggested Framework for the Phase Two of Supply-Chain Connectivity Framework Action Plan (SCFAP) 2017-2020

Introduction

1. The Supply-Chain Connectivity Framework Action Plan (SCFAP) 2010-2015 focused on eight chokepoints that were considered important in establishing efficient and robust supply chain connectivity. The eight chokepoints are as follows:

- i. Lack of transparency/awareness of the full scope of regulatory issues affecting logistics; Lack of awareness and coordination among government agencies on policies affecting logistics sector; Absence of single contact point or champion agency on logistics matters;
- ii. Inefficient or inadequate transport infrastructure; Lack of cross border physical linkages;
- iii. Lack of capacity of local/regional logistics sub-providers;
- iv. Inefficient clearance of goods at the border; Lack of coordination among border agencies, especially relating to clearance of regulated goods “at the border”;
- v. Burdensome procedures for customs documentation and other procedures (including for preferential trade);
- vi. Under-developed multi-modal transport capabilities; inefficient air, land, and multimodal connectivity;
- vii. Variations in cross-border standards and regulations; and
- viii. Lack of regional cross-border customs-transit arrangements.

2. In summary, the eight chokepoints include essential actions to improve global and regional supply-chain connectivity.

3. In the APEC Policy Support Unit’s (PSU) “APEC Supply Chain Connectivity Framework Action Plan 2010-2015: Final Assessment”, it was noted that “the common challenges in implementing SCFAP activities, and achieving the 10% target, are related to insufficient infrastructure, lack of information and consistency, and institutional problems.” The assessment also pointed out that there also “exist opportunities for collaboration and information sharing, and for harmonizing and standardizing regulatory practices to help overcome the obstacles.”

4. Senior Officials initiated preparations for Phase Two of SCFAP during MRT 2016, drawing on previous APEC experience of improving supply chain efficiency in terms of time, costs and uncertainty in the last five years. The second phase of SCFAP aims to refocus and deepen work in chokepoints where additional improvements can be made on time, cost and uncertainty.

5. This note will propose the overarching goal and key chokepoints/pillars for establishing the framework of SCFAP in the next phase from 2017 to 2020.

Overarching Goal

6. The first phase of SCFAP highlighted the importance of improvements in time, cost and certainty for traders and business in running their respective supply chains across the globe. The World Economic Forum (2013) noted that as merchandise goods flow across borders

multiple times, the impact of supply chain barriers are magnified such that reducing these supply chain barriers to trade have the potential to increase GDP by nearly 5% (USD 2.6 trillion) and exports by 15% (USD 1.6 trillion).

7. The Trade Facilitation Agreement (TFA), initiated by the World Trade Organization in 2013, highlighted the importance of trade facilitation in reducing trade costs, particularly in the area of customs and border management.

8. APEC's SCFAP similarly targets areas such as border and customs issues, as well as other business concerns covering logistics and transportation infrastructure. In particular, some chokepoints in the SCFAP (chokepoints iv, v and viii) have similar focus with the TFA on expediting the movement, release and clearance of goods.

9. Indeed, issues of trade costs, connectivity and logistics are considered to be of particular importance for business in maintaining their competitive edge while ensuring the security and reliability of their supply chains.

10. The APEC Leaders agreed in 2014 in the *APEC Connectivity Blueprint for 2015-2025*, that

"We will further strengthen the initiatives under the APEC SCFAP by systematically improving supply chain performance through implementing a capacity building plan to assist economies in overcoming specific obstacles within the eight chokepoints of the SCFAP".

11. With the above considerations, the following overarching goal of SCFAP Phase Two is proposed:

"To reduce trade costs across supply chains and to improve supply chain reliability in supporting the competitiveness of business in the Asia Pacific region"

12. To achieve the above overarching goal, APEC should focus especially on the following chokepoints or pillars. Each chokepoint or pillar may include specific indicators which would be relevant to assess the performance of work under the respective chokepoint or pillar.

1. Lack of Coordinated Border Management and Underdeveloped Border Clearance and Procedures

13. Border management and underdeveloped border clearance and procedures remain at the core of trade facilitation, and more work can be done to reduce the time and cost affiliated with trade in APEC. Efforts should also be made to help APEC economies to implement the TFA.

14. An important part of the trade facilitation agenda is to lower operating costs for businesses through the reduction of overlapping regulations and administrative red tape in the cross-border movement of goods and services, while not compromising the regulatory objectives.

15. The rise of global value chains in the recent decade has exerted pressures on border agencies to ensure the safest security level for cross-border trade while at the same time pursuing the goal of trade facilitation.

16. These border agencies are subject to internal pressures such as "financial and staffing limitations, problems of intra-agency and inter-agency cooperation and information exchange,

non-transparent legislation, increasing procedural requirements, revenue pressure, and rising demands from the private sector.”¹

17. Increased cross-border flows of goods, combined with limited resources and growing expectations for improved facilitation necessitate enhanced coordination between intra- and inter-governmental border agencies, leading to the concept of the Coordinated Border Management (CBM).

18. In addition to CBM, modernization of customs and other border agencies through further application of e-governance will increase the level of interconnectedness among border agencies as well as between border agencies and business; both within and across borders. This multi-connectedness approach will provide transparent services to businesses and consumers by allowing reductions in transaction costs through sharing of cross-border data flows; thus ensuring security and visibility across the supply chains.

19. The following activities could be considered under this pillar:

- Expand the application of TRS (Time Release Survey).
- Strengthen the e-payment system.
- Expand Mutual Recognition Arrangement (MRA) of Authorized Economic Operators (AEO) between APEC economies.
- Harmonise cargo treatment standards to increase biosecurity assurance and facilitate trade.
- Identify all border agencies and their respective forms and documents affecting import and export.
- Leverage Global Data Standards (GDS) in coordinated border management to ensure improved visibility across APEC supply chains
- Maintain an electronic system for clearing goods at the border that can adapt to future technologies regarding online/electronic forms including by adopting state-of-the-art ICT technology and Digital Customs.
- Maintain an open and transparent dispute settlement mechanism with published timelines and procedures for arbitrating disputes between importers and customs agencies in line with respective domestic laws and regulations of members.
- Conduct capacity building for customs officers.
- Promote the establishment of the National Committee on Trade Facilitation in each member economy to implement the Trade Facilitation Agreement.
- Promote greater inter-agency dialogue and interaction among border agencies on trade facilitation and border control, which may be achieved through the establishment of a border coordination unit or authority.
- Share experiences on appeals and reviews including procedures, and transparency.
- Strengthen the implementation of the Single Window by member economies and to work towards international Single Window interoperability.

2. Inadequate Quality and Lack of Access to Transportation Infrastructure and Services

¹ Doyle, T 2011, ‘The future of border management’, in G McLinden, E Fanta, D Widdowson & T Doyle (eds), Border management modernization, IBRD/World Bank, Washington, DC

20. Transportation infrastructure quality will determine the efficiency and reliability of supply chain operations. Good port facilities enable firms to send their goods at the required time as demanded by their business partners and customers. Additionally, better connected port networks will ensure short transit times and reliable delivery schedules at reasonable costs.

21. Among developed and developing APEC economies, there are still gaps in terms of the quality of transportation infrastructure which would affect the level of transportation services provided. Furthermore, developed and developing APEC economies each face unique challenges. For advanced economies with already sophisticated transportation infrastructure, issues of high operational costs (such as wages) are often cited. For developing economies with inadequate transportation infrastructure, problems of congestion and reliability are of high priority.

22. Greater private sector participation in infrastructure finance is critical. It is important for APEC to focus on capacity building and technical assistance targeted in areas that: 1) will have a strong impact on the ability of economies to overcome obstacles and to build competitiveness through improved infrastructure; and 2) are achievable through public and/or private interventions.²

23. The regulatory environment will also affect the cost of transportation services. A study by PSU (2011) finds that a shift towards full liberalisation for all APEC economies has the potential to reduce maritime freight rates by around 20% on average.

24. The following objectives could therefore be considered under this pillar:

- Study public-private partnership models in exploring new paths for funding future regional infrastructure.
- Examine and analyze ways to reduce corruption, such as through automation of government processes and reducing duplicative approvals in infrastructure investment and implementation processes to ensure high-quality infrastructure projects are developed across APEC economies.
- Establish an electronic data exchange network between ports and port/logistics operators and their collaboration, such as but not limited to the Asia Pacific Model E-port Network (APMEN).
- Raising the profile of maritime trade route safety and security within APEC forums.
- Promote capacity building efforts on quality infrastructure.
- Share experiences and best practices in enhancing capacity of multi-modal transportation.

² Transport Infrastructure Along APEC's Critical Supply Chains: Analysis for Informed Capacity Building, The World Bank Development Economics Research Group, February 2014

3. Unreliable Logistics Services and High Logistical Costs

25. In a competitive trade environment, businesses integrated into the global supply chain seek not only low costs but also a host of sophisticated logistical services: careful handling of goods in cold storage chains, certification of product quality, and security from theft – just to name a few.

26. Economies' trade competitiveness in the global supply chain is determined by the quality of logistics and transport infrastructure available to traders.³ Poor access to international markets is often due to high logistical costs. Additionally, inefficient service delivery and logistics providers cause firms to maintain larger inventories resulting in higher warehouse and inventory costs – adding excessive spending in the supply chain.

27. Better connectivity in multi-modal transport and procedures could improve logistics services through supporting seamless and trackable movement of containers between different modes of transport across geographical regions.

28. To improve logistics performance in developing economies, there is also a need to improve the capacity of SMEs, particularly in applying relevant ICT technology which can enhance the logistics services they provide, as well as their operational efficiency.

29. The following objectives could be considered under this pillar:

- Strengthen the use of e-payment systems to provide more flexibility for MSMEs in logistics and combat corruption in the public sector.
- Consider growing MSMEs' awareness and participation in capacity building activities in the logistics sector.
- Consider the role of logistics services in transportation and multimodal infrastructure investment planning.
- Provide specific workforce development programs for transport and logistics skills training.
- Enhance roles of logistics services in multi modal transportation investment.
- Provide capacity building programs for the member economies in logistics and transportation sectors.
- Further APEC Cooperation Network on Green Supply Chain (GSCNET) to improve green efficiency of supply chain in the Asia-Pacific region

4. Limited Regulatory Cooperation and Best Practices

30. To promote better regulatory cooperation, several lessons from APEC's recent Good Regulatory Practice (GRP) seminar should be considered. The seminar highlighted the importance of public consultations to assess proposed and existing trade regulations as well as the value of improving the accessibility and content of single online location for business users.⁴

³ Carruthers, Robin; Bajpai, Jitendra N.. 2002. Trends in trade and logistics: an East Asian perspective. East Asia Region Transport Sector (EASTR) working paper; no. 2. Washington, D.C.: The World Bank.

⁴ Bureau of Philippine Standards, Department of Trade and Industry, Philippines. 2016. *8th Conference on Good Regulatory Practice*, Asia-Pacific Economic Cooperation.

31. The following objectives could be considered under this pillar:
- Provide timely and accurate information on rules and regulations impacting import and export activities including through the APEC Trade Repository.
 - Ensure procedural and regulatory transparency in the development of trade-related policies.
 - Share practices of procedures for soliciting, collecting and considering public comments.
 - Share practices for an appeals system that is accessible, transparent, and accountable for all stakeholders including foreign stakeholders.
 - Create or update practical guides in one of the three languages of the WTO on importing, exporting, and transit for an economy's territory so that traders, especially MSMEs can become familiar with the rules and procedures. This could be uploaded to the APEC Trade Repository.
 - Make available suggestion and query mailboxes via the internet, providing answers within an expanded and convenient timeframe thus allowing users from different parts of the region to access and obtain a reply at the earliest.

5. Underdeveloped Policy and Regulatory Infrastructure for E-Commerce

32. The rise of e-commerce is a growing trend that could radically change the structure of conventional global value chains. While global business-to-customer (B2C) is still around 8% of the value of global business-to-business (B2B), the trend for B2C trade is expected to expand rapidly.

33. The rise of e-commerce also allows further fragmentation of supply chains, with digital platforms encouraging new entrants to join the market due to lower transaction costs. It can also bring job creation in the information and communications technology (ICT) sector and in local firms that gain access to online sales. These benefits are particularly significant for MSMEs.

34. However, new challenges, such as heightened (payment) security risks that come with trading on a digital platform, could arise as well.

35. The following objectives could be considered under this pillar:
- Reconcile existing trade regulations with the novel movement of goods via e-commerce.
 - Create access to reliable and accessible shipping options for MSMEs by promoting a fast and efficient environment for Expedited Shipments.
 - Establish streamlined customs clearance procedures for e-commerce, notably based on accurate and timely advance information provided by the operators, and providing convenient, low-cost, secure, swift, round-the-clock customs clearance.
 - Ensure consumer protection, privacy protection, commercial fraud control, IPR infringement elimination, and cyber security.
 - Counter against organized criminal activities.
 - Promote on-line transactions through improved regulations and market supervision, and secure and convenient payment services.
 - Promote MSMEs participation into global e-commerce.

- Promote work on streamlining custom procedures and duties in line with the APEC Boracay Action Agenda to Globalize MSMEs and the Trade Facilitation Agreement, .
- Promote customs implementation in line with the WCO Immediate Release Guidelines and to apply the similar principles to non-Customs border control.

Cooperation with other APEC fora and the private sector

36. The second phase of the SCFAP should promote greater cooperation with other APEC fora where trade facilitation- related work is being pursued such as the Sub-Committee on Customs Procedures (SCCP), Sub-Committee on Standards and Conformance (SCSC), Electronic Commerce Steering Group (ECSG), Telecommunications and Information Working Group (TELWG), Ad Hoc Steering Group on the Internet Economy (AHSGIE), Transportation Working Group (TPTWG) and Economic Committee (EC), among other groups. This will engender a more inclusive approach towards trade facilitation. In addition, the second phase should continue to engage the private sector, in particular Micro, Small and Medium Enterprises (MSMEs), in APEC economies to ensure that the SCFAP remains relevant to industry needs. Toward this end, the second phase of the SCFAP should include an annual exchange with the private sector on work being undertaken on the SCFAP.

Next Steps

- Leaders to endorse the framework for Phase Two of Supply-Chain Connectivity Framework Action Plan (SCFAP) 2017-2020 at AELM.
- APEC Vietnam 2017 to implement the second phase through: (i) better understanding the continuing challenges and problems in each chokepoint; (ii) setting specific targets for each chokepoint; (iii) identifying the methodology and indicators for the measurement for each chokepoint; and (iv) creating concrete action plans for each chokepoint.
- To achieve the above, Vietnam will organize a Public Private Dialogue on Furthering SCFAP on the sidelines of SOM1 in 2017. Future work will begin based on the concrete action plans developed during/post dialogue, building on past initiatives undertaken in APEC.