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Trade Facilitation and Security

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1. Trade facilitation and transaction costs

Trade facilitation is quite relevant to business and has a direct effect thereon. Businesses are devoting all their efforts to the reduction of costs in order to provide customer with better products at the cheapest possible prices. However, there is a limit to the cost reduction that can be carried out only efforts of a company. Trade facilitation measures enhance cost reduction of the private sector.

There are two types of transaction costs. One type is based on governmental regulations and/or procedures, and the other type is based on contracts between private companies. Government-related transaction costs include these for custom duties, customs inspection, port charges, and port storage. Transaction costs based on commercial contracts include these for freight, marine insurance, handling charges, drayage, and L/C commissions. UNCTAD estimates that transport charges are between 7 % and 12% cent of import value. Compared with the costs based on contracts between private enterprises, government-related costs are not easy to reduce, because there is no market mechanism involved.

APEC Economic Leaders endorsed the APEC Principles on Trade Facilitation that aims to reduce transaction costs in the region by 5% by 2006. The Leaders also committed to taking counter-terrorism actions in their statement made in Shanghai.

Trade facilitation generally refers to “simplification” and “harmonization”; however, “transparency” is basic principle underlying trade facilitation. Transparency is a critical component in promoting a robust business climate because it enables the private sector to conduct business in a predictable and reliable environment and reinforces the reduction of business costs. Therefore, we count on rule setting of trade facilitation under the auspices of the WTO.

We also believe that securing a peaceful and stable business environment is indispensable for economic activities. The dual goals of trade facilitation and security contribute to ensuring growth and improving public confidence in government. Trade facilitation and security are not in competition. Both are vital.

However, there are growing concerns in the business community that increasing security may impede the facilitation of trade. Heightened security may increase business costs as companies spend more to comply with the new system.

2. Movement of goods

The OECD (Organisation for Economic Co-operation and Development) has reported that new maritime security measures will cost the global shipping industry at least \$1.3 billion to implement and will increase subsequent annual operating costs by \$730 million.

The figures relate solely to new staff and equipment requirements for shipowners and shippers, without taking into account the cost of implementing tighter shore-side security in ports and terminals.

The OECD has examined the costs associated with the security measures

adopted at the Maritime Safety Committee of the International Maritime Organization (IMO) that was held last December. The IMO's security measures include changes to the Safety of Life at Sea (SOLAS) Convention that address ship security and a new International Ship and Port Facility Security Code (ISPS Code). The Code contains detailed security-related mandatory requirements for governments, port authorities, and shipping companies that will come in to force on July 1, 2004.

Recently, a Japanese newspaper reported that the Ministry of Land, Infrastructure, and Transport requested local governments that manage ports and harbors to estimate initial costs necessary to comply with the ISPS Code. This resulted in a total estimated amount of almost US\$2.5 billion for 140 ports and harbors. Regardless of frequencies of passenger/cargo vessels, all the ports and harbors that have facilities beyond a certain capacity are applicable.

The problem is that neither central nor local governments have large enough budgets to cover the costs. Concern that costs will be passed on to exporters through shipping companies is growing.

The estimation of the OECD does not take into account certain security measures, such as a set of rules on maritime security imposed by the United States Customs Services.

The United States Customs Services (the current Bureau of Customs and Border Protection) has imposed a so-called "24 hour rule." The rule requires carriers and/or NVOCCs to submit a cargo declaration electronically 24 hours before a container is to be loaded on board a vessel bound for the United States. This 24-hour rule became effective on December 2, 2002, and became fully effective and enforced on February 2, 2003.

In order to comply with the 24-hour rule, Japanese shipping companies have increased the number of staff members at their documentation sections and modified computer systems. Some shipping companies have increased staff 10% at their documentation sections for submission of shipper's cargo data

through the AMS (Automated Manifest System).

As a result, major Japanese shipping companies require shippers and forwarding agents to submit cargo data 72 hours prior to loading so that shipping companies can present cargo data to U.S. customs 24 hours prior to loading.

In order to ensure that a shipper/forwarding agent submits cargo data to a shipping company 72 hours prior to loading, considerable countermeasures are undertaken. These include inventory accumulation, outsourcing of documentation, changes in production schedule, and staff increases. These countermeasures have increased the costs of legitimate companies considerably.

In addition, all shippers exporting goods to/via the U.S. have been required to pay US\$25 in an advanced submission surcharge per bill of lading by shipping companies. The said US\$25 fee has been agreed upon and imposed due to the extra workload of the member companies of the Trans-Pacific Stabilization Agreement (TSA), including 13 major shipping companies worldwide. The OECD report estimates the potential burden imposed on carriers by this rule to be approximately \$281.7 million per year (11,268,000 TEUs imported by sea in 2001 multiplied by \$25).

We also must take it into consideration that some new security measures will be implemented in the near future.

Shortly after the OECD had publicized its report, the U.S. Bureau of Customs and Border Protection issued proposed regulations regarding the advance reporting of cargo information for all modes of transport, including maritime, air, truck, and rail, for both inbound and outbound cargo.

Even though the U.S. proposal reflects a number of business comments given regarding an original proposal, we remain concerned that the proposed regulation could have a major economic impact on all member economies in

terms of achieving the Trade Facilitation Goals of APEC.

In addition, the EU is considering the implementation of a 24-hour advance maritime cargo reporting requirement prior to entering the EU. It is not certain if the EU is considering the same security system that the United States proposed. It is not confirmed yet, but we have heard that Korean government is considering implementing a 24-hour rule.

If each economy were to implement a different security system, it would entail significant new expenses for companies. Unified efforts to harmonize security systems among economies are urgently necessary.

Regarding movement of goods, although we think that there is no decisive measure that could drastically reduce transaction costs while maintaining security, we recommend to APEC Economic Leaders the following actions to achieve the dual goals of trade facilitation and security.

First, develop a single-window system that covers all import and port-related procedures. The coexistence of manual procedures negates the effects of electronic procedures. The system must adopt standardized and simplified common data elements and formats.

In order to optimize the system as a whole, the government must eliminate vertically divided administrative functions and develop a grand design through a complete review of current trade-related procedures handled by various government agencies. Keeping unnecessary, complicated, and overlapping procedures has an adverse effect. Even if information technology is applied, cost reduction cannot be achieved unless existing administrative procedures are simplified or standardized. It is also necessary to abolish some requirements.

New security measures may trigger the development of a single-window system, and thus promotes paperless trading. However, this represents the greatest challenge for SMEs that do not have enough human resources who can fully

utilize the new technology. In order to optimize participation to the system, the system must be user-friendly and offer services at affordable prices.

Second, develop and adopt advanced risk management methodology in order to control high-risk goods, facilitate the movement of low-risk shipments, and minimize physical inspection. We recommend that all governments adopt the concept of the “authorized operator” which, based on certain risk management criteria, would allow the expeditious clearance of goods by customs authorities.

Third, publicize updated trade-related procedures, laws, and regulations, including those regarding customs clearance and quarantine, to improve transparency, reduce business costs, and expand trade. This would contribute to improving the business environment for SMEs.

3. Movement of businesspeople

The APEC Trade Facilitation Action Plans endorsed by the APEC Economic Leaders include actions and measures to streamline and standardize procedures to enhance business mobility. APEC Economic Leaders also endorsed advance passenger information system as one of pathfinder initiatives. This aims to enhance the use of information and communications technology (ICT) to facilitate the movement of people across borders, taking into account the Leaders’ Statement on Counter Terrorism.

In order to cover the costs associated with tightened security measures, “Security Charge” has been imposed to a passenger departing from airports in Canada (CAD24.00), Hong Kong (HKD13.00), Singapore (SGD6.00), and the United States (USD2.50). In addition, airlines imposed around \$5 security insurance surcharge to a passenger.

Airlines also have been paying considerable costs to comply with security requirements of their home governments and destinations. There will be no prospects that their burdens for aviation security expenses will decrease.

We are also aware that seven economies, namely Australia, Canada, Korea,

Japan, Mexico, New Zealand, and the United States, require airlines to obtain passenger information and report to immigration authorities through APP or APIS. Required data elements of passengers are not standardized between different economies.

We recognize that a number of pilot projects have been carried out in several APEC member economies and outside the region. One such example is the “Simplifying Passengers Travel Program” of the International Civil Aviation Organization (ICAO) that utilizes biometrics as a means of identification for border control. Several economies, both within and beyond the region, are planning to introduce passports fitted with an IC chip containing biometrics data of the holder.

Any system lacking in unity will impede the streamlined movement of businesspeople, while raising business costs. APEC member economies should develop a unified immigration control system that utilizes biometrics in cooperation with economies outside the region so that procedures and standards will be interoperable worldwide.

We also recommend that APEC develop risk-based standards to screen travelers that enable expeditious border control for legitimate business travelers and more effective use of limited immigration authority security resources.

4. Conclusion

In conclusion, we request APEC member economies to advance counter-terrorism measures featuring significantly enhanced cooperation in terms of policymaking among the member economies. This should be done in a manner that does not hinder legitimate commerce, but facilitates trade through improved transparency and efficiency.

As long as the present security level is required, the burden on companies will not decrease. Member economies should make concerted and united efforts to

develop measures that reward the efforts of legitimate companies that are paying considerable costs.

Although discussions on security and anti-terrorism measures are also important, we urge APEC to listen seriously to the voice of the private sector and devote sufficient time to exploring measures to liberalize and facilitate trade and investment. APEC should go back to basics. Efforts should be concentrated towards the achievement of the Bogor Goals.