

SECTION 2 – Supply Chain Inter-Firm Networks and Collaboration

AN OPERATIONAL PERSPECTIVE TO BORDER MANAGEMENT REFORM

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ABSTRACT

Purpose: Border management reform and trade facilitation are topics of growing interest in international trade policy, development aid, trade and customs moderations, and supply chain security. Much of the international debate is focused on the implementation of international trade facilitation recommendations and instruments. This paper introduces the operational perspective as an alternative source for border reform stimulus.

Design / approach / methodology: The paper builds on the author's first hand practitioner experience as Deputy Director at SITPRO (the UK trade facilitation agency) and Secretary at EUROPRO (the umbrella body for European trade facilitation bodies). It also integrates various pieces of commissioned work and academic research by the author into one concept paper.

Findings: The author argues that despite the current policy momentum, the interests of actors, institutional limitations, and lack of knowledge constitute formidable obstacles to border management reform.

Research limitation / implications: Although border management reform and trade facilitation are now established agenda items in trade and customs policy circles, the topic remains under-researched. The paper hopes to raise awareness about the topic and stimulate academic enquiry.

Practical implications: Active academic enquiry can help overcome the lack of knowledge, one of the main obstacles to border management reform and trade facilitation.

What is original / value of paper: The paper proposes an operational perspective to border management reform, which currently is predominantly described in terms of international trade facilitation recommendations.

Keywords: Border management reform, trade facilitation, operational perspective

CONTEXT

Over the last few decades the nature of international trade operations has changed by leaps and bounds. Innovations in transport, information and communications technologies as well as the liberalisation of trade tariffs and finance have brought to life a global production structure (e.g. Dicken 2003) that is highly dependent on international trade operations. This trend firmly places cross-border operations at the centre of supply chain management (Grainger 2007). A frequent complaint amongst businesses – when interfacing with regulatory authorities at the national border – are excessive documentation requirements, lack of use of information technology and automation, lack of transparency in requirements and objectives, inadequate procedures and operating practices as well as lack of modernisation. Trade compliance costs, when compared to falling tariff levels, increasingly appear to be disproportionate (Grainger 2007). Costs may be directly attributable to collecting information and submitting declarations, or an indirect consequence in the form of delays and associated time penalties, forgone business opportunities, and reduced competitiveness (OECD 2003).

The topic of trade facilitation is about improving the trade environment through border management reform and to achieve a reduced operational burden on businesses as well as increase the control efficiency of regulatory agencies. Topical issues include the World Trade Organisation's Doha Trade Round where, irrespective of failed negotiations, prospects for agreement on trade facilitation remain strong. Linked to GATT Articles V, VIII, and X – covering the freedom of transit, fees, and formalities as well as publication and administration of trade

regulations – trade facilitation is usually viewed as a relatively uncontentious issue. The economic prize for agreement on trade facilitation is held to be high; for example, the OECD calculates that each 1% saving in trade-related transaction costs yields a worldwide benefit of US\$43 billion (OECD 2003). Between 2002 and 2005, donors committed an average of US\$21 billion per year on more narrowly defined aid-for-trade projects. Grants and loans to trade facilitation specific projects have increased from US\$101 million in 2000, to US\$391 million in 2006 (OECD and WTO 2007). Individual national and regional trade and customs modernisation initiatives – such as the EU’s eCustoms initiative (TAXUD/477/2004) or ASEAN’s commitment to interoperable trade systems (ASEAN 2005) – have budgets with equally high sums.

Trade facilitation has also come to prominence within the area of supply chain security, where it is generally seen as a means to soften the additional regulatory burden associated with the avalanche of new security and safety-focused regimes. In most countries a long list of security and safety-related procedures (often overlapping) can be identified. For example, in the United Kingdom, SITPRO and Grainger (2008) count a total of 37 safety and security procedures that impact on the efficient movement of goods. The more recent initiatives, such as the Authorized Economic Operator (AEO), the ISO 28000 system, the USA’s Customs and Trade Partnership Against Terrorism (CTPAT), and the USA’s Container Security Initiative (CSI) focus on the entire supply chain and seek to identify security risks before goods are moved. Underlying these new security initiatives is the desire by government agencies (such as customs administrations) to make efficient use of finite enforcement resources, to enhance controls at the border, and ensure that wealth-generating trade continues while extending controls up and down the supply chain (Grainger 2007).

Today, about 18 themes that define the content of trade facilitation debate can be observed [Figure 1] (Grainger 2008). Organisations such as UN/CEFACT and the World Customs Organisation, amongst others, have been particularly active in defining trade facilitation instruments and recommendations. The subsequent list of prescriptive international trade facilitation recommendations and instruments is long [Figure 2]. Bodies with a development or capacity building orientation – such as the World Bank, UNCTAD, APEC, UN ESCAP as well as numerous donors – have also actively contributed to the debate by developing or commissioning a small number of survey tools (e.g. UN ESCAP 2004; Raven 2005; Widdowson and World Bank 2007).

| Figure 1. Trade Facilitation Concepts: a practitioner's observation (Grainger 2008) | |
|---|---|
| <p>Better regulation:</p> <ol style="list-style-type: none"> 1. Simple rules and procedures 2. Avoidance of duplication 3. Memoranda of Understanding (MoUs) 4. Alignment of procedures and adherence to international conventions 5. Trade consultation 6. Transparent and operable rules and procedures 7. Accommodation of business practices 8. Operational flexibility 9. Customer-service provisions for government administrations 10. Mechanisms for corrections and appeals | <ol style="list-style-type: none"> 11. Fair and consistent enforcement 12. Proportionality of legislation and control to risk 13. Time-release measures 14. Risk management and trader authorisations <p>Information and communication technology:</p> <ol style="list-style-type: none"> 15. Standardisation of documents and electronic data requirements 16. Automation 17. International electronic exchange of trade data 18. Single Window |

Figure 2. International Trade Facilitation Recommendations and Instruments (adapted from: UN/CEFACT and UNCTAD 2002; Grainger 2007)

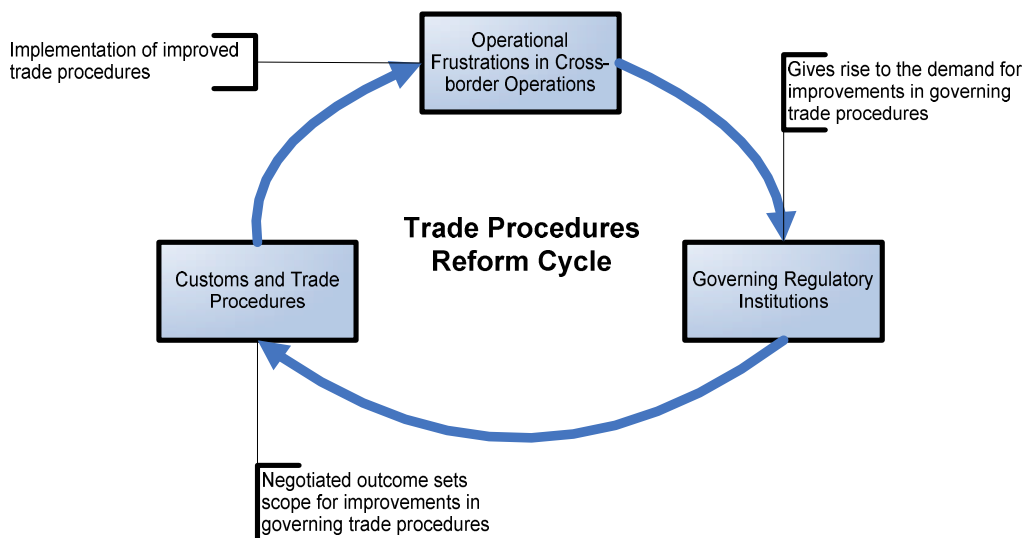
| International Trade Facilitation Recommendations and Instruments | |
|---|--|
| <p>World Trade Organisation (WTO) Trade Facilitation Specific Articles: GATT Article V (freedom of transit), GATT Article VIII (fees and formalities) and GATT Article X (publication and administration of trade regulations) Customs Valuation: GATT Article VII (technical interpretation covered by the WCO) WTO Agreement on Rules of Origin (technical interpretation of 'non-preferential rules of origin' covered by the WCO)</p> | |
| <p>World Customs Organisation (WCO) Kyoto Convention for Harmonising Customs Procedures; WCO Harmonised Commodity Code Descriptions and Coding System (HS System); Framework of Standards to Secure and Facilitate Global Trade (SAFE);</p> | |
| <p>United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) Rec. N°1: United Nations Layout Key for Trade Documents; Rec. N°. 2: Locations of Codes in Trade Documents; Rec. N°. 3: Code for the Representation of Names of Countries; Rec. N°. 4: National Trade Facilitation Bodies; Rec. N°. 5: Abbreviations of INCOTERMS; Rec. N°. 6: Aligned Invoice Layout Key for International Trade; Rec. N°. 7: Numerical Representation of Dates, Time and Periods of Time; Rec. N°. 8: Unique Identification Code Methodology – UNIC; Rec. N°. 9: Alphabetic Code for the Representation of Currencies; Rec. N°. 10: Codes for the identification of Ships; Rec. N°. 11: Documentary Aspects of the Transport of Dangerous Goods; Rec. N°. 12: Measures to Facilitate Maritime Transport Documents Procedures; Rec. N°. 13: Facilitation of Identified Legal Problems in Import Clearance Procedures; Rec. N°. 14: Authentication of Trade Documents by Means Other than Signature; Rec. N°. 15: Simpler Shipping Marks; Rec. N°. 16: LOCODE - Code for Trade and Transport Locations; Rec. N°. 17: PAYTERMS - Abbreviations for Terms of Payment; Rec. N°. 18: Facilitation Measures Related to International Trade Procedures; Rec. N°. 19: Code for Modes of Transport; Rec. N°. 20: Codes for Units of Measure Used in International Trade; Rec. N°. 21: Codes for Passengers, Types of Cargo, Packages and Packaging Materials; Rec. N°. 22: Layout Key for Standard Consignment Instructions; Rec. N°. 23: Freight Cost Code – FCC; Rec. N°. 24: Trade and Transport Status Codes; Rec. N°. 25: Use of the UN Electronic Data Interchange for Administration, Commerce and Transport Standard (UN/EDIFACT); Rec. N°. 26: The Commercial Use of Interchange Agreements for Electronic Data Interchange; Rec. N°. 27: Preshipment Inspection; Rec. N°. 28: Codes for Types of Means of Transport; Rec. N°. 31: Electronic Commerce Agreement; Rec. N°. 32: E-Commerce Self-Regulatory Instruments (Codes of Conduct); Rec. N°. 33: Single Window Recommendation</p> | |
| <p>ICAO and IATA (Air) IATA e-freight initiative; ICAO Convention on International Civil Aviation (Annex 9: Trade Facilitation); “know shipper/known consignee” concept</p> | |
| <p>International Maritime Organisation (IMO) Convention on Facilitation of International Maritime Traffic (FAL); Safety of Life at Sea Convention (SOLAS); International Ship and Port Facility Security Code (ISPS-Code)</p> | |
| <p>Other International Organisations UNECE: Working Party 7 looking after agriculture quality standards; UNECE and IRU: TIR (Road Transit) Convention; ISO: countless product and quality standards; ICC: Incoterms (standardised trading terms used in international trade); ICC: Uniform Customs and Practices for Letters of Credit (UCP); ICS: Standard [shipping] Manifest Report and Recommendation; ICS: Standard Format of Bills of Lading</p> | |

AN OPERATIONAL PERSPECTIVE TO BORDER MANAGEMENT REFORM

The majority of international recommendations and instruments reflect international consensus on what is best practice. Much of the focus is on harmonisation and modernisation in the trade environment. However, significant elements of operational frustrations are likely to have local and national origins. These are unlikely to be adequately addressed by international recommendations. For example, operational frustrations might relate to how a particular inspection facility manages its queuing system or the manner in which a particular customs office handles paper and electronic documents. Border management reform thus extends significantly beyond implementing international recommendations and instruments. To this effect, Andrew Grainger proposes the Trade Procedures Reform Cycle (Grainger 2007), where operational frustrations give rise to demand for reform as opposed to "top-down" dictates from central government policy makers.

To enable such operational-driven improvements to take hold in policy consideration, suitable institutional arrangements between business and government stakeholders are an essential reform ingredient. The UK example, which has an active public consultation culture, shows some of the vehicles that are available in fostering the exchange of views between business and government stakeholders. These include: dedicated trade facilitation consultation vehicles (these bring together all stakeholders to explore scope for reform), departmental consultation vehicles (e.g. monthly meetings between customs executives and business stakeholders), arms-length consultation approaches (e.g. in the form of published invitations to respond to a regulatory initiative), assessment and research-driven consultation approaches (e.g. a sustainability or regulatory impact assessment), and informal consultation approaches (e.g. in the form of workshops, breakfast meetings and information collated from executive officers operating helplines and similar front-end services). Each one of these vehicles has its own qualities. Unfortunately, a full discussion goes beyond the parameters of this paper but is provided by Andrew Grainger (2009) in the World Bank's forthcoming Border Management Reform Handbook.

Figure 3: Trade procedure reform cycle (Grainger 2007)



In addition to the institutional arrangements that are in place (or might be put in place) to drive reform of the wider regulatory environment, it is also worth making reference to the vehicles employed to govern the interface between business and government stakeholders in day-to-day operations, and how they can be improved. To give an example, the traditional approach to border control can be described as one where the regulator sets mandatory requirements – for instance the legal obligation to present and declare goods. Should a trader be found in breach of set requirements, fines and criminal proceedings apply. However, the blanket enforcement of such rules and procedures is resource intensive and difficult to reconcile with growing volumes in international trade, economic dependencies on international trade to safeguard wealth, and rapidly

increasing political concerns to safeguard security. International recommendations, such as the World Customs Organisation's (WCO) SAFE Framework of Standards (2007) or some of those listed in Figure 1, will therefore often stress more collaborative enforcement approaches.

Such collaborative enforcement approaches seek to encourage traders to internalise controls and free-up executive resources to target high risk areas of concern. Practitioners often make reference to the 20/80 principle whereby, for argument sake, 20% of the trade population are responsible for 80% of declarations. In many trade intensive economies this ratio can actually be significantly higher. Unfortunately, there is little published research but anecdotal evidence suggests that ratios of 5/95 or even 3/97 are not unusual. Thus, a smart enforcement strategy for government executives is to encourage traders with high volumes – the 20% that are responsible for 80% of trade-related activity – to internalise regulatory-set control objectives and free up inspection resources to focus on more risky movements.

Of course, businesses need to be suitably coerced or incentivised if they are to internalise the control burden. Depending on the countries and government executive agencies concerned, a wide range of coercive vehicles can be observed. These range from pre-specified conditions set out in official authorisations (e.g. the authorisation to operate a port facility or a customs warehouse facility) to detailed licensing requirements (e.g. set conditions stipulated when handling licensable goods such as drugs or goods with military applications). Incentive based collaborative vehicles can include the preferential treatment of a specific operator (e.g. less inspection or access to advantageous fiscal treatment) and simplified procedures (e.g. allowing goods to be cleared at the trader's premises instead of at the port, or by allowing the payment of import duties on a monthly basis).

OBSTACLES TO BORDER MANAGEMENT REFORM

There are many obstacles to reform, which can be difficult to overcome. These can be attributed to overall complexity of cross-border operations and include conflicting interests, institutional limitations, and the lack of knowledge (Grainger 2007; Grainger 2008).

The cross-border environment is a complex construct involving many different types of actors. While comprehensive research is still in its infancy, Andrew Grainger (2007) counts over 60 UK trade and customs procedures which target goods, the vehicles that move them (for example, ships, planes, and trucks), or their operators (for example, drivers, seafarers, and flight crew). These are enforced by a range of different government agencies including: customs, immigration, police, quarantine services, trading standards, port authorities, and many more. Practitioners outside of the UK will be familiar with an equal diversity of regulatory requirements. The commercial side of cross-border operations is no less complex. Typically, importers and exporters will employ a wide range of intermediaries who in turn will often further subcontract. Intermediaries commonly employed include freight forwarders, shipping lines, airlines, haulage and trucking companies, packaging companies, insurance brokers, banks, express carriers, couriers, electronic services providers, sales agents, and distributors.

Although there is a collective interest to bring down the cost of trade, improve efficiency, and increase overall competitiveness, the interests of individual actors are unlikely to be aligned. Frequently, as can be observed in the exchanges (published and unpublished) between business and government stakeholders, interests are also conflicting. Unaligned or conflicting interests tend to be found between: businesses with different types of operational requirements and capabilities (e.g. small vs. large ports, or airports vs. seaports); business interests and the interests of individual executive agencies (e.g. between control and compliance); competing government departments (e.g. Department for Transport vs. Customs vs. Immigration); competing policy priorities when bidding for budgets (e.g. transport, customs, health, or education); and between preferences for protectionists and liberal trade policies. Moreover, it is not uncommon to observe rent-seeking behaviour and vested interests. One person's simplification can easily become another person's redundancy.

Institutional limitations also form significant obstacles to the implementation of trade facilitation. At their core lies a conflict between day-to-day business operations and the institutional mechanisms that govern the trade environment. While the former is very fluid and can change from one transaction to the next, the latter is embedded within the wider regulatory regime and takes time to amend. Legacy arrangements can be equally difficult. Changes – for example through the introduction of new control procedures, amendments to declaration documents, or changes to electronic systems – can be costly to implement and stakeholders need to be convinced that the costs for migration from the existing *status quo* are justified. Another example of institutional limitations may be found in the way governments procure their IT services. Trade facilitation projects like the single window (UN/CEFACT 2004), which seek to reduce trade transaction by integrating public IT infrastructure, can potentially stand at odds with preferential supplier agreements but in place by each of the affected government agencies. For example, customs may have one IT supplier with its preferred technology and business architecture while the port authority or quarantine service might contract with other suppliers who build their electronic solutions on different technologies and business architectures. Institutional difficulties might also be found in the geographical distance between head office and the borders or ports. As argued in this paper, much of trade facilitation is about fixing operational problems. Those executive officers with direct operational experience at the borders may not necessarily be the same individuals who help shape policy at headquarters and in the capitals. Much of the details required to understand trade facilitation problems can easily go missing.

The lack of knowledge and awareness can be a further significant obstacle to regulatory improvements. International supply chains tend to be complex arrangements and vary from one company to the next. Few individuals in business and policy circles are able to take an umbrella view and expand analysis beyond the confines of their own organisations. Few research bodies have yet attempted to take an umbrella view of the cross-border environment and develop a body of knowledge that looks at the wider operational aspects of international trade or help find and implement improvements. Subsequently, policy makers have few places to turn to for substantiated research. While dedicated trade facilitation committees can be of significant help, their resources are usually very limited. For example, SITPRO – the UK trade facilitation agency which is probably one of the largest national trade facilitation bodies – has an annual budget of no more than one million pounds (SITPRO 2008).

CONCLUSION

Good supply chain management is about increasing value and reducing cost. These objectives apply equally to trade facilitation; though they may be described in terms of “effectiveness” and “efficiency” when applying regulatory control objectives. International recommendations and instruments, as outlined in Figure 2, can be powerful tools in driving forward the trade facilitation agenda and border management reform. They can also be useful vehicles for harmonising and standardising trade procedures at an international level. However, their operational roots should not be forgotten as these are likely to feed a reform agenda that is independent of any international effort. The vehicles that define relationships between public and private sector actors – be it by defining scope for reform to the wider regulatory environment or in the context of day-to-day interactions at the operational level – deserve an active consideration within supply chain management and logistics research. Moreover, in the absence of substantiated academic research, the initiation of an operations led trade facilitation research programme could significantly help build the knowledge required to overcome current obstacles in border management reform and transaction cost problems between business and government stakeholders.

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