



Supply chain SECURITY

By Bruce Smith

The term 'supply chain security' crops up in newspapers and trade journals around the world almost daily. It is the key agenda item at a never-ending series of domestic and international conferences addressing security and counter-terrorism. It features in speeches and

presentations by Australian Government Ministers, APEC Ministers, the Head of the World Customs Organisation, leaders in the World Trade Organization, the heads of almost all Customs administrations - and is being pushed hard by top management at many companies.

Attacks in New York, Bali, London and New Delhi underline the grievous threat that terrorism has wreaked over the world. No country, government, company or individual is immune.

Against that background, supply chain security has emerged as a major international issue because it recognises terrorist opportunities in the movement of international cargo and its conveyances.

End-to-end security assurance includes importers, exporters, shippers, cargo handlers and transport companies operating in air cargo and sea cargo streams, at home and overseas. Why? To limit, as far as possible, the opportunity for terrorists to use the international trade cycle to deploy weapons and explosive devices.

The volume and value of international trade highlights the importance of responding to the changed international environment in order to secure and strengthen global trade and protect against the threat of terrorist activities.

In 2004-2005, the value of Australian imports and exports merchandise (fob) was over \$149 billion and \$127 billion respectively. There were over 20,000 ship arrivals and over 3.5 million movements of loaded containers. It is estimated that, of Australia's overseas trade, approximately 99.5% by volume and 75% by value is carried by sea.

The potential impact on the Australian economy of a terrorist incident involving international cargo cannot be overstated. As such, the goal for both government and industry must be to protect the entire supply chain from security threats and reduce the possibility or potential impact on the economy if such an event were to occur.

Around the world, customs administrations and industry have a common interest in securing the international cargo environment.

To address the many complex issues associated with improving security over international trade, the World Customs Organization (WCO) has developed a Framework of Standards to Secure and Facilitate Global Trade (the Framework). The Framework is underpinned by four core elements:

At its simplest, supply chain security is about all international cargo players having procedures over their parts of the 'chain' to provide end-to-end security - importers, exporters, shippers, cargo handlers and transport companies.

- advance electronic reporting of cargo
- application of risk management to identify high-risk cargo
- non-intrusive examination of cargo
- development of partnerships between Customs and the business sector - with benefits to those private-sector firms that meet supply chain security standards.

Australia has undertaken to implement the WCO Framework and to assist other administrations within our region if required.

Australia is a world leader with respect to the first three of these core components but it has not progressed as far as some countries in developing partnerships between Customs and the business sector.

Customs recently developed a proposal for a Customs-Business International Supply Chain Security model. This work is being done in Compliance Branch in Canberra.

Over the next couple of months, Customs is consulting with industry on the feasibility of the proposed model. The supply chain security model is very much a prototype and Customs is hoping industry will work with us to 'road-test' the model - well before any implementation plans are developed.

Customs starting point is that the complementary goals of improving supply chain security while facilitating trade can only be achieved by government and industry working together. Customs proposed International Supply Chain Security Program is designed to provide greater security and assurance of trade for both imports and exports and the ability to better focus Australian Customs resources on targets for intervention given the lower security risk of certified traders.

It is proposed that the Australian model will be a voluntary scheme, open to all parties in the maritime or air cargo supply chain - importers, exporters, consolidators, cargo handlers, service providers, stevedores, depots, warehouses operators and so on.

If supported by industry and the Government, the proposed model would include the following features:

- businesses wishing to join the program would need to undertake a self-assessment against Customs-developed guidelines and criteria resulting in the development of a security plan. The security plan would address such things as building security, access controls, trade-sensitive data, personnel, IT security and trading partners.
- businesses would then lodge applications and associated security plans for assessment and certification by Customs.

- Customs would assess applications and security plans for compliance with security standards, conduct on-site verification audits and, if acceptable, certifying businesses as supply chain security compliant.
- applicants and Customs would sign memorandums of understanding that formalised commitment to certain security practices based on the businesses.
- certified businesses would need to submit annual statements of compliance to ensure that information and security standards were up to date.
- certification by Customs would be valid for up to three years.

This proposed model provides a consistent application and certification process for all parties in the supply chain across both the maritime and air cargo industries. Other features of the proposed Australian model include:

- an option for certification of the entire end-to-end supply chain or certification of an individual party within a particular supply chain.
- for exports by sea, a commitment by an exporter, or consolidator, to apply an ISO-compliant seal at the time of consolidation. In future, consideration will be given to encouraging the use of seals on all cargo - in particular tamper-evident electronic seals.
- a commitment by importers and exporters to encourage other parties in the supply chain to become certified and/or commit to certain security standards.
- a commitment by transport companies to undertake physical exterior checks of containers at the time a container transfers between parties, to determine if any tampering has occurred.

Customs considers there is considerable potential for both Customs and industry to realise a number of efficiencies and benefits in gaining certification for supply chain security. These might include:

For government:

- increased efficiencies in administration of international trade
- reduced Customs intervention in respect of legitimate trade
- identification of low-risk traders allowing better targeting and investigation of high-risk companies
- compliance with the WCO Framework of Standards
- potential assurance of trade with overseas countries
- if status is mutually recognised, potential for reduced impacts on Customs resources and increased industry support and participation
- overall, a more secure Australian border to the benefit of all Australians.

For importers:

- increased security of the supply chain resulting in likely reductions in theft, and enhanced brand protection and quality assurance
- recognition as a low risk trader
- potential for reduced incidence of inspection at a Container Examination Facility (CEF) given the lower risk posed by certified businesses or supply chains
- an independent and no-cost security review by specially trained supply chain security officers from Customs.

For exporters:

- in the event of a tightening of Customs clearance at an overseas port arising as a result of a security incident, certified status might provide for continued or accelerated facilitation of trade
- if certification is mutually recognised either globally or based on bilateral arrangements, certified status might provide quicker release or reduced inspection of goods in the country of import
- increased security throughout the supply chain if using partners that have certified status
- an independent and no-cost security review by specially trained supply chain security officers from Customs.

Customs recognises there will need to be some realistic expectations about the pace of change and the extent of the benefits. It is important to understand that the achievement of these outcomes will vary from country to country, depending on the maturity and sophistication of the Customs infrastructure and business processes and the relationship between Customs and the business sector.

For example, it would be unrealistic to expect the same gains in relation to accelerating the processing of shipments. In Australia, for example, we aim to transmit an authority to deal within 15 minutes of payment and entry details being finalised.

Last financial year we achieved this goal on 99.4% of occasions. In our case, it would clearly be unrealistic and possibly misleading to suggest that entry processing could be accelerated.

In the case of Australia at least, any Customs/business partnership program will need to emphasise the "insurance benefit" of being a certified trader. The "insurance benefit" is the added assurance that a company's import or export supply chain is less likely to be disrupted in the event of international terrorism using the vehicle of international cargo. Unfortunately, such a prospect needs to be treated as a very real possibility in the 21st century.

More information on supply chain security can be provided by emailing a request to cargo.security@customs.gov.au

