

REFORMING LOGISTICS SERVICES FOR EFFECTIVE TRADE FACILITATION



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Reforming logistics services for effective trade facilitation

About the paper

Difficult customs procedures, barriers to investment, and labour regulations limiting movement and hiring of personnel are the most stringent obstacles for logistics services providers in developing countries.

This study finds that policymakers need to respond to traders' concerns by promoting coordination between key stakeholders and supporting public-private dialogue. The report offers practical guidance for policymakers and logistics services providers to drive regulatory reforms in the sector, a stepping-stone towards connecting small businesses to international markets.

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Foreword

For businesses, especially micro, small and medium-sized enterprises (MSMEs), to thrive, a transparent, predictable and facilitative regulatory environment is critical in ensuring the free circulation of goods and services. A domestic business environment grounded in competitiveness and transparency enables traders to reduce costs and improve performance in national and international markets.

Competitive and efficient logistics services are directly associated with larger trade volumes and economic growth. Especially in developing countries, high-quality logistics facilities are crucial to connect MSMEs to regional and international supply chains and consumers worldwide at a faster pace.

Disjointed public action, state monopolies, and the resulting market failures hinder the coherent regulation of logistics services as an integrated sector, causing major trade bottlenecks. Insufficient coordination between government agencies, a lack of public-private dialogue and complex compliance requirements lead to delays and raise costs for logistics services providers.

Reforming the logistics regulatory framework will make the industry competitive and productive. The private sector will only be able to provide better quality logistics services and become competitive nationally, regionally and globally once governments tackle the regulatory fragmentation of logistics supply chains and improve access to strategic infrastructure.

Harmonized regulatory interests and reduced market restrictions in the logistics services sector represent an untapped potential in the international trade facilitation agenda. By going beyond the requirements of the WTO Trade Facilitation Agreement, this wider emphasis on revamping the logistics sector complements efforts to ease cross-border movement of goods and services and connect MSMEs to overseas markets.

Policymakers should ensure that the policy reform agenda adheres to a 'whole of supply chain' approach towards cooperation, so that barriers in one country do not hamper businesses in a partner country. This is especially crucial for landlocked developing countries that often rely on their neighbours for transit of goods. Recent trade deals are already forging the trail in harmonizing the respective national laws that address obstacles in the logistics sector in a holistic manner.

The International Trade Centre (ITC) encourages policymakers in developing countries and least developed countries to improve their national trade competitiveness by promoting positive policy reforms in the logistics and transport sectors. In a competitive market, synergies between public and private actors and stronger trade and investment support institutions can make a real difference.

ITC's four-step methodology for coherent regulatory reform and public-private dialogue provides government authorities with practical tools to do just this. It allows them to map regulatory restrictions to trade and investment in logistics services, implement reforms, and monitor them. It is our hope that this publication will be an important tool to increase regulatory coherence and promote deeper dialogues between policymakers and the business community.



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Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons.

ASEAN	Association of Southeast Asian Nations
EU	European Union
ITC	International Trade Centre
OECD	Organisation for Economic Co-operation and Development
SME	Small and medium-sized enterprise
TFA	Trade Facilitation Agreement
TPP	Trans-Pacific Partnership
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
USITC	United States International Trade Commission
WTO	World Trade Organization

Executive summary

A competitive logistics environment has direct implications on international trade and development. In many countries, however, government institutions do not regulate logistics services as if they were part of a singular sector, but rather through disjointed regulatory frameworks. This hinders the provision of adequate logistics services and, consequently, has an impact on greater trade expansion.

Disjointed regulation in the logistics industry has contributed to market structure failures in some developing countries. Poor coordination among different agencies and levels of public authority discourages the private sector from providing competitive and efficient services, and hinders the integration of the logistics supply chain at lower costs.

This report identifies and assesses the most stringent structural and regulatory obstacles – namely difficult customs procedures, barriers to investment, and labour regulations limiting movement and hiring of personnel – that impede the competitiveness and coherence of the logistics industry in developing countries. It also builds a roadmap of recommendations showing policymakers how to adopt a holistic approach to advance an enabling logistics reform agenda.

Harmonizing regulatory interests to minimize red tape through greater cooperation is a stepping-stone towards a more consistent and efficient logistics sector. Efforts to this end reflect a current trend in the logistics regulatory environment, whereby new policies and regulatory actions aim to respond to common challenges:

- **Delivering integrated logistics services through a coherent regulatory framework**
Establishing an efficient institutional framework through effective coordination between government actors and interests, and public-private dialogue eases displaced regulations in the logistics supply chain.
- **Updating entry and operational restriction regulations**
In some cases Government regulations may discriminate against competitive logistics services. Complex licensing requirements and regulations restrict market access and deter providers seeking to offer new services. These requirements necessitate constant resources and discourage foreign investment in the industry. A rethink of the institutional framework governing entry and operational restrictions should guide specific policies.
- **Providing better access to infrastructure**
The quality of the services provided correlates directly with better access to strategic infrastructure, which in some developing countries is obstructed by inefficient state monopolies and discriminatory practices. Improving infrastructure accessibility through appropriate policy changes is crucial to making the supply chain competitive and cost-effective, and to correcting market failures, which protect the status quo of vested interests.

International agencies support a comprehensive reform agenda to open the sector and make it sustainable. This includes the coordination and coherence of approaches and methods among public and private actors.

In many countries, international disciplines and agencies guide and support reform. This typically requires liberalizing the sector, opening it up to foreign investment, reducing discrimination against foreign services providers and increasing transparency.

To improve competitiveness, ITC's four-step methodology encourages reform of the logistics regulatory environment. It calls for an enhanced public-private sector dialogue and stronger organization of private-sector associations. ITC helps developing countries design and execute effective reform of the logistics sector by mapping regulatory barriers; creating a menu of policy options for each country; helping build capacity for effective regulation; and helping implement reform through new regulations and monitoring progress.

CHAPTER 1 LOGISTICS: A KEY TO TRADE FACILITATION



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Need to reform logistics supply chain

There are a number of determinants to a country's capacity to trade efficiently. Three of these complex yet interdependent factors are:

- i. The quality of trade-related infrastructure (ports, roads, rail networks and ICT penetration)
- ii. Trade-related border procedures
- iii. The quality of private-sector services responsible for movement of goods (logistics services)

Conceptually, improving trade facilitation involves addressing all three factors. But over the last two decades, the reform narrative has focused on the first two, namely, border controls and infrastructure needs. These efforts are important and must be pursued, but additional progress is needed in the logistics sector in a complementary manner¹. The competitive and coherent overhaul of the logistics supply chain in fact expands the current scope of trade facilitation reforms by going beyond the requirements of the WTO TFA, thereby aiming to ease cross-border trade from a more holistic perspective.

¹ Between 2007 and 2013, there were 166 trade facilitation reform measures in 106 economies, focusing on introducing e-systems for the submission and processing of documents and on streamlining the number of documents and controls at the border. As a result, border delays have lessened and the global average time to export and import has come down from 26.4 days and 30.9 in 2006 to 20.5 days and 24.7 days, respectively. (Doing Business 2014)

Traders today experience an increasing number of constraints pertaining to the delivery of private-sector supply-chain services. This is logical from the perspective of private-sector competitiveness, as the ability of companies to connect effectively to international markets depends on the performance of their supply chains. Inefficient services can delay exports, which can affect the ability of traders to meet the “just-in-time” needs of their customers and prevent them from taking part in the growing number of global production networks. The quality of supply-chain services is, thus, a key factor in national trade competitiveness.

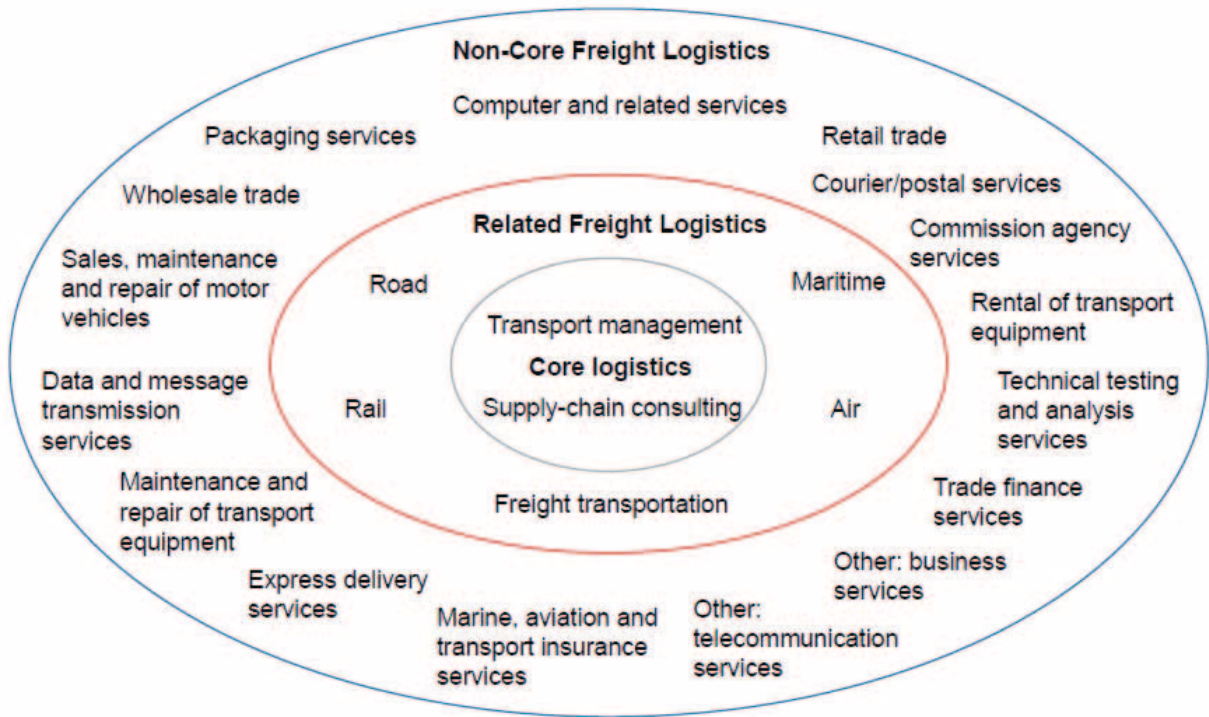
The WTO TFA gives developing countries an opportunity to support development of a holistic reform agenda covering not only government agencies at the border, but all services in the chain of processes affecting movement of goods.

Three categories of logistics services

The logistics services sector is integrated by three broad sets of activities. According to a classification used by World Bank (2010), these entail:

1. Core freight-logistics services, including supply-chain consulting services and transportation-management services, which are offered by most logistics services firms. They are often supplied on a standalone basis or together with other logistics services.
 - a. Supply-chain consulting services involve global network design and distribution strategies, where warehouse locations and transportation needs are determined. They may also include inventory forecasting and planning; product design strategies; technology needs assessment; and vendor identification and management.
 - b. Transportation-management services include storage and warehousing, cargo handling, transport agency services and customs brokerage.
2. Freight logistics, which entails freight transportation through road, rail, air or maritime services.
3. Non-core freight logistics, including fleet maintenance and repair, packaging services, computer and related services, management consulting, etc. They are inputs or value-added services for the supply chain, but they do not necessarily generate revenue.

Figure 1 Logistics service activities



Note: ITC elaboration based on WTO Communication (2004)

Source: WTO, Council for Trade in Services, Special Session, Communication TN/S/W/20, 25 June 2004 (04-2758)

CHAPTER 2 A CASE FOR BETTER REGULATION



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Overview of regulations governing the logistics industry

The performance of the logistics industry is a function of both market conduct and market structure. The regulations governing the conduct of the logistics industry and its structure are interrelated and influence market performance.

Current regulatory environment and market conditions

In some developing countries, the regulatory environment governing logistics is inadequate. Separate services are regulated through different authorities, raising communication and coordination problems and discouraging integration. Besides raising transaction costs, disjointed regulation deters the development of industry standards across various services. Such a regulatory environment has caused the logistics markets in some developing countries to be characterized by four conditions:

- i. Skewed competition – state monopolies in certain sectors and a large number of SMEs in others, for instance;
- ii. Fragmented nature of services and absence of incentives, encouraging consolidation of operators and integration of service provision;
- iii. Poor communication between SMEs and policymakers, resulting in inefficient policies, especially for non-asset owning transport intermediaries such as freight forwarders and truck brokers; and
- iv. Lack of trust between logistics users and service providers, reflected by requirements such as performance deposits to guard against theft or damage of cargo, raising transaction costs.

Functions of regulation

Regulation can serve three major logistics development functions:

- i. Establishing institutional frameworks to ensure effective operation of the logistics sector and to create a competitive environment;
- ii. Guiding the logistics sector towards safe, energy-efficient and environmentally friendly operations and reducing negative externalities;
- iii. Developing appropriate policies to address areas where market mechanisms may not work effectively, such infrastructure improvements, creating logistics hubs to complement industrial parks and export-promotion zones, and developing technical standards.

Governments adopt different approaches to logistics development. For instance, the United States Government limits its role to the first two functions listed above, with little market interference. Many other governments, such as those of Germany and Japan, play a bigger role in logistics-industry development through frequent policy interventions. Countries must consider their own development objectives when deciding on a policy approach.

Reformist trends emerge

A review of existing literature and emerging trends indicates that a strong reformist trend is under way. The specific mix of policies and concrete measures for the logistics industry varies in each country, but the overall direction is to encourage development of the logistics industry. The review suggests that the most successful policies have three common features:

- i. An efficient institutional framework for development of policy based on effective coordination among government agencies, monitoring the performance and growth of the logistics industry, and seeking input and feedback from the industry.
- ii. Appropriate enabling policies (such as ensuring security for goods in transit, improving border procedures, upgrading infrastructure and opening the sector to foreign investment and increased competition) that encourage improved performance.
- iii. Operational tools that address clear policy problems and yield quantifiable results. They include initiatives such as mandatory fleet upgradation rules to mitigate environmental damage.

The three features are all interdependent and critical in serving the overall goal of achieving logistics sector policy reforms. The role of an efficient institution is to set goals. The enabling policies offer the means to realize those goals, while operational tools help achieve the specific goals through targeted industry-directed action. Together, these three instances should also contribute to government accountability vis-à-vis the logistics industry.

The review of successful policies suggests that having a regulatory policy is a necessary, but insufficient, first step in unlocking the logistics industry's economic potential. Emphasis should also be placed on coherence and coordination. More specifically, coherence is needed between policy goals and the programs promoting an enabling environment to reach those goals. Sufficient coordination is also required to ensure that the regulatory interests of different agencies are harmonized, as a means to minimize the red tape.

Main regulatory restrictions

Trade scholars have developed a regulatory-restrictiveness index that groups regulatory restrictions under six primary headings: customs, investment, movement of people, and sector-specific restrictions for maritime, aviation and road transport. Table 1 shows the full list of restriction categories used in the construction of the restrictiveness index.

Table 1 Categories of regulatory restrictions

Logistics sector restrictiveness index					
Customs	Investment	Movement of People	Maritime Transport	Aviation Transport	Road Transport
Customs documents	Commercial presence	Licensing requirements on management	Cabotage restrictions	Takeoff and landing slots	Equipment usage
Customs signatures	Foreign equity participation	Movement of people - permanent	Cargo reservation	Ground-handling	Hours of operation
Import licensing	Licensing	Movement of people – temporary	Cargo handling	Cargo-handling and warehousing	
Local language	Discriminatory licensing	Local employment requirements	Storage and warehousing	Foreign investment in domestic airlines	
Customs inspections	Factors affecting investment	Difficulty in firing	Container station and depot services	Open-skies agreement	
Import restrictions			General competition legislation	Seventh freedom rights	
Customs Electronic Data Interchange			Monopolized handling of port-related services	Cabotage restrictions	
Harmonized Commodity Description and Coding System				Multiple designation on international routes	
Possibility of a review					
Customs operating hours					
Customs brokerage services					
Customs clearance					
Customs procedures time					
Customs charges or fees					
Improper penalties or fees					
Discriminatory fees or inspection practices					
DeMinimis levels					

Note: ITC elaboration on OECD Service Trade Restrictiveness Index

Source: Organisation for Economic Co-operation and Development (OECD), Service Trade Restrictiveness Index, 2014

Burdensome customs procedures are reported as the most significant regulatory barrier. This is especially true for the Association of Southeast Asian Nations (ASEAN) region (de Souza et al. 2007). Barriers to investment arise due to licensing requirements for transportation services and cross-sectoral investment regulations that either limit the equity ownership in the firm or regulate the form of establishment. Labour regulations refer to policies or measures that limit the movement or hiring of key personnel. For example, most countries require foreign companies to hire local residents.

Although customs, investment and movement of people generally apply to all providers of logistics services, other sector-specific regulatory barriers only affect those dealing with maritime, aviation or road transport. These barriers may impede the operational efficiency and the quality of logistics services.

CHAPTER 3 TACKLING REGULATORY CHALLENGES



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Policies needed to address logistics services challenges

The logistics industry is undergoing rapid transformation and some governments, especially in developing countries, have yet to appreciate the effects of these developments and respond with appropriate policies. Key emerging issues in regulating logistics services include three regulatory challenges:

Regulatory Challenge I: Integrating logistics services

Progressive integration of logistics services is changing the range and nature of services. It has brought about greater interdependence of businesses, with the performance of one company affecting the entire network. With global businesses demanding increasing efficiency from logistics service providers, the actors along integrated logistics supply chains also find themselves under ever-growing competition. Integration of logistics services has also changed the organizational structure of businesses so that companies focus on core operations and outsource peripheral functions.

Most governments regulate different service industries through independent authorities. Companies interested in offering composite solutions to their clients are subjected to various regulatory requirements from a host of government agencies, as the experience in Asia demonstrates². For instance, a

² According to the APEC directory of logistics regulators for its member countries, the 15 categories affecting door-to-door delivery can be subjected to permits and licences regulations from many agencies: Thailand, 13, Singapore, 7, and Korea, 3. This is in marked contrast with the European Union or other OECD members where most regulatory functions are consolidated in one or two agencies.

consignment that employs different modes of transport from origin to destination – say, maritime, rail and road – may be subjected to different regulatory procedures applied by separate agencies. This increases compliance requirements, causes delays and raises costs.

The mandates of different government agencies are often not coordinated in the interests of maintaining efficient supply chains. Regulations are drawn up to meet the regulatory needs of a particular sector, often leading to conflicting regulations discouraging integration of services. For example, government regulations can limit the scope of the activity by requiring the use of domestic operators for certain segments of the chain instead of allowing providers to offer the whole range of series. Such conflicts in regulations of different segments of the chain affect the provision of integrated logistics services, or may affect the simultaneity and synchronicity that an efficient logistics chain requires.

The complexity of the regulatory framework is also compounded by insufficient coordination between central and local government and between local governments in adopting policies affecting logistics, making cross-regional operations difficult. As logistics services evolve towards an integrated process, the gap between the regulatory framework and business reality is becoming more visible.

Regulatory Challenge II: Entry and operational restrictions

Entry

Governments typically regulate entry through registration or licensing. Both registration and licensing can take place at the time of entry or at regular intervals. Licensing or registration requirements can affect existing operators when they try to offer new services. Special licences or permissions are in turn required for certain types of transport operations.

Regulating entry serves many purposes. The criteria set for registration and licensing can help the government determine the aspiring company's financial and technical suitability for the industry. It can also influence the level of competition in the sector.

Entry requirements are also used to gain information on companies and the sector's performance to inform future policy planning. Regulation of entry, such as freezing the number of trucking licences, is also used to address environmental concerns.

From a trade perspective, barriers to entry affect investment. These barriers include market access curbs and/or discriminatory (national vs. foreign) regulations, such as joint venture requirements for foreign investment, prescription on specific types of legal entity allowed to provide services and limitations on foreign ownership. These all have an impact on activities such as transportation services.

Restriction on movement of persons also affects the provision of logistics services as well as requirements to employ nationals in certain services.

Table 2 Examples of regulation of entry and complexity of institutional framework

Type of regulation	Description	Example
Regulation on setting up a company	In most countries, enterprises need to register with the relevant authority.	In Singapore, all businesses must register with the Accounting and Corporate Regulatory Authority, for a fee of S\$65-S\$615.
Regulations relevant to setting up a trucking company	In some cases, separate registration is required for individuals who wish to engage in transport activities, or in a specific type of transport activity.	In the Republic of Korea, a special permit is required for entering the trucking industry.
Regulations relevant to Multimodal Transport Operators (MTOs)		In Thailand, based on the Multimodal Transport Act, companies looking to provide multimodal transport services must register with the Marine Department, and are subject to a minimum capital requirement of SDR 80,000.
Registration as freight forwarder		In Sri Lanka, the Freight Forwarders and Non Vessel Operating Common Carriers (Licensing) Regulation states that companies intending to carry out freight forwarding or NVOCC activities need to register with the DG of merchant shipping. Requirements include conditions on minimum capital, insurance and standard trading conditions.
Regulation controlling factory activities	The introduction of light manufacturing facilities may mean that the use of land classification of the company premises changes.	Based on the Factory Act, companies in Thailand operating machines exceeding five horsepower are classified as factories, and must register with the Department of Industrial Works. The department will issue the company an annual licence after inspection of premises and confirmation of appropriate use of land.
Warehouse regulations	It may be necessary to register as a warehouse provider, in particular when dealing with dangerous goods or when establishing a bonded warehouse.	In Thailand, a company wishing to set up a bonded warehouse needs to apply for permission with the Customs Department, and is subject to a security bond, bank guarantee and other requirements, as well as a yearly licence fee. The criteria vary by the type of bonded warehouse to be established.
Registration as customs broker	For companies providing customs related services, it may be necessary to register with customs.	In Singapore, all entities engaged in import and export activities, or apply for related permits or certificates, must register with Singapore Customs.

Source: UNESCAP, Guide to Key Issues in Development of Logistics Policy, 2013

Operations

In many countries, multiple authorities regulate the operations of logistics companies on a continuous basis. This is done through mandatory periodic reporting mechanisms, performance audits, renewal of licences and amendments to minimum capital requirements.

Various agencies carry out operation-related regulatory oversight. According to an assessment by the OECD, as many as 23 agencies can be involved in regulatory oversight of logistics companies in some developing countries. In a recent publication, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) gave the following examples of such regulations:

- **Transportation fleet:** Many countries maintain strict requirements on the size and weight of carriers. Some countries even have strict environmental regulations requiring mandatory retirement of old aircrafts, ships and other vehicles. For transportation fleets, the regulatory issues of other countries also become important. Many OECD countries maintain strict conditions regarding the age and environmental quality of transportation fleets entering their territories.
- **Premises and facilities:** Most countries have regulations pertaining to hygiene and cleanliness in warehouses. There may be temperature requirements for warehouses for food products. Premises and facilities are subjected to regular inspections whose findings may determine renewal of licences.
- **Edible and other perishable products:** Regulators for food and medicines often have stringent operational requirements. Enforcement of regulations may vary from country to country, but in most cases, both official regulators and industry inspectors inspect facilities for food chains.
- **Dangerous goods:** Handling, transporting or storing weapons or explosives almost always requires special permits and purpose-built premises that are subjected to regular inspections, and involves strict insurance requirements. Personnel handling such goods must have special training.
- **Personnel:** For various services, personnel must have specialized training and certification.

While many operations regulations are necessary to maintain health and safety standards, they require significant resources from logistics operators. The burden of these resources is particularly high for operators in developing countries, majority of whom are small-scale operators.

Regulatory Challenge III: Accessing and using infrastructure to provide services

Logistics operators need access to transport infrastructure-related services, for example, at ports, airports, rail or road terminals, on reasonable and non-discriminatory terms. Yet in some cases, conflict of interests or lack of competition restricts the operations of logistics providers, as facility owners may also provide logistics services.

A related issue is that many segments of logistics services remain under state monopoly. In some developing countries, key services such as railways, postal services, port management services etc. are typically monopolies run by state-owned enterprises. Although maintained for various policy considerations (such as national strategy, public security and social benefits), a monopoly hampers efficiency, distorts markets and usually promotes vested interests. In particular, railway container transport, which is critical to multimodal transport, is operated under a monopoly in a large number of developing countries. Rail freight transport rates and capacity allocation are not subject to market competition, but are, to a great extent, under government control. The inefficiency of rail freight transport is a major concern in logistics performance. It is estimated that a modest increase in rail performance will significantly increase logistics performance and lower costs.

CHAPTER 4 GROWING GLOBAL FOCUS ON LOGISTICS



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The need for international cooperation

Although much of the policy reform agenda for logistics services is national, there are areas where global cooperation is needed. A ‘whole of the supply chain’ approach towards international cooperation implies harmonizing national laws of trading partners so that barriers in one country do not affect companies in another. This is increasingly being done through international disciplines emerging from global trade deals. Logistics services are the subject of a growing number of trade liberalization discussions both at regional and multilateral levels.

Until recently, the approach to trade negotiations was being informed by national regulatory approaches – for example, each service area addressed independently, rather than from a supply-chain perspective. This approach appears to be changing, however. More trade deals are being negotiated by holistically addressing all impediments to logistics trade including, but not limited to, border procedures, investment regulations, licensing requirements, labour restrictions and cabotage.

For example, the text of the Trans-Pacific Partnership Agreement (TPP) demonstrates the emerging trends in international rulemaking. By making enhanced commitments based on an integrated supply-chain approach treating logistics as a sector of its own, and addressing trade facilitation and logistics in parallel, the TPP has set the direction for future trade deals.

There are already signs that other countries are adopting this approach. The publicly available information on the Trade in Services Agreement in the WTO shows that it is being negotiated on the basis of logistics being treated as a sector of its own. A group of WTO members presented a collective request list for liberalization commitments in logistics services (Box). This proposal is nearest to the World Bank classification of logistics services given above.

See the Annex for an illustrative list of restrictions on trade in logistics services.

Table 3 Logistics checklist (TN/S/W/20)

Logistics Services in the WTO	
The elements related to logistics services can be found in the services classification list under different sectors and sub-sectors. Some WTO Members have proposed a checklist, given below, which is nearest to the World Bank classification of logistics services.	
Logistics checklist (TN/S/W/20)	
I. Core freight logistics services	
11. H. Services auxiliary to all modes	<ul style="list-style-type: none"> a. Cargo handling services, including container handling services (CPC 7411) and other cargo handling (CPC 7419). b. Storage and warehousing services (CPC 742) (including distribution centre services and material handling and equipment services such as container station depot). c. Transport agency services (CPC 748) (including customs agency services and load scheduling). d. Other auxiliary services (CPC 749) (including through-chain logistic services, reverse logistics, container leasing and rental services).
II. Related freight logistics services	
(1) Freight transport services	<ul style="list-style-type: none"> 11.A. Maritime transport services (identified under maritime transport negotiations). 11.B. Internal waterways transport services (identified under maritime transport negotiations). 11.C. Air transport services. <ul style="list-style-type: none"> . 11.C.b. Air freight transport (CPC 732) (currently excluded from GATS, subject to Annex on Air Transport Services). . 11.C.c. Rental of aircraft with crew (CPC 734) (currently excluded from GATS, subject to Annex on Air Transport Services). 11.E. Rail transport services. 11.E.b. Freight transport (CPC 7112). 11.F. Road transport services. <ul style="list-style-type: none"> . 11.F.b. Freight transport (CPC 7123). . 11.F.c. Rental of commercial vehicles with operator (CPC 7124), and without operator (CPC 83102).
(2) Other related logistics services	<ul style="list-style-type: none"> 1.F.e. Technical testing and analysis services (CPC 8676). 2.B. Courier services (CPC 7512). 4.A. Commission agents' services (CPC 621). 4.B. Wholesale trade services (CPC 622). 4.C. Retailing services (CPC 631, 632, 6111, 6113, 6121) (Including inventory management of goods, assembling, sorting and grading of goods, breaking bulk, redistribution and delivery services). - Other supporting services not covered by 11. H: CPC 743, 7113, 744 (excluding 7441) and 746.

Source: WTO, 2004.

CHAPTER 5 FOUR STEPS TO IMPROVE LOGISTICS REGULATION



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ITC has developed a four-step methodology to foster regulatory reform of logistics services based on a public-private dialogue approach. The approach is valid for national policy and regulatory reforms as well as for taking evidence-based positions in international trade negotiations.

- **Step 1:** Map regulatory restrictions to trade and investment in logistics services as per the checklist above (Box 1). In parallel, assess the governance framework of the agencies charged with the regulation of services sectors to gauge their ability to implement the updated measures. The mapping will be done using World Bank methodology, which has been simplified and adapted to suit the usual administrative and political realities of ITC's client countries.
- **Step 2:** Prepare policy options based on the information collected in Step 1. The process will be guided by ITC's list of feasible market-friendly policy and regulatory options for the most common trade restrictions in logistics services. This list has been compiled based on the reported experiences of various countries in applying such reform measures.
- **Step 3:** Strengthen the capacity of public and private participants so they can analyze and weigh the pros and cons of choosing among various policy alternatives. The intensity of effort at this stage will be determined by assessing the needs of participants.

The assistance will entail:

- i. Organizational strengthening of the private sector association(s) (coalition of services)
 - ii. Developing evidence-based position papers by local research institutions
 - iii. Knowledge-building workshops/training on relevant technical issues,
 - iv. Sharing experience of results from similar reforms in other countries and, above all,
 - v. Mentoring by experts to assist in result-oriented facilitation of the process of customized selection of the most optimal regulatory option. General principles (detailed in Box) will be followed to help stakeholders arrive at a consensus on the most appropriate reform strategy in accordance with an individual country's situation.
- **Step 4:** Draft new regulations to endorse and track the progress of the chosen regulatory alternative, and report on the progress of implementation. The feasibility of moving to this stage as part of this project will be determined only local conditions are assessed in consultation with the beneficiary countries.

Box 1 Logistics services reform strategy: General principles

1) Coordinate all regulations that affect logistics efficiency

Governments should establish effective coordination mechanisms linking the various regulatory and control bodies that set and enforce product and process regulations. Insofar as governments are addressing this issue, efforts tend to focus either on policies regulating and controlling the movement of merchandise (for example, through a “single window” approach) or on the movement of vessels (including containers or trailers) – for example, through a logistics agency (as has been done in Panama). In some cases, it may be appropriate to focus on specific gateways, trade lanes or corridors. Most countries have just one or a few freight gateways and transport corridors, and it may be easier to pursue a coordinated whole of supply chain approach for one of these rather than for the entire country.

2) Simplify entry and operation regulatory procedures

It is essential to simplify procedures and reduce complexity and uncertainty of the legal and implementation framework to lower the excessive fixed costs firms face because of the difficulty in acquiring information and dealing with bureaucracy. The private sector considers increased clarity (for instance, by providing public access to exhaustive and transparent checklists of procedures and certificates needed for each specific activity) as an important remedial measure.

3) Promote efficient competition

Skewed competition is a major source of inefficiency in the sector. Promoting competition and allowing for a level playing field for domestic and foreign companies will lead to inclusive growth in the sector.

4) Promote SMEs

Another area for action concerns SMEs, which tend to face proportionally greater barriers to engaging in international trade, in part because of logistics and related transactions costs. For example, governments could create a quick win by adopting higher *de minimis* provisions, allowing goods under a certain threshold value to forgo clearance whenever the amount of duty collected is less than the administrative cost to process the shipment. Trade facilitation measures such as authorized economic operators or trusted trader programmes generally target large traders and shippers. It is important that initiatives to reduce regulatory compliance costs be complemented by programmes and solutions to help SMEs address regulatory complexity and lower their costs.

Source: World Economic Forum, 2013.

APPENDICES

Appendix I Trade in logistics services: examples of restrictions

Table 4 Trade in logistics services: example of restrictions

	Market access	National treatment	Access and use	Synchronicity	Others
Cross-border logistics services including consumption abroad	<p>Maritime: subject to cargo reservation, which requires that a portion of a country's international cargo be transported on national-flag vessels.</p> <p>Road: Regulatory impediments, such as limitations on fleet size, equipment usage and hours of operation.</p>		<p>Airlines are subject to domestic laws and regulations that may impede their ability to operate at foreign airports. Limited hours of operation at customs facilities, preferred treatment for domestic carriers and security-related.</p> <p>No coordination between customs and quarantine departments.</p> <p>No automation procedures for quarantine-cleared items No post-clearance process for exports.</p> <p>No central processing facility for government agencies.</p>	<p>Firms may not own and operate ground transport equipment.</p> <p>In the European Union, shippers cannot provide uninterrupted cross-border rail transport services between some EU countries, because passenger transport has priority over cargo transport, requiring that firms find alternative methods of conveying goods to customers.</p> <p>Laws and regulations in some countries require airlines to use third-party providers for ground-handling services or prevent airlines from offering such services to other airlines.</p>	<p>Logistics service providers encounter the most significant impediments at the border. Border clearance procedures, including customs processing and inspection, are the most frequently reported obstacles to the foreign provision of logistics services. Customs clearance and inspection are reportedly the most time-consuming procedures related to air and maritime cargo transportation.</p> <p>Customs laws and regulations may be applied inconsistently at different ports in the same country.</p>
Commercial presence		<p>Licensing requirement for brokers.</p> <p>Logistics firms providing multiple services cannot act as customs brokers.</p> <p>Maritime and</p>	<p>Ports: The ability of foreign maritime firms to gain adequate access to government-owned port facilities, or to provide their own or third-party port-related services, is also subject to domestic regulation. In many countries, ports are owned and operated by a government agency, such as a port authority. In some cases, the agency will permit private-sector firms to provide maritime auxiliary services, such as</p>		

		airports each require separate brokerage licences. Foreign providers not permitted to own and operate ground transportation fleets and equipment.	cargo handling, storage and warehousing, and container station and depot services. In other cases, the agency will provide all such services itself or designate one or more private sector firms to provide all port-related services.	
Movement of natural persons		Brokerage individuals cannot perform services.		Lengthy/costly process for obtaining work visas.

Note: ITC elaboration on the basis of a USITC investigation (2005)

Source: USITC, Logistic Services: An Overview of the Global Market and Potential Effects of Removing Trade Impediments, 2005

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