

Trade Security

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Trade is an important engine of economic growth and the globalisation of trade is a dominant feature of today's economy in many countries. The creation of an open and equitable trade environment is a key goal, particularly in relation to economic development and poverty reduction. Security issues clearly pose a real threat to the stability, further development and equalisation of global trade. However, these security issues must be addressed in such a way as to minimise the potentially negative side effects; otherwise a real, and perhaps intended, reward may be handed to the very groups these measures are intended to defeat. For example, new measures to support security must not add undue procedures and costs to international trade transactions, as it is the case on the cargo that is destined to Palestine and comes via Israeli ports. Further, we must ensure that no specific country or group is excluded from the international trading system through these measures, as exclusion would undermine the basic foundation of security, which is a fair and just society, free from poverty and degradation.

Security has always been a factor in international trade and many mechanisms and procedures already exist to address this issue. However, both the nature of the security threat and, importantly, the perception of the nature of that threat have changed dramatically since the attacks of September 11th 2001. Effectively, the focus has shifted from the relatively minor threat to trade (from theft, hijackings, terrorist interventions, etc.) to the much more alarming threat from trade, where terrorists could use the mechanisms and processes of trade as a weapon against the developed, and indeed the developing world.

Although the nature and extent of this threat is, fortunately, mostly speculative at present, it is essential to understand the seriousness with which many countries approach the issue. For example and under the name of security, Israel has imposed a strict regime on the movement of goods and people in and out of the West Bank and Gaza. This illusion of security definition by Israel has cost the Palestinian Economy millions of dollars and has impacted industries across the Palestinian private sector, which has increased unemployment and poverty. The same reasons that the International Trade intervention tried to avoid when introducing strict security chain of supply measures.

The Access and Movement Agreement (AMA) signed on November the 15th 2005 between Israel and the Palestinians in the presence of Ms. Condeleza Rice, the US Secretary of State, to facilitate and enhance the movement of passengers and cargo to

and out of Gaza after the Israeli disengagement, has not gone into effect, despite of the rigorous measures that are implemented at Karni and Erez. The closure remains the almost status to most of crossing points especially after February 2006 when Hamas won the elections. This dramatic perception of security by Israel continues to this date despite of all the international pressure that is imposed on it. The Israeli Private Sector is also suffering from this closure and is also losing millions of Dollars in contracts.

On the other hand, the Paris economic protocol has tied the Palestinian economy along with the Israeli economy for the interest of the latter in the control of exporting and importing gateways, an essential element of the international supply chain. According to the Israeli-Palestinian economic agreements, Palestinian shippers are to enjoy access to all trade-related facilities used by Israeli shippers. However, neither prior to 2000 nor since then has this been the case.

Thereby the Israeli barriers at borders represent the biggest and the number one obstacle that the Palestinian importers have to deal with on daily basis.

Many countries and their respective organisation took the issue of security seriously and several approaches to addressing it have been launched by leading trade-related organisations over the past years and much work is currently under way in developing standards and systems to increase the security of the international trade transaction process. The task is enormous; and there is the obvious danger that the immediate responses to this threat (whether real or perceived) may not be consistent with the longer-term development of an efficient trading system. The Israeli – Palestinian mistrust is a live example of the inefficiency of the system. The Palestinian cargo can take a minimum of 7 days to clear in comparison with 24 hours clearance for Israel destined cargo. Another cost that the Palestinian traders have to pay, just because of Israel's freakiness and misconception of the word security.

It is recognised that this security shock to the trade system presents an opportunity to re-examine current trade procedures and processes and to speed up implementation of advanced technologies and approaches, such as risk assessment based on advance information. The challenge is to facilitate the majority of legitimate international cargo movements, and as efficiently as possible, while at the same time dealing effectively with the small percentage that could pose a threat to security. To achieve this, all parties in the trade transaction chain need to work closely together.

International trade and security can best be assessed in the context of the international supply chain. This has been the approach of United Nations Economic Commission for Europe (UNECE) to trade facilitation and e-business analysis for many years and

is also the approach adopted by the World Customs Organisation (WCO) Task Force on Security and Facilitation.

The international supply chain involves a potentially large number of activities performed by a considerable number of different parties. An activity may be carried out by different parties depending on the terms of business, type of product, country and market etc. as well as on the methods of operation of the buyer and seller. For a supply chain to operate effectively and efficiently, the relationships and activities have to be clearly identified and managed.

International Supply Chain Model sets out to identify and model the key processes and relationships of the parties involved in international trade. This Model helps in the understanding of how a supply chain operates, and it can be used to highlight opportunities for “best practice” improvements in international trade for all countries, businesses, governments or economies. The Model can also be used to identify procedures that do not add significant value or enhance security or safety, and it can indicate opportunities for facilitation actions.

Within the international supply chain some 40 or more actors are potentially involved. These may be categorized according to 4 “actor types”, namely:

- **Customer:** A party who acquires, by way of trade, goods or services
- **Supplier:** A party who provides, by way of trade, goods or services
- **Authority:** A statutory body existing within a jurisdiction and within a specific area of responsibility that administers legislation to regulate trade and/or monitors compliance with existing legislation.
- **Intermediary:** A commercial party who provides services to customers, suppliers or authorities within the international supply chain.

Each type includes several possible actors or roles, some of which are listed below:

Actor Types	Possible Actors & Roles
Customer	Buyer
	Consignee
	Payer
	Importer
Supplier	Consignor
	Payee
	Seller
	Manufacturer
Authority	Exporter
	Chamber of Commerce
	Consular
	Customs
	Health
	Agriculture
	Environment
	Nuclear/Atomic Energy
	Intervention Board (EU)
	Licensing
Intermediary	Receiving Authority (Port Authority)
	Standards Institute
	Bank / Financial Institution
	Broker
	Carrier
	Credit Checking Company
	Credit insurer
	Commission Agent
	Export Agent
	Freight forwarder
Import Agent	
Insurer	
Inspection company	
Receiving authority	

This large number of actors is a key factor in the vulnerability of the Supply Chain to infiltration or interference for security reasons.

In a study that was conducted by the Palestinian Shippers' Council, the distortion and imbalance of any of the above factors can negatively affect the chain supply process and increase the cost on one of the key factors, the customer, as it is the case in Gaza. Therefore, the recent closure of the crossings has serious implications on the Palestinian importers who have to absorb tens of millions of dollars in losses and carry further costs of storage fees to the ports and delay fees to the shipping companies, under the name of security. By the second week of July 2007, the volume of extra expenses of storage and demurrage fees was estimated at around \$3 million dollars. The study also indicated that more than 1600 containers worth over \$130 million dollars are presently held up at the freight terminals and warehouses in the ports.

The economic situation in Gaza is also affected with closure imposed on exports and the limitation of imports to basic commodities and processed food, while needed raw materials for industry production are banned from entry. This will increase Gaza's high poverty (85% of households are living under the poverty line as it stands now) and unemployment (65%) levels have sharply limited households' ability to buy supplies.

These factors amongst other impediments have affected and impacted the operation and growth of the private sector enterprises. Currently 85% of establishments have shut down and the rest are operating with 50% capacity leading to unemployment of more than 35,000 workers. If this is the definition of Security management System that is supposed to achieve sound performance and commitment from all parties involved, then the world in general and Israel in particular has definitely misconceived their proper understanding of the system that should provide order and consistency through the allocation of resources, assignment of responsibilities, ongoing evaluation of practices, procedures and processes, and active utilisation of inputs from security authorities and other stakeholders in the supply chain. Therefore the development and maintenance of a Security-management System is an ongoing and interactive process.

Setting standards in the area of security and having those standards implemented in the near future will be an enormous task that will require very considerable resources. The huge sums of money that was invested in airports and seaports all around the world would seem to lend credence to this.

The international community needs to decide whether it wants global standards for the security of goods in transit from country of origin to country of consumption and, if so, whether it is ready to pay the considerable cost associated therewith. Inability to agree on global standards is likely to increase the overall cost of implementation and also reduce the effectiveness. Therefore, Israel must understand that the cost of its so called security measures should not come from Palestinian traders but from its national budget and Israeli tax payers. We have also to bear in mind that the majority of imported goods that are destined to Palestine go through International ports that apply the security management system.

On the other hand, the implementation of security standards which enable the parties in the supply chain to demonstrate their compliance should provide an excellent opportunity for customs administrations to grant trade facilitation benefits to the parties in such certified supply chains. This could include green channel cargo clearance and implementation of the integrated seamless transaction concept whereby the export declaration data may be used as the import declaration data. The objective should be that the costs associated with the implementation of security measures would be more than compensated for by the trade facilitation benefits.

A concerted effort from all the relevant organisations involved in international trade facilitation and standards will be required in order to ensure that the developed standards are effective and that they achieve the dual aim of enhancing both security and trade facilitation for all countries. Strong collaboration and coordination amongst the relevant standards-setting organisations is the only way to achieve this.

References:

1. UNCTAD
2. PSC reports 2007.