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eCommerce Impact on International Trade Logistics

Few have any doubt that eCommerce is changing the landscape of trade, particularly in business to consumer (B2C), as growth in this area continues unabated in a growing number of economies.

Just to sketch the landscape of this expected development, 53% of global internet users are said to have made at least an online purchase in 2016, which amounts to approximately 1 billion people.¹ In addition, B2B eCommerce sales are expected to outgrow B2C sales, reaching 6.7 trillion USD by 2020² and China's eCommerce growth is expected to outstrip the US growing to 2 trillion by 2019.³

FIATA has placed great emphasis on eCommerce, as it believes there is room for its members to grow new business alongside the growth of the trading community. Currently, eCommerce accounts for just 8% of total retail sales in the US and 14% in the UK: a clear sign that there is significant growth potential still to occur.⁴ This growth will challenge logistics and trade industry to meet consumers' demand in reducing shipping costs, whilst fulfilling quality standards suited for both consumers' and merchants' requirements. This corresponds to a paradigm shift in the identity of our principals, who will be morphing into an assembly of smaller, more numerous and more unaccustomed users. Satisfying their demand will put pressure on our companies, as well as on regulators to facilitate expeditious movement of goods across borders.

Changing the frame of the picture

How important is logistics in this evolving trade paradigm is really the question many have in mind, along with a secondary question: is there *another* way to address these challenges? According to Forbes, 85% of Amazon users hesitate to buy because of shipping charges, while free shipping is the one incentive online shoppers want most (88%).⁵ On the other side of the coin, 30% of online purchases are returned and users expect this process to be easy both in a regulatory and business sense.⁶ In order to meet this consumer mind-set, sophisticated logistics networks backed by investment in infrastructure and improved facilitation through regional coordination will be critical for the future of logistics and trade.

This is where FIATA and its members need to provide solutions and strike a workable balance. FIATA took early steps to engage with its members on eCommerce practices, highlighting that logistics will need to meet the growing demands of eTraders, meanwhile eCommerce will need to rely on logistics to ensure product fulfilment. This relationship will see the face of logistics evolve rapidly. It is a phenomenon which caused FIATA to enhance its engagement with UNCEFACT and the WCO for example; in the private sector we have already seen the emergence of new partnerships where large Logistics Service Providers (LSP's) have joined forces with global online platforms and retailers.

Looking at these elements, digital transactions are taking trade to a different dimension and logistics with it, with remarkable similarities in the financial and logistics services. The world is moving away from cash to digital money and even away from the usual concept of money altogether as we see the advancement of alternative forms of payment. Thus there is a trend toward payment gateway

¹ https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

² <http://www.cms-connected.com/News-Articles/July-2016/eCommerce-Trends-and-Statistics>

³ http://www.smartinsights.com/?attachment_id=78858

⁴ https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

⁵ <https://www.forbes.com/sites/tompopomaronis/2016/12/19/these-12-astonishing-shopping-facts-perfectly-sum-up-e-commerce-for-2016/#52bafc2e38be>

⁶ <http://www.invespcro.com/blog/e-commerce-product-return-rate-statistics/>

solutions for sustainable future of eCommerce and trade.⁷ It is legitimate to ask ourselves the question on whether anything similar is happening in logistics transactions. FIATA has already begun discussing the perspectives of block-chain technology to better understand how improved and trusted payment solutions through enhanced visibility can facilitate cross-border movement of goods if they become commonplace in transport and logistics documents.

Along with cash payments, eCommerce will almost certainly bury the existing uncertainties about paperless trade, a topic that FIATA has worked on in the past years pushing for greater penetration of its FIATA eBill of Lading (eFBL). The well-known paper document, endorsed by the ICC has gained international significance throughout the supply chain industry and greatly benefits trade in millions of examples, eCommerce can equally benefit if the adoption of the eFBL continues apace. Pilots are being conducted and the results we register are positive, but there seems to be greater scepticism in using a paperless transport bill than there is in making an online bank transaction. We believe that the presence of the FIATA logo on this methodology could provide shippers with the confidence in eDocuments that they seem to still be missing in the world at large.

Creating a transparent trading community

It is also part of FIATA's remit to confirm that due diligence and risk assessment is properly ensured. With the growth of digital commerce come growing risks of fraudulent (or dangerous) practices, in particular if the transaction rests on tenuously established relationships. "Know Your Customer" (KYC) is a principle that FIATA members practice and it is within the DNA of the freight forwarding community as a result of this being the only fence freight forwarders have against their services being misused. This is a principle that online eCommerce platforms could absorb with a view to creating fully transparent eCommerce services. The enforcement of such principle may be done by states through legal instruments or, even better, become common practice among operators. Failure to do so can open up eCommerce to risks that are not only difficult to contain, but even to imagine.

eCommerce requires customer data to constantly change hands between stakeholders in the supply chain with logistics providers bearing greater risks from the lack of transparency and visibility. In addition to private actors' more limited requirements, state agencies also require cross-border data and this can be done either by submissions or by data mining. The integrity of data may however be at risk as well and all operators have stakes in ensuring that the data remains as good as originally provided in a domain where the KYC principle is ensured. What needs to be done is not the expansion of AEO programmes out of bounds, but there needs to be a process of identification of the operator to which we are not yet accustomed; this may require some legal adjustment. eCommerce does not happen in vacuum; it is a large number of normally small transactions performed by operators who have an internet connection, probably a mobile phone number and very likely financial means of payment which respond to identification criteria. In this light FIATA sees the involvement of consumers' organisation as crucial, considering a large number of these transactions involve consumers and are likely to fall within the scope of consumers' protection legislation in many jurisdictions.

FIATA therefore encourages states to implement Single Window solutions promoting filing systems that minimise the frequency of data transfers, thus creating a large, transparent and secure eCommerce community. Our members will remain constantly at private sector's and public services' disposal to discuss and facilitate the creation of this novel trading environment.

Throughout the years, we have witnessed eCommerce platforms become the ultimate intermediaries connecting the merchant to the consumer, to the payment processor, to the logisticians and any other actors needed to fulfil an order. This new model has helped to propel micro-enterprises and private individuals as international trade actors. As we all know with honour comes the onus and perhaps the role of these ultimate intermediaries should be assisted by an appropriate collaborative

⁷ <https://www2.deloitte.com/content/dam/Deloitte/in/Documents/technology-media-telecommunications/in-tmt-future-of-e-commerce-noexp.pdf>

framework with clearer roles and responsibilities. This could derive from existing laws and conventions, but it should also assume a reasonable degree of autonomy in the form of ad hoc agreements made available in the public domain, considering it is not realistic to expect international rules and even national legislation to be modified at the same pace as the evolving trade patterns are taking.

Public and private working together

The rise of ecommerce will put pressure on state legislators to enact policy enabling their local merchants to trade goods internationally with ease. Similarly to what happened in many parts of the private sector, legislators have been almost taken by surprise by the rapid growth of eCommerce, with tax and Customs trying to change as fast as the eCommerce landscape, while states struggle to come together at such short notice to harmonise trade rules that would allow for improved facilitation. This may also be due to the fact that many agencies are involved in cross-border trade and even more come into the picture when the consumers' dimension is taken into account. It is not easy to organise all these agencies to work at the same table, but this is inevitably what needs to happen.

FIATA is working with international bodies such as the WCO eCommerce Working Group, UNCEFACT as well as others who have specific interests in this area. UNCTAD's e-Trade for all initiative to contribute input into policy that would minimise ecommerce trade barriers and push for enhanced e-trading environments is an excellent initiative and we hope it will contribute to addressing some of the challenges that remain open. It really is not only a question of revenue, or loss thereof, as some may see it. *De Minimis*, an idea about which FIATA published a thought provoking position paper⁸ in 2014, is really a minor issue in the end. The challenges run deeper than in the revenue stream of eCommerce and touch on Intellectual Property Rights, the safety of products, the security of consignments, the trust that we may have in the article we are about to buy which we can no longer touch and feel with our five senses and which we shall choose through a sixth sense running on the bytes of our computer or smartphone, a sixth sense we have not yet learnt to treat with the same confidence as we treat our nose and tongue. At the end of the game this is a question on the protection of our standards of living and our lives in general.

On the regulatory side, FIATA also emphasises a greater focus on Article 7.8 (facilitation for online purchases) in the WTO Trade Facilitation Agreement which would reduce cross border clearance and encourage eCommerce growth. There is a crucial role that National Trade Facilitation Committees, as created by art. 23.2 of the WTO TFA, can play at this point and we might remind the reader that FIATA had suggested this opportunity as early as in May 2015 with ad-hoc position paper.⁹ The agreement is now in force and it is high time we all started working in this direction.

In this new supply and demand interaction, we are witnessing swift changes, as one new actor emerges another one potentially loses. The role of the post office, many of which are state run enterprises, is put into question with regard to what kind of service and control can the post provide. Many post offices are fast in changing gear, but others are slow to adopt innovation, and these will need to adapt and cooperate with one another (as well as with other stakeholders) as never before. However, the ability of the Post Office to efficiently implement the KYC principle is crucial and from certain points of view this could be the make or break of e-Commerce' success. Logistics will gradually adapt to the new "principals" (micro enterprise and private individuals) for engaging with eCommerce, but in this dynamic process there will be early adaptors and leaders; others, who may have missed the "first mover's advantage" may struggle. The entire concept of consolidation and de-consolidation takes another shape and form and the use of automatic identification and visibility services will become soon an essential part of the "equipment". We refrain from opening a window

⁸ http://fiata.com/fileadmin/user_upload/documents/Position_Papers/FIATA_Position_Paper_De_Minimis_date_15_Oct14_IST.pdf

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http://fiata.com/fileadmin/user_upload/documents/Position_Papers/TFA_Main_instrument_of_development_for_better_global_trade_Public_statement_.pdf

on Artificial Intelligence at this point, as this is already on our doorstep and in our research centres, but discussing this point now would take us too far in scope.

As eCommerce is changing so fast, there is a risk of knee-jerk reactions at first incidences, which could deter new logistics solutions and facilitation. This can be only avoided by working together with mind set on to sustainable development, with eyes open toward innovative solutions, probably at a faster pace than originally expected. FIATA and its members stand ready to contribute to policy discussions on eCommerce suited solutions, encouraging member states to realise the impact of investing in expert logistics infrastructure, facilitating Customs clearance and border crossing procedures and investing in suitable training programs.

eCommerce has the potentiality to boost economies locally, by allowing local merchants access to new and far away markets and customers by means of digital instruments and expert logistics, with the creation of significant economic, social and environmental gains.

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About FIATA

FIATA, the International Federation of Freight Forwarders Associations, was founded in Vienna, Austria on May 31st 1926. It is a non-governmental organisation that today represents an industry covering approximately 40,000 forwarding and logistics firms, employing around 10 million people in some 160 countries. FIATA has consultative status with the Economic and Social Council (ECOSOC) of the United Nations (inter alia ECE, ESCAP, ESCWA, etc.), the United Nations Conference on Trade and Development (UNCTAD), and the UN Commission on International Trade Law (UNCITRAL) as well as many other UN related bodies, e.g. the World Bank. It is recognised as representing the freight forwarding industry by many other governmental organisations, governmental authorities, private international organisations in the field of transport and logistics, such as the European Commission (through CLECAT), the International Chamber of Commerce (ICC), the International Air Transport Association (IATA), the International Union of Railways (UIC), the International Road Transport Union (IRU), the World Customs Organization (WCO), the World Trade Organization (WTO), etc. For further information, please go to: www.fiata.com

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