

FIATA Congress: "Singapore, Springboard to Asia, Connecting the World," Singapore, October 15-19, 2013.

Meeting of FIATA's Advisory Body Legal Matters, October 17, 2013 (1500-1615 hours)

## **Development of logistics infrastructure and related services: principles for rules, regulations and standards that would govern its use**

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1 This paper proposes four themes in the context of its topic. First, logistics infrastructure is best provided by those in the know of the business. Second, national trade logistics can no longer play second fiddle to global logistics. Third, increasing complexity of the logistics business demands a new thrust for a global legal architecture. Four, FIATA along with its national members, and in partnership with WB and other stakeholders, can play a much stronger role to improve the current state of logistics with a view to benefiting the end users of goods.

2 Before discussing each of these themes, it is important to reiterate two basic principles in this context: (i) infrastructure and related services only as useful as the capability to utilize them; and, (ii) the sophistication of logistics (aka highly facilitated trade)—the supply—reflects the sophistication of trade (or say, the structure of trade)—the demand.

### ***Logistics Infrastructure and related Services***

3 Globally, there is a need to improve—read as, make appropriate to function—logistics infrastructure and related services. This can be achieved through: (a) involvement of trade transport logistics professionals during the locating-provisioning, design, building-implementation, operation and maintenance, and monitoring and evaluation stages; and (b) adopting inclusive and efficient regulatory frameworks for ownership, operation, maintenance, and monitoring and evaluation responsibilities. This applies to public, public-private, and private facilities. In saying so, we are encompassing not just hard infrastructure and related services, but also the rapidly emerging and evolving logistics ICT infrastructure and related services.

4 Developing countries, Asia included, are responding to the need by planning and creating logistics hubs; whether it is former Soviet Republics in Asia, or governments of Mongolia, Nepal, Pakistan, Bangladesh, and India, or those of the Greater Mekong Sub-region, all are laying out plans for economic zones, logistics parks, and so on. But, more often than not, these efforts end up in nothing more than slogans or real-estate scams as they do not involve transport and logistics professionals in planning and design. They are often inappropriate locations or simply trying to provide ICT real estate by creating 'spaces' around state functions (such as Customs or SMTQ)<sup>1</sup>. A key reason for logistics infrastructure and services remaining sub-optimal is that governments do not attend to the principles which determine where, when, and how, public or private impetus can deliver the most effective and efficient solutions.

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<sup>1</sup> Instead of possibly buying 'shops' (integrating public systems into overall trade logistics platforms) for Customs and SMTQ on a larger logistics ICT 'real estate' developed by the trade logisticians.

5 In ownership, operation, maintenance, and monitoring and evaluation responsibilities, the important principle is to encourage both, (a) competitions in the logistics space (both virtual and physical), as well as (b) competitive bidding for the slots in that space. As an example, it is better to have multiple port operators competing in the port space rather than the complete port handled by one operator. Following on, it is better to have each of the port handling slots in the port bid out competitively. These are, of course, general rules and it is not that exceptions are not allowed, or that they do not work; but, just that these principles are preferable in most environments.

6 Sea ports and airports, by and large, provide good global practice on the “landlord model” working with many service providers/operators competing within a public port space. This should also be the preferred approach at places where 'land ports' are being developed either due to a modal interchange or otherwise (to retain national monopolies or due to rail gauge issues, etc.).

7 Recently many logistics ICT service providers are either being taken over or are going into partnerships with large transport and logistics service providers to benefit from efficiencies to be gained from vertical integration—something that is natural to transport but has to be regulated to ensure avoiding conflict of interest, equity of opportunity and especially the interests of the SMEs—the drivers of growth and prosperity.

8 We realize that in certain situations it's simply not possible to introduce competition into service delivery but it certainly is in terms of service provider selection. *FIATA, being a powerful lobby, can use their influence, particularly through national organizations, to encourage governments to insist upon open and transparent competitive tending for PPPs, concessions, and the like, particularly when they result in a monopoly provider of a key service. FIATA could also lobby for such contracts to include verifiable standards of performance with appropriate penalties for non-performance.* In situations where there is no viable alternative to a single service provider, it's only the service standards hard wired into the contracts that can protect the users.

9 It is not just the global trade and its logistics that need this attention to basic principles, but also within country or internal logistics.

### ***Internal (within country) trade logistics***

10 Internal (within country) trade logistics are critical for ensuring better functioning regional and global supply chains and in-turn contribute to the development of the critical SME Sector in the Asian countries due to two obvious reasons. First, a better within country logistics industry (supported by appropriate infrastructure) makes it easier to 'plug into' the formal global logistics industry. Second, it provides for better adaptation to higher requisite logistics standards as the country moves up the value chain or creates more than one cycle within the value chain; and provides more incentives to 'cluster' and locate more and more 'value stages' in the country. For example, making it easier to move from cotton yarn to say cotton manufacturers, and say from simply processing hides (single value addition cycle) to processing hides and stitching in the second cycle. While tougher to do than special zones, this has a more lasting and deeper effect on trade related job creation and prosperity in the country.

11 A discussion on the logistics infrastructure, related services, and value chains would be incomplete without looking at the state of the authorizing environment, both locally as well as globally. Logistics infrastructure is supplied based on the services required; and the services required and related standards are governed by rules governing transport of goods.

## **Multimodal Transport Rules**

12 In the last century, the changing nature of the transport and logistics business laid the foundations for the need for better uniformity in its governing rules and legislative environments. Despite global numerous attempts—e.g., the UN Convention on International Multimodal Transport of Goods, the UNCTAD/ICC Rules for Multimodal Transport Documents, and others—it will be fair to say that assessing risk in advance (especially in terms of applicable liability systems, limits of liability, and time-bar) on a transport operations or a logistics contract remains a formidable challenge which simply translates into the consumer paying a higher price. How much of the presently assessed costs of logistics of sixteen (16) to twenty six (26) percent of GDP at national level, or the fifteen (15) to fifty (50) percent of cost of delivered goods at a product level, can be attributed to this formidability of predictability of risk, is not known; but reason would indicate that the attribution will be substantial. The state of affairs was best summarized by the United Kingdom Law Commissions, Faber D., in her address to the Multimodal Transport Law Seminar, in December (5-7), 1994, and is still applicable. “The multimodal transport industry is investing heavily in improving its services. It is a very sophisticated industry but the same cannot be said of its legal infrastructure....This means that enormous sums, which would be better applied commercially, are spent in legal disputes....”

13 Compounding these are emerging realities or global agendas that the transport has to further contend with: security, greenhouse gases (GHG) emissions, oil prices, changing economic poles, nature of trade, stricter financial rules, rapid evolution of the ICT environment including tools, and so on. Mind you, not all of these increase risks, many of them—such as better ICT utilization, especially in data exchange and in countries’ Customs—actually provide opportunities to reduce them and thereby reduce the cost of transport. There is talk of global supply chain rules and development of economic and resource corridors to overcome the absence of agreement on uniform rules and legislation; with some debates about contract law versus country legislation and global conventions. Alongside, there is the global realization that governments cannot do this alone; e.g., on infrastructure improvement and provision there is clarity that there is not even 10 percent of the required financing available in the exchequers of the countries. This is increasing the leverage of private sector in pursuing governments towards improved rules and regulations. *This is an opportunity where honest brokers like the WB in partnership with entities like FIATA can really bring a change in this global debate by not only increasing focus on the realization for its need but also towards hastening the implementation of the change.*

### **FIATA and the WB; an excellent partnership**

14 FIATA is a key standing partner of the WB in rationalizing logistics costs and thereby facilitating trade. A key part of this partnership is FIATA’s role in assisting<sup>2</sup> WB with updating the global Logistics Performance Index (LPI) which benchmarks logistics performance of nearly 155 countries; so far three rounds of LPI are available and we are heading into the fourth round. The LPI exercise helps indicate problems, triggers the impetus for reforms, stimulates public-private dialogue on reform priorities, and then helps monitor progress over time. In today’s world, where the ‘jobs’ agenda is absolutely critical, and we know that lowering overall prices stimulates demand and creates jobs, this partnership with FIATA is of immense importance to us.

15 *The obvious next step in this partnership is for FIATA to assist more in the implementation of these identified reforms at the country and regional level using its ‘boots on the ground’ (its members). In the context of*

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<sup>2</sup> FIATA works alongside the Global Facilitation Partnership for Transportation and Trade (GFP), Global Express Association (GEA), and Turku School of Economics.

*trade facilitation reforms in Asia, of key importance are the partnerships with local associations in countries undergoing reform processes; since these associations are typically FIATA members we hope to see an increase in the role FIATA can play in facilitating the dialogue, especially in countries with weak institutional structures in terms of logistics industry associations. This would be done by FIATA assisting in building the capacity of professionals and national associations in countries performing poorly on the LPI; to improve the role of the main FIATA approved national FF association(s) in building the capacity of the national logistics industry and for them to increase their collaborations with national public-private joint working committees on trade facilitation issues (such as the NTTFC in Pakistan, AFPRO in Afghanistan, and the JWs being promoted in CAREC countries). We would also like to see that FIATA national member associations having a better role in the monitoring and evaluation (M&E)—like FIATA global does in LPI—by trying the model used by the CFCFA (Association of CAREC countries' based Freight Forwarding Companies) wherein it delivers the M&E results for the CAREC corridors.*

16 In summary, improved provision of logistics infrastructure and related services requires the following.

- Public-private partnerships that ensure appropriate competition in development, provision, operation, and maintenance based on agreed standards of service provision responding to the applicable rules and regulations.
- National level or country internal logistics need as much attention as cross-border logistics.
- The logistics and related services industry require a new set of comprehensive rules for a modern “logistics contracts.”
- Efforts like the LPI are extremely important in that they: raise the awareness about the required reforms; simulate the required public private dialogue to implement solutions; and, subsequently help monitor and provide feedback to improve these solutions.

17 FIATA through its partnership with the WB and other multilateral global agencies can play a dynamic role in delivering on all the above four areas, as discussed in detail earlier in the paper. Particularly, FIATA and WB along with other willing partners can mutually agree on a financing mechanism to sponsor much of the efforts required to bring about this paradigm shift in global logistics.