



RSIS COMMENTARIES (3/2007)

RSIS Commentaries are intended to provide timely and, where appropriate, policy relevant background and analysis of contemporary developments. The views of the authors are their own and do not represent the official position of RSIS.

SUPPLY CHAIN SECURITY STANDARDS

How companies can benefit from voluntary compliance

*Joshua Ho**

15 January 2007

SINCE the United States took the first initiative to upgrade trade and transportation security, other countries have followed suit with new legislation or initiatives of their own. Most of these involve approaches similar to those undertaken in the U.S. They are based primarily on voluntary efforts by companies to improve supply chain security and include faster customs processing for participating companies.

Canada's Partners in Protection, Sweden's StairSec, the European Union's Authorised Economic Operator programme, and New Zealand's domestic supply chain security programme contain the central theme of voluntary actions to improve supply chain security. There is also the benefit of facilitated customs processing in exchange for the security improvements. The World Customs Organisation is moving towards an international framework for supply chain security and customs processing. It adopted the Resolution on Global Security and Facilitation measures Concerning the International Trade Supply Chain. This resolution aims to create an international system for identifying businesses that offer a high degree of security in their supply chain operations and to provide customs facilitation for those companies.

The U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) is one example of a voluntary supply chain security programme. Although voluntary in nature, the disadvantages for those firms that do *not* volunteer for C-TPAT are significant. For example, there may be higher rates of inspection, which will add extra time of up to 10 to 12 days in a congested U.S. seaport. There could also be uncertainty in customs processing. Conversely, for firms participating in C-TPAT, there are at least four significant collateral benefits as C-TPAT effectively serves as the foundation for implementing supply chain security for many firms.

Faster Flow through Customs

Participating firms will gain access to a "green lane" for imports. This means expedited customs clearance, effectively speeding material flow through the import supply chain process. Faster throughput times at border crossings also come from fewer inspections. The faster throughput may raise service levels and lead to other benefits, not least of which include faster delivery to customers, lower working capital for inventory, and lower operating costs from less handling and fewer movements. One firm estimated that their C-TPAT compliance will save US\$12 million in the cost of inspections.

2003 data from the U.S. Customs and Border Protection (CBP) also show that C-TPAT certified importers are three times less likely to be selected for compliance examinations and are excluded from certain trade-related local and national criteria. C-TPAT certified importers are also seven times less likely to be targeted for inspections.

Platform for Collaboration

Participation in voluntary programmes also provides a platform for collaboration and alignment within an industry. This leads to industry standards, raising overall level of performance in industry on several levels, not just security. Specifically, these programmes provide a network of firms that enables higher levels of coordination for tackling common industry problems. At one firm, the collateral benefit of the security programme has been open communication with competitors such as Wal-Mart as it is in the industry's best interest to share information to help protect the supply chain.

Improved Supply Chain Efficiency

A number of voluntary programmes also entail several common practices that may help to improve supply chain efficiency -- even as they improve security. For example, introduction of early warning systems, like electronic pre-notification of delays in customs clearance, enable the affected parties to react more quickly, ultimately making for a more effective response that utilises resources better. As an example, one firm in the medical supply industry used an early warning information system to provide data about specific customer needs during a disruption. Their analysis indicated that the firm actually had 48 hours to respond to a disruption before it impacted the customer. This allows the firm to plan for less expensive two-day service rather than the more costly next-day service in responding to any disruptions. With some forethought, firms will be able to improve the efficiency and effectiveness of their supply chain operations.

Other Collateral Benefits for the Firm

Participating in voluntary programmes also integrates security into standard processes, engraining security into the process fabric of the firm. This helps create a security culture that increases the level of awareness and sensitivity in the firm to potential security breaches and system disruptions. C-TPAT partners have also enjoyed additional collateral benefits, including lower theft and losses, as well as reduced insurance rates after firms adopt improved security procedures.

Many of the programmes serve to instil process discipline in the firm. This increases compliance and higher performance in other domains such as quality, safety, and process performance. As an example, the Gillette Company learned that multiple methods were being used in the firm to handle imports, causing inefficiencies and adding unnecessary costs. The company is now standardising import procedures—which will bring costs down and improve efficiency.

Major collateral benefits can also accrue from reducing actual security breaches and enabling trade continuity or “trade security”. Some firms place the value of such benefits as high as US\$50-100 million/day. One firm's “trade security” actually enabled it to avoid the US\$250 million loss that its less secure competitor suffered.

A significant collateral benefit may also come when the firm ties the role of security to corporate objectives. In so doing, security plays an integral role in the delivery of the product or service to the customer, rather than being treated as a separate activity. One firm in the fashion industry found it less expensive to spend US\$500,000 on security by hiring personnel to be on site. This makes their upstream supply chain more secure and thoroughly prepare them for the subsequent C-TPAT application. For this fashion product provider, time to market was critical, and so a key motivation for making the security investment was the speed advantage offered by being with C-TPAT.

Conclusion

The importance and impact of voluntary programmes is likely to increase as customs clearance processes require greater oversight and time. It is widely recognised that there are constraints in moving materials through many ports throughout the world. And with processes requiring more oversight, one can predict that there will be increasing delays for border crossings, thus increasing implicit cost. Hence, the value of having security certification under a voluntary government/industry programme will increase.

* *Joshua Ho is a Senior Fellow and Coordinator of the Maritime Security Programme at the S. Rajaratnam School of International Studies, Nanyang Technological University*