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only<sup>1</sup>**

## **FACILITATION (FAL) DIVISION — TWELFTH SESSION**

**Cairo, Egypt, 22 March to 2 April 2004**

### **Agenda Item 3: Implementing modernized provisions for facilitation and security in air cargo service operations**

#### **3.2: Security**

### **AIR CARGO SECURITY — SOME DEVELOPMENT IMPLICATIONS**

(Presented by The International Air Cargo Association (TIACA))

#### **SUMMARY**

This working paper outlines some air cargo contributions to development; identifies current security requirements that could hamper these contributions; and suggests institutional and strategic responses to support corrective facilitation.

Action by the Division is in paragraph 8.1.

## **1. INTRODUCTION – Air cargo and development**

1.1 The four most dynamic elements in air cargo-based development are:

- a) enabling and servicing third world participation in global market operations;
- b) opening up entirely new export markets for high-value fruit, vegetables and flowers;
- c) ensuring timely, reliable supply of plant construction items and spare parts; and
- d) collecting and delivering urgent documents and very high value exports.

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<sup>1</sup> French version provided by The International Air Cargo Association (TIACA).

## **2. GLOBAL MARKET OPERATIONS**

2.1 A very substantial proportion of world trade (an estimate of the United Nations Conference on Trade and Development (UNCTAD) is over one-third) consists of raw materials, components, semi-processed and processed goods, moving, within integrated international supply, manufacturing and distribution networks, in the hands of a relatively few multinational companies.

2.2 Such operations have brought an unprecedented flow of foreign inward investments in productive capacity to countries where educational skills, labour availability and wage levels come together in the right commercial combination. Their economic, political and social benefits are now well-appreciated and reflected in active programmes, in most developing countries, to attract and retain such investment.

2.3 In addition, there is a large and growing volume of out-sourcing through subcontracts, for which foreign purchasers supply input materials, provide on-site expertise and quality control and, increasingly, observe and enforce high-quality corporate environmental and employment standards.

2.4 The operational key to success and so stability and expansion, in both these external trade sectors lies in sustained reliable and rapid, “just-in-time”, deliveries at all points in what is often a very complex sequence of import/export transactions.

2.5 Such requirements are especially stringent in certain business activities, notably footwear and garment making, where fashion dictates marked product changes to meet narrow seasonal sales windows and electronic assembly processes often aligned on an eighteen months product shelf-life. These industries figure largely in many national development programmes.

2.6 The contribution of various transport services to sustained success in these and other time-sensitive operations will vary from country to country and sector to sector, but well-managed multi-modal air/road cargo services, supported by skilled forwarding and Customs agency resources, are often essential.

## **3. FRUIT, VEGETABLES AND FLOWERS**

3.1 A growing range of fresh, succulent exotic and out of season fruits and prime vegetables, previously available, in many developed economies, only in small quantities at rarity cost, from specialized shops are now commonplace, relatively low-cost, items on the shelves of every supermarket in Western Europe and the USA.

3.2 Well-managed air transport, backed by expert forwarding, ground handling and Customs agency services, has enabled enterprising growers in a widening range of developing countries to sidestep the delays and associated refrigeration costs of alternative surface transport and open up profitable, entirely new means of exploiting their climatic and other natural advantages.

3.3 The results can be spectacular. Almost overnight, in conventional market development terms, Peru has become the world's leading exporter of asparagus.

3.4 Only half a generation ago, orchids were a horticultural curiosity, bought and worn only rarely on special occasions. Today they are commonplace items at the local flower shop. The World Bank has noted (Technical Paper 527) that flowers are routinely sold in Switzerland only 48 hours after they are cut in Israel. The global village is decked with global flowerbeds.

#### **4. PLANT CONSTRUCTION AND MAINTENANCE**

4.1 Russia, and several newly independent states in East Europe and the Caucasus are moving, at varying rates, to focus development strategies on major energy resources, especially oil and natural gas. The same scenario, with minor adjustments, is being played out at many other points on the global development map.

4.2 These invariably depend on early commissioning of key extraction, processing and supply plants, with precise timing, within a carefully planned sequence, of the delivery and use of a multiplicity of components and sub-assemblies. Once in place these installations generate frequent, usually unpredictable and always urgent needs for spare or replacement parts.

4.3 Specialized air cargo delivery services are indispensable means of meeting such complex, stringent customer needs, sometimes under very hostile and harsh operational conditions, and subject to complex formalities in the hands of corrupt and inefficient authorities.

#### **5. EXPRESS DELIVERY**

5.1 Despite massive shifts in communication habits and protocols from paper to electronic media, even the most developed countries depend, in many commercial, and official sectors, on the timely availability of a variety of paper documents.

5.2 These can range from newsprint, through financial, banking and insurance statements, to specialized blueprints and plans and original documents of title.

5.3 They are natural, prime cargo for the enhanced commercial and operational security provisions and practices that have been a unique feature of integrated delivery services for many years. They share these with very high-value consignments, including diamonds and bank notes, that face special dangers from organized crime at all unnecessary points of delay or detention and draw special benefits from the detailed monitoring implicit in airport-to-airport flight control systems.

5.4 Businesses, of all sizes, in all developing countries, need the reliability, conventional security and rapidity provided by these premium express services if they are to integrate with, and compete effectively in, the most demanding and rewarding world markets.

5.5 Easy access to overnight inter-continental services is particularly important.

#### **6. ANTI-TERRORIST SECURITY CONSTRAINTS**

6.1 These new curbs on trade development come in two main, interrelated guises:

- a) the direct and now well-defined set of border management requirements imposed by the US, EU and a number of other major trading countries on most import and an increasing number of export transactions; and
- b) emerging associated global security principles, practices and standards negotiated in, and, eventually, adopted by inter-governmental organisations, including ICAO.

6.2 These very substantial extra security rules have special implications for global development policy and their effects on air transport have to be seen, interpreted and treated in the light of its unique contribution to world trade expansion.

6.3 The key “visible” features of such premium security regimes are:

- a) demands for increased control data;
- b) a major shift of the point of control data capture from arrival of goods at import to a stipulated stage in the transaction prior to export;
- c) call for new aids to origin-destination cargo tracking and tracing, including Unique Consignment Identification;
- d) acquisition of large volumes of routine consignment information for a range of risk-assessment processes in high-performance large-capacity automated data processing systems;
- e) enforced use of scanning and other technical aids as alternatives, or supplements, to ordinary – often impracticable – intrusive physical inspection;
- f) imposition of varying delays on certain categories of consignments or on consignments in the hands of certain categories of traders/agents;
- g) strong official pressures behind voluntary cooperative arrangements, for example, in US practice, the Customs-Trade Partnership Against Terrorism (C-TPAT) systems, for traders, and the Container Security Initiative (CSI) arrangements with ports; and
- h) some special restrictions on food imports, introduced by the US Food and Drugs Administration (FDA).

6.4 Some of these requirements are being applied in ways that go against the grain of established facilitation practice and are all the more difficult to question or oppose because they are largely unwritten and unacknowledged. Such elements include:

- a) a retreat from the very effective methods of risk management, worked out at the key points of opposition to illicit drug smuggling and based on trader compliance records and intelligence, to relatively indiscriminating consignment-by-consignment assessment.
- b) collection of enormous quantities of cargo information without corresponding certainty, even in the most developed economies, of the capacity of relevant data processing systems to handle them;
- c) a tendency to achieve better origin-destination control by requiring transport and handling intermediaries to supply detailed information about consignments, particularly those carried in sealed containers, that is never normally given them, for excellent commercial security reasons; and
- d) tentative moves to focus premium, facilitated, procedures within “secure” origin-destination supply chains, necessarily dependent on intensive Customs-to-Customs mutual assistance. This could exclude consignments from many developing countries that might not be seen as viable partners because of lower standards of Customs efficiency and integrity or a lack of essential IT expertise and equipment, even though many members of the business community are fully compliant and trustworthy.

6.5 All these security elements, taken in combination, could have a direct adverse effect on trading competitiveness for numerous developing countries, compounded and aggravated if they also cut

into the range of services that air carriers can offer and provide, while adding considerably to basic transport costs.

6.6 Resulting operational irritants, on-costs and hitches imported into international “just-in-time” commercial operations, now vital access points to world markets for most developing countries, are bound to strike harshly at their small and medium sized industries as well as large units owned by or contracted to major multinationals.

6.7 Exports linked to imported in-puts have to sustain two domestic Customs interventions. These may be difficult enough in normal circumstances but these same Customs services, faced with new security responsibilities, and aware of US and other systems of “reimbursement” fees, are only too likely to follow suit and so cut profits, or load selling prices, by a new form of indirect taxation.

6.8 Traders in developing countries may well have special difficulties in providing up to 27 pieces of information – the current World Customs Organization (WCO) optional security risk-assessment data set – for every consignment. They may not fall within any definition of “known shipper” that may be decided on by their own national authorities.

6.9 If the fight conducted, for many months, by the air cargo industry, to retain the air waybill number as an adequate UCR fails, then traders, themselves, may have to generate, submit and take responsibility for an up-to-35 digit UCR.

6.10 If they are food exporters to the USA they will have to find and pay a US agent with no commercial added-value returns of any sort, and then comply with detailed Prior Notice requirements. That can hardly help those growers and their marketing partners who have had to accept very limited profits, if not temporary losses, to pioneer new distant outlets for fruit and vegetables.

6.11 In some developed economies governments have seen security as a good vehicle for tightened phytosanitary quarantine rules. Here again, small growers, in developing countries, will be particularly disadvantaged.

6.12 Security restrictions directly affecting air transport will hardly help. Routine delays to perishable consignments, now carried by air, could force expensive, perhaps unacceptable investment in new refrigeration facilities.

6.13 Plant construction supplies, especially spare parts, are always needed to precise delivery times, often with extreme urgency. Security imposed delays that could be built into a week long maritime voyage cannot be accommodated in the few hours origin-destination delivery timetable characteristic of this air cargo sector. There are no guarantees that the exceptions recognized as necessary for such situations, by security agencies in some of the most highly industrialized economies would – or could – be applied elsewhere.

6.14 Express delivery services, by their very name, are particularly time sensitive. Delays and uncertainties that could be shrugged off by shipping lines and overcome, albeit, with significant on-costs and restriction of service offers by other air carriers, are simply incompatible with the best integrated systems. It follows that while these facilities may be kept open for exchanges between developed countries where traders and control agencies have full, modern resources, including specialized and expensive scanning and x-ray devices, they may become unavailable in some developing countries to business customers who have most need of them to retain and extend initial footholds in global trade in goods and services.

## **7. STRATEGIC AND INSTITUTIONAL REQUIREMENTS**

7.1 There has been very little time, in normal regulatory terms, for anything like a global security strategy or legislative structure, to develop from and around the powerful initiatives taken by the US, EU and other major economic and political entities.

7.2 It would be highly beneficial to continued global trading expansion and the steady integration of poorer economies into its mechanisms and benefits, however, if early international initiatives included:

- a) recognition, examination and redress of the special, unintentional and little publicized commercial and economical burdens of anti-terrorist security regulation on developing countries; and
- b) a similar assessment of related handicaps, for these countries, in accessing and making full use of modern air cargo services.

7.3 The first task, which, in its broadest form, could certainly engage the attention of UNCTAD should also figure, on at least equal terms, along with environment, gender and civil society, in the basic lending strategy of the World Bank, that can hardly ignore the counter trade facilitation effects of inappropriate, ill-adapted and inefficiently implemented security requirements. It would be helpful, too, if the Bank could adjust its widening range of facilitation and trade promotion projects to take full account of the large and growing role of air cargo in practical development activities. A joint ICAO/World Bank meeting, open to the industry and other interested parties could be a useful opening gambit.

7.4 The World Trade Organization (WTO), too, can hardly pursue further thoughts, if not negotiations, on facilitation, interpreted, so far, mainly in terms of Customs reform, without taking notice of the effects of the new border management regimes on world trade, in general, and developing countries in particular. The WCO, at a more modest technical level, could well give some special opportunities to its large majority of developing country members to express some broadly concerted view of the many aspects of security practice now passing through its Security Task Force.

7.5 The second task would seem to fall squarely within the ICAO remit, presumably by some carefully planed synergy between Facilitation and Security Divisions.

## **8. ACTION BY THE DIVISION**

8.1 The Division is invited to exchange views on this matter and to agree that ICAO should take leadership in establishing a modern security regime for air cargo that takes into account the economic impact on developing countries while meeting the challenges posed by contemporary threats to civil aviation.

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