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# **HOW SECURITY CONTRIBUTES TO THE ECONOMIC COMPETITIVENESS OF THE AIR CARGO INDUSTRY**

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## 1. Introduction

We have already seen that the Air cargo industry is growing very fast and it is bound to increase its momentum in the future largely due to the growth in high value and time sensitive cargo volumes. But at the same time, Air cargo security has become one of the major global security concerns given its recognized vulnerabilities making air cargo possibly the easiest target for terrorists. While the disruptive attempts underline the need for more robust air cargo security, the challenge lies in making sure the goods flow smoothly, cost effectively and efficiently without impeding global trade, yet ensuring high security for air cargo all the while.

After a lot of disruptive incidents and detection and abortion of various sinister designs in this sector in the last decade or so, nations and agencies have come together to adopt multiple measures aimed at enhancing air cargo security. From a customs perspective, securing air cargo from acts of unlawful interference, while facilitating the easy movement of goods worldwide has been a major priority.

When I speak of unlawful interference, there are various dimensions which the Customs would look into: It is not just immediate danger to the cargo, the aircraft or the handlers. It also includes Threats to the nation and its population along its supply chains and more importantly to the destination nation which can be either of **Economic nature**, or related to **National security** or **Environmental degradation** or **loss of Cultural** ethos.

So there are multiple aspects / angles the Customs would look into in addition to the security of the air cargo and hence the requirements would not be the same as that of the aviation authorities. With these differing standards and requirements, freight companies need to adhere to multiple and often overlapping security standards which leads to duplicate efforts and additional costs.

And every penny counts!

Companies traditionally find it challenging to justify security-related investments based on neo-classical economics because they focus largely on the direct expenses and benefits and not on the collateral benefits like supply chain efficiency, improved customer satisfaction, improved inventory management etc. that may be realized.

When we speak of expenses, let us look into the other major security related expenses as well:

To ensure a fool proof security, though there are calls for 100% inspection of air cargo from various quarters, the same is limited by factors like:

- a) **Time lag:** Most security regulations can cause a significant adverse impact upon the air cargo industry, especially given their debilitating effect on shipment transit time in an industry characterized by time-sensitive realities. As we all know: Time is money.
- b) **Cost involved in technology and infrastructure:** The huge cost of implementing such security measures also poses a major hurdle which could include the cost of acquisition, installation, training, operation and service, as well as fixed costs including labour, the cost of capital, and utility costs.

## 2. What could be an ideal way out?

A comprehensive security plan must adopt a multimodal vision that provides an efficient security framework that follows a Comprehensive Risk-management approach which enables the authorities to identify and focus on high security risk shipments, adequately addresses vulnerabilities in the system, is fiscally responsible and does not unduly impede the flow of commerce. Risk management should cover:

- i. **An assessment of threats** to air cargo security in a particular region, based on factors such as capabilities, intentions and past activities;
- ii. **An assessment of vulnerabilities** to those threats, which implies identifying particular weaknesses that may be exploited and proposing measures to address these vulnerabilities;
- iii. **An assessment of relative importance of addressing the identified vulnerabilities**, given their effect on public safety and the economy.

### INDIAN EXPERIENCE:

India has a very robust and well integrated IT based Risk Management System (RMS), complementing a self-assessment system in a comprehensive manner. The automated system cuts down cargo clearance time by one-third, helping importers who benefit by saving money on account of quicker clearances. A very large majority of the consignments are being assessed through RMS

without examination and on self-assessment basis. At the same time, the RMS envisages interdiction of cargo that is potentially non-compliant and has a large number of success stories to its credit.

- There have been cases of Narcotic drugs, Bulk drugs and pesticides which have been seized when attempted to be smuggled in air cargo consignments based on the risk profiling.
- Gas compressors were found to contain Gold and Iridium and Fake Indian Currency Notes found concealed in School bags which risk profiling of the supply chain helped in detections
- Classical case of Modems imported into the electronic city – Same exporter, same importer, same item in almost similar quantities, same routes. The only parameter suspicious was
- It need not be the same item; the modus suggests that anything similar including major security risk items could have been imported.
- But there are some cases where RMS cannot help like the case where : An unmanifested Mandrax consignment was added into a pallet with the help of airline staff

Hence the importance of various other best practices that should run parallel to and compliment the risk management system to enhance air cargo security:

1. **Procedures to ensure physical security of air cargo facilities and operations** like periodic inspections and oversight of air cargo facilities, providing training for air cargo personnel, and increasing control over access to aircraft and cargo facilities eg: Various security tools like Tamper Evident Tapes and Seals, Bolt and Cable Seals, Truck/Trailer/Container Locks and Seals, Electronic Seals, Pallet Security, Cargo & Personnel ID and Screening Systems.
2. **Advance electronic information:** which allows identification of high-risk consignments as early as possible in the supply chain. Responsible sharing of information including Real time sharing of information / data with concerned stakeholders should be encouraged.
3. **Enhance international cooperation** to prevent acts of unlawful interference.
4. **Align policy and regulatory frameworks** to achieve synergy, avoid duplications, and promote mutual recognition of air cargo security regimes and regulatory activities.
5. **Share best practices** between all stakeholders in the air cargo supply chain.

## **ROLE OF CUSTOMS AND WCO IN MAKING IT COST EFFECTIVE:**

As government organizations that control and administer the international movement of goods, Customs administrations are in a unique position to provide increased security to the global supply chain and under the aegis of the WCO have been in the forefront in coordinating with stake holders in the entire supply chain to find synergies that can help streamline security processes and protect the flow of goods which is absolutely vital to the world's economy. WCO has endorsed a strategy called the WCO SAFE Framework of Standards to secure and facilitate global trade. With the membership and thus the participation of Customs administrations representing 99 percent of global trade, WCO is obviously the appropriate platform for this initiative.

The SAFE framework aims to promote the seamless movement of goods through integrated and harmonized supply chain management by establishing standards to promote certainty and predictability, enabling advance electronic cargo information, using Consistent Risk Management approach to address security threats and Strengthening Customs to Business co-operation and co-operation between Customs administrations.

One important component of this is the **Authorised Economic Operator program**. An AEO is an entity engaged in the international movement of goods approved by Customs as compliant with the supply chain security standards, and are given benefits such as simplified Customs procedures and reduced Customs intervention.

Though many Customs Administrations have their own models for identifying and rewarding reliable stakeholders, the AEO concept is being increasingly adopted by various Customs administrations with the objective of subsequent mutual international recognition and later the integration into Globally Networked Customs.

## **BENEFITS TO AEOs – The INDIAN EXPERIENCE**

AEO programme pilot was introduced in August 2011 and it became fully operational in November 2012. A business authorized by the Customs as an AEO enjoys a host of benefits flowing from being a more compliant and a secure company, by ensuring that a low risk score is incorporated into Customs Risk Management System (RMS) → to determine the frequency of Customs physical and

documentary checks, Simplified Customs procedure, declarations, Faster Customs clearance of consignments etc.

Let us see the specific advantages to each sector:

**A. Importers:**

- (a) Greater Facilitation even more than for an ACP importer.
- (b) Reduced bank guarantee which shall not exceed 5% of the bond amount.

**B. Exporters:**

- (a) Reduced percentage of examination.
  - 10% → 5%. (In normal cases)
  - 25% → 10% (In cases of export under claim of drawback / Reward Schemes)
  - 50% → 20% (in case of examination to sensitive destinations)
- b) Further the value limit is raised FIVE times for drawback shipping bills and DOUBLED in case of EPCG/ DEEC shipping bills

**C. Logistic Service Providers:**

- (a) Waiver of Bank Guarantee in case of transshipment of goods.
- (b) Not required to take permission on a case to case basis in case of transit of goods. In case of international transshipped cargo, ramp to ramp or tail to tail transfer of cargo can be affected without Customs escorts.

**D. Custodians or Terminal Operators:**

- (a) Waiver of Bank Guarantee
- (b) Extension of approval for longer period -- for a period of ten years at a time

**E. Customs House Agents:**

- (a) Extended validity period of licenses. The License to be valid till validity of their AEO authorization.
- (b) Exempting the Fee for renewal of a license.

**F. Warehouse Operators:**

- (a) Faster approval for new warehouses.
- (b) Reduced bank guarantee to the extent of 5% of the duty liability (from 25%) in respect of individual consignments of sensitive goods to be warehoused.
- (c) In case of goods not likely to deteriorate, warehousing extension up to a period of six months at a time.

In addition, this provides businesses with an internationally recognized quality mark which will indicate their secure role in the international supply chain and that their Customs procedures are efficient and compliant. An entity with an AEO status can, therefore, be considered a 'secure' trader and a reliable trading partner. These ensure that AEOs see a definite benefit to their investment in good security systems and practices.

So to sum up, let me reiterate the fact that **INVESTING IN BETTER SECURITY Definitely MAKES ECONOMIC SENSE**: Evidence for this positive security premium is growing over the years.

Many studies have been conducted including the ones by the Stanford University to confirm and quantify the magnitude of collateral benefits received by a select group of companies that are considered "innovators" in supply chain security in their industries such as chemicals, consumer goods, food, information technology, automotive parts and logistics service providers.

The findings clearly indicated that significant business value accrues from supply chain security investments. Studies were able to identify that these companies not only received the expected security benefits from their investments like reduced risk, less theft and pilferage etc., but also were able to quantify numerous collateral benefits they received, such as:

- Higher supply chain visibility;
- Improved supply chain efficiency
- Better customer satisfaction;
- Improved inventory management;
- Reduced cycle time and shipping time (better cut off times etc)

**These led to COST REDUCTION, IMPROVED REPEAT ORDER RATES and REFERAL ORDER RATES.**

Add to this the advantages as an AEO which will reinforce and multiply the benefits; I am sure this will drive away any remaining apprehensions about the the positive role that security and regulatory developments can play in improving industry competitiveness.

**Thank you**