



# **GMS-FRETA**

**FREIGHT TRANSPORT ASSOCIATION**

## **Logistics, Distribution & Infrastructure**

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# Logistics

- Local Transport
- Regional Transport
- Intermodal Transport
- Current Regional Cross Border Transportation
- Air freight Capacity
- Access to Ports



# Access Logistics

- Access to Markets
  - Domestic
  - Export
- Access to Labour / Facilities / Utilities
- Access for Suppliers
  - Factories do not work in Isolation
  - Inputs from component suppliers worldwide
  - Customs clearance
  - Transit times



# Supplier Inputs

- Quantities
  - Not always in Full Container Loads ( FCL)
  - Often smaller high value shipments
- Frequencies
  - Not usually monthly or weekly in bulk
  - Often daily shipments required due to production issues
  - Automotive & High Tech require JIT deliveries
- Customs
  - Can inputs be Import under bond ?
  - Can components be held in a bonded warehouse ?
  - Customs clearance times ?



# Access Logistics

- Capacity & Demand determines cost
  - High demand routes have high freight rates
  - Narrow bodied PAX have very limited airfreight capacity
- Freight Costs
  - Offset savings in Labour
  - Goes to the Cost of Goods Sold
- Long transit Times
  - Reduces Comparative advantage of lower labour cost
  - Limits ability to respond to market needs



# The Certainties in Transportation

- **Border handling Costs Money (swap Containers etc)**
  - Every time you stop, offload or Transship it costs money
  - Increases risks of damage / loss / pilferage etc – increases costs
- **Handling Facilities have to be paid for !**
  - Cranes, Warehouses and Labour cost money
- **The costs are passed on to the Customers !**
  - They go to the Cost Of Goods Sold !!
  - Affecting the competitiveness of goods, imports or inputs
  - Impacts country export competitiveness and business opportunity



# Cross Border Transport

- Road Transport challenges:
  - Border Transshipment (swap containers)
  - Border delays
  - Customs delays / clearance costs
- Rail challenges:
  - Designed for Long Distance High Volume
  - Frontier often congested with high charges
  - Can take a week to get a container through
- Air challenges:
  - Capacity limitation in regional centers
  - Freighters only serve major hubs
  - Mainly narrow body PAX aircraft with small freight capacity

# New Infrastructure







# Border Infrastructure

- Most Borders Open 12 hours x 7 Days
- Multi Million Dollar Border Facilities developed, but all too often..

Customs Opening Hours are restricted:

- 5 Hours a day ... 5 days a week (i.e. no 24/7)
  - With a 3 hours lunch break
- 
- Outcome of above is therefore restricting the flow of trade.
  - Trucks sit in queues ...costing money and raising COGS



## Ease of use - Customs

- Some Countries
  - Customs seen as Pro Export
  - Customs are “User friendly”...simplified export processes
  - Customs are trade facilitators First . Revenue collectors Second
  - Customs allow for easy movement of bonded cargo (between facilities)
- Some Countries
  - Customs regulations differ by border and method of export
  - Strict adherence to Company Articles of Association (no common sense leeway)
  - Lack consistency in interpretation of regulations (person to person; region to region)
  - Shippers forced to obtain export permits on the “gray” market



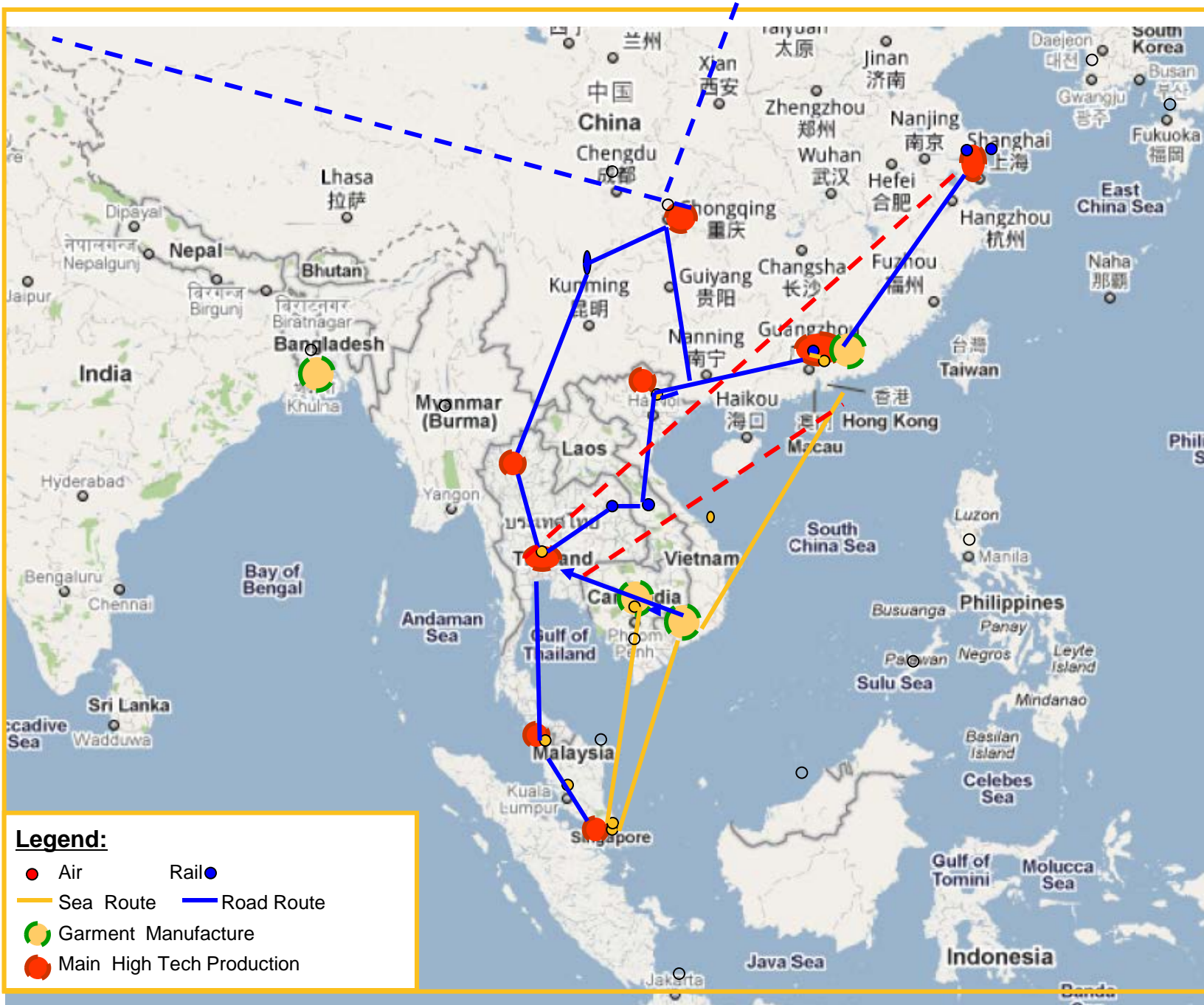
# Customs Zones

- ICD is for inland clearance. The clearance is deferred from the port of entry / exit so that it can be carried out locally.
- Bonded warehouse. Whereas it is possible to clear customs at a bonded warehouse, the main reason for their existence is to delay clearance and allow goods with high tax and duty to be stored under bond until needed ...and thus slow down the clearance process
- Free Trade Zones (FTZ) are where manufacturing can be done without the need to pay the tax and duty on imported components. Goods are bonded forward from the entry port to the FTZ factories for further manufacturing.



## Regional Supply Chains

- Manufacturing does not happen in Isolation
- Companies swap components between factories
- Specialist component producers supply many manufactures
- Transport is move expensive than it needs to be.
- Customs is often responsible for slowing the process



**Legend:**

- Air      ● Rail
- Sea Route      — Road Route
- Garment Manufacture
- Main High Tech Production

# Canon Case Study

- ⇒ Canon is a world-leading innovator and provider of imaging and information technology solutions for both home and office environments.
- ⇒ Canon develops, produces and markets a wide range of products used in the home, the office and industry, including business machines, cameras and optical products.

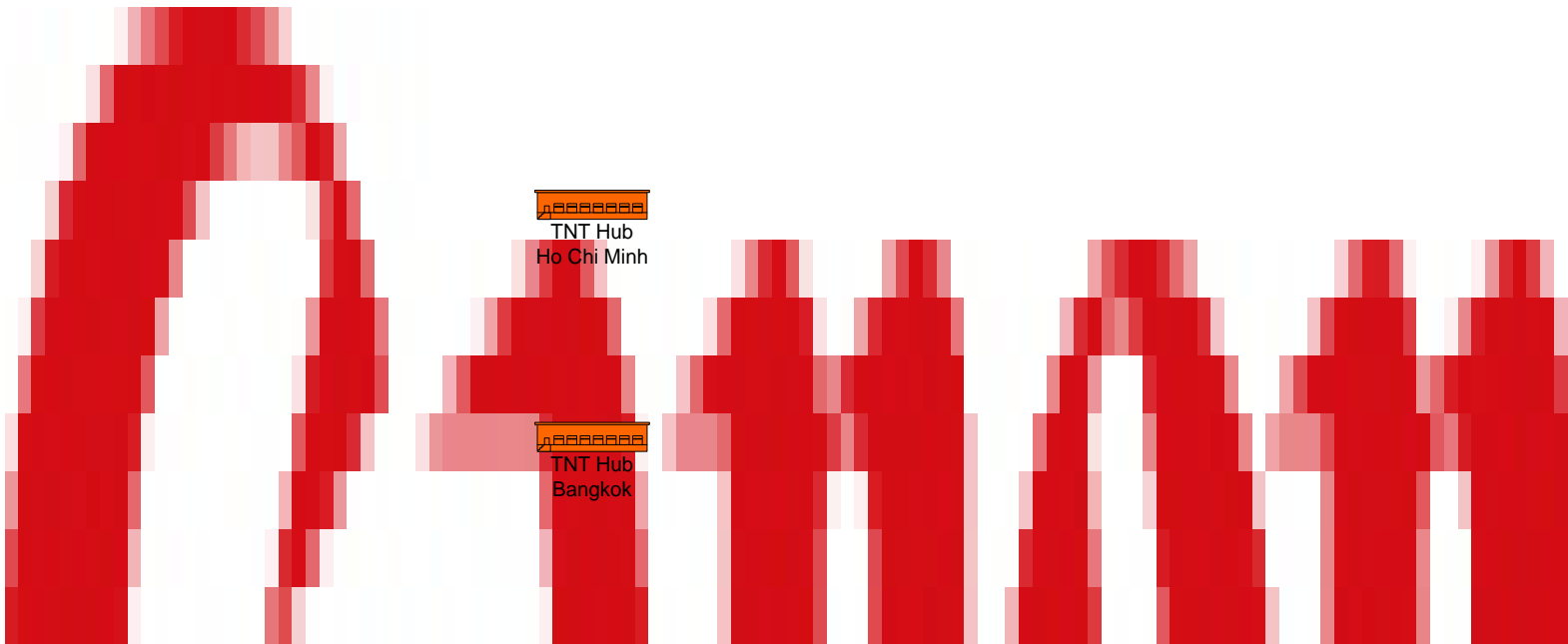
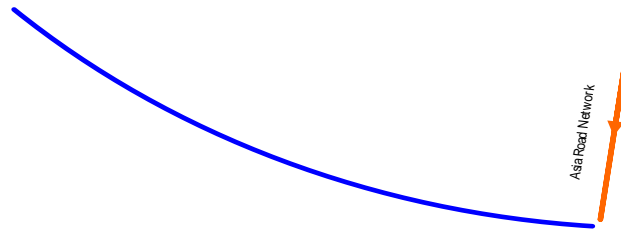
## Challenge

- ⇒ Limited airfreight space available from Hanoi to European markets causing backlogs
- ⇒ Assist customer in their strategy to meet time to Europe market during peak season
  - ⇒ Reduce transit time
  - ⇒ Access to air capacity
  - ⇒ Improve reliability

## Solution

- ⇒ An integrated ROAD-AIR solution for Canon Hanoi to export from alternate airports which had available capacity
- ⇒ Arranged for air lift capacity ex Ho Chi Minh and Bangkok
- ⇒ Shipments were moved via road on the ARN to BKK & SGN airports
- ⇒ Product Shipped: MP540, MP240 & IP3600
- ⇒ Total Chargeable Weight Moved: 433,803kgs
  - ⇒ Via BKK: 300,649kgs
  - ⇒ Via SGN: 133,154kgs
- ⇒ All delivered in Good Condition, with on Time Performance of 100%
- ⇒ Average lead time
  - ⇒ Calendar Days - 6.78 days
  - ⇒ Working Days - 4.58 days

# Canon Solution





# Supply Chain Realities

- Growing demand: High Tech Component swapping
- “get it out of the air” (capacity / price fluctuations / carbon foot print etc)
- Must be time specific to meet JIT Manufacturing requirements
- Demand for export freight capacity outstrips air uplift supply
- Multi modal requirements for regional/smaller centres to access intercontinental transport





# Supply Chain Security . . . . .

## Ensuring Fulfillment

- Delivery
  - On Time in Perfect Condition
  - Meeting customer requirements
  - JIT to factory lines
  
- Secure Supply Chains must have
  - Guarantee of delivery date
  - No risk of short supply
  - No risk of “Line down” production delays due to no delivery of components



## For SMEs to be part of the Value Chain

- They need
  - The ability to ensure on time delivery every time
  - Competitive transport with easy connections to Global routes
  - Consolidated feeder services for economies of scale
  - ICDs for local consolidation / distribution
  - Ease of import / export procedures
  
- They don't need
  - Uncertain transit times
  - Expensive feeder services due to lack of capacity
  - Paying for dedicated vehicles to ensure smaller quantities are dispatched in time to meet deadlines



# What Your SMEs need from Customs

- Border Crossings & Customs
  - Smooth and Consistent Customs Clearance
  - Inland Clearance Depots ... in FTZs and population centers
  - Bonding arrangements for transit to ICDs
  - Bonded Warehouse facilities to off load and store un-cleared goods
  - 24 hour transit for bonded or ICD transit vehicles
  - Long opening hours for customs ..16 hours ?
  - Clean an Transparent operations
  - A level Playing field where Tea Money does not cut Favour

# Nokia Case Study



## **The Company**

Nokia makes a wide range of mobile devices and provides people with experiences in music, navigation, video, television, imaging, games and business mobility through these devices. Nokia is currently manufacturing mobile devices in 8 locations (Finland, Hungary, Romania , Mexico, Brazil, India, Korea, China). Vietnam and Thailand is primarily supplied from the Dongguan and Beijing factories in China.

## **The Challenge**

Rising costs and the need to find an alternative transport solution.

## **Customers challenges**

- Logistics cost per phone
- Rising fuel costs and overdependence on airfreight
- Inconsistent transit time to Hanoi due to space limitations
- Damage due to multiple handling
- To improve customer satisfaction
- Lower carbon supply chain

# Nokia Case Study



# Moving to Land Transport

## ❖ Major Technology Producers switching Air to Road in Asia

- Nokia
- Hitachi
- Samsung
- Seagate
- Huawei
- Panasonic
- Toshiba
- Honda
- Hewlit Packard
- Foxconn
- Canon
- Sony
- ABB
- Osram
- Ericsson
- Murata
- Celestica
- Tyco
- ZTE
- Katolec EMS



## Realities Today

- *“The reality of Multi Modal Transport in developing is that it serves the Import of Consumer Products from non developed countries. Multi Modal transport is not serving the needs of local SMEs ”*
- New Roads and Bridges have done little to improve market access or participation in the Global Supply Chain for SMEs in the hinterland.
- The Non-Physical Barriers are still the dominant
- Transport is move expensive than it needs to be.



# The Elephant in the Room



“Tea Money”





# Tea Money vs Bribery

- Tea Money
  - Likened to tipping a bell boy ?
  - Paid to officials to speed up the process ... “stamp me before lunch”
  - Generally accepted to be less than \$ 5
  - Similar to beer vouchers provided to warehouse loaders in Japan
- Bribery
  - Paid to officials to get papers process
  - Paid to officials to ignore paper work problems
  - Paid to customs officers to use lower tax HS codes
  - Paid to police to ignore overloaded / defective trucks



# Bribery is Endemic

- Registration Processes
  - Need to employ an agent... who has a 'good relationship' with officials...can smooth the way ( pay the bribes)
  - No Agent ...can mean months of waiting.
  - Usually a little more is needed to get it through
  - Big companies use agent to keep their hands clean
- Foreign Companies
  - Seen as a soft touch
  - Have no alternative but to pay up



# The Challenge

- “Encouraging a more modern and efficient door to door transport system such as that offered by Multi Modal Transport will go a long way towards alleviating rural poverty, enhanced trade and improve the foreign exchange earnings of developing countries and countries in transition”

“UNCTAD”



# Remove The Road Blocks



*Arigatou gozaimasu !*