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COMMUNICATION FROM HONG KONG, CHINA

Logistics and Related Services

The attached communication has been received from the delegation of Hong Kong, China with the request that it be circulated to Members of the Council for Trade in Services.

I. INTRODUCTION

1. In September 2000, Hong Kong, China presented our views on the overall scope and coverage of services negotiations and their guidelines by way of the paper S/CSS/W/6. In that paper, we indicated interest in encouraging commitments covering several sectors in areas where suppliers aim to offer a "one stop shop" approach. Logistics and inventory, distribution and delivery hub services have been flagged up as one of such priority areas. Hong Kong, China wishes to elaborate our ideas in this regard and herewith presents a proposal on the liberalisation of logistics and related services, including maritime services. Hong Kong, China reserves the right further to supplement or modify this proposal and looks forward to further meaningful discussion with Members.

II. IMPORTANCE OF LOGISTICS AND RELATED SERVICES

2. International trade is facilitated by efficient door-to-door logistics chains, simple trade formalities, procedures and operations. The concept of logistics services has evolved over the past few decades, from the narrowly defined physical transportation and distribution of goods to the integrated management of global/regional supply and distribution chains. With the continuous growth of global trade in goods and services, the demand for and benefits of logistics and related services are becoming more and more significant. The logistics market has continued to grow as the trend to outsource logistics and inventories and to concentrate on the core business develops. The extent to which such potential markets may be realized for service suppliers across the board, hinges much on the efficacy of service providers, as well as on the availability of business opportunities.

3. High quality logistics services are in fact crucial in enhancing the economic welfare of different economies. Total logistics costs are estimated to reach up to 20% of total production costs in developed countries and usually to an even larger share for developing countries. The availability of competitive logistics services should lead to the optimal utilisation of resources in this respect, as manufacturers may then be relieved of the administrative and financial burden of logistics management, and capitalize on their core business which could further improve their competitiveness. In addition, efficient integrated delivery arrangements by logistics services providers would also enable manufacturers and material suppliers to meet consumer demand in a timely and reliable manner. With the dedication and expertise in transport planning by logistics agents, transport services

suppliers would benefit from more efficient use of their capacity. Consumer welfare would also be much advanced as a result of reliable supply and competitive pricing. Indeed, the demand for highly efficient one-stop logistics services to cater for fast-changing consumer demand is accelerating with the proliferation of electronic commerce. Having regard to the multitude of benefits and the demand flowing from commercial reality as outlined above, Hong Kong, China considers that it is opportune for the services negotiations to accord priority in liberalizing the logistics and related services.

III. SCOPE FOR LIBERALISATION

4. Logistics, in general, is understood as the procedure to optimize all activities to ensure the delivery of products through a transport chain from one end to the other. Currently there is no separate classification entry for logistics services in the WTO Services Sectoral Classification List (W/120). However, logistics related elements have already been included in W/120 under various sub-headings, such as the "Transport Services" sector (freight transportation, cargo-handling services, storage and warehouse services and freight transport agency services etc) and "Business Services" sector (inventory management, and order processing etc). Further related elements, like customs clearance services, container station and depot services, maritime agency services, have in fact also been introduced under the model schedule on maritime transport services which formed the basis of the last set of maritime transport services negotiations. Despite the suspension of such negotiations in June 1996, Members generally recognized the specificity and the importance of these elements in bringing about the seamless delivery of goods.

5. Finally, we consider that the Express Delivery industry is playing an increasingly important role in logistics and inventory matters. Hong Kong, China considers that Express Delivery goes much wider than courier services and encompasses a significant number of services activities, including some which have been detailed above. We also see a clear link here with the services vital for e-commerce as an activity. This is taken up in paragraph 13 below.

6. To facilitate the achievement of commercially meaningful liberalisation measures for the logistics services sector, it would be useful to build a consolidated list of logistics and related services. In the view of Hong Kong, China, a preliminary list could be as follows:

- (a) freight transportation services;
- (b) cargo-handling services;
- (c) storage and warehousing services;
- (d) customs clearance services;
- (e) transport agency services;
- (f) container station and depot services;
- (g) inventory management services;
- (h) order processing services;
- (i) production planning services;
- (j) production control services.

7. Coverage/definition for items (a) to (f) could be considered on the basis of the existing classification on "Transport Services" sector in W/120 or the model schedule on maritime transport services as appropriate. Items (g) to (j) appear to fall under the category of "Management Consulting Services" under "Other Business Services" sector in W/120. In this regard, Hong Kong, China would suggest that Members might wish to review the appropriateness of the very important and wide ranging services mentioned in paragraph 6 (g) to (j) being scheduled under "Management Consulting Services". This seems an inappropriate location given their broad scope. We would also welcome initiatives from Members to expand this list by suggesting other relevant sectors.

8. In order to accord ample opportunities for the development of logistics services in an unambiguous manner, Hong Kong, China encourages Members to formulate substantial and meaningful Market Access and National Treatment commitments in as many services sectors mentioned in paragraph 7 above as possible. We see this as the best way to enhance the commercial value of commitments and to improve comprehensibility for the trade. Hong Kong, China continues to attach paramount importance to the legal certainty of commitments made. As always, Members are free to schedule commitments according to their interests and level of development.

IV. MARITIME TRANSPORT SERVICES

9. Of equal importance to the meaningful business opportunities for logistics services is the openness in the transport sector. Liberalisation of the maritime transport services (MTS) stands to provide the most significant impact in this regard. It is estimated that 80% of the total volume of world trade is carried by vessel. World seaborne trade has continued to experience a steady increase over the past decade, and has reached a record high of over 5 billion tons, despite the intervening economic fluctuations. Substantial liberalization in this sector will contribute much to the further efficiency and welfare gains from logistics services.

10. The suspension of the 1996 MTS negotiations and correspondingly the Most-Favoured-Nation (MFN) obligation for this sector was indeed a disappointing chapter in the history of multilateral liberalization of services trade. Hong Kong, China strongly supports early resumption of negotiations as provided for in the Decision on Maritime Transport Services adopted by the Council for Trade in Services (S/L/24). Negotiations should be conducted with a view to attaining real and meaningful commitments by all members on a MFN basis.

11. Hong Kong, China appreciates efforts made in the last MTS negotiations. In our view, the resumed negotiations should take account of both the efforts previously made, as well as recent developments in the MTS sector. We look forward to substantive commitments from Members leading to the elimination of major obstacles in the MTS sector, including but not limited to restrictions on foreign equity ownership and management in particular related to ports, measures in favour of national service suppliers both in international and local services (including the freedom for the maritime industry to operate in some, if not all, services in the domestic market of other Members), restrictions on scope of business activities, and different licensing requirements for local and foreign firms.

V. OTHER ELEMENTS

12. The pace of evolution of logistics and related services is such that addressing port-to-port problems alone is no longer adequate. To meet the ever-increasing demand for customized door-to-door logistics services, multimodal transport services, which link up both domestic and global production and marketplaces through the interconnectivity of and between modes of transport, becomes indispensable. In this connection, we consider that the idea of multimodal transport services that was first suggested in the 1996 MTS negotiations an important tool in this respect and we are

prepared to discuss with Members on how it should best be utilized, both to ensure smooth services and for the avoidance of disputes in MTS.

13. Another element critical to the provision of effective global logistics services is the use of information technology. The Internet, e-commerce and electronic data interchange play an increasingly prominent role in transport and logistics services, as the management of information becomes as important as the management of the shipping arrangements itself. In order to provide globally guaranteed and secure delivery of trade documentation in electronic form, many conditions should be met, in particular global operational capability, a secure legal framework, harmonized standards, and comprehensive data security. Hong Kong, China will shortly submit a paper on how WTO could help promote a facilitatory environment for the conduct of e-commerce.

VI. NEXT STEP

14. Hong Kong, China encourages Members to take an active part in the deliberation of issues surrounding the important sectors mentioned in this paper.
