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## **COMMUNICATION FROM AUSTRALIA; HONG KONG, CHINA; LIECHTENSTEIN; MAURITIUS; NEW ZEALAND; NICARAGUA; SWITZERLAND AND THE SEPARATE CUSTOMS TERRITORY OF TAIWAN, PENGHU, KINMEN AND MATSU**

### Logistics Services

The following communication, dated 25 June 2004, from the delegations of Australia; Hong Kong, China; Liechtenstein; Mauritius; New Zealand; Nicaragua; Switzerland and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu is being circulated to the Members of the Council for Trade in Services.

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#### **I. INTRODUCTION**

1. In March 2001, Hong Kong, China presented its initial ideas for liberalization in logistics and related services in S/CSS/W/68. In May 2001, Switzerland made proposals on multimodal transport in S/CSS/W/78. This joint paper further develops these ideas and presents a concrete proposal and checklist for the making of substantial and meaningful specific commitments in sectors which would contribute to the liberalization of logistics services. This proposal and the checklist are presented without prejudice to the position of its co-sponsors in the on-going services negotiations in respect of individual sectors.

#### **II. IMPORTANCE OF LOGISTICS SERVICES FOR TRADE**

2. The co-sponsors of this paper consider improvements in freight logistics services to be a crucial underpinning of expansion of trade generally and improvements in global economic welfare.

3. To recap, international trade is facilitated by logistics services providing efficient integrated management of point-to-point supply and distribution chains. Logistics deal with the supply chain process that plans, implements, and controls the efficient and effective point-to-point flow and storage of goods, services and related information, throughout the production, distribution and delivery stages, from the initial suppliers of inputs to final customers of products. Such services form a crucial and integral part of the infrastructure and a major determining factor of the competitiveness of an economy in global trade and investment.

4. Efficient logistics services are beneficial to world trade in goods and services and crucial to the economic development of different economies. Total logistics costs (including packaging, storage, transport, inventories, administration and management) are estimated to reach up to 20 per cent of total production costs in developed countries, while freight costs alone can be up to 40 per cent of export values for certain landlocked developing countries. This would equally be the case for other developing countries, small economies and island economies. The availability of competitive logistics services would enhance overall economic efficiency and competitiveness. Cost reductions or quality improvements in the supply chain benefit the exporter through increased competitiveness as

well as the importer/consumer through lower total prices to be paid. Differentials in logistics costs could be even higher than tariffs and could easily undermine comparative advantage in production costs. This is particularly the case for developing countries which have significant interests in export of goods ranging from agricultural products to industrial goods, and which could benefit from timely, reliable and efficient supply chain, distribution and inventory management for their exports.

5. At the same time, the trend of increasing focus on integrated management of the supply chain and outsourced support for inventory management provides significant potential for third-party suppliers of logistics services to flourish. Such third-party logistics services would enable manufacturers and suppliers of goods and services to be relieved of the burden of logistics management and to focus better on their core competencies to enhance their competitiveness. Competitive logistics services could also benefit transport services suppliers through more efficient use of their capacity.

### III. CHECKLIST OF FREIGHT LOGISTICS SERVICES

6. Logistics services comprise a wide range of services and are constantly evolving. The concept has evolved from the narrow definition of physical network for transportation and distribution of goods to integrated management of supply and distribution chains. No doubt the significance of logistic services will continue to evolve in view of technological advances as well as changes in business models, particularly those brought about by electronic commerce (both business-to-business and business-to-consumers).

7. For the purpose of developing business in logistics services, the making of commercially meaningful liberalization through binding commitments would be important. Such liberalization may include not only the possibility of market access and national treatment commitments allowing for commercial establishment with minimal limitations, but also additional commitments that enable efficiency and give greater substance to market access rights.

8. To capture the wide range of logistics services for the purpose of making liberalization commitments, a checklist is compiled at the *Annex*. The purpose of the checklist is to indicate the scope of service activities which are involved one way or another in the logistics chain and the commercially meaningful liberalization of which could contribute to reaping the benefits of competitive logistics services. In doing so, the checklist attempts to cover logistics services in as wide a manner as possible and allows for scope for future development. The checklist describes the sectors and sub-sectors of such services and where appropriate identifies the reference to the services sectoral classification list MTN.GNS/W/120 (including those in category 11.H) and the Provisional Central Product Classification (CPC).

9. In compiling the checklist, certain services are recognised as the core components of logistics services, in that they represent a significant part of the total logistics costs or they would be essential for commercially viable logistics operations, and hence substantive liberalization in market access and national treatment including right to establishment would be crucial. At the same time, a number of services are recognised as supporting services, in that they are related to logistics management or operations, and their liberalization should further contribute to enhancing the efficiency and competitiveness of logistics services. Furthermore, a number of sectors that are intrinsically connected with logistics services are already the subject of specific initiatives or negotiation processes. As further liberalization of such services is important for smooth and efficient development of the logistics chain, progress in these areas is encouraged, although emphasis in the present initiative will be placed on core freight logistics services.

10. The additional commitments (Article XVIII) components of the checklist increase the potential for efficiency of supply chains through the unambiguous right to integrate supply chains and

to avoid the time delays associated with processing paper documents, and through assurances that procedures and formalities will not to be unnecessarily burdensome.

#### **IV. PROPOSAL FOR LIBERALIZATION OF LOGISTICS SERVICES**

11. The checklist of logistics services is intended as a tool to assist the negotiations of specific commitments aimed at bringing liberalization to logistics services across-the-board in order to reap the benefits to more efficient and reliable global/regional logistics and supply chains. In pursuing liberalization commitments on the basis of the checklist, the following should be taken into account:

- (a) To reap the greatest benefits from competitive logistics services and to allow ample opportunities for the development of such services, it is important that Members undertake substantial and meaningful market access (MA) and national treatment (NT) commitments, as well as other additional commitments as may be needed to ensure the effectiveness of liberalization commitments, in as many services sectors in the checklist as possible.
- (b) However, it is recognised that the sectoral coverage and level of commitments may need to take into account the progress of regulatory reform and level of development of individual Members. The checklist is therefore not intended to be a mandatory list of sectors for commitments. Specifically, while substantial liberalization of sectors across-the-board within the checklist should be the ultimate goal, progressive liberalization should be allowed.
- (c) Following the above, there should be a range of possible options for undertaking liberalization commitments in sectors within the checklist, having regard to the nature of the sectors concerned and commercial reality, as well as the domestic regulatory reform and development needs of the Members concerned.
- (d) In respect of core services essential to logistics operations, MA and NT commitments with right of establishment should be provided so as to enable commercially meaningful liberalization. Where limitations and restrictions are to be scheduled, they may be timed-limited to be phased out in the light of progress of regulatory reform. Where MA and NT commitments are not possible, other forms of ensuring effective liberalization of logistics services should be considered (see sub-paragraph (e) below).
- (e) Effective liberalization of logistics services requires, apart from the possibility of establishing commercial presence and undertaking actual operations, the ability of logistics operators to access such service on competitive terms for the sake of their integrated operations. In this regard, additional commitments could be considered for the purpose of allowing access to such services on reasonable and non-discriminatory terms, or of ensuring competitiveness or reasonableness of the pricing of such services.
- (f) In addition, additional commitments should be considered to ensure effective market access and address sector-specific issues, for instance, regulatory issues such as licensing requirements/procedures, technical standards, and anti-competitive practices. Such additional commitments may also be considered for ensuring that various procedures and formalities such as documentary requirements, customs clearance, customs inspection, and electronic processing, would not become unnecessarily burdensome.

- (g) A specific additional commitment proposed in the checklist is the right to supply checklist services in combination. This makes it clear that a Member making this commitment cannot break the supply chain up by, for instance, issuing individual licenses for each checklist service.
- (h) Another specific additional commitment proposed in the checklist is the acceptance of electronic trade administration documents. This is a critical enabler of unhindered transit, and creates greatly improved capacity for suppliers of logistics services to move freight from point to point in short and predictable time periods without compromising quality, particularly of perishables. It would also make more likely the introduction of 'track and trace technology', or use of electronic systems by the private sector. A Member agreeing to accept electronic versions of trade administration documents may choose to do so immediately or over a phase-in period.
- (i) The final additional commitment specifically proposed in the checklist is the requirement that procedures and formalities such as documentary requirements, customs clearance, customs inspection, and electronic processing, are not unnecessarily burdensome. While in no way reducing the right to regulate or lowering standards for legitimate policy objectives, an obligation would be created for measures related to freight logistics to be chosen so as to avoid unnecessarily impeding trade.

12. The substantial liberalization of logistics services would bring benefits to all Members, both suppliers and users of such services as is likely to be the case for export in goods by developing countries. In this regard, whilst the value of liberalization commitments in a bilateral evaluation process would have to be made having regard to the commercial interests of the trading partner in the liberalizing Member in respect of the sectors concerned, one should not lose sight of the value of liberalization in such services in terms of enhancing the efficiency and competitiveness of logistics as a whole, and the resultant collective benefits that could be realised to all Members. We therefore urge all Members to undertake further commitments in logistics services on the basis of the checklist.

## ANNEX

### FREIGHT LOGISTICS CHECKLIST

#### I. CORE FREIGHT LOGISTICS SERVICES

Services under this core category are essential to logistics operation and substantial liberalization would be required for viable logistics services.

##### Description and W/120 category where applicable

##### CPC codes and inclusions where applicable

##### 11. H. Services auxiliary to all modes of transport

##### a. Cargo handling services:

Container handling services

CPC 7411

Other cargo handling

CPC 7419

##### b. Storage and warehousing services

CPC 742 (including\* distribution centre services and materials handling and equipment services such as container station and depot services)

##### c. Transport agency services

CPC 748 (including\* customs agency services and load scheduling)

##### d. Other auxiliary services

CPC 749 (including\* through-chain logistics services, reverse logistics, container leasing and rental services)

#### II. RELATED FREIGHT LOGISTICS SERVICES

Broadly liberal arrangements for this list of services are crucial to the efficient supply of integrated logistics services as well as providing an enabling environment for third-party logistics services to flourish. Some of these items are already being addressed in ongoing negotiations. The effective liberalization of logistics services would require broad and meaningful liberalization of these related freight logistics services. Members are strongly encouraged to make offers in this area.

**(1) Freight transport services**

11. A. Maritime Transport Services

*Services identified under maritime transport negotiations*

11. B. Internal Waterways Transport Services

*Services identified under maritime transport negotiations*

11. C. Air Transport Services

b. Air freight transport

CPC 732 (*Currently excluded from GATS, subject to Annex on Air Transport Services*)

c. Rental of aircraft with crew

CPC 734 (*Currently excluded from GATS, subject to Annex on Air Transport Services*)

11. E. Rail Transport Services

b. Freight transport

CPC 7112

11. F. Road Transport Services

b. Freight transport

CPC 7123

c. Rental of commercial vehicles with operator  
- without operator

CPC 7124

CPC 83102

**(2) Other related logistics services**

1. F. e. Technical testing and analysis services

CPC 8676

2. B. Courier Services

CPC 7512

4. A. Commission Agents' Services

CPC 621

4. B. Wholesale Trade Services

CPC 622

4. C. Retailing Services

CPC 631, 632, 6111, 6113, 6121 (including\* inventory management of goods, assembling, sorting and grading of goods, breaking bulk, re-distribution and delivery services)

- Other supporting services not covered by 11. H:

CPC 743, 7113, 744 (excluding 7441) and 746.

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\* These services are not explicitly listed in the official CPC explanatory note, and should be explicitly listed in schedules for clarity.

### **III. NON-CORE FREIGHT LOGISTICS SERVICES**

Availability and efficiency of the following services are important for freight logistics supply chains to operate effectively. Liberalisation in these areas would be desirable for a comprehensive offer on logistics: computer and related services; packaging; and management consulting and related services.

#### **Accompanying additional (Article XVIII) commitments**

1. [The Member] will accept electronic versions of trade administration documents.
  2. Service suppliers are entitled to supply listed freight logistics services (from services auxiliary to all modes of transport, freight transport, courier services and distribution services) in combination, subject to measures necessary to prevent anti-competitive behaviour.
  3. [The Member] will ensure that various procedures and formalities such as documentary requirements, customs clearance, customs inspection, and electronic processing, would not be unnecessarily burdensome.
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