



Asia-Pacific Economic Cooperation

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**IMPLEMENTING THE ISPS CODE: APEC USE OF  
FINANCIAL SERVICES CLEARINGHOUSE MODEL  
TO PROMOTE SUPPLY CHAIN VISIBILITY AND  
CONTAINER SECURITY**

Submitted By: Chile



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***NORTHROP GRUMMAN***

***Electronic Systems***

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CLEARINGHOUSE MODEL TO PROMOTE SUPPLY  
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**Vina del Mar, Chile**

# Assumptions

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- Trade facilitation and security are not mutually exclusive goals,
- Governments find it difficult to pay for improved security,
- Governments can foster private sector investment in both global trade facilitation and security programs,
- Private sector investment in global supply chain visibility could ease security investment requirements for ISPS Code implementation

# Historical Precedents

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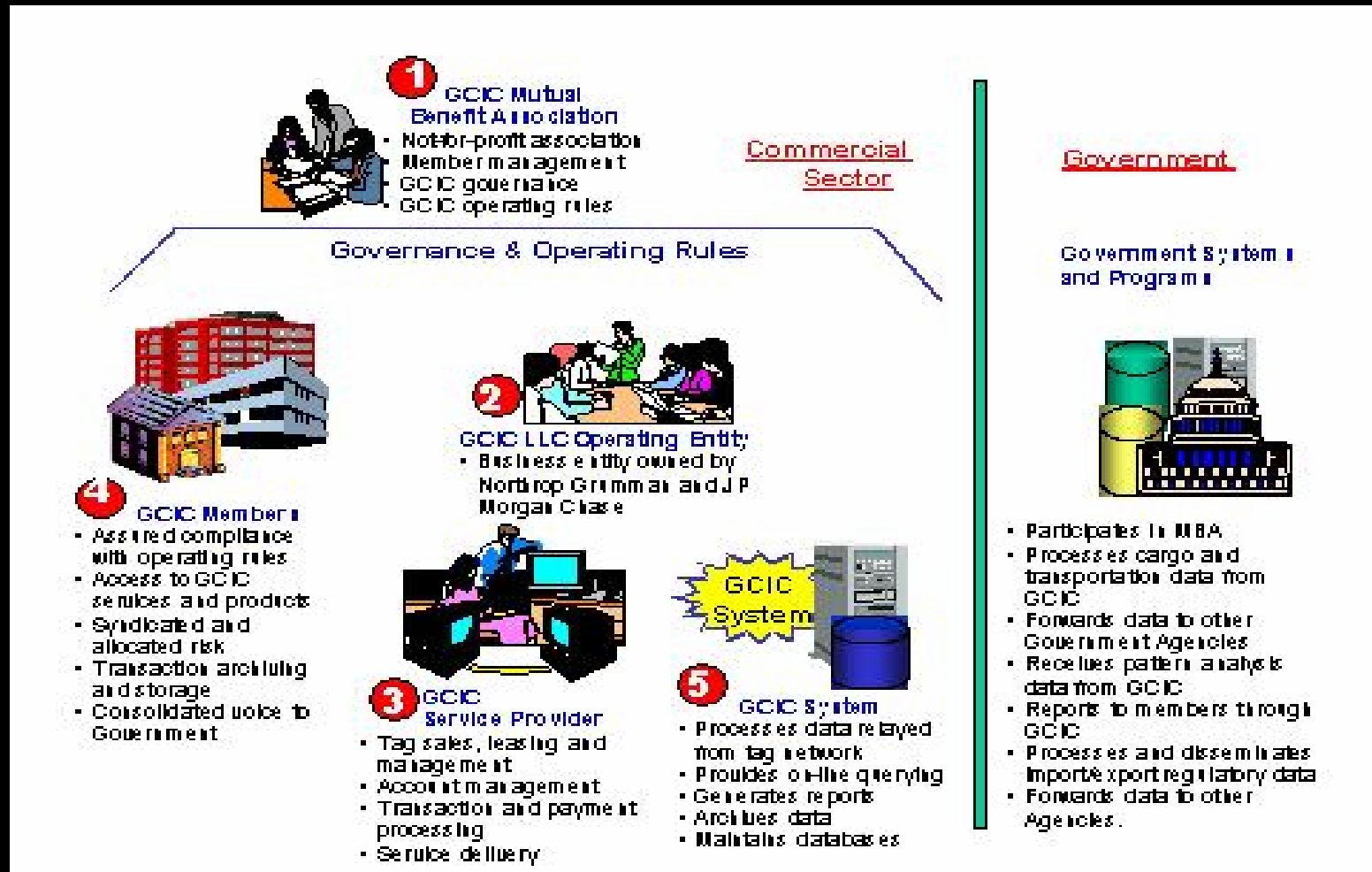
- **New York Stock Exchange**

- Crippled by volume in the 1960s at 6 or 7 million trades
- Diverse business interests could not agree to follow standard practices or share data
- Forward-looking thinkers started an automation “club” with business rules
- Daily trading volume now at 1.5 billion

- **Credit and Debit Card Associations**

- Supports linked ATMs and Point-of-Sale
- Same structural principles as automated stock exchange

# A Clearinghouse Business Model:



# **Features of the Clearinghouse Model Applicable to Supply Chain Visibility & Cargo/Container Security**

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- **An open consortium of qualified members,**
- **Creates operating rules that form a multi-party contract governing roles, responsibilities, warrants, and liabilities of all parties to a transaction,**
- **Utilizes/develops open technology standards,**
- **Defines/creates technology certification processes,**
- **Maintains a central data repository of transaction records**

# ISO Implementation Structure of the ISPS Code is by Nature, Fragmented

- **ISPS code speaks to the container chain of custody as a continuity of activity, end-to-end**
- **ISO standards are discrete and disconnected**
- **Private sector clearinghouse rules could provide the “glue” that transforms and harmonizes the ISO standards to meet the ISPS code**

# **Implementers of the ISPS Code Have Diverse Business Interests**

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- **Business-timely, visible, low cost cargo delivery, quick settlement, favorable insurance rates and risk mitigation**
- **Government-regulatory compliance, risk mitigation**
- **Supply Chain-competitive advantage, risk mitigation**
- **Clearinghouse can provide risk mitigation by analysis of pattern across entities**



# **New Container Security Technology Needs to be Deployed**

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- **“Smart” container regulations are on the horizon**
- **Deployment of smart technology will proceed more rapidly if open technology standards, business process rules and technology certification process were available globally**
- **Clearinghouse association rules form an umbrella for syndication of risk and investment that speeds technology deployment**
- **The alternative is a slowed market with proprietary systems**

# **The Addressable Market for Supply Chain Visibility Could Finance Shared Technology Deployment**

- **Security improvements hurt the bottom line**
- **Incremental investments will be made in supply chain visibility for competitive advantage**
- **Visibility investments could finance the network infrastructure for smart containers – at a lower cost if pooled or synchronized**

## **Legitimate Government information Needs and proprietary Trade Information Security Need to be Supported at the Same Time**

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- **There is an unwillingness in the private sector to store transaction data in a central depository, where others, given access to the data, might gain competitive advantage**
- **For this reason, governments of trading partners involved in a clearinghouse need to participate when the operating rules are developed and updated**

# APEC Can Pilot a Clearinghouse in 2004

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- Harmonizes ISO standards and provides more comprehensive security,
- Unifies diverse interests in the container chain of custody to produce standardized, timely, and accurate trade and security information,
- Lowers the risk for, and speeds, the deployment of new technologies,
- Provides a means of financing new supply chain technology infrastructure while mitigating costs of security investments,
- Safeguards competitive business data while making member approved appropriate risk management data and analyses available for legitimate government interests.