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Trust Elements in the Global Supply Chain

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April 10, 2013

Conceptually, supply chain “risk” is used to denote perils, loss, dangerous occurrences, hazards, and even vulnerabilities. Risks include everything from management functions to fraud, to fundamental honesty and loyalty issues encompassing every aspect of an organization’s status and operations. In addition to the firm’s built-in management risks, the international supply chain provides additional third-party risk elements such as foreign shipper practices, carrier practices, weather, foreign government involvement, unforeseen disruptions in the process, timing, language, cargo quality and quantity, even payment issues.



The focus of this analysis, then, will be on what can be controlled and how the controlling element or elements can be used as an audit technique for improved decision-making and trust by removing the negative elements and improving the positive elements within the supply chain. Ultimately, firms must audit the global supply chain process to determine the truth of an issue by using the unbiased professional judgments of auditors and investigators. These audits provide an added degree of assurance of the validity of a company’s practices, the validity of financial statements, an assessment of internal and external controls, and the benefits or weaknesses of any particular practice within the firm. In short, audits are intended to determine accountability and solve problems to maximize a firm’s gains and minimize its losses. Accuracy and truth, therefore, become the sine qua non elements of control and trustworthiness.

Control in the Audit Process

Control in the international supply chain, however, is probably the most difficult task to achieve because of multiple players, distances traveled, government involvement,

multiple currencies, and unique international business rules. In order to deal with these issues there must be an established system or chain of control involving trusted agents and stakeholders in cargo movement from one nation to another. As in law enforcement and judicial actions which demand a chain of custody to preserve evidence used in a trial, so too, the global supply chain has the same need to preserve factual information and reconstruct events that can be used for audit purposes or even for litigation should the need arise. The chain begins with an identified trusted agent who certifies the cargo and shipping data at the time the cargo is loaded into the shipping container at origin, sealed and armed with a container security device which, at the time of arming, transfers the trusted agent's identity and cargo information such as container number and quantities to an international control platform. These concomitant essential functions of verifying, sealing and arming begin the chain-of-custody control process which is maintained all the way to destination. The secured "smart" shipping container is then monitored for movement, including off-course deviations, intrusions and changes to its internal environment, which can be automatically sent to a national control platform on a predetermined basis or as a result of the shipping container's own communication capacity to detect and report anomalies. These communications between the shipping container and its interrogator are automatically stored in the servers of the interrogators, in the international control platform servers, and/or in off-site cloud providers, establishing discoverable electronically stored information (ESI) for a required period of time (for Customs and Border Protection, usually 5 years) to be used as essential elements in the audit process and/or in possible litigation.

Benefits of the Audit Process

The audit process produces an electronic trail that gives a step-by-step history of an international shipment that enables the examiners to detect and trace any performance problems of third-party providers, such as truck, rail, or vessel carriers, port administrations, Customs involvement (such as inspections or delays), and performance problems of the shipper or consignee, individual accountability, problem analysis and the reestablishment of events. There are obvious benefits to improving business practices which should result in bottom-line benefits for the following entities.

Benefits to the Shipper

1. Confirmation and electronic certification of proper cargo and quantity leaving facility and arriving at destination by an identified, authorized, trusted employee at both origin and destination.
2. Control of access to the container during its movement, protecting the shipper from having its container penetrated and used to carry counterfeit products, drugs, explosives or other illegal materials.
3. Asset management benefits.
4. End-to-end visibility and control.

5. The potential for lower insurance costs.
6. Knowledge of carrier's over-the-road transport time.
7. Expedited entry of cargo by CBP and faster through-port time.
8. Data-base intelligence identifying weak points/delays/security-risk areas in supply chain.
9. Verification of compliance with Incoterms® 2010, and UN Convention of Contracts for the International Sale of Goods (CISG), specifically articles mandating accurate cargo and quantities to be shipped under contract.

Benefits to Consignee

1. Enhances knowledge of actual container/trailer contents from an identified, authorized trusted employee who certifies shipment contents and quantity at origin loading.
2. Knowledge of departure time.
3. Location of container throughout the supply chain.
4. Knowledge of opening or surreptitious access into container.
5. Third-party verification of all supply chain data elements and reports.
6. Knowledge of arrival.
7. The potential for lower insurance costs.
8. Verification of compliance with Incoterms® 2010, and UN Convention of Contracts for the International Sale of Goods (CISG), specifically articles mandating accurate cargo and quantities to be shipped under contract.
9. Enhanced knowledge of shipper and carrier performance

Benefits to the Carrier

1. Access control into container and knowledge of container location.
2. Protection against claims by shippers that unauthorized contents were the results of carrier's action.
3. Certification and verification of identity of shipper and contents.

4. Marketing and sales tool to increase market share in providing secure containers to shippers.
5. Automatic transmission to CBP of container data, exemplified in CF-1302 or like manifest, or other required electronic filings.
6. Data-base intelligence identifying weak points/delays/security-risk areas in supply chain.
7. Rotterdam Rules compliance and liability protection

Benefits to Customs and Border Protection (CBP)

1. Better real-time intelligence for targeting purposes
2. Enhanced knowledge of actual container contents from an identified trusted employee who certifies shipment contents and quantity at origin loading and at unloading at destination
3. Enhanced data transmission for the Automated Commercial Environment System (ACE) with respect to both inbound and outbound filing requirements

Conclusion

With the benefit of new supply chain technology employing ESI and independent cloud transmission and storage, the transfer of cargo in the global supply chain has evolved into a higher level of trust among stakeholders. The ability to establish an electronic audit trail is now possible, making the trusted agent an essential component of global supply chain, facilitating the cargo's movement and even its commercial invoicing. The effect of this auditable chain-of-custody process ultimately determines the truth of an issue by using technology that serves in the same way as the unbiased professional judgments formed by professional auditors.

Source: [Powers Global Holdings Inc.](#)