

AUGUST 2019

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**RESTRUCTURING
GLOBAL VALUE CHAINS
– LEVERAGING THE NEW
NORMAL**

Pg 20 by Raymon Krishnan

**SUPPLY CHAIN 4.0 –
WHAT IS IT & WHERE
IS THIS GOING?**

Pg 25 by Joe Lombardo

**The Logistics & Supply Chain
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The Official Journal of The Logistics & Supply
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Restructuring Global Value Chains – *Leveraging the New Normal*





1 - 2 October 2019
Jumeirah Creekside Hotel
Dubai, UAE

A large, stylized circular graphic in the center of the image. It consists of several concentric rings of varying colors (yellow, orange, green, blue) and patterns (dots, lines, squares). The background of the entire image is a cityscape with a prominent skyscraper (Burj Khalifa) on the right. The overall color scheme is dominated by green and blue tones.

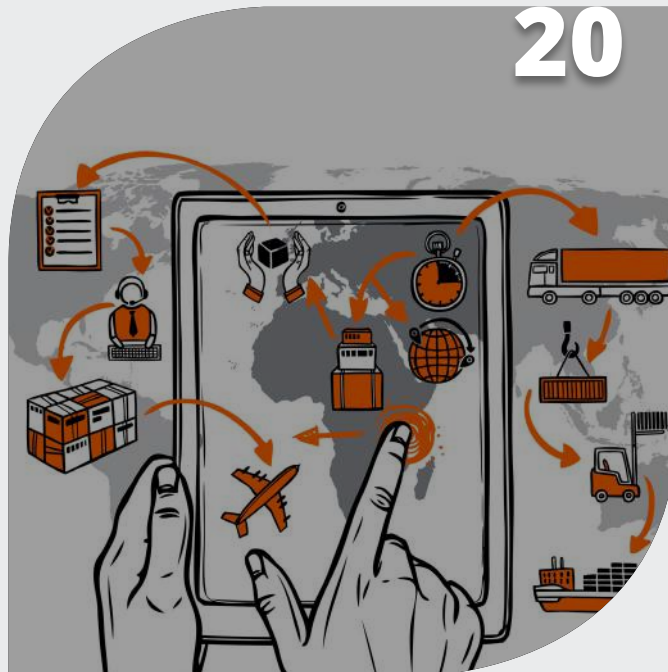
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from the editor

...managing supply chains in an ever changing landscape – what are the trends?

Dear Readers,

The challenges driven by change continue to be the focus for many. And no industry is spared from this “disruptive trend.” There are many solutions and options that one can choose from, but uncertainties of economic and socio-political elements, hold us back.

However resilient our supply chains are, the external factors will make things tougher. The economic forecasts are looking like adding more concerns in the coming months. As the end of the summer holidays fast approaches in Europe, the reality of a slowing German economy will start to bite. Coupled with the shadow of “Brexit”, the EU could be in for a rough ride in Q3 & Q4. The tell-tale signs of the US economy is also looking like a turning corner of slow down could be upon us.

In the Far East, China & Japan are also seeing slower growth and a sluggish economic outlook. All of this will again put pressure on Companies to contain their developments and taking a leap into a more cautious positions.

Which ever way the next few months economic reset will play out - Brexit, US-China trade issues and the other influencing tensions, we are bound to see an impact in the supply chain sector, but to some, this could be optimism in general.

But it is at times like this, when change and transformation need to be at the forefront of fresh thinking and a deep review of the next phase of development would be crucial.

As we continue the Industry 4.0 disruptive

phase, it is a good time to revive and adapt our supply chain in readiness for the upturn. And whilst we are learning how to buffer disruptions, we need to stay continuously agile and ready for more distractions.

In August I was invited to the Supply Chain 4.0 conference in Malaysia where the focus was mainly on technologies. There is no doubt that technology is the game changer for the future. The aspect of integrating new technologies into our supply chains, is a key strategic initiative that everyone should wake-up to. It will require a major change in thinking and energy to effectively deploy such initiatives. Not all the technology will enable in a digital transformation program. But embarking on such a program will become a “must” before long.

In this month's issue, we have two very interesting articles on the Supply Chain 4.0 and on Restructuring Global Value Chains. These are some insights towards understanding the Transformation journey which I hope will stimulate your thoughts on the future.

We hope you will find this edition interesting and as always we welcome your feedback & contributions on topics or subjects you would like to share with us.

Happy Reading & good wishes from the Editorial Team at LogiSYM!

Joe Lombardo
Editor in Chief
info@lscms.org





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a word from the president

Moving Forward

Every other day we hear news from the US and the latest initiative from their President to "Make America Great Again". One American I was speaking to last week likened it to how it must have been before the fall of the Roman Empire, albeit that this individual seems bent on hastening the inevitable. Protests in Hong Kong are also in the news daily and we hope this is peaceably resolved soon.

All these issues affect our thinking and how we do business. Managing a regional or global Supply Chain is challenging enough and issues such as those above simply exacerbate it - especially when coupled to

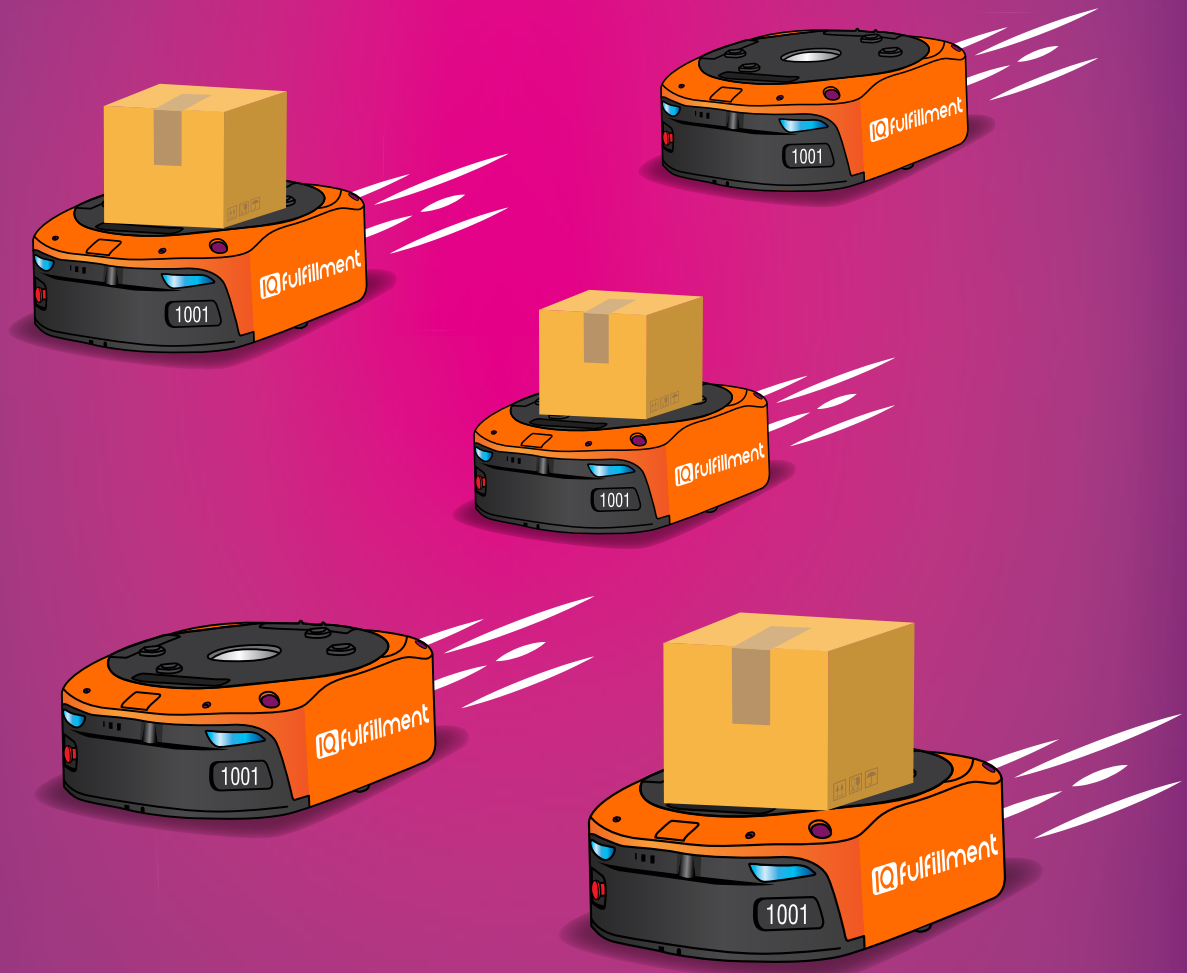
developments in Industry 4.0 and digitalisation. The world of Supply Chain is ever evolving and we are glad that you have chosen LogiSYM as one of your partners in this journey.

Thank you for the continued support and I hope to meet as many of you as possible at LogiSYM Dubai in a few weeks!

Raymon Krishnan, FALA, FCILT
President
The Logistics & Supply Chain
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contributors



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Director
Asian Trade Centre

Dr. Raymon Krishnan is the Director at the Asian Trade Centre Foundation (ATCF) and the Asian Trade Centre (ATC). He works with clients on supply chain diagnosis, strategy and network design. Raymon has close to thirty years experience in logistics and supply chain management as an end user, educationist and service provider. He currently serves as President of The Logistics & Supply Chain Management Society and is Editor-At-Large of LogiSYM, the collaborative platform of the Society.

Raymon's experience covers the full Logistics spectrum, from raw material procurement to physical distribution and eventually customer service and care, with a strong grounding in Quality and Six Sigma. He was the Global Commercial Director for 3PL with operations worldwide and prior to this role, he was responsible for Asia Pacific Logistics & Trade Compliance for W.R. Grace.



Joe Lombardo

Founder
ESP Consult

Founder of ESP Consult, Joe Lombardo, has advised CEOs on change management through a supply chain focus.

The need-for-change is a very likely and necessary step for their business development and sustainability. However starting a journey of transformation within their organisation can be hugely daunting. This introduction to a transformational journey, illustrates that it is not as complicate or as expensive as it may seem. The rewards and benefits will be significant. ESP Consult advises on structuring the model to facilitate and successfully implement Adaptive Supply Chain driven organisation. For those involved it has been an enlightening and motivating experience.

For more information about the about the article and publications to improve your supply chain refer to joe.lombardo@esconsult.biz

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Cathay Pacific Acquires HK Express

Cathay Pacific has announced that it has completed the acquisition of HK Express. HK Express is now a wholly owned subsidiary.

Cathay Pacific Cargo has been appointed as the General Sales and Service Agent (GSSA) for all HK Express cargo activities across its network effective September 1, 2019. HK Express will continue to operate as usual and work closely with Hong Kong Air Cargo Carrier

Limited (RH), the incumbent cargo GSSA for HK Express, to ensure a smooth transition.

HK Express has a fleet of 24 narrow-body aircraft covering regional routes between Hong Kong and Japan, Korea, Southeast Asia, mainland China and Taiwan. The combined cargo network of Cathay Pacific, Cathay Dragon and HK Express will progressively offer more choices to customers.

Cathay Pacific Chief Executive Officer and HK Express Chairman Rupert Hogg said: "We are very excited to welcome HK Express into the group. We strongly believe that the acquisition is good for the customers, good for HK Express, good for the Cathay Pacific Group, and good for the development of Hong Kong as a global aviation hub."

DNATA Expands into Belgium with Brussels Airport Cargo Hub

Dnata has launched operations in Belgium by opening a cargo centre at Brussels Airport that represents an investment of €8m and creates up to 100 local jobs with the company. The Dubai-based global cargo handler's first customer in Brussels is Singapore Airlines, which operates eight weekly flights with an annual capacity of 45,000 tons of cargo between Brussels and Singapore, using Boeing 747-400Fs.

Dnata said that the Brussels facility, which covers an area of 14,000 sq m, "substantially increases the cargo capacity in the Benelux states". The facility includes 4,500 sq m of warehousing space and is capable of processing 125,000 tons of cargo annually and is able to handle all types of cargo,

including perishables, pharma, dangerous goods, live animals, aircraft engines and vehicles. Dnata already provides cargo and ground handling services to 25 cargo and 8 passenger airlines at Amsterdam Airport Schiphol.

The company said that it will ensure a close cooperation between its Amsterdam and Brussels teams to "leverage synergies" at both airports. Erik de Goeij, dnata chief executive for the Netherlands and Belgium, said: "We are thrilled to establish operations at another important cargo hub. Our best-in-class facility at Brussels Airport significantly increases our cargo handling capacity in the region, which we expect to stimulate the local cargo industry. "We see solid demand for our quality

services and are confident that this strategic expansion will bring significant benefits to our stakeholders." Arnaud Feist, chief executive of Brussels Airport Co, said: "We are most pleased to welcome dnata at Brussels Airport as our third cargo handler. "Dnata has already positioned itself as a key cargo player at our airport with a dedicated infrastructure for pharmaceuticals and an active participation in our cargo community Air Cargo Belgium, consistent with Brussels Airport's strategy to provide specialised infrastructure for vital sectors in our country, and to work towards mutual goals through collaboration. "And so, it is with positive expectations I look forward to this new partnership."

World's Largest STS Transfer Hub Comes in Malaysia

KA Petra, a Malaysian ship-to-ship (STS) transfer specialist, has signed a Heads of Agreement (HOA) with Hutchison Port Holdings to jointly develop the world's largest STS transfer hub in the country.

Under the terms of the HOA, KA Petra will have 70% interest in the project, whilst Hutchison Ports will take a strategic 30% stake. Based on preliminary studies, construction of the STS Hub is estimated to cost USD150 million to USD180 million, and will be funded by a combination of internally generated funds and debt financing.

Construction will be done in phases with commencement within the next 12 months. Dato' Shahrul Amirul, Executive Chairman of KA Petra Sdn Bhd said, "We embarked on the STS Hub idea 2 years ago, and through the grace and assistance from the Government of Malaysia, our partner Hutchison Ports, our engineering and technical partners, and our very own KA Petra team, we are now realising the STS Hub dream."

Shahrul commented that the STS Hub will have the capacity to store over 9 million metric

tons of petroleum products, and with the International Maritime Organisation implementing IMO 2020, a regulation limiting sulphur content in marine fuels, from 1st January 2020, the STS Hub will be well positioned to become a major trading hub in the region. The STS Hub is KA Petra's flagship project and will be located in the Johor Bahru Port waters spanning an area of 2,800 acres. The STS Hub will be able to accommodate 31 berths, making it the largest in the world and will be the first fully dedicated STS transfer facility in the world.

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The background of the advertisement is a composite image. The lower half shows a large cargo ship with many yellow and white shipping containers stacked on its deck. In the upper right, a white cargo airplane is flying against a hazy, orange-tinted sky. Large, diagonal red and black geometric shapes are overlaid on the left and center of the image, creating a sense of movement and connectivity.

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The Trouble in the Persian Gulf May Have Long Term Consequences For Dubai

Written by: Thomas Cullen, Transport Intelligence



The situation in the Persian Gulf is becoming increasingly difficult and it is reasonable to think that it may begin to disrupt global shipping.

The significance of the assault on the tanker *Stena Impero* should not be overestimated. Although the vessel operates under a British flag, effectively the owners are Swedish and the crew are international. However, it fits into a pattern of increasing attacks on ships of all kinds in the area. It is clear that in its conflict with the US and many of its neighbours, Iran views shipping a useful target and has adapted its previously battered navy into an instrument appropriate for operations against merchant vessels and their naval escorts.

As the situation continues there is a strong likelihood that violence will increase. Already insurance premiums are reported to have risen, with tankers and container

vessels operating out of the Gulf rumoured to be seeing a five-fold increase in some cases, although war risk options had already been priced-in.

Plans are being formulated for a convoy system through the Strait of Hormuz and possibly the rest of the Gulf. It is unclear who will lead these. Ships are also being warned by a number of governments to avoid the area, although it is difficult to see how they can easily do this.

Bearing in mind its core asset is in the eye of the storm, the container terminal operator DP World has reacted with calmness, commenting that it saw "business as usual" and that shipping traffic in and out of the UAE had not been affected. This does seem to be an optimistic perspective but it is likely that it reflects the complex relationship that the UAE has with Iran. The latter depends on the terminals in Dubai for most of the

traffic into Bandar Abbas and any disruption will only worsen Iran's already stressed economy.

Although oil, gas and chemical cargoes have no choice but to enter the Gulf, container shipping can avoid the terminals at Dubai. Yet this would be very inconvenient. Many supply chains depend on Dubai as an inventory location as well as a container port. The Emirate is a fundamental part of many 'air-sea' strategies and finding a replacement at short notice would be difficult.

It is probably the case that the terminals at Dubai will continue to operate however the strong risk is that instability damages their attractiveness in the wider logistics market. In the long-term the instability may present opportunity for other locations ambitious to become logistics hubs.

iLogistics Center Ljubljana Takes Up Operations



Image: © Protim Ržišnik Perc / Miran Kambič

cargo-partner has successfully completed the construction of its modern warehouse complex near Ljubljana Airport in Slovenia. The iLogistics Center, which provides 25,000 m² of storage space, has taken up operations as of August and will be officially opened in September 2019.

With 25,000 square meters of warehouse space and 4,000 square meters of office space, the iLogistics Center is one of the largest warehouse complexes in the region and will serve cargo-partner's clients in Slovenia as well as other Central and South-East European countries. Despite the complexity and size of the building, construction was completed within eleven months and cargo-partner's operational activities in the warehouse have begun as of August 2019. Throughout the month of August, cargo-partner's other offices

and warehouses in Ljubljana, including the Slovenian head office, will gradually be relocated to the new facility.

At the new iLogistics Center near Ljubljana Airport, cargo-partner offers short and long-term storage as well as a comprehensive portfolio of value added services including picking and packing, labeling, cross-docking, consolidation, multi-channel distribution, e-fulfillment and other contract logistics services. The warehouse has 44 truck loading docks and a storage capacity of over 20,000 pallet slots. In addition, the location offers a 6,000 m² small parts store as well as 5,000 m² of cross-dock and block storage areas.

Viktor Kastelic, Managing Director of cargo-partner in Slovenia, is delighted about the timely completion of the building and

“

The new iLogistics Center is a big milestone for cargo-partner in Slovenia and we are certain it will boost our growth not only locally in Slovenia, but in the wider region as well.

Viktor Kastelic
Managing Director
cargo-partner in Slovenia

the opportunities offered by the new facility: “The new iLogistics Center is a big milestone for cargo-partner in Slovenia and we are certain it will boost our growth not only locally in Slovenia, but in the wider region as well. At the same time, we put a lot of efforts in making the new working environment welcoming and motivating for our colleagues.”

cargo-partner has been present in Slovenia since 1996 and currently has over 100 employees in the country. With its iLogistics Center Ljubljana, the company creates 30 new jobs in the first stage and makes a significant contribution to the economic development of the region. In 2018, SPIRIT Slovenia honored this contribution with the Invest Slovenia FDI Award in the category “Logistics Center/Hub”.

Autonomous Trucks To Make Deliveries in China

China Post and Deppon Express, two of China's largest logistics and delivery companies, have begun autonomous package delivery services in China. The technology used is developed by FABU, a self-driving startup with offices in the U.S. and China. The partnership, announced today, marks the first-time self-driving vehicles are being put into daily commercial use in China, according to FABU.

"We are very excited that FABU technology is at the heart of the first autonomous delivery trucks in China," said Xiaofei He, founder and CEO of FABU, in a statement. "China Post and Deppon Express have also been very pleased with the performance of FABU self-driving technology in their trucks and plan on expanding their autonomous delivery services to 100 routes in the near future."

FABU first partnered with China Post in November 2018 to begin testing Level 4 autonomous driving trucks in China's heavily populated Zhejiang Province.

**“
China Post and Deppon Express have also been very pleased with the performance of FABU self-driving technology in their trucks and plan on expanding their autonomous delivery services to 100 routes in the near future.**

**Xiaofei He
Founder and CEO
FABU**

In Level 4 autonomous driving, the vehicle handles the majority of driving situations independently although a human driver can still take control when needed.

During the testing period, the autonomous trucks successfully drove over 2,200 miles and delivered over 60,000 parcels during China's peak shopping season, which includes Singles'

Day, Christmas and Chinese New Year.

China Post is the state-owned enterprise that operates the official postal service of mainland China. The service operates over 39,000 transport vehicles, which travel over a delivery network with 1,926,250 miles of streets and highways. Deppon Express runs logistics operations in Korea, Japan, Malaysia, Singapore, Thailand and Vietnam.

In the U.S., dozens of startups and original equipment manufacturers (OEMs) are working on Level Four autonomous technology. So far TuSimple, based in China and San Diego, is the only autonomous truck startup claiming to have Level Four trucks on the road, making real commercial deliveries for real customers.

FABU has offices in Hangzhou, China; Phoenix, Arizona; and San Diego and Silicon Valley, California.



Image Source: <http://fabu.ai/en/>

Pedersen & Partners Appoints Brian Cartwright as Client Partner in Dubai to Develop its Supply Chain & Logistics Business in MENA

Pedersen & Partners, a leading international Executive Search firm with 57 wholly owned offices in 53 countries, is pleased to announce that Brian Cartwright will be joining the firm's Supply Chain & Logistics sub-practice as a Client Partner in Dubai.

Mr. Cartwright has over fifteen years of experience in Executive Search and Recruitment, having successfully carried out hundreds of senior leadership searches for the global Supply Chain & Logistics sector. His Middle East & Africa experience consists of assignments completed over the course of a decade living and working in UAE.

He specialises in Supply Chain & Logistics-related functions at CxO, VP, and Director level in global, regional, and country level roles, working with service providers and end-user companies including large listed corporations, family-owned conglomerates, SMEs, and start-ups. During his career, he has successfully managed businesses in the Middle East and Europe. Prior to joining Pedersen & Partners, Mr. Cartwright founded his own Executive Search and Leadership Advisory firm, which focused on adding value to organisations, and recruiting senior executives across the entire

Supply Chain spectrum.

Mr. Cartwright is a regular contributor to Supply Chain & Logistics industry media, sharing insights and advice through numerous blogs, articles, and magazine interviews with senior executives.

"At Pedersen & Partners we strive to support our clients' efforts to secure the best Supply Chain and Logistics leadership, allowing them to successfully grow and expand into new markets while simultaneously remaining competitive. Our "best team forward" approach will greatly benefit from Brian's wide spectrum experience from corporations to start-ups, as he has completed mandates which ultimately signed on leaders who helped make Supply Chain & Logistics operations efficient, cost-effective, and fully integrated with Industry 4.0. systems," stated Michael Al-Nassir, Partner and the Head of Middle East, Africa, Central & South Asia at Pedersen & Partners.

"Disruptive, digitally-savvy, and adaptive leaders in the Supply Chain and Logistics sector are highly valued and I'm excited to be able to tap into Pedersen & Partners' market intelligence,

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Disruptive, digitally-savvy, and adaptive leaders in the Supply Chain and Logistics sector are highly valued and I'm excited to be able to tap into Pedersen & Partners' market intelligence, network, and support capabilities across the globe.

**Brian Cartwright
Client Partner, Supply Chain
& Logistics
Pedersen & Partners**



network, and support capabilities across the globe. As a formerly independent recruiter, I look forward to partnering with my colleagues and enriching our joint capabilities for the benefit of our Middle East & Africa clients, as well as in other geographies," added Brian Cartwright, Client Partner, Supply Chain & Logistics at Pedersen & Partners.

Fresh Produce Industry in Australia Prepares For Export Security Changes



The Australian fresh produce sector is making necessary steps for changes to air cargo export regulations.

From 1 March 2019 all international export air cargo from Australia must be inspected at piece-level by a Regulated Air Cargo Agent (RACA), or come from a Known Consignor, and use technology like x-ray, or be physically examined.

The Department of Home Affairs says the changes are necessary to reinforce security.

"The Australian Government's first priority is to keep Australians safe and secure," said a spokesperson from the Department of Home Affairs. "Aviation is an enduring and attractive target for terrorists. The Department has a strong and comprehensive aviation security framework that is continually revised to ensure that we remain ahead of the evolving threat."

The Australian Horticultural Exporters and Importers Association (AHEIA) earlier on

warned the move will have costly implications on Australian fresh produce businesses and has approximate total added costs to the industry could be up to A\$0.22/kg, as well as up to a 24-hour delay at terminals.

The Department of Home Affairs says it has given the industry more than enough notice and that it has pro-actively engaged with industry to foster readiness including writing directly to exporters.

"Security examination of export air cargo is not new," the spokesperson said. "All export air cargo is already examined prior to uplift onto an aircraft. The requirements being introduced on 1 March 2019 have been in place for United States bound cargo since July 2017. If businesses have questions about how the change will impact their current arrangements, they should contact their supply chain in the first instance."

The Cherry Growers Australia (CGA) are one of several industry groups that have advised their

members to get ready for the change, also informing that currently, 30 per cent of Australian Cherries are exported to more than 30 countries in a particularly competitive international market.

It adds, that exporting cherries is a specialised market that calls for attention and detail to cultural sensitivities, biosecurity, packaging, market access and entry and transportation. The kind and variety of cherry exported is chosen based on market access and cultural tendencies accounting for preferences in taste, colour and flavour.

Exporters who have not already done so, ought to consider things like packaging of products, handling of consolidated cargo, scheduling of deliveries, and how cargo is transported to reduce possible changes to delivery times and increased costs, therefore reducing delays. Businesses should also give thought to becoming a 'Known Consignor'.

SEKO Customers Benefit From Easyship Connectivity

A partnership between supply chain services provider SEKO Logistics and Easyship, a cloud-based shipping platform that helps e-commerce traders to ship worldwide, is benefiting the customers of both businesses, according to the former.

The Easyship platform gives its 40,000 retail and e-tail users fast and easy access to SEKO's cross-border e-commerce offerings. Shipments can therefore be booked directly through SEKO on the Easyship platform.

Apart from acting as a shipping gateway for sellers' online customers, Easyship's shipping tool also calculates tax and duties for worldwide deliveries, provides rate comparisons, service analytics and pre-filled customs documentation for all countries, and comes with a shipping management dashboard that enables sellers to view all transactions.

Plus, Easyship provides storage and pick-and-pack fulfilment services, shipping labels and the

ability to arrange pick-ups and global tracking. Giving customers real-time shipping options and full cost visibility "triples the likelihood of online purchase completion and significantly reduces shopping cart abandonment rates" according to a statement from SEKO. Easyship now provides merchants with US domestic returns and branded email and tracking as well, regardless of the final mile postal carrier.

The acquisition was SEKO's first in its 42-year history.

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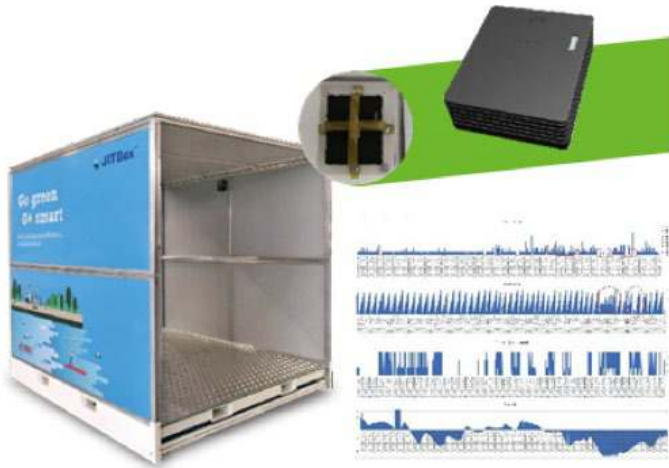
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The increasing range and volume of e-Commerce and Retail provide a burden to the classic logistic traffic operation in cities. Today's city deliveries face the obstacles of

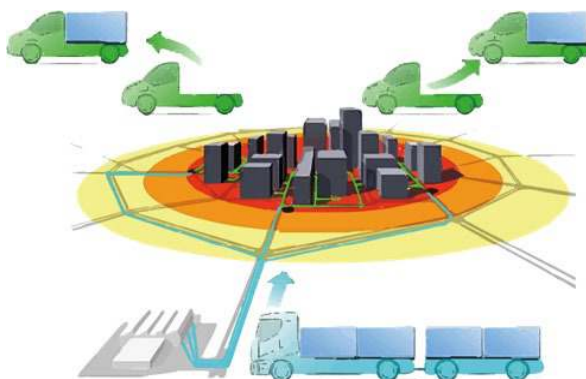
- Increasing demand for urban logistics distribution lead to Increasing traffic congestion
- Increasing the number of vehicles in the city increasing of air pollution
- Increasing distribution cost of "Last Mile Deliveries"

To counter this, the separation of cargo storage and delivery vehicle reduces the number of vehicles required to distribute cargo, as well as separates the cargo movement from the rush hour or times with heavy traffic.

Anwood Logistics Solutions (ALSCO) developed a smart mini swapbody (8', 10', 12'), that is designed for overland road transportation, but further can be transported inside a

standard seafreight container, effectively upgrading LCL to FCL transportation. At the regional distribution centers, it is exchanged from truck to commercial transporter (LCV).

The unit is foldable, made of light weight material and equipped with IoT technology for tracking of location, temperature, humidity and more desirable information. With passive insulation, it also allows for more than 48hours transportation of cold-chain products.



For more information,
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Restructuring Global Value Chains – *Leveraging the New Normal*



Given the turbulent and challenging economic outlook, firms are now, more than ever, looking at ways to mitigate the effects and pressures being imposed on their supply chains. The trade war and other disruptive effects such as slowing economic conditions, legislative changes and increased compliance requirements are impacting global value chains (GVCs).

It is somewhat surprising that many firms do not have contingencies in place for disruptions to their GVCs. Anyone who works in supply chain or business would be aware that disruptive challenges, be it naturally occurring ones (like tsunamis for example) or disruptions due to the imposition of trade tariffs occur all the time.

A supply chain that has not been designed to overcome or counteract disruptive challenges is a poorly designed one. Given the attention and focus many companies are just now giving to their supply chains, it also means that many companies have poorly designed supply chains.

The trade war is now part of the 'new normal' and this has created a ripple effect globally beyond just the US and China. Optimistically though, this challenging trade environment is a catalyst for a slew of innovative measures and creative tactics to mitigate tariff costs - although one would argue that supply chain optimization from a cost and performance perspective is something that firms should already be doing on an ongoing basis.

More and more companies are looking at how their supply chains are structured and are either turning to their customs brokers, 3PL's or even their lawyers for help in containing the increased costs and impact.

Some companies have taken to looking for legal loopholes to help avoid or reduce duties without shifting production to other countries. For instance, law firms and consultants in the US are reporting that they are being inundated with requests from importers seeking to use provisions such as the "321 de minimis" rule, which allows goods worth less than \$800 to be shipped to the US without being subject to tariffs.

Any of these creative ways to reduce tariffs payable by companies should be used carefully. Money can be clawed back — and top executives held accountable — if authorities clamp down on a particular tariff avoidance method.

Authorities, especially in the US for example, have recently started cracking down on firms that use "origin engineering" as a technique to avoid tariffs altogether. Goods are typically considered to have come from a country if they have been "substantially transformed" there.

In origin engineering, firms try to adjust parts of their supply chain to claim that production of the a particular product originated outside of a particular jurisdiction to avoid being impacted by the tariffs being imposed. In extreme cases, firms simply state

The trade war is now part of the 'new normal' and this has created a ripple effect globally beyond just the US and China. Optimistically though, this challenging trade environment is a catalyst for a slew of innovative measures and creative tactics to mitigate tariff costs

that a product comes from one country when in actual fact, it was manufactured in a country that is impacted by the higher tariff being imposed. This practice is illegal.

To exploit and ensure that any approach is fully compliant to avoid having to relocate production or supply sources often takes up a lot of internal resources. This paper looks at the 'tool-chest' of avenues a firm could look at to reduce the impact of and capitalise on the opportunities the "new normal" has created.



PRODUCT STRATEGIES

1. Reclassification

Each product is classified with a specific code according to the Harmonised System (HS). The HS code determines the tariff a product will incur at the time of import. Often, there is a degree of flexibility in assigning a HS code for products. It is not unheard of for a firm to classify products under different HS Codes in different countries. This happens for a number of reasons.

Reclassification is one way to pay lower or no tariffs at the time of import.

2. Product Re-Design

Changing a product design by replacing tariffed elements with non-tariffed equivalents may be

another way to avoid or reduce tariffs. For example, you may choose to ship some components of your product from places that are eligible for preferential treatment. This can, in turn, alter the product origin and transform your product into a non-tariffed product. However, it is a fairly big undertaking and will require engineering teams to rework product designs.

Alternatively, you may want to totally relocate or relocate part of where your product is manufactured. One way to measure if a product transformation is enough to classify as originating is its added-value criteria. The product is considered originating only if certain percentage of the good's value originates from a country where you are attempting to derive preferential treatment for your product.

3. Free Trade Agreements (FTAs)

FTAs provide various benefits for businesses. By exploiting the use of FTAs, firms can identify the best accessible markets for their products – not just in tariff reductions but also other benefits beyond tariff cuts. Some FTAs also offer better customs procedures, IP rights and technical measures.

Most trade regulations also include a de minimis rule that allows the importation of non-originating goods duty free. Countries may also allow duty drawback or postponement schemes which allow you to get a refund of customs duty paid or taxes (GST, VAT) on unused

imported goods, or goods that will be treated, processed or incorporated into other goods for export.



OPERATIONAL STRATEGIES

4. Forward Buying

Many companies forward buy inventory ahead of tariffs being implemented. This strategy, however, may incur additional warehousing and storage costs. In addition, goods and storage availability may be unpredictable and tight.

Firms may also experience accounting challenges where an inventory is considered an asset and this could affect cash flow. Furthermore, forward buying may also distort demand and induce a bullwhip effect, which is a distortion of information in a supply chain caused by one-off spikes in demand.

5. Postponement

Postponement is the delay of as much of a process, usually a manufacturing process, to as close to the actual time needed. A simple form of postponement firms could adopt in their supply chains is to store products that attract tariffs in bonded warehouses until they are needed. When used this way, postponement will not eliminate the need to pay a tariff on a product – unless a tariff is eliminated or reduced whilst held in bond – but it will free up cash flow.

For compound goods, there might be a cost unbundling option that helps to decrease its dutiable value. This mechanism allows for the reduction of tariffs by unbundling the product and counting dutiable components only and is another form of postponement.

6. Insourcing

Firms could choose to insource certain manufacturing processes such as product assembly. Although this does not help to avoid tariffs for the components of your product, companies may benefit from decreasing transportation costs as they move final transportation stage closer to their customers. Reanalysis of customer geography might also be useful and products can be market positioned to reduce transport costs.

7. The 'first sale' rule

If a firm is multi-tiered, i.e. if your transaction includes an intermediary vendor or subsidiary use, the first sale rule could be allowed. The first sales or First Sales for Export (FSFE) duty reduction programme allows for significant cost-savings for multi-tiered importers.



SUPPLIER STRATEGIES

8. Share tariff with a supplier

Another way to reduce immediate tariff-related costs is through

renegotiating terms with your supplier. A supplier could be asked to bear the tariff increase or part of the tariff increase and they may be willing to do so in order to keep your business.

This could be a strategic win-win approach for both parties and joint tariff payment is a better strategy for both partners when compared to looking for a totally new supplier or sourcing from a different country altogether.

9. Relocating Production from China

The US-China Trade war is causing what has been described as the biggest cross-border supply chain shift since China joined the WTO in 2001. Many firms have either relocated their manufacturing facilities, are planning to relocate, or are looking for alternative suppliers from outside China. Southeast Asian countries, Taiwan and even India have become alternative manufacturing locales or sources of supply. With an influx of manufacturers and investors in the region, destinations such as Vietnam and Thailand have benefited from "the trade war refugee effect".

Whilst this option may be simple to understand in theory, firms may find relocation challenging for various reasons. Some may not own sufficient financial and human resources to afford such rearrangements. Even if they successfully relocate, they may be unsure whether they can survive a competitive surge for safe havens. Others may not be familiar with the legal, accounting, trade and

customs climate of the alternative countries in which they choose to do business with.

Relocation coupled with the exploration of re-shoring and near-shoring are all plausible options that must be considered. In any supply chain network optimization exercise.



BUSINESS MODEL STRATEGIES

10. Restructure or pivoting a business

Business structure is of critical importance in building resilience disruptions in supply chains. Thus, companies have to be creative in this global trade battlefield. Aside from the effects of the US-China Trade War, firms should remain alert to new regulatory changes in international trade that may threaten their structure. For example, the EU's tightening rules on palm oil imported from Southeast Asia places Malaysia and Indonesia in a difficult position as they account for 85 percent of the total supply of the world's palm oil supply. There are two possible scenarios under this example:

Scenario 1: Firms stick with palm oil and find new markets.

Since the EU palm oil ban will reduce demand of this commodity in Europe, discovering new markets of palm oil consumers is one immediate solution.

Scenario 2: Firms develop a new product for new markets.

Firms may need to discover both new goods and markets to pivot their businesses altogether. In the case of Malaysian and Indonesian plantations, the durian market in China may be a promising alternative. China's per capita consumption of durian is expected to grow from 0.21 kilograms in 2016 to 1.11 kilograms in 2030 - an increase of more than fivefold. Moreover, both Malaysian and Indonesian agriculture enterprises can take advantage of the benefits provided under ASEAN-China Free Trade Area, which has put durian product tariffs at zero since 2015.

supply chains. Some of the strategies discussed above covers collaboration with new and existing partners. However, we could also consider collaboration with competitors across different markets. The concept of Combined Distribution Networks (CDNs) is applied when competing companies in a supply chain work together. CDNs could result in up to 70 percent reduction in supply chain costs for companies whilst also supporting green initiatives.

The key paradigm here is prioritising collaborative advantage over competitive advantage. Restructuring business development model

may occur in other ways, but the focus should be on solutions that entail innovative non-traditional measures.

Trade will affect companies in different ways, depending on the complexity of GVCs, their industry sector, size, capacity, and business model. The trade environment has become more unpredictable than before. To ensure continued resilience and in turn, commercial success in situations in which firms have little or no control means that they firms need to constantly evolve to stay ahead. Those that are able to do so will not just survive but come out ahead in these turbulent times.

CONCLUSION

In most circumstances, there is no such thing as a tariff-proof supply chain or a resilient supply chain. Firms have to constantly evaluate and evolve their supply chains and leverage opportunities. This will help them to achieve multi-sourcing date-visibility and automate supplier solicitation process and qualification for multiple FTAs. As dynamics of tariff policies may take a 180-degree turn overnight, modeling and forecasting scenarios under which a firm operates is necessary. It is crucial to own sound data to plan optimal shipping routes, locate distribution centers and warehousing, and forecast revenue volumes and other trends.

Ingraining new approaches to business development would help effectively restructure



Dr. Raymon Krishnan

Director
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Dr. Raymon Krishnan is the Director at the Asian Trade Centre Foundation (ATCF) and the Asian Trade Centre (ATC). He works with clients on supply chain diagnosis, strategy and network design. Raymon has close to thirty years experience in logistics and supply chain management as an end user, educationist and service provider. He currently serves as President of The Logistics & Supply Chain Management Society and is Editor-At-Large of LogiSYM, the collaborative platform of the Society.

Raymon's experience covers the full Logistics spectrum, from raw material procurement to physical distribution and eventually customer service and care, with a strong grounding in Quality and Six Sigma. He was the Global Commercial Director for 3PL with operations worldwide and prior to this role, he was responsible for Asia Pacific Logistics & Trade Compliance for W.R. Grace.

Raymon holds a degree in Logistics from the Royal Melbourne Institute of Technology and a Master of International Business from the University of Wollongong and a Doctorate in Business Administration. He is also a Fellow of the Chartered Institute of Logistics and Transport and The Australian Logistics Academy and Associate Fellow of the Australian Institute of Management and was an Honorary Fellow of the University of Wollongong.

Supply Chain 4.0

*What is it &
Where is this going?*



There is a lot of hype and excitement about 'transformation'. And indeed even more about **"digital transformation"**, a term banded around quite a lot. But for many this topic is not well understood. For others, with some subject knowledge, it is about technology. And for the rest of us it is a big challenge to get to grips with the impact of this evolution.

For those who followed a few years ago the start of the Industry Revolution 4.0, can appreciate the challenges this presents us with.

It all started with the advent of a disruptive technologies culture, that has created a lot of turbulence for the traditional way of doing things.

But it all still remains a massive work-in-progress.

Industry 4.0, proposed a very clear message, for the need to change the business models that have strongly challenged the traditional ways of doing things.

The digital transformation journey, was the phrase coined to capture and drive change. And this started with buzz words like Uberisation, Bitcoin, machine driven logic and forcing us to re-think and re-invent the way we approach our business models.

Is it clearer or still confused?

Several years later we are still at the starting blocks of this change. Maybe because we still do not fully understand how to master

the complexities of such an integrated technology program.

But why is it taking so long to move us forward?

I suppose that the fundamental reason for this, is that many do not understand how transformation is affecting their business and industry.

They can see change but cannot see how to manage this and what are the causes driving the change.

This is not surprising nor can you blame the many who are challenged by the transformation phenomenon. Very few really understand this right now!

To begin to understand change you need to identify the impact of change and accept that what we are doing and how we are doing it, is no longer the way of the future. This is a very bitter pill to digest and a very tough realisation of the decades of unchallenged business rules and methods. In any change scenario, accepting to change and doing something about it is about having the right business culture.

It is not about the CEO waking up one day, outlining a simple plan for change and then delegating his team to implement it. Yes, the CEO must lead such a major change initiative, but must also enable the organisation to be part of an engaged solution and a collective journey of change.

It is about the Organisation's Business Culture.

Business culture is created and

sustained by the behaviour of the key actors in the business. If the key players say they want change, talk about 21st century technologies and bang tables demanding for performance and results. This does not create the culture of change and the inspiration of the new future. So what does achieve this change and acceptance of a transformation journey?

The simple reality of an inspired starting point has to be an understanding of what needs to change to adapt to the future. Let us remember that technology is an enabler and can only effectively achieve what it is designed to deliver.

From our past experiences, applying technology is not a "quick fix" nor a "plug and play" tool that can transform your business overnight. If it were so easy, then such a deployment would be shallow and be short lived. Lets then turn to these technologies and address the shopping wish list!

What does Digital Transformation actually mean?

By definition the word "Transformation", implies a dramatic change from one way to another – and this is what we still grapple with in real and tangible terms. Because it is not easy if there is not a clear understanding of why and what we want to achieve. It would be logical to think that the first step in a digital transformation, is to adopt advance IT tools and applications.

By these applications we mean, the deployment of artificial

Understanding what is the right approach of a technology driven transformation, is itself is a major journey.

intelligence (AI), machine learning (ML), the internet of things (IOT) and blockchain. But for what purpose?

Understanding what is the right approach of a technology driven transformation, is itself is a major journey. A journey that cannot be undertaken by the CEO or CTO or any single department on their own. Trying to just install some part of these tools would not deliver any benefit to anyone except pay some consultant lots of money, which in the end may not achieve any Digital Transformation. None of these technologies can stand alone in a business and no single user or initiator can manage such a critical project on their own – it has to be a collective effort of all stakeholders.

If we are planning to embrace this massive journey of Transformation, we need to be clear of what it is we need in our business and how this transformation challenge will the

business improve performance.

There are several areas where a transformation program can deliver desirable benefits. In my view there could be 5 big areas crucial to future sustainability and growth of the business. These are being: **faster, flexible, detailed, accurate and efficient.**

These cannot be achieved by the deployment of systems and tools alone. They require a structured plan of implementation with a likely complex transitional process moving from the current to the new. In the end, the real test of a successful transformation, will be measured on how effective the deployments have been in improving business performance and its sustainability.

How would a transformation program get started?

Often it is the CEO that wakes up and starts the process, known as the Top Down approach. But there are some cases where we have seen a Bottom Up approach,

where small ideas have developed into something big. Whilst these cases are less common they could be the more robust long term success stories as they engage the broad base stakeholders earlier in the change process.

However whether is a Top Down start or a Bottom Up start, they all have a common denominator – Organisational Business Culture.

This is what it's all about – having the Vision, Strategy, People, Resources and Processes that together form the Enablers is a foundation necessary to work from. But not forgetting that the end game is also about achieving the Results around the crucial focus areas of– Customer Satisfaction, Financial Performance, People Engagement & Social Responsibility.

This is a typical program based around Total Quality Management (TQM) principles, that has been deployed successfully across many industries since the late 80's and 1990's. And I believe still very relevant in the context of Industry 4.0 and Supply Chain 4.0. Such a program is fundamental to forming and developing an organisational business culture that can digest change, implement transformational programs and strongly mitigate the disruptive factors. This is how a sustainable business program could be achieved.

Supply Chain 4.0 is the proposed approach in which critical functions support the organisation impacted by Industry 4.0 – coping with rapid changes and disruptions. It may not be the



only one, but it is starting point. Put in very simple terms, the objective of the supply chain function is to match supply to demand. But we all know that this a great challenge.

The constraints that we are faced with are many. But 3 stand out as the crucial ones which if mastered could be a game changer in our transformational plan. Dealing with – the uncertainty and accuracy to forecast demand, the production flexibilities to support changes in demand, and improving the synchronisation links between supply chain players. These are the big clusters of attention where digital solutions would deliver significant improvements if effectively deployed.

There are a lot of papers written on the digital transformation benefits, challenges, applications and case studies. They are all very enlightening and informative. And just like my short paper, every piece helps us to form a clearer picture of what digital transformations is about – by wearing a state-of-the-art digital watch that tracks all our

critical health parameters, does not mean that we are digitally transformed per se. **If we do not use the digital information output to improve our health, then we have not benefited from the digital technology that we have invested in.**

The need to embrace a digital transformation program must be for many a mandatory path to secure a sustainable future. Such a transformation program, whilst technology driven, can only be enabled by a visionary CEO, supported a business culture that accepts change and empowered by the whole organisation to develop and execute the transformation.

The TQM journey has been successfully achieved by many and I assure you that it is a most exhilarating experience. But many more need to challenge themselves to drive change from Bottom Up and seek the necessary collaboration from your colleagues to support and share the journey. That is how a digital transformation can gain traction and be successfully deployed.



Joe Lombardo

Founder
ESP Consult

Founder of ESP Consult, Joe Lombardo, has advised CEOs on change management through a supply chain focus. The need-for-change is a likely and necessary step for business development and sustainability for the future. Starting a journey of transformation within an organisation can be hugely daunting. This introduction to a transformational journey, illustrates that it is not as complicate or as expensive as it may seem. The rewards and benefits will be significant.

ESP Consult advises on structuring the model to facilitate and successfully implement Adaptive Supply Chain driven organisation using a TQM based model. For those involved it has been an enlightening and motivating experience.

For more information about the about the article and publications to improve your supply chain refer to

joe.lombardo@esconsult.biz



Delivering on the Digital Promise

23 - 24 July 2019 | Hilton Petaling Jaya

It was another race to the finish and this year's LogiSYM Malaysia saw an even better participation and line up of speakers and topics.

The Trade War, Combined Distribution Networks, IMO2020, Disruptors in the form of start-ups in the Supply Chain, Digitalisation and a slew of other relevant and interesting topics were discussed by the experts and professional Logisticians gathered in the room.

As always it was a great opportunity to network as well and many new and useful contacts were made. The bar was raised quite high this year and it will be a challenge to usurp and surpass what the team has achieved this year.

Thank you as always to our inimitable Peter Raven and Anita George and other volunteers and a big call out to our sponsors - BluJay Solutions, cargo-partner, GO, Infor and Transporeon Group.



Keynote Address
by Stephanie Krishnan (IDC Asia/Pacific)



Competing on Customer Experience
by Joseph Lim (BluJay Solutions)



Panel Discussion: Overview of Malaysia Logistics Scenario by 2025
from left: Ann Mauritia D'Cruz (Logistics & INCOTERMS), Richard Kok (iKargo), Jeroen Hendriks (Art of Supply Chain), Durairaj Govindasamy (Ports World) and Richard Strollo (Logistics & Freight Forwarding Industry)



Panel Discussion: Are You Ready for IMO2020?

from left: Richard Strollo (Logistics & Freight Forwarding Industry), Vivien Cheong (Transporeon Group), Antony Bennan (CEVA Logistics), and Raymon Krishnan (LSCMS)



Transforming Fulfillment in the MENA Region

Fadi Amoudi (IQ Fulfillment)



The Silk Road Challenge: E-A-CH Transport Inter-Continental Trucking (Singapore-Suzhou-Frankfurt)

Axel Herzhauser (CEVA Logistics)



Infor Team



Panel Discussion: Supply Chain Innovation - Improving the Customer Experience

from left: Wong Soo Fan (Blujay Solutions), Richard Kok (iKargo), Corey Weekes (Yojee), Stephanie Krishnan (IDC Asia/Pacific) and Richard Strollo (Logistics & Freight Forwarding Industry)



Showcase: Skunkworks / Innovation in the Supply Chain Industry

from left: Ethan Lim (TheLorry Malaysia), Edwin Lee (iStoreiSend Logistics), Vimal Kumar (Yellow Porter) and Rikesh Supra (GO)



The Future of Packaging is Connected: Unit Load System Pooling Solution

Ansgar Diekmann (ALSCO)



Raymon Krishnan (President, LSCMS) with LogiSYM Malaysia 2019 Volunteers

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