Going digital: a turning-point for trade

The value of digitalisation to global trade and supply chains has become fully apparent in the wake of the Covid-19 pandemic.

There has long been an appetite within the international trade community to move away from paper documents and manual processes. Yet, until recently, progress has been mixed. Evidence is now emerging that since early 2020, the industry has been jolted into action. Driven in part by the shock to supply chains caused by the Covid-19 pandemic, and in part by a desire to cut waste and improve transparency, demand for digitalisation is soaring.

"In the past, the decision to go digital could linger for years," says Carsten Frank Olsen, global head of digital customer channels and e-commerce at A.P. Moller – Maersk. "Now, companies are making those decisions within months, even weeks, because they see the opportunities to remediate the impact of events like Covid on their supply chains."

Efforts to contain the spread of the virus have caused profound difficulties for international supply chains. While the start of the pandemic was characterised by a sharp drop in trade volumes, the longer-term effects have included container and vessel shortages, and soaring freight costs. However, restrictions on movement and handling paper documents appear to have sparked a rapid increase in demand for digital processes. At Maersk, Mr Olsen says the pandemic "has driven a significant uptick across all of our engagement solutions". That includes an increase of nearly 300% in client usage of its mobile channel, he explains. Demand for products on the company's digital platform has increased by around 25%, while there has been a rise of close to 100% in customers booking inland products digitally.

83%

The proportion of global trade finance banks that have implemented a digital strategy

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Jan Hoffmann,
Head of trade logistics branch,
UN Conference on Trade and Development

This marks a leap forward for an industry historically dependent on the exchange and processing of physical documents. The pace of change has been rapid. In 2018 a global survey of trade finance banks carried out by the International Chamber of Commerce (ICC) found that more than half were still at least a year away from implementing technology-driven solutions. Of those that had pushed ahead with digitalisation, the majority felt there was room for improvement. By 2020, in the next such ICC survey, 83% of global lenders reported that they had implemented a digital strategy and just 5% of respondents said that new technology was still not on their agenda.

"A recent report by IBM suggests that e-commerce and digitalisation in logistics over the last 12 months advanced as much as in the previous five years put together," says Jan Hoffmann, head of the trade logistics branch at the UN Conference on Trade and Development (UNCTAD). "My gut feeling, from the sense of urgency I see, is that this could well be the case. Definite progress has been made, and now we have to make sure we lock in the progress made during lockdown."

A great deal of digitalisation efforts have focused on generating digital versions of paper documents. In the shipping industry, the Digital Container Shipping Association (DCSA) has set its sights on electronic bills of lading (eBLs), publishing a set of standards in December 2020 designed to iron out variations between bills issued in different markets and by different companies. The DCSA estimated last year that just 0.1% of bills of lading were issued electronically, although since then efforts at legal reforms in Singapore and across the G7 nations are expected to remove barriers to adoption. Major shipping companies have also started offering customers the use of eBLs in 2021, via the WAVE digital document network. In some regions, such as the Americas, progress has also been made in digitising payments, rather than relying on paper cheques.

Industry insiders believe that digitalisation holds growth potential beyond replicating existing processes in a paperless environment. Maersk's Mr Olsen says that, once a foundation of digital information is in place, companies can put in place highly sophisticated plans for handling and storing goods. This helps them to cut wasted time and funds, and ultimately helps to free up vital working capital.

"Take visibility as an example," he says. "If we are able to track the location of containers, we can tell customers that their consignment is going to arrive at a particular destination, at a particular point of time. Those predictive capabilities mean customers can reduce buffer stock, potentially by millions of dollars in value, because they can plan differently."

Digitalising the location and movement of goods enables companies to push relevant data out through their supply chains. UNCTAD's Mr Hoffmann gives the example of a major retailer that digitalises not only its own stock management, but also how and when it procures goods from its suppliers. "If someone buys something, that company knows it has to refill that stock," he says. "But in the same moment, the producer of that product knows it has to purchase more raw materials. This is already happening in the most sophisticated supply chains." Moving away from paper could also streamline trade between countries that have existing trade agreements, Mr Hoffmann adds. Importers on both sides can benefit from lower duties, if they can obtain a certificate of origin proving that the goods were made in the exporting country.

"Obtaining this paper certificate costs time and money, and I have seen cases where getting this paper is more cumbersome and costly than simply paying a little more duty. That means, despite a regional trade agreement being in place, a lot of trade between the two countries does not actually make use of it."

While much of the industry is focused on the commercial benefits of digitalising trade processes, there are also significant gains from improving transparency. Mr Hoffmann points out that customs authorities can deploy resources more effectively if they have real-time information about which containers may require inspection. That could help to tackle efforts to avoid tax through over- or under-invoicing, while easing companies' risk management processes by reducing their potential exposure to illicit activity.

"With digitalisation there are great opportunities around risk management," Mr Hoffmann explains. "For example, connecting data through digitalised systems means you can connect tax authorities' data to customs agencies' data, so if a laptop is declared as costing $500 and is later presented with a value of $2,000, there is intelligence on the underlying valuations and authorities can carry out effective, targeted inspections."

However, despite the increasing activity and excitement around digitalisation, there is still a long way to go. For Maersk's Mr Olsen, one of the barriers remains a lack of consensus across different industry participants on the best way forward. "For us as an industry, to succeed in terms of streamlining and digitalising, we have to address the issue of standardisation first," he says. "This is an industry-wide problem that needs to be fixed."

One issue in the shipping and logistics sector is that trade and supply-chain management products have often been built on a bespoke basis. The result is an array of different platforms that are not integrated with each other. "There is still a traditional mindset in parts of the industry that everything has to be built bespoke. In my view, this is a mistaken way of looking at customer centricity," Mr Olsen says. "Doing something bespoke for each customer takes time. Why don't we build a standard first, and then configure that standard to meet customer demand? That is the way forward."

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