

TECHNOLOGICAL INNOVATION AND ELECTRONIC COMMERCE FOR THE NEW ZEALAND FOREST INDUSTRY

Today I will be speaking about a particular aspect of electronic commerce, Electronic Data Interchange or EDI, and it's applications in world trade, which I believe will have specific impacts on the New Zealand Forest Industry.

Before I try to look to the future, it is probably appropriate to briefly outline what happens now in international trade transactions.

The theory behind international trade is fairly basic. The seller supplies product in return for payment. Unfortunately it is rarely that simple. There are issues such as Credit risk, exchange rate risk, sovereign risk etc. that work their way into the equation.

A common method of managing some of these risks is the Documentary Credit.

Documentary Credits are basically a bank guarantee, undertaking to effect payment in exchange for specified documents.

In essence, international trade is dependent on the exchange of paper documents.

The cost of administration associated with the inefficient exchange of documents has been estimated by the United Nations to be 7% of the value of world trade, or in excess of USD 400 billion per year. This is where organisations expect EDI to make a difference

The Bolero Association is an organisation currently to the forefront of development of full trade EDI. It has a membership of over 150 organisations including banks, shipping companies, port authorities, exporters, importers freight forwarders etc.

The Bolero Association has appointed two organisations to form a joint venture company for delivery of the Bolero concept to the market. They are the Through Transport Club and S.W.I.F.T.

The Through Transport Club has a membership of over 300 Liner Operators, 500 Freight Forwarders and 200 Ports and Terminals. S.W.I.F.T.'s membership base is over 5000 banks.

One of the main functions of the Joint Venture Company will be the creation and operation of a Central Registry.

The Central Registry is a database for users to exchange and store the electronic documents. The Registry will manage who holds or owns a document, and any transfers of holdership between parties.

Storage of Documents in the Central Registry will enable either one or several users to view a particular document. Naturally access to the Central Registry will be strictly controlled by appropriate Security Architecture.

So what will have changed from the way that trade transactions are undertaken at the moment. The theory will remain the same, but there will not be any paper documents, they will be electronic.

Any changes in moving to full trade EDI will not happen overnight. The introduction of EDI requires the full agreement of all parties. As an example, if a New Zealand forestry company were to ship logs to a company in Japan the following parties would not only need to agree to undertake the transaction using EDI, but they would also have to agree on the electronic document format, and the legal standing of each document;

Exporter, importer, exporters bank, importers bank, log marshallers, shipping companies, customs in country of export, customs in country of import, port authorities (both importing and exporting), insurance companies, various health authorities etc.

From an exporters viewpoint, trading under EDI is generally favourable. However, there can be disadvantages for importers.

The reason why EDI is being driven in Europe and North America, is the short shipping time from the buyer to the seller with New Zealand exports, it is not unusual for shipment to take in excess of a month to reach their destination. Obviously, it is in the importers interest to delay payment for any shipment as long as possible. Using EDI in theory the exporter would be able to get their money on the day they submit their electronic documents. In practice it may take two days.

Although there will be some costs associated with the processing of electronic documents, they are expected to be insignificant when compared to paper processing.

EDI will also provide more flexibility to exporters, in that they won't be tied to paper documentation. Sales could be arranged after the ship has already sailed with the goods.

It is not a case of "if" full EDI trading will occur but "when". From the New Zealand Forest Industry's perspective, the sooner it happens the sooner the benefits will follow.