



**WTO/ESCAP Third ARTNeT Capacity Building
Workshop on Trade Research, Bangkok, Thailand
26-30 March 2007**

**Trade Facilitation: Recent
Research and Emerging Issues**
[Day 2, Session 2]

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Overview of the session

- Part 1: Trade Facilitation (TF)?
- Part 2: WTO TF Negotiations and related Research
 - Introduction
 - Related ARTNeT research & findings
 - Emerging consensus on TF agreement
- Part 3: Beyond WTO TF Negotiations
 - Customs valuation
 - TF and regional trade agreements
 - Logistics liberalization and other issues

Part 1 – Trade Facilitation?*

Definitions?

Economic Benefits?

Main tools and
International
Organizations?



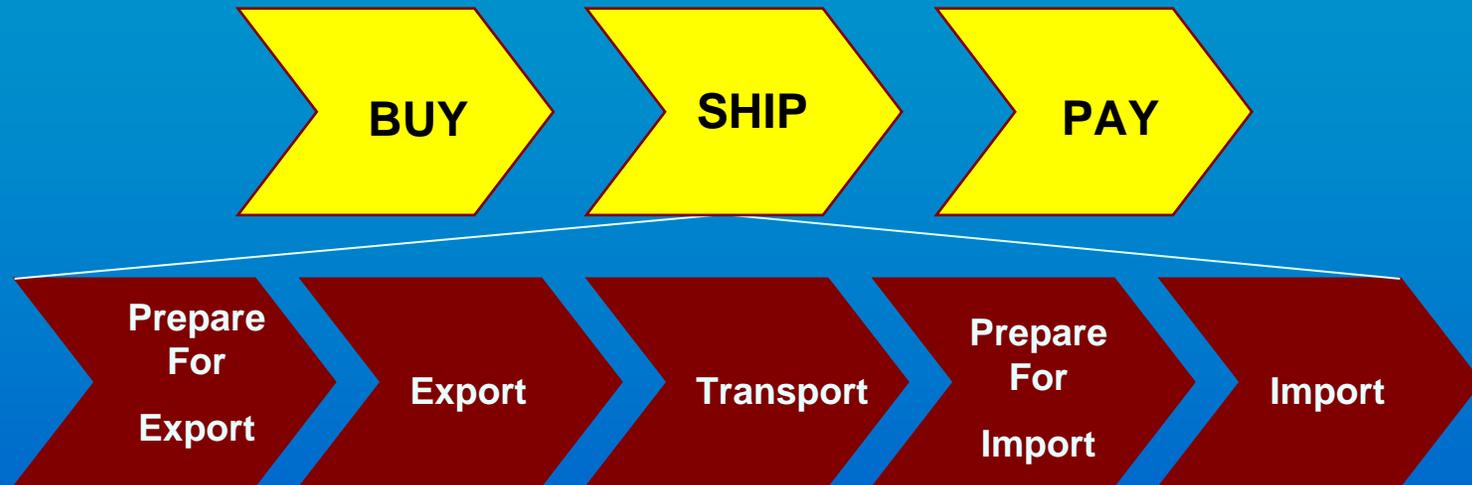
*pictures from Tom Butterly,
UNECE (oct. 2005)

What is Trade Facilitation?



- No agreed upon definition
- “The plumbing of international trade” (Staples, 1998)
- “Any measure, or set of measures, that aims to increase the cost-effectiveness of international trade transactions”. <http://www.gfptt.org/Entities/TopicProfile.aspx>
- “the simplification and harmonization of international trade procedures.”, where trade procedures are the “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade.”
(based on WTO documents)

INTERNATIONAL TRADE TRANSACTION PROCESS



INVOLVES

Commercial Procedures

- Establish Contract
- Order Goods
- Advise On Delivery
- Request Payment

Transport Procedures

- Establish Transport Contract
- Collect, Transport and Deliver Goods
- Provide Waybills, Goods Receipts Status reports



Regulatory Procedures

- Obtain Import/Export Licences etc
- Provide Customs Declarations
- Provide Cargo Declaration
- Apply Trade Security Procedures
- Clear Goods for Export/Import



Financial Procedures

- Credit Rating
- Provide Insurance
- Provide Credit
- Execute Payment
- Issue Statements

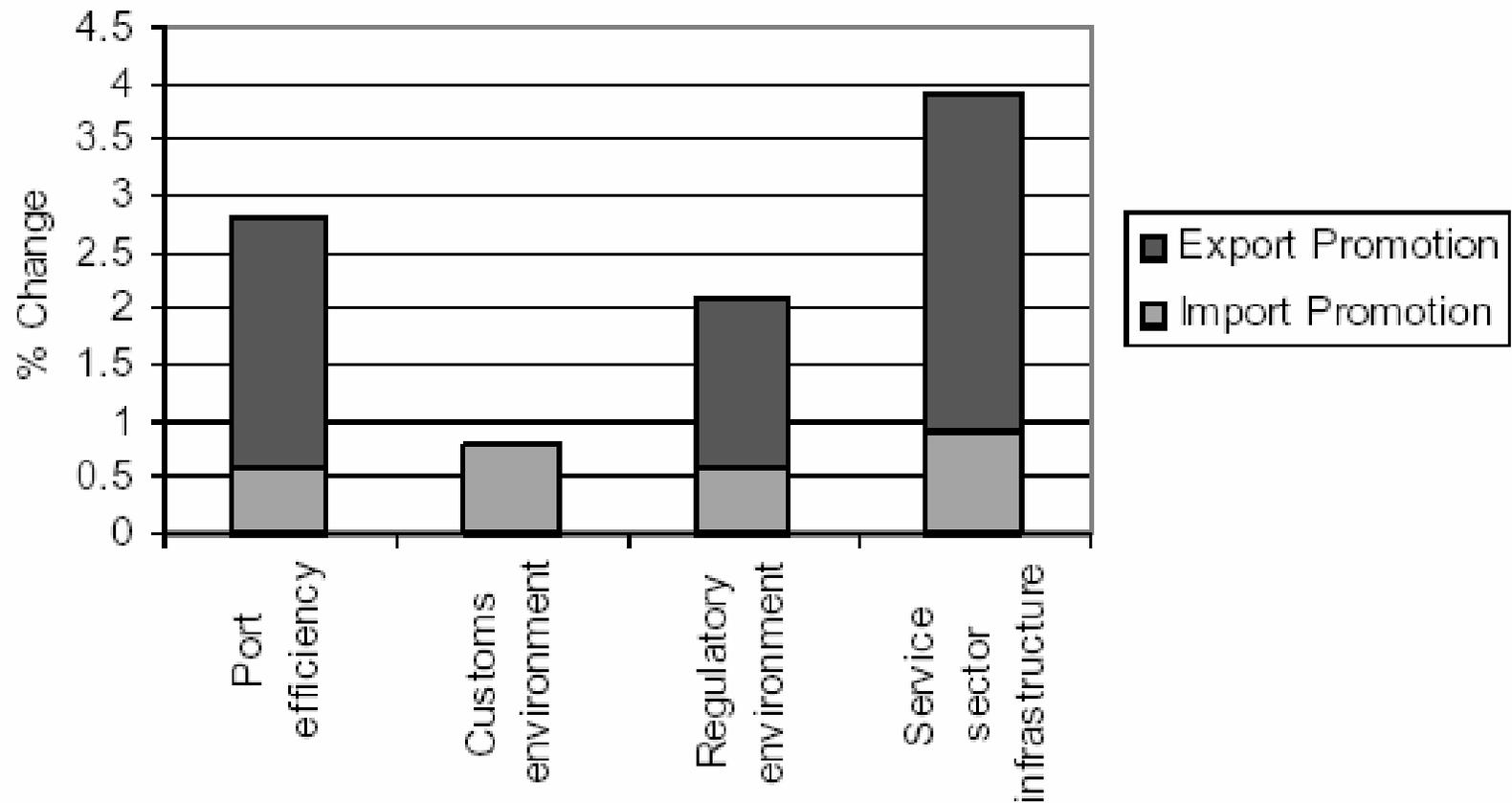


Economic Benefits

- Trade facilitation costs = 1 to 15% of landed cost of imported good
 - even if only 1%, OECD estimates total gains from TF improvements to world economy of US\$40 billion
- A 1 % reduction in the fees charged for maritime and air transport services → increase Asian GDP some US\$3.3 billion. (UNCTAD, 2001)
- 1 day less in delivery times = 0.5% of landed cost of goods (Hummels, 2001)
- Each additional day of delay prior to shipment reduces trade by more than 1 % (Djankov et al., 2006)

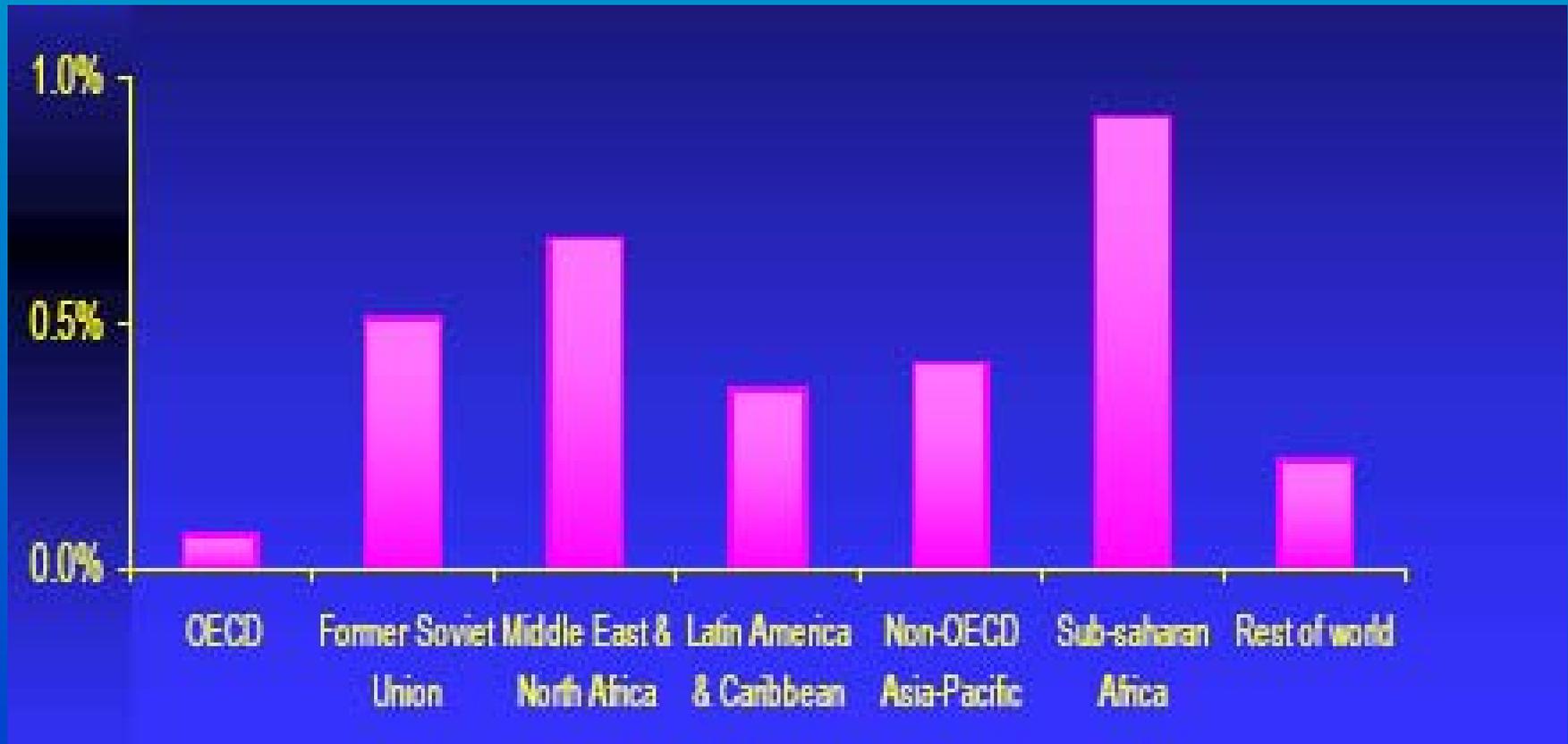
Trade Gains from TF (broad definition)

Figure 3. Trade Gains from Capacity Building in Trade Facilitation



Source: Wilson, Mann and Otsuki (2004).

Effects of TF on GDP (narrow WTO definition)



Economic Benefits

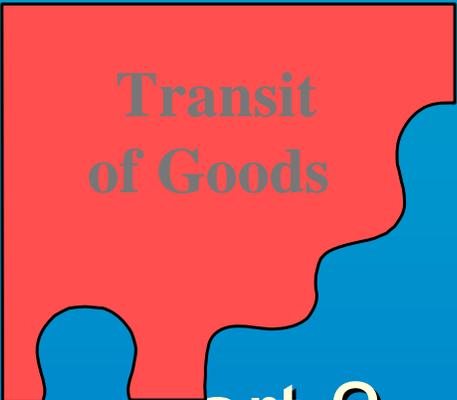
- Benefits higher for developing countries and for SMEs
- APEC estimates gains of US\$46 billion from trade facilitation measures - adopted TF as key policy target.
 - Greater than the potential value of increased tariff reductions under future multilateral trade negotiations.
- Important factor in attracting FDI

TF is not new: selected International organizations and tools

- The United Nations
 - UN/CEFACT (UNECE), UNCTAD
 - ASYCUDA, TF recommendations...
- The World Customs Organization
 - HS, Revised Kyoto Convention, WCO Data Model
- The World Bank
 - Financing of TF related projects and research
- The WTO
 - SPS, TBT, Customs Valuation, Import Licensing agreements
- Regional level: ADB, APEC, ESCAP...

**One good starting point: the Global Facilitation
Partnership for Trade and Transport (GFPTT)**

www.gfptt.org



**Transit
of Goods**



**Fees and
Formalities**

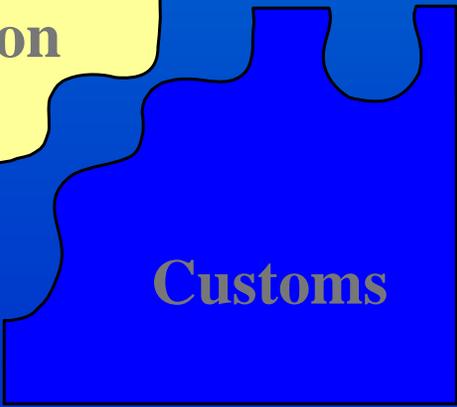
**Part 2 – WTO Trade Facilitation
Negotiations and Related ARTNeT
Research**



**Trade
Regulations**



**Trade
Facilitation**



Customs

Introduction

- **Singapore Ministerial Declaration 1996**
 - Article 21: “We further agree to direct the Council for Trade in Goods to undertake exploratory and analytical work, drawing on the work of other relevant international organizations, on the simplification of trade procedures in order to assess the scope for WTO rules in this area.

Main problems identified (for traders)

- Excessive documentation requirements
- Burdensome border-crossing procedures
- Lack of automation and scarce use of IT
- Lacking transparency and predictability
- Lack of cooperation and coordination

Documentation requirements

- ...often lack transparency, are vastly duplicative, and differ widely between countries
- Some trade transaction can involve
 - 20-30 different parties;
 - 40 documents;
 - 200 data elements (30 of which are repeated at least 30 times);
 - and the re-keying of 60-70 percent of all data at least once

Border crossing problems

- outdated legislation inhibiting change and reform
- wide array of discretionary powers for customs
- no effective redress against decisions by customs
- reliance by customs on transaction-based controls
- scarce use of “green channels”
- lack of co-operation between customs and traders
- lack of co-operation between customs and other government agencies

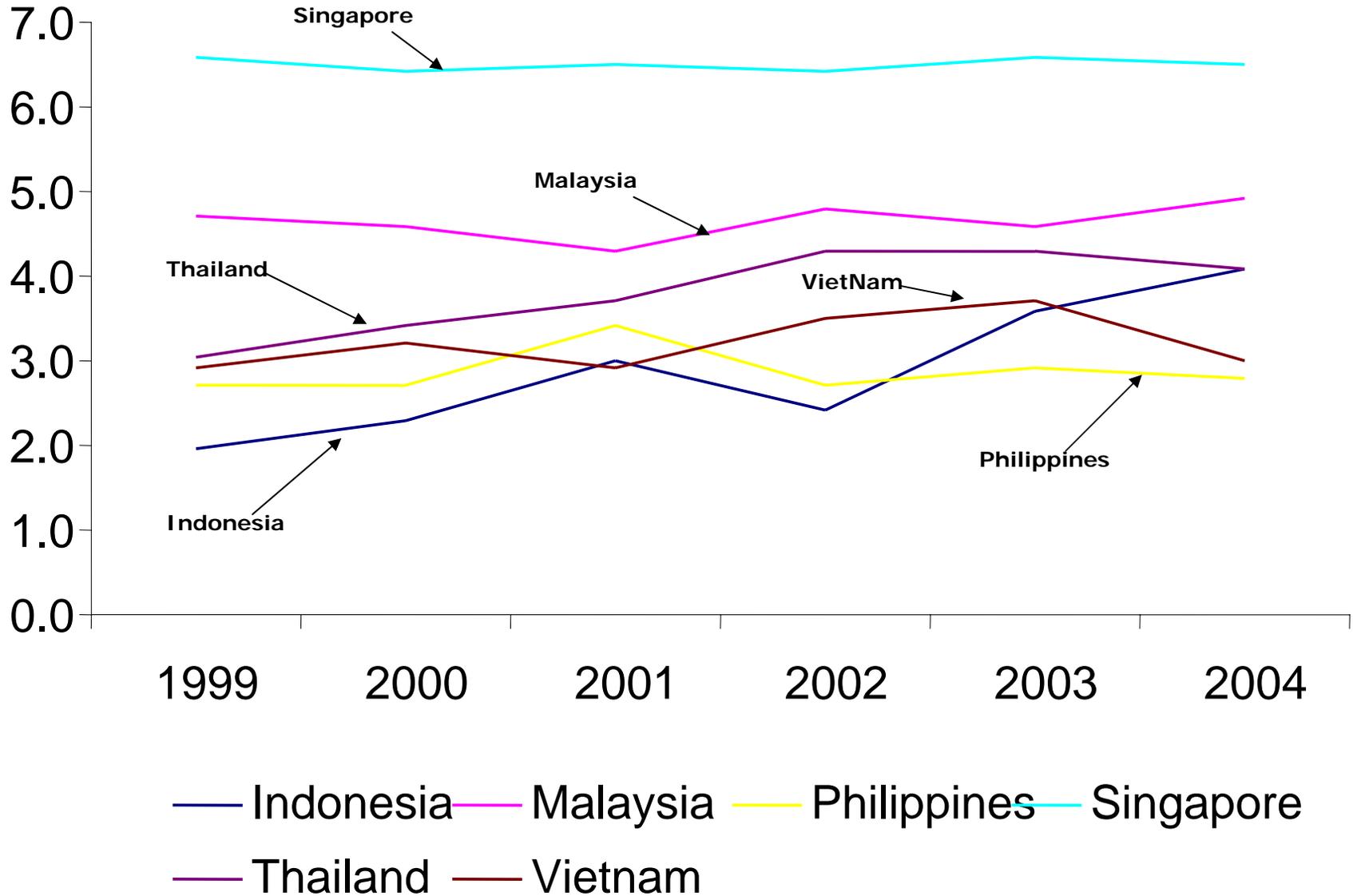
Lacking automation and limited use of information technology

- Lack of automated processes and scarce use of information technology has potential to cause delays and reduce efficiency of administration
 - Delays: Time lost at borders accounts in some countries for 20 % of overall transport time

Other problems

- Corruption
- Lacking human and financial resources
- Deficiencies in the area of infrastructure

Frequency of Irregular Payments to Secure Trade Permits (1=common; 7=never occurs)



WTO TF Negotiations

- ...8 years after the Singapore Ministerial Declaration, WTO members agreed to start negotiating on trade facilitation
- Part of the single undertaking of the Doha Round
- Trade Facilitation Negotiating Group
- Proposal-based negotiations
 - More than 140 proposals/contribution papers/notes so far; no established format
- Modalities of negotiations
 - July Package (WT/L/579) and its Annex D

July Package, Annex D (1 Aug. 04)

- TF negotiations “shall aim to clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994 with a view to further expediting the movement, release and clearance of goods...”
- TF negotiations also aim at “enhancing technical assistance and support for capacity building in this area,”
- and at developing “provisions for effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues”.
- The results “shall take fully into account the principle of special and differential treatment for developing and least-developed countries”, which would not be obliged “to undertake investments in infrastructure projects beyond their means”.

GATT Articles V, VIII and X



- ★ **Art. V** **Freedom of Transit**
- ★ **Art. VIII** **Fees & Formalities connected with Importation & Exportation**
- ★ **Art. X** **Publication and Administration of Trade Regulations**

-- See Annex I for details --

Issues with current GATT Articles

- ☹ Lack of clarity and precision
- ☹ Difficult (often impossible?) to enforce
- ☹ Not effective in ensuring/improving transparency and predictability
- ☹ Absence of requirements for cooperation among various stakeholders

WTO members' proposals to the NGTF

- Compiled in TN/TF/W/43 series
 - 14 main areas; 28 groups of measures (some have sub categories (45))
 - Mainly GATT Articles V, VIII and X
 - Cross-cutting submissions
 - Needs and Priorities, TA/CB, Multiple areas
 - Latest analytical compilation dated Aug. 06
- Now, simple list of documents in TN/TF/W/106 series
 - Over 100 proposals to date (still coming in)

WTO Proposals related to Article X (transparency)* - Areas covered

- Publication and Availability of Information
- Time Period between Publication and Implementation
- Consultation and Comment on New/Amended Rules
- Advance Rulings
- Appeal Procedures
- Measures to Enhance Impartiality and Non-Discrimination

*Areas A to F in W/43 Ver.5 table

WTO Proposals on Article VIII (Fees and Formalities)* - Areas covered

- Fees and Charges Connected w/ Import/Export
- Formalities Connected w/ Import/Export
- Consularization
- Border Agency Coordination
- Release and Clearance of Goods
- Tariff Classification

*Areas F to L in W/43 Ver.5 table

WTO Proposals related to Article V (Freedom of Transit)* - Areas covered

- Matters Relating to Goods Transit
 - Strengthened non-discrimination
 - Disciplines on Fees and Charges
 - Disciplines on Transit Formalities and Documentation Requirements
 - Improved Coordination and Cooperation
 - Operationalization and Clarification of Terms

*Area L in W/43 Ver.5 table



ARTNeT Trade Facilitation Research Effort

- **2004: Many developing countries reluctant to a WTO trade facilitation agreement, mainly because of implementation cost & capacity concerns**
 - Most TF research has focused on macro-level benefits and analysis
- **→ 2005: Launch of ARTNeT Study on the *Need for and Cost of implementation of selected trade facilitation measures relevant to GATT articles V, VIII and X***



ARTNeT Trade Facilitation Research Effort

- OECD conducted “implementation cost” surveys in late 2004, with additional studies planned in Cambodia, Thailand and the Philippines in 2005
- **ARTNeT decided to conduct country case studies in:**
 - **Bangladesh (CPD, Bangladesh)**
 - **China (CAITEC, China)**
 - **India (RIS, India)**
 - **Indonesia (CSIS, Indonesia)**
 - **Nepal (IPRAD, Nepal)**

Research Steps

- Assessment of current level of implementation of trade facilitation measures related to article V, VIII, and X
 - Based on a short version of WCO Self-Assessment checklists (developed by the WTO)
- Need and priorities of the private sector
 - Based on a survey/interview instrument developed by the ARTNeT team
- Cost (for the government) of implementing selected measures
 - Based on the OECD survey and other instruments

Findings from case studies

- Many of the TF measures discussed at the WTO have been PARTIALLY implemented (or there are plans for their introduction)
 - Regional initiatives have been a driver

Findings from case studies

- Private sector perspective:
 - Customs regulations and procedures result in significant costs to business (Bangladesh: 65% agree)
 - Major difficulties faced are attributed to domestic regulations/procedures (up to 90% in some countries)
 - Improvements in export and import procedures/facilitation are reported in all countries, but there is room for improvement

Table III.1 - Perceived level of implementation of GATT Articles V, VIII and X by the private sector in selected countries

(7: Strongly agree; 6: Agree; 5: Slightly agree ... 3: Slightly disagree; 2: Disagree; 1: Strongly disagree)

	Overall Average	Bangladesh	China	India	Indonesia	Nepal
Art. VIII & X (Transparency and Fees & Formalities)						
Relevant trade and customs procedures and regulations are publicly available and easily accessible	4.8	3.4	5.1	5.4	4.9	5.3
Computerization and automation of customs and trade procedures have noticeably reduced average time of clearance	4.7	4.2	5.8	5.0	5.6	3
Penalties and fines for minor breaches of customs regulation (e.g., due to typing mistakes) are small and reasonable	4.4	3.3	5.6	4.3	4.3	4.3
Information about changes in regulations and procedures are made available promptly and conveniently to the public	4.3	3.1	4.5	4.9	3.6	5.3
It is easy to submit required trade documentation to trade/customs authorities for approval	4.3	3.1	3.9	4.3	5.4	5
A formal and effective private sector consultation mechanism exists, which allows traders to comment on proposed changes to regulations and procedures before they are issued and implemented.	4.0	3.7	4.6	4.0	3.4	4.3
On average, fees and charges levied on export and import are reasonable (i.e., are limited to the cost of services rendered by the authorities)	4.0	3.4	4.3	4.0	3.3	5
An independent system to appeal trade and/or customs authorities' decisions is available and operates effectively	3.9	2.6	3.6	4.4	4.2	4.6
An effective advance ruling system is in place, which allows the importer, in advance of trade, to obtain binding rules in certain specific areas (e.g., tariff classification, customs valuation,	3.8	4.1	4.4	4.0	5.1	1.3
Laws, regulations and judicial decisions are applied in a uniform, impartial, and reasonable manner	3.4	2.7	4.5	3.9	2.7	3.3
Documentation requirements for import/export are NOT excessive and time consuming	3.3	1.9	2.9	3.3	4.4	4.0
Irregular and arbitrary payments are NOT often required to expedite release of goods from customs	3.2	1.8	5.9	3.6	3.2	1.4

Findings from case studies

- Needs and priorities of private sector:
 - TF measures that often come at the top of the list:
 - **Timely and comprehensive publication and dissemination of trade rules and regulations**
 - **Measures to enhance coordination among government agencies**
 - **Measures to improve the integrity of government officials**
 - **Computerization and automation of trade procedures**
 - **Some variation across countries**

Findings from case studies

Table III.2 - Private Sector Priority Ranking of Selected Trade Facilitation Measures

Trade Facilitation Measures	Overall Ranking	Bangladesh Ranking	China Ranking	India ranking	Indonesia Ranking	Nepal Ranking
Elimination of bribery and other corrupt practices of officials involved in the clearance and release of imported goods	1	1	1	1	2	1
Improvement of coordination between relevant agencies, particularly on document requirement, e.g., through the establishment of a single window for one-time submission and collection of all trade documents	2	3	3	4	2	4
Timely and comprehensive publication and dissemination of trade rules and regulations (e.g., through the Internet)	2	6	4	4	1	1
Computerization and automation of trade procedures, e.g., online submission and approval of customs declarations, cargo manifests, including electronic payment of fees and customs duties	4	6	4	2	5	6
Harmonization and standardization of documentation requirements based on international standards	5	4		8	8	4
Reduction and simplification of the documentation requirements for import and export procedures	6	1	7	3	6	

Findings from case studies

Table III.3 – Most Problematic Areas in Conducting Trade

	Overall Ranking	Bangladesh Ranking	China Ranking	India Ranking	Indonesia Ranking	Nepal Ranking
Customs valuation	1	1	2	1	3	2
Inspection and release of goods	2	2	6	2	2	1
Tariff classification	3	3	5	3	4	3
Technical or sanitary requirements	4	7	1	7	5	4
Payment of fees and penalties	5	6	4	6	1	n.a.
Obtaining an import license	6	5	3	5	6	n.a.
Submission of documents for clearance	7	4	6	4	7	n.a.
Identification of origin of the goods	8	8	8	8	8	n.a.

Findings from case studies: Implementation Costs

- Costs associated with off-the-job training of officials and other stakeholders and those associated with ICT (hardware and software) are most problematic
- Hard to dissociate some of the basic infrastructure costs from trade facilitation as some key measures do require such investments (e.g., risk management; rapid clearance)
- Studies mostly unsuccessful in costing specific TF measures

Experts Survey on implementation cost of selected trade facilitation measures

- Main objective: to provide unbiased qualitative estimates of the costs and time required for implementing selected TF measures being discussed at the WTO

EXAMPLE

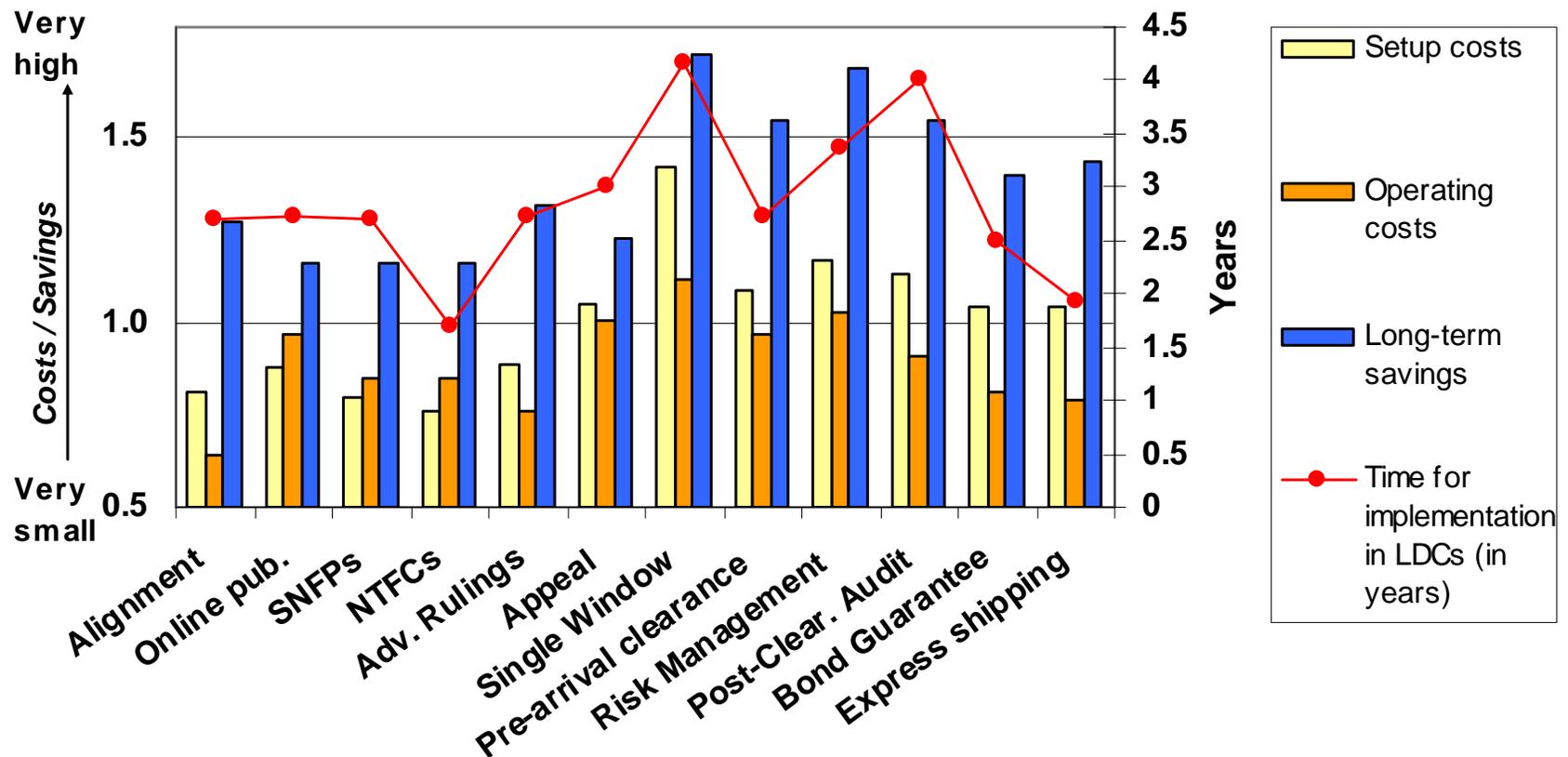
TF measure: Alignment of trade documents according to the UN Layout Key for trade documents

regulatory/ legislative costs	Startup/initial costs				Political cost	Recurring / operating costs	Long- Term savings potential	Suggested Time for implementatio n in LDCs (in years)
	Institutional costs	HR training costs	Equipment/ Infrastructure costs					
VS	S	S	S		M	S	S	2

Comments:

Translation into English will likely be the most costly aspect of this measure for many countries, and may require creation of positions for a small team of translators beyond the initial startup phase. Development and hosting of the web site could be done by WTO or one of the relevant international organizations.

Experts' Qualitative Assessment of the Relative Cost, Benefits and Time Needed for Implementing Selected Trade Facilitation Measures



ARTNeT TF Research Effort: Some implications for the WTO Negotiations

- If priorities are based on the perceived need of the private sector and the expected cost of implementation for the Government, basic package of TF measures might include:
 - Timely and consistent publication of trade rules and regulations (online)
 - simplification/ standardization/ harmonization of trade documents
 - Independent and effective national systems of appeal

ARTNeT TF Research Effort: Some implications for the WTO Negotiations

- Usefulness of electronic single windows recognized but need TA&CB
 - National trade facilitation programmes needed for effective implementation of TFMs
- Some disagreement among experts on implementation details (and sequencing of TFMs)
 - Need to establish a long-term institutional mechanism at the WTO
 - Mandatory TFMs + complementary list of TFMs

ARTNeT TF Research Effort: Some implications for the WTO Negotiations

- S&D: only needed to shield countries against dispute settlement until they can implement TFMs
 - Country needs vary across TFMs
 - need more time flexibility for TFMs with high political costs; grants for the TFMs requiring infrastructure investment
- TF is mostly about improving internal systems
- Importance of TF related issues not covered by the negotiations

WTO Trade Facilitation Negotiation

- State of Play

- Emergence of a mechanism
 - Step 0: signature of agreement
 - Step 1: capacity self-assessment by members
 - Step 2: each member notify trade facilitation measures (TFMs) that
 - Require more time
 - Require more time and CB/TA
 - Step 3: Entry into force of the agreement
 - May include “immediate” implementation of some simple TFMs
- Creation of a Trade Facilitation Committee (TFC)
 - TFC will manage mechanism/implementation of TFMs
 - TFC may also work on developing further agreements
 - TFC will oversee a TF TA/CB (sub-) committee, composed of members/experts/international org.

WTO Trade Facilitation Negotiation - State of Play

- Text for various measures submitted (e.g., in 2007, single window) but... Concrete List of TF Measures needed
 - Type A: measures to be implemented by all
 - Type B: measures that may require CB-TA
 - (Type C: excluded measures)
- How to ensure that TFMs are implemented?
 - Who is going to determine whether a country has acquired the needed capacity?
 - Can a country only notify *Type B* TFMs?



Part 2 – Beyond WTO Trade Facilitation Negotiation

Emerging issues

- Customs valuation
 - Top issue for private sector
 - Useful lessons may be learned from implementation of WTO Customs Valuation Agreement
- Trade facilitation and regional integration
 - Increasing number of PTAs
 - How is trade facilitation addressed in PTAs
- Trade logistics services liberalization for trade facilitation
 - Growing importance regional/global supply chains with complex logistics
 - Can liberalization in trade logistics services a determinant factor of trade facilitation

Customs Valuation

- 2006 studies

- Implementation of the WTO Valuation Agreement in Nepal: An Ex-ante Impact Assessment (Pushpa Raj Rajkarnikar, IPRAD, Nepal)
- Experience with Implementation of Agreement on Customs Valuation in India: Identifying Trade Facilitation related Concerns (Sachin Chaturvedi, RIS, India)
- Customs Valuation and Trade Facilitation and Regional Integration in Selected Pacific Island Countries (Biman Chand Prasad, USP, Fiji)

Customs Valuation - Background

- WTO Agreement on Customs Valuation (ACV)
 - Method 1: Transaction Value (TVM); Method 2: TV of identical goods; Method 3: TV of similar goods; ...
 - In principle, Customs is bound to accept the value stated by the importer through the invoice unless it has additional information to substantiate under invoicing
 - Possibility of under invoicing if no effective control mechanisms in place

Selected Findings on Customs Valuation – Nepal case

- **Full** implementation of the WTO ACV (due 2007) would be positive overall
 - reduce under-invoicing (average undervaluation estimated at 17 to 21%)
 - increase price level of imports by 2.1%; decrease in imports by 1.9%; increased overall price level by only 0.6%
 - Overall, may increase customs revenue by up to 20%
- **But...**

Selected Findings on Customs Valuation – Nepal case

- But, the following problem hinder **Full** implementation:
 - Weak Customs Administration
 - Lack of trained manpower on C. Valuation
 - Inadequate Legal Provisions
 - Lack of Value Information Database
 - Very early stage of post clearance audit
- High chance of revenue loss

Selected Findings on Customs Valuation – India case

- India has already implemented the WTO ACV
- Share of Customs revenue in total gross revenue fell from 30% in 1991 to 17% in 2005
- Estimated revenue losses due to under valuation is Rs. 100,000 million

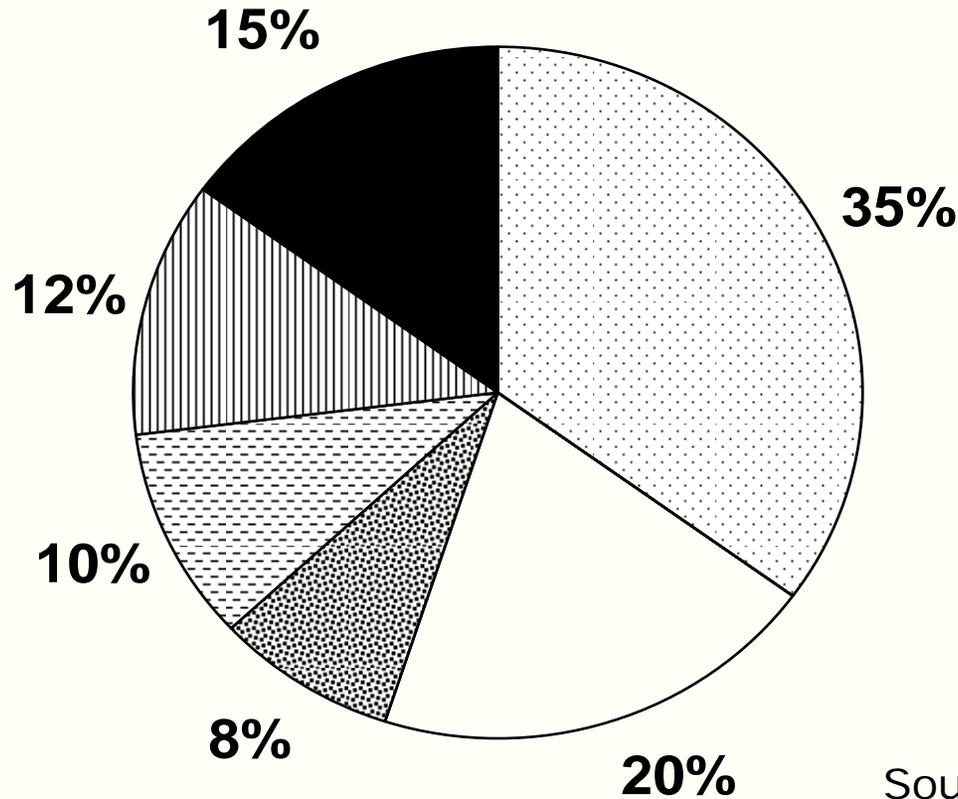
Extra duty collected on account of enhancement in valuation

Financial Year (Rs. in Million)	Total Revenue	Amount realized	Per cent change over previous year
2003-04	486,250	1,930	
2004-05	542,500	3,340	+73.06%
2005-06	648,380	4,550	+36.23%
2006-07 (upto July' 06)	108,938	660 (Rs. 470 million during the corresp. period last year)	+40.42%

Source: SCF (2006).

Concerns of Indian Private Sector with Customs Valuation

(Sachin C., ARTNeT WP No. 20, forthcoming)



Source: RIS survey 2006

■ Rejection of TV
■ Classification
■ Lack of Transparency

■ SVB related cases
■ Demurrage and Container Charges
■ Lack of Experience of Field Staff

Selected Findings on Customs Valuation – India case

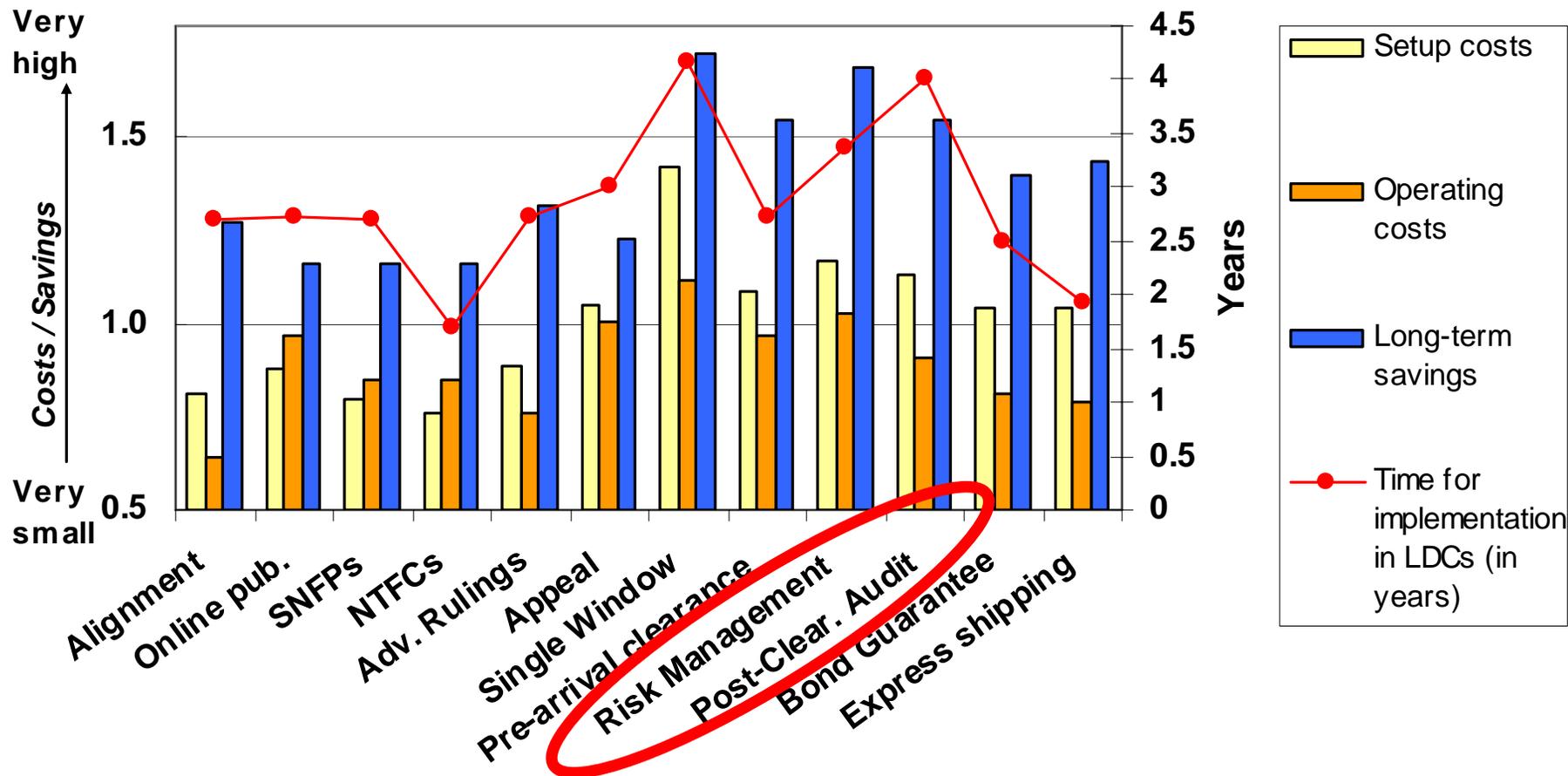
- At most 18% of transactions involve under invoicing → most firms do not under invoice
- Seemed to be a difference in under invoicing behavior of traders and manufacturers, and across sectors

Selected Findings on Customs Valuation – Conclusion and possible solutions

- The WTO CVA is trade facilitation oriented and trader friendly; its implementation can benefit both traders and government IF implemented along with other TF measures (i.e., risk management and post-clearance audit)
- Traders CV related problems can be alleviated by:
 - post clearance audit (solves the issue of demurrage charges and delays in decision by special valuation boards)
 - identifying and focusing on non-compliant traders and sectors, and facilitate others (risk management)
 - identified as two of the most complex and costly TF measures

Experts' Qualitative Assessment of the Relative Cost, Benefits and Time Needed for Implementing Selected Trade Facilitation Measures (ARTNeT WP. No.4)

Measures (ARTNeT WP. No.4)



Selected Findings on Customs Valuation – Conclusion and Implications

- Traders CV related problems can also be alleviated by:
 - Specialized and trained CV officers
 - Automation (automated detection of possible under invoicing based on an updated valuation database)
 - Involve industry groups: industry self-enforce SPS/TBT on exports; could also self-control under invoicing on imports to facilitate trade
 - Establish an effective multilateral sharing of valuation related information (old idea but still relevant!)

Selected Findings on Customs Valuation – Conclusion and Implications

- Capacity of countries need to be better taken into account; a 5 year standard grace period for implementation of TF measures may not be adequate (Nepal will likely need at least 2 more years to implement CVA)

Integrated TF technical assistance programmes are needed to ensure effective implementation of TF measures negotiated. Negotiations of these programmes may indeed need to be tied in with commitments

Trade Facilitation and Regional Integration – 2006 studies

- Comparative Analysis of Trade Facilitation in Selected Regional and Bilateral Trade Agreements (Institute of International Trade, U. of Adelaide, Australia), ARTNeT WP No. 17
- TF Measures in South Asia FTAs: An overview of Initiatives and Policy Approach (Sachin Chaturvedi, RIS, India); ARTNeT WP No. 28
- The impact of regional trade agreements and trade facilitation in the Middle East and North Africa Region (Allen Denis, World Bank) WP No. 3899
 - **“Welfare gains triple when implementation of RTAs are complemented with TF measures”**

AFTA : ASEAN Free Trade Agreement



- Trade facilitation initiatives:
 - Common Effective Preferential Tariff (1992)
 - ASEAN Vision 2020 (1997)
 - Hanoi Summit (1998)
 - Initiative for Asian Integration (2000)
 - ASEAN Customs Partnership (2002)
 - Bali Concord II (2003); Vientiane Action Programme (2003)
- Defining characteristics:
 - General, aspirational
 - Some steady progress towards standardisation of information for customs purposes
 - Harmonization of tariff nomenclature (8 digit level); ASEAN Single window initiative; ASEAN Framework Agreement on Mutual Recognition Agreements (MRAs)

APEC: Asia-Pacific Economic Cooperation



- Trade facilitation measures:
 - Shanghai Accord (2001)
 - APEC Principles on Trade Facilitation (2001)
 - Trade Facilitation Action Plans (2002)

- Defining characteristics:
 - Non-binding commitments
 - Trade facilitation is a designated priority area
 - Emphasis on paperless trading and e-commerce

SAFTA: Agreement on South Asian Free Trade Area



- Trade facilitation measures:
 - Group on Customs Cooperation (1996)
 - Standing Group on standards, quality control and measurements (1998)
 - Intergovernmental Expert Group on Promotion and Protection of Investment (2004)
- Defining characteristics:
 - Broad understanding of “trade facilitation”
 - Absence of specific, detailed trade facilitation principles or plans
 - Some move towards simplification and harmonisation of customs procedures and product standards

PACER: Pacific Agreement on Closer Economic Relations

- Trade facilitation measures:
 - Initial primary focus on cooperation and trade facilitation
 - Current work programme in the areas of customs, quarantine, standards and conformance
- Defining characteristics:
 - Emphasis on technical assistance and capacity building
 - Flexibility to account for differences among members in level of economic development

Singapore-Australia Free Trade Agreement



- Trade facilitation measures:

- Chapter 4: Simplification of customs procedures
- Chapter 5: Harmonisation of technical regulations
- Chapter 11: Promotion of paperless trading

- Defining characteristics:

- Binding trade facilitation obligations, enforceable by dispute settlement
- Cross-reference to pre-existing multilateral agreements and international standards

Summary of Key Features of Trade Facilitation Provisions in FTAs

- Broad, aspirational provisions compared with precise, detailed provisions with achievable targets
- Binding v. non-binding provisions
- Rigid requirements compared with flexibility
- Sectoral v. across-the-board reforms
- Acceleration of domestic reform
- Overlap of reform in the context of different fora

A Template for TF in Future Agreements

- Step 1: Definition of underlying trade facilitation principles
 - Compliance with multilateral agreements
 - Transparency and uniform administration
 - Simplification of trade regulations and procedures
 - Harmonisation and standardization
 - Cooperation (including technical assistance and capacity-building)
- Step 2: Prescription of a set of specific, binding and enforceable trade facilitation measures

TF Principle	TF Model Measure	Cost*	Priority*
T R A N S P A R E N C Y	Publish trade regulations	low (if translation: medium-high)	1
	Ensure dissemination of information relevant to trade	low	1
	Provide advance rulings in custom matters	medium	2
	Establish a mechanism to review decisions	high	2
	Apply trade regulations consistently and in a non-discriminatory manner, and guarantee due process	medium	2

* As self-assessed by the Institute for International Trade

Other steps to effectively address TF in regional trade integration initiatives

- Include mechanism for assessment of trade facilitation needs and reform programme with prioritization and sequencing based on particularities of country
 - Commence process by implementing reforms that require limited time and resources
- Consider flexibility and special & differential treatment depending on diversity of membership

Note: Simplifying Rules of Origin (RoO) would also be an effective way to facilitate trade – need for a template there too (See James, William, 2006, ARTNeT WP No.19)

Trade Facilitation and Trade Logistics Liberalization – 2006 studies

- The Relationship between Liberalization in the Logistics Sector and Trade Facilitation: A case study of the Australian Tuna Industry (Institute for International Trade, U. of Adelaide, 2006), ARTNeT WP No. 18
- Logistics and Time as a Trade Barrier (Hildegunn K.N et al., 2006), OECD Trade Policy WP No. 35
 - Time costs can prevent exports all together
 - 10% reduction in Time for exports lead to 5-25% increase in trade volumes

Background on Logistics Services

- What are logistics services?
 - Transport services; Storage/warehousing services; Technical testing services; ...
- Availability and quality of logistics services will affect exporter ability to trade & cost of trade
 - Manufactured exports contain a lot of imports
→ international logistics are key to keeping costs down
 - Chinese exports: 32% import content
 - Thai exports: 65% import content
 - Philippines exports: 72% import content*

Export of chilled and frozen tuna from South Australia to markets in Japan



Export of chilled and frozen tuna from South Australia to markets in Japan

Governmental Measures Impacting Supply of Logistics Services



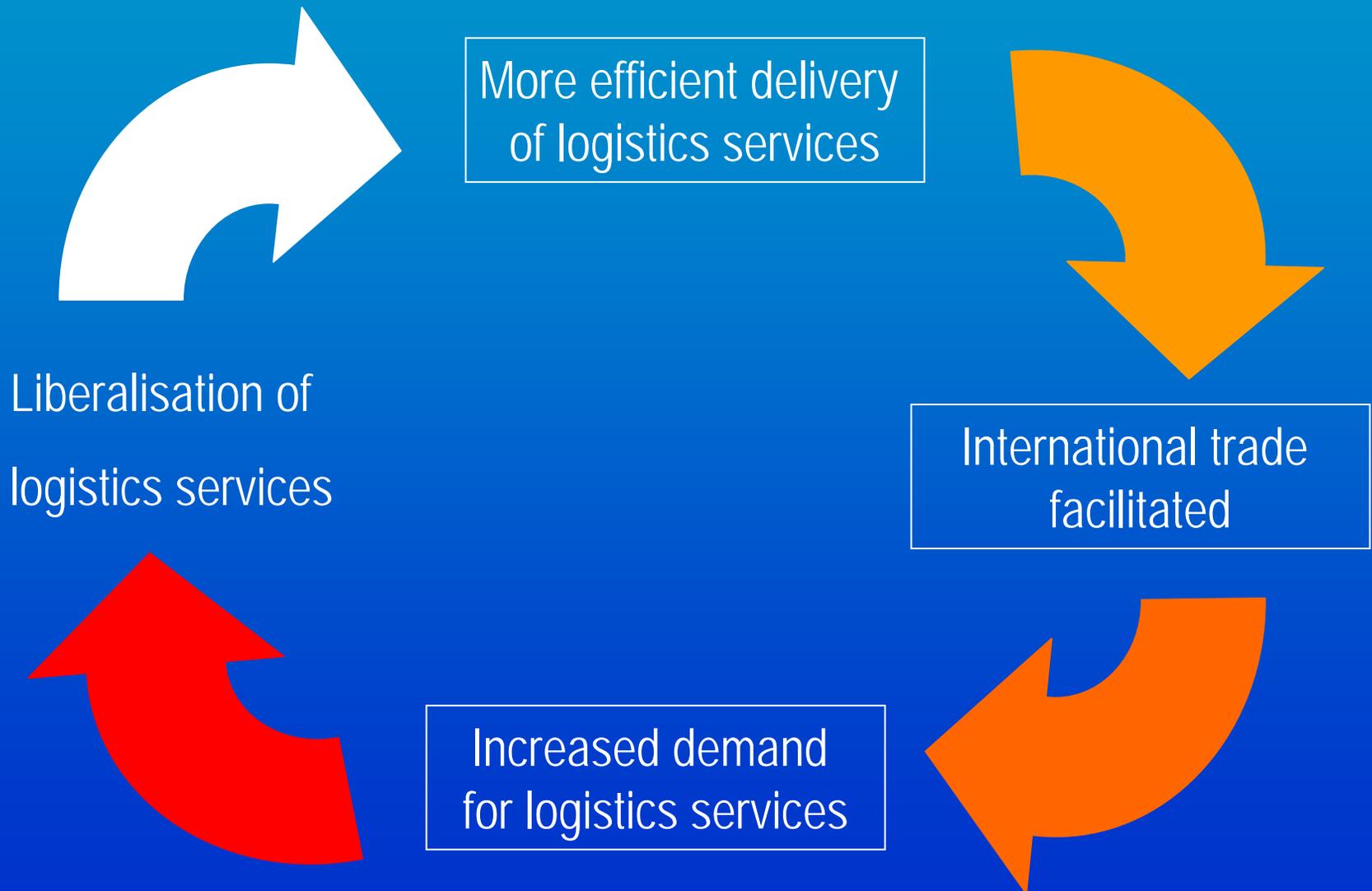
Export of chilled and frozen tuna from South Australia to markets in Japan

Special Trade Facilitation Measures

- AQIS “Approved Arrangements” for seafood products
- Food promotion bodies (e.g. “Food Adelaide”)
- Nippon Automated Cargo Clearance System (NACCS)

→ Industry considers that involvement of ACS and AQIS helps to enhance competitive advantage rather than to hinder trade

Logistics Services & Trade Facilitation: A Virtuous Cycle



Export of chilled and frozen tuna from South Australia to markets in Japan

Implications for Developing Countries & Policy Makers

- The importance of efficient logistics services for economic growth and
- of the relationship between logistics liberalization and trade facilitation need to be acknowledged
- **Logistics liberalization and reform of border measures to be undertaken on a complementary basis**
- Designing the regulatory framework:
 - Reform measures
 - Striking the balance to achieve prudent regulation
 - Public or private control of logistics infrastructure
 - Prioritization and sequencing

Concluding Remarks

- Need to be very focused to answer policy makers' need, especially in the context of negotiations
- TF remain challenging area of research
 - Methodologies are still to be developed
 - Case study approach (for detail need/impact assessment)
 - Gravity Model (see Annex 2)
 - CGE (see Annex 3)
 - Lack of Data / Need for primary data collection
 - Lack of time series data and relevant indicators
 - See Bagai and Wilson (WB WPS3899, 2006) for a survey

	Ease of Trading Rank	Docs for export (number)	Time for export (days)	Cost to export	Docs for import (number)	Time for import (days)	Cost to import
Hong Kong, C.	1	2	5	425	2	5	425
Singapore	4	5	6	382	6	3	333
Japan	19	5	11	789	7	11	847
Korea	28	5	12	780	8	12	1,040
China	38	6	18	335	12	22	375
Malaysia	46	6	20	481	12	22	428
Indonesia	60	7	25	546	10	30	675
Philippines	63	6	18	1,336	7	20	1,336
Fiji	70	7	22	418	12	22	1,170
Vietnam	75	6	35	701	9	36	887
Pakistan	98	8	24	996	12	19	1,005
Sri Lanka	99	8	25	797	13	27	789
Thailand	103	9	24	848	12	22	1,042
Cambodia	114	8	36	736	12	45	816
Bangladesh	134	7	35	902	16	57	1,287
Nepal	136	7	44	1,599	10	37	1,800
India	139	10	27	864	15	41	1,244
Russia	143	8	39	2,237	8	38	2,237
Bhutan	150	10	39	1,230	14	42	1,950
Lao PDR	161	12	66	1,420	16	78	1,690
Mongolia	162	11	66	3,007	10	74	3,030

Source: Ease of Doing Business 2006; www.doingbusiness.org ; costs in US\$ per container

Concluding Remarks

Need for more research

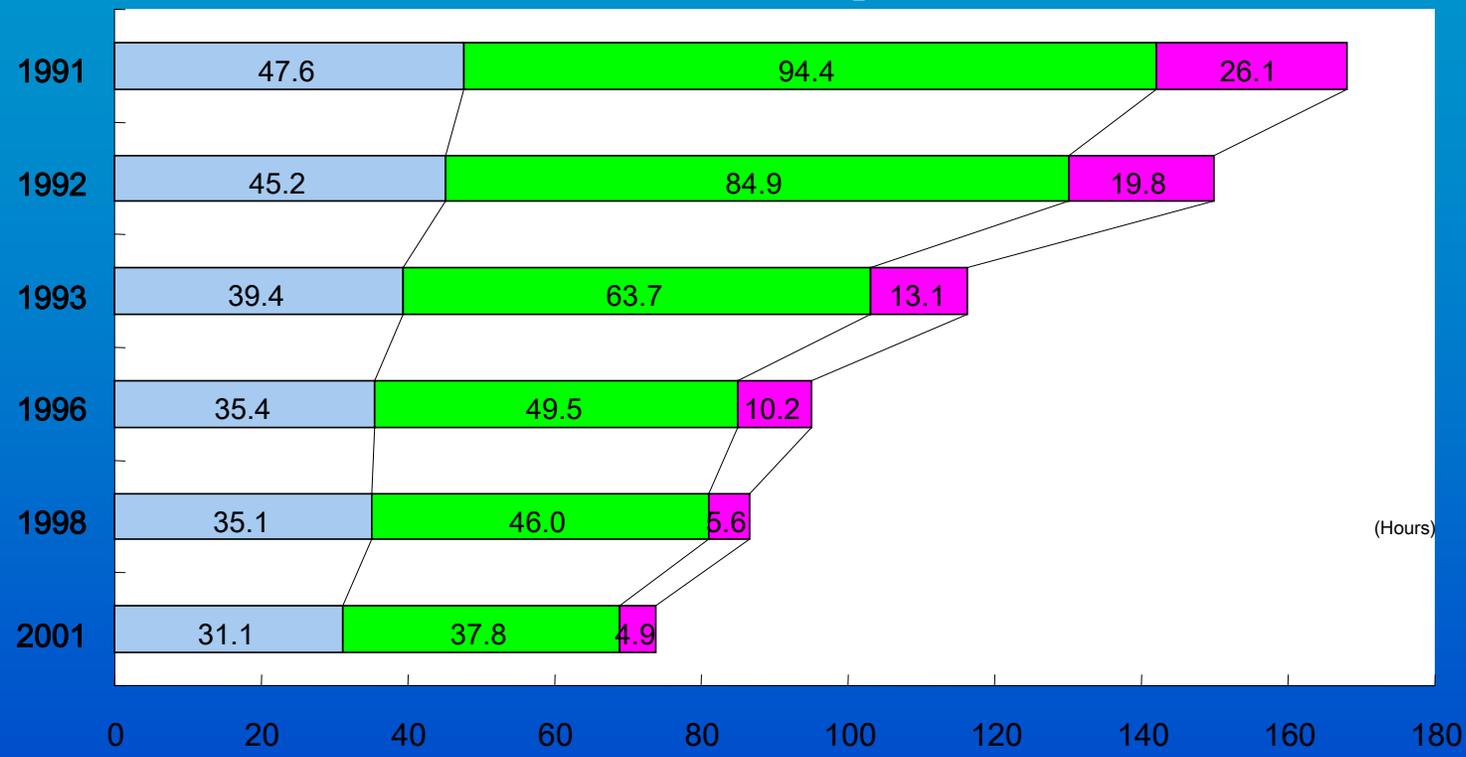
- *on institutional mechanisms to facilitate identification of TF needs and monitoring of implementation of TFMs at both national and regional level*
- *linkages between trade and transit agreements*
- *on Impact / Implementation issues of specific TF measures or processes*
- *On recognition or harmonization of standards (e.g., mutual recognition agreements)*
 - *Silja Baller, “Trade Effects of Regional Stds Lib.”, WB WPS4124, 2007*
- *Interactions between transaction cost components*

Please visit www.artnetontrade.org for easy access to the trade literature

The Bottlenecks are not always where we think they are...

Changes in Time Required: Japan (Sea Cargoes)

Source: Customs and Tariff Bureau, MOF, Japan and Florian Alburo, June 2005]



Arrival of Cargo to Delivery to Customs Area



Delivery to Customs Area to Filing Declaration



Filing Declaration to Release of Goods (permission)



Annex 1 – Main obligations/provisions of
GATT Article X, VIII, and V

GATT Article X – Transparency main obligations (1)

- Requirement to
 - Promptly publish all trade regulations in such a manner as to enable governments and traders to become acquainted with them
- No enforcement of a measure of general application prior to its official publication

GATT Article X – Transparency main obligations (2)

- **Uniform, impartial and reasonable administration of trade regulations**
- **Maintain or institute, as soon as practicable, tribunals or procedures for the prompt review and correction of administrative action relating to customs matters**
 - **Tribunals/procedures must be independent from enforcement agencies**

GATT Article VIII – Fees & Formalities main obligations (1)

- **All fees and charges imposed on or in connection with importation or exportation (other than imp./exp. duties and taxes within the purview of Article III) must**
 - **be limited in amount to the approximate cost of services rendered**
 - **not represent an indirect protection to domestic products**
 - **not represent a taxation of imports or exports for fiscal purposes**

GATT Article VIII – Fees & Formalities

main obligations (2)

- **No imposition of substantial penalties for minor breaches of customs regulations or procedural requirements;**

In particular, no penalty for omission or mistake in customs documentation that is easily rectifiable and made without fraudulent intent or gross negligence beyond the necessary to serve as a warning

GATT Article VIII – Fees & Formalities main obligations (3)

➤ Recognition of the need for

- reducing the number and diversity of fees and charges
- Minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements

GATT Article V – Freedom of transit

main obligations (1)

- **Each Member shall grant freedom of transit**
 - **for goods (including baggage), vessels and other means of transport crossing its territory**
 - **via the routes most convenient for international transit**
 - **with no distinction based on (i) flag of vessel, (ii) origin, (iii) departure, (iv) entry, (v) exit, (vi) destination, or (vii) ownership of goods, vessels or other means of transport**

GATT Article V – Freedom of transit

main obligations (2)

✘ (Except in cases of failure to comply with applicable customs laws and regulations):

➤ **Prohibition to**

- **Make such traffic in transit subject to any unnecessary delays or restrictions**
- **Impose customs duties, transit duties or other charges imposed with respect of transit**
 - ✘ except (i) charges for transportation, or (ii) those commensurate with administrative expenses entailed by transit, or (iii) with the cost of services rendered

GATT Article V – Freedom of transit

main obligations (3)

- **All charges and regulations imposed on traffic in transit shall be**
 - **Reasonable, having regard to the conditions of the traffic**

- **MFN treatment for traffic in transit**
 - **With respect to all (i) charges, (ii) regulations, and (iii) formalities**

Annex 2 – TF and Gravity Model

Extended Gravity Equation

$$\begin{aligned} \text{Ln (Exports from country A to country B)} \\ = a + \text{Ln}(\text{Distance}_{AB}) + \text{Ln}(\text{GDP}_A) + \text{Ln}(\text{GDP}_B) \\ + \text{Ln}(\text{GDPC}_A) + \text{Ln}(\text{GDPC}_B) \\ + \text{TF} \end{aligned}$$

Where (for example, following Wilson et al. 2004)

$$\begin{aligned} \text{TF} = \text{Ln} (\text{port efficiency index}) + \text{Ln} (\text{Customs index}) \\ + \text{Ln} (\text{regulatory env. index}) + \text{Ln} (\text{service infrastr.} \\ \text{Quality index}) \end{aligned}$$

Annex 3 – Modeling TF in GTAP

(source: Denis, Allen , Impact of RTA and TF in the MENA Region, 2006)

There is no explicit sector in the GTAP model capturing trade facilitation, nonetheless some work has commenced in this area. Following the approach pursued by Hertel, Walmsley and Itakura (2001), trade facilitation has been introduced into CGE (including GTAP) models via **technical progress** in trading activities. According to this approach, traded goods incur indirect trade transactions costs (otherwise referred to as “iceberg” costs) in proportion to how long their transit is. Longer transit periods are associated with higher costs and a melting down of the value of the good. High transit costs may result from cumbersome custom procedures, port congestion, poor intermodal transportation services etc. Furthermore, low trading volumes as well as distance may result in higher transport costs thus contributing to higher trade transactions cost. Hence, improvements to trade facilitation will help reduce transit times and associated costs, thereby, leading to a lower destination price of the traded goods. However, OECD (2003) argues that this “iceberg-type” representation of trade transactions costs (TTC) seems very appropriate for indirect cost components such as border clearance times, but does not capture directly incurred trade transactions costs such as resulting from costs for providing the necessary documentation. In recognition of these shortcomings, Fox et al (2003) and OECD (2003) have incorporated trade facilitation into the GTAP model by splitting trade transactions costs into two parts: the indirect TTC (iceberg costs) and a tax component, capturing the direct TTC.

Annex 3 (cont'ed)

This study adopts the Fox et al (2003) and OECD (2003) methodology in estimating the effects of trade facilitation. Nonetheless, given the lack of data, it still remains a challenge to be able to estimate what the trade transactions cost is for MENA countries. This study uses the results from Zarrouk (2003) survey, which suggest that inefficiencies in trade facilitation amount to some 10.6% of the value of traded goods. This amount is taken as the total trade transactions cost arising from inefficiencies. However, in order to adopt the above methodology we break this into an indirect (iceberg) and a direct TTC (tax component). To obtain the iceberg component we adopt Hummels (2001) estimate that each day saved in shipping time, in part due to faster customs clearance, is equivalent to a 0.5 percentage point reduction in ad valorem tariffs. The results of the Zarrouk (2003) survey suggest that average clearance from ports in MENA countries ranges between some two to ten days, hence the indirect cost component of the TTC is estimated to be 3%. The remaining 7.6% is attributed to the average direct cost component. Given the generally higher documentary requirements needed for agricultural goods it is assumed that the direct trade transactions cost for agricultural goods is twice that of nonagricultural goods. Hence the direct TTC for agricultural goods is about 12%, whereas that for non-agricultural trade is about 4% - **the direct TTC are incorporated into the analysis by using the "Altertax" option within GTAP to adjust the benchmark trade duties accordingly.** As discussed earlier, the indirect TTC are introduced as technical progress in importing - **Changes are made to the "ams" variable in the GTAP model.**