

TRADE FACILITATION

Communication from Switzerland

1. Introduction

Trade facilitation can be understood as simplifying and streamlining trade transactions at the international level:

- By reducing the volume of paperwork and electronic documentation and harmonizing and simplifying them insofar as the format and information and data requirements are concerned;
- by defining clear, transparent and simple procedures
 - at the Government level (customs, origin, VAT, phytosanitary inspection, etc.);
 - at the private level (transport, payment, insurance, etc.).

In this spirit, the United Nations reached agreement on the following definition: "trade facilitation means the systematic rationalization of procedures and documentation for international trade (trade procedures being the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade)"¹.

There are several basic principles that could be the point of departure for WTO rules on trade facilitation, for example, the most-favoured-nation clause, transparency and proportionality. Among the techniques that could be used to achieve the objective of facilitating trade are gradual liberalization, simplified procedures, harmonization, mutual recognition, enhanced cooperation through the exchange of information, and the principle of the "single window", which means giving an operator the possibility of applying to one single authority for completion of the necessary import and export formalities. Some of these principles could be implemented not only through the gradual liberalization method (for example, the single window), but also through complementary bilateral agreements (for example, mutual recognition agreements).

2. Inventory of existing instruments

The following instruments already help to achieve the objective of trade facilitation:

¹ Source: Facts about the Working Party on Facilitation of International Trade Procedures, cited in the "Compendium of Trade Facilitation Recommendations", issued by UN/ECE (TRADE/WP.4/INF.91); published by UNCTAD: TD/B/FAL/INF.91.

2.1 In the WTO

Firstly, the **GATT 1994**, particularly Article V (Freedom of Transit), VIII (Fees and Formalities Connected with Importation and Exportation), IX (Marks of Origin), and X (Publication and Administration of Trade Regulations) contain provisions to this effect.

The **Agreements** on *customs valuation, import licensing procedures, pre-shipment inspection, rules of origin, technical barriers to trade and the application of sanitary measures* each in their own area lay down the common legal bases for mutual recognition of technical requirements (standards, etc.) that are recognized, accepted and applicable by all Members. In the forthcoming negotiations their gradual application for the purpose of trade facilitation is an avenue that should be explored.

In the General Agreement on Trade in Services (**GATS**), there are a number of provisions on improving the supply of available means of transport, increasing financial flows and allowing better exchange of information, for example, the provisions on the liberalization of transport, financial services and telecommunications.

Lastly, section 4 of the **TRIPS** Agreement contains special requirements related to border measures under which right holders may obtain the assistance of the customs authorities for the suspension of the release into free circulation of goods suspected of being counterfeit or pirated. These procedures must be applied in such a way as not to create barriers to legitimate trade and to provide safeguards against abusive use of the procedures. They can also help to achieve the objective of facilitating trade.

2.2 In other international forums (non-exhaustive list)

The World Customs Organization (WCO) is expected to complete the revision of the *International Convention on The Simplification and Harmonization of Customs Procedures (Kyoto Convention)* in June 1999. Based on the progress made by February 1999, it can be affirmed that the revised Convention will include new provisions on electronic trade, risk management, automatization and audit controls, as well as new directives on implementation that should facilitate the adoption of updated procedures. The structure of the Convention will be revised and it will contain rules that may not be the subject of reservations. Members will, however, be able to make reservations regarding the "recommended practices". In order to facilitate ratification by member countries and thus make a practical contribution to harmonizing and simplifying tariff regimes worldwide, the Convention allows different time-limits for the application of the "rules" and "transitional rules" within the meaning of the Convention. Mention should also be made of the *Convention on the Harmonized Commodity Description and Coding System*, whose objective is to simplify and harmonize the classification of goods in customs tariffs. The latter Convention has been ratified by 95 countries, of which 83 are Members of the WTO. The signatories have adopted the same standard for classifying goods (the first six digits of a tariff number are identical in all member countries), which simplifies the identification of goods. Lastly, the *Customs Convention on the International Transport of Goods Under Cover of TIR Carnets*, concluded within the context of the UN/ECE, harmonizes and simplifies road transport of goods in transit. This helps to facilitate trade because the goods are transported in sealed lorries with TIR carnets and so are not systematically controlled each time they cross a border.

The United Nations Economic Commission for Europe (UN/ECE): UN/CEFACT has formulated and implemented a series of practical measures to simplify trade for several decades (see in particular the 26 "*Trade Facilitation Recommendations*")².

UNCTAD has developed a comprehensive programme (SYDONIA) that allows data processing in customs services and ports to be computerized. The programme does not only cover the

² UN/ECE "Trade Facilitation Recommendations", UN/ECE Working Party on Facilitation of International Trade Procedures (WP.4), 1996.

computer equipment and software, but also the training of local personnel and the follow-up to the project. Around 100 sites both in developing countries and countries with economies in transition have benefited from this programme and have been able to make substantial improvements both as regards customs security and fiscal revenue.

A number of non-governmental organizations have also drawn up facilitation instruments, for example, the International Chamber of Commerce (i.e. INCOTERMS such as f.o.b and CAF) and the International Organization for Standardization (i.e. ISO standard, A4 format for trade documents).

3. Practical examples of trade facilitation

The contributions by several Members of the WTO have shown that introducing modern data exchange technology and improving the training of personnel have allowed customs clearance to be speeded up and have increased customs revenue.

For example, one Member reformed its customs services by introducing modern data exchange technology based on the UN/EDIFACT standard for the treatment of imported goods, risk assessment and management control. Electronic data interchange (EDI) allows it to process 90 per cent of the information on imports electronically. It now only takes one fifth of the time to process an import declaration, data entry errors have been eliminated and the personnel processing import data is being used to greater effect. Risk assessment is much more efficient and this has enhanced the quality of customs controls while at the same time lowering the number of actual interventions. Customs revenue has increased despite lower customs duties. The transmission of electronic data costs 80 per cent less for companies than the transmission of the same data in a hard copy. Savings in time have also led to financial savings. Less than one year after the reform, the cost of modernization (US\$5 million) had been amortized.

In 1997, another Member introduced an electronic system which computerized the registration of exporters and imports, the granting of licences, the fixing of prices, customs valuation, shipment and exchange controls. This system has reduced the amount of paperwork and at the same time lowered costs while giving rapid access to statistical information.

These improvements have been beneficial to SMEs in particular. The time savings have allowed them to lower costs significantly.

4. Plan for possible action at the WTO

The main point to be considered is whether or not a trade facilitation instrument specific to the WTO should be drawn up.

In order to do this, there will first have to be an exhaustive inventory of existing rules/instruments. Section 2 of this document and the WTO Secretariat Document (G/L/244) are the first step in this direction.

Secondly, such an analysis requires a global approach based on trade transactions themselves, the procedures and the data requirements they entail, and the governmental framework conditions. In other words, the approach must take into account the regulatory and legal aspects related to **goods** (customs and other fiscal aspects, security, trade policy, etc.) and to **services** whether or not they are related to trade transactions (banking, trade financing, transport, insurance and data processing).

Thirdly, the type and extent of cooperation and collaboration among various international organizations dealing with trade facilitation must be identified in order to prevent overlapping and enhance efficiency. It is therefore necessary to define the role of each international organization and also identify the WTO's role in this context.

If it is decided that a special WTO instrument is required, there are a number of options:

- (1) The instrument should contain the general principles described in section 2.1. For example, transparency could be greatly improved by publishing the regulations applicable before they enter into force, and by the establishment of a scheme for notifying proposed measures to supplement the existing scheme for technical barriers to trade and sanitary and phytosanitary measures. This would give economic operators greater predictability, reliability and legal security. Moreover, mention could be made of the protection and conformity principles and the integrity principle in document G/C/W/126.
- (2) The instrument could incorporate or refer to rules and procedures in other WTO instruments or those of other forums, for example, the Kyoto Convention.
- (3) Additional provisions should perhaps be envisaged to encourage the mutual recognition of certain documents (forms) and the data therein both for imports and exports in order to avoid the frequently high cost of harmonizing and modifying them.
- (4) These additional provisions could also refer specifically to, or even recommend, the use of rules and practices recommended, formulated and harmonized by non-governmental organizations (for example, ISO standards).

Lastly, the following factors should be taken into account in the plan of action:

- (5) Firstly, technical assistance is another aspect that should not only be introduced, but also strengthened and developed.
- (6) The dispute settlement procedure under which issues of law and interpretation of the law are resolved helps to circumscribe better the scope of the WTO's rules and thus enhances transparency and legal security.

5. Promoting the use of electronic media and assessing the risks

The use of accelerated and simplified systems and EDI upon import and export means that goods can be transported more rapidly because the relevant data can be transmitted before the goods arrive at their destination thus speeding up customs clearance, facilitating controls, making it easier to collect customs duties and lowering the cost for economic operators.

In facilitating trade, one of the goals is to replace documents in hard copy by electronic equivalents. Much of the information supplied on paper, for example, names, addresses, descriptions of the product or the term of trade, could be represented by simple codes that are recognizable and automatically processed by computer software.

The terms "best practice" or "recommended practice" include the simplification of procedures, the abolition of excessive or outdated controls, the reduction and streamlining of lines of communication, as well as the use of bar codes and EDI for rapid and precise entry, transmission and automatic processing of data between computers. Awareness and personnel training programmes are the key elements for the successful use of EDI.

At a time of budgetary restrictions, it becomes increasingly inefficient to require officials to verify all administrative formalities, especially when crossing borders: checking all traffic with limited personnel resources means that checks become superficial and unreliable. This is why a growing number of authorities have adopted the legal bases that allow them to adapt the controls to the risks, thereby diminishing to a significant extent checks on traffic carried out by dependable operators. Where there is a risk factor, the traffic can be given full attention by customs personnel.

Adapting controls to risks can only be effective if there is judicious use of computer technology so that the traffic at risk can be automatically and very quickly pre-selected.

6. Conclusion

In parallel with tariff reductions, trade facilitation improves market access and promotes trade in services, which is beneficial to all Members of the WTO and all economic operators, including SMEs. Trade facilitation helps to reduce costs and minimize formalities. It helps developing countries and countries with economies in transition to set up efficient administrative units and so give them the opportunity to export more easily.

The work so far undertaken within the various WTO bodies and the communications received by the Council for Trade in Goods to date³ have shown that there is a real need to facilitate international trade transactions. The instruments that already exist within the WTO and other international forums already constitute a first important step in that direction. Trade facilitation also implies the simplification of documents, formalities and regulations governing the import and export of goods, covering not only the customs aspects but also the forms of transport, insurance and payment related to such transactions. For this purpose, there should not only be horizontal approaches (which should cover every aspect) but also vertical approaches (improvement of the existing instruments and procedures). It is increasingly true that genuine progress in liberalization can no longer be achieved by simply lowering customs duties but also requires reform of the rules and procedures that will streamline the trade process. This is an objective that is fully consistent with the strategy of the WTO.

³ Canada (G/C/W126), Republic of Korea (G/C/W123; G/C/W134); Hong Kong, China (G/C/W125); European Community (G/C/W85; G/C/W122; G/C/W133); Switzerland (G/C/W/92; G/C/W114).