

Committee on Trade and Development

DEVELOPMENT ASPECTS OF TRADE FACILITATION

Note by the Secretariat

I. INTRODUCTION

A. BACKGROUND

1. At its meeting on 8 July 1998, the Council for Trade in Goods (CTG) agreed to a "Chairman's Proposal on future work on trade facilitation", under which the CTG would hold regular, informal meetings to continue the work on trade facilitation as set out in Paragraph 21 of the Singapore Ministerial Declaration. The core agenda of the proposal covered four main areas: import and export procedures and requirements; physical movement of consignments, payments, insurance and other financial requirements; electronic facilities, technical cooperation and development issues relating to simplification of trade procedures, consideration of WTO Agreements relating to or including provisions on trade facilitation; and evaluation of exploratory and analytical work to assess the scope for WTO rules in the area of trade facilitation.¹

2. The CTG work programme followed a Symposium held by the CTG on 9-10 March 1998 in which 27 speakers from private enterprises and industry groups, speakers from six intergovernmental organizations and delegates from some 75 Members and over 20 observers discussed issues related to trade facilitation. A checklist of issues raised at the Symposium is contained in document G/C/W/113 and the full report of the Symposium in document G/C/W/115. A list of the documents presented to date under the Work Programme is annexed for information of the Committee.

3. Following the CTG meeting of July 1998, the Chairman of the CTG invited the Chairpersons of all relevant subsidiary bodies of the CTG, as well as the Chairpersons of the Council for Trade in Services, the Council for TRIPS and the Committee on Trade and Development, to contribute to the work programme by addressing aspects of trade facilitation related to the work undertaken under their mandates. At its meeting of 7 December 1998, the Committee on Trade and Development requested the Secretariat to produce a draft document for its contribution. This note aims at meeting that request. It attempts to identify the linkages between trade facilitation and development; areas where developing country trade would be facilitated by measures to be taken by developed countries; areas where measures taken by developing countries themselves might facilitate trade (and where technical cooperation may be of value) and areas where work might be undertaken in the framework of the WTO Agreements.

B. LINKAGES BETWEEN TRADE FACILITATION AND DEVELOPMENT

4. Trade facilitation aims to identify and simplify or eliminate the main administrative, logistical or procedural obstacles to the movement of goods and services across borders. Measures that can be taken in this regard may be at levels ranging from formal or informal arrangements among traders to

¹ The full text of the proposal is contained in paragraphs 6.6 to 6.9 of document G/C/M/34.

facilitative trade policy measures introduced at national or international level. As countries vary in the efficiency of their own trade procedures and the procedural, logistical or administrative barriers they face in international trade, the needs for trade facilitation differ **among** countries and sectors. Trade facilitation, by lowering administrative barriers, should complement efforts to reduce tariffs and non-tariff barriers in opening markets.

5. All parties to a transaction may gain from easier and lower-cost trading conditions (identified as a "win-win situation") Even so, there may be initial costs. Introduction of trade facilitation measures requires the deployment, or redeployment, of scarce financial, physical and human resources. However, it is governments and companies with limited resources who stand to gain most from more efficient procedures. The costs and benefits of facilitating trade should therefore be put against the ongoing and possibly heavier costs of taking no action.

6. There is a widely held perception that business in many developing countries is hampered by administrative difficulties. Such difficulties may include outdated or inconsistent legislation or regulations, burdensome official documentation or regulatory requirements, arbitrariness in the application of rules and procedures, difficulties in making payments or transfers, official hindrances at ports or airports, or lack of sources of information on markets and marketing practices. All these factors are likely to delay the movement of goods and services and add to the costs of trading. Trade facilitation aims to alleviate these obstacles and ease the path to increased trade and associated developmental benefits.

7. Export facilitation and import facilitation may be equally important. Facilitation of trade procedures in export markets contributes to increasing exports from developing countries; facilitation of import procedures in developing countries not only helps exporters to such countries but also eases the path of business for domestic producers and traders. Trade facilitation is thus as important to developing countries that wish to acquire or maintain a reputation as dependable trading nations as it is for foreign firms who wish to sell to developing countries. Developmental concerns are therefore inherent to most areas of trade facilitation; and trade facilitation can, in addition, make a significant contribution to trade among developing countries.

II. IMPORT AND EXPORT PROCEDURES AND REQUIREMENTS, INCLUDING CUSTOMS AND BORDER CROSSING PROBLEMS

A. DOCUMENTATION

8. In the WTO Trade Facilitation Symposium, speakers made a large number of suggestions for simplification and greater transparency in official documentation. They suggested, *inter alia*, that Governments consider reduction of the number of official documents required for exports and imports; rationalization and alignment of formats, content and numbers of documents in line with UN standards; the promotion of greater compatibility between import and export documentation, including the use of a single administrative document for all import and export régimes; increasing the possibilities for electronic data submission; separation of the process of presentation of documentation from border crossing and greater reliance on post-clearance audits; publication of all official requirements and establishment of information centres where authoritative information and official documents can be obtained; use of international standards for the exchange of information; reduction of sampling requirements for product registration, especially in the case of high-value, low-volume consignments; review of labelling requirements, including greater standardization of the wording of compulsory labelling, and the possibility of secondary labelling in the language of the importing country; and harmonization of import, transport and transit requirements, especially for dangerous goods and phytosanitary or veterinary requirements.

9. Insofar as these measures can facilitate the trade of developing countries, they may all have significant developmental potential.

- (a) Simplification of documentary requirements has been shown to be a major facilitator of trade in both developed and developing countries, by increasing transparency, reducing delays in border crossings, diminishing the potential for corrupt practices, and hence contributing to fiscal revenue at the border even where duty rates are being reduced. Numerous international organizations (such as WCO, UNECE, UNCTAD, ITC) are engaged in technical and technical assistance work in this field. It would be for both developed and developing countries to identify specific needs and requirements in this area.
- (b) Simplification of packaging and labelling requirements, and the harmonization of international standards and sanitary restrictions (at the international level or, as a second-best, on a regional basis) are also important for the development of trade. In this area, many developing countries have pointed out the difficulty of participation in standards-setting operations, the persistence of differing national requirements, the difficulty of obtaining information, and the severe physical and financial costs thus imposed on their exporters. This would be true not only for exports to developed but also to other developing countries.
- (c) Transparency of information is also highly important, for example through publication of all documents and the broadest possible dissemination of information (for example on the Internet). Consulates and trade missions should also be equipped with the latest information.
- (d) Areas for technical cooperation should be clearly identified.

B. OFFICIAL PROCEDURES

10. Various means of simplifying official controls may be identified: for example, that Governments consider concentrating all official controls in the hands of one agency (e.g. the Customs); the streamlining of procedures to avoid unnecessary checks and double-checks; the introduction of measures that facilitate pre-arrival processing of documents and expedited clearance on arrival; and the implementation of official procedures at traders' premises instead of at ports. Measures to ease the process of duty payment may include movement from transaction-based to audit-based control; authorization of trusted traders as eligible for fast-track "green-channel" processing, or self-assessment of such traders; the introduction of flexible means of duty payment, including advance settlement and refund measures, and acceptance of payment guarantees, such as bonds, instead of cash deposits; and systems that allow the efficient post-release collection of taxes and duties. The increased use of communications systems in risk assessment and customs intervention, standardization of procedures, and the introduction of effective liaison between customs administrations at border crossing posts may also increase ease of border crossing.

11. Once again, all of these areas may have significant potential for the trade of developing countries. Streamlining of procedures, concentration of controls in one authority, and more effective communications systems should reduce transaction costs and diminish the incidence of tariff and tax evasion. Easier means for payment of duties should reduce the burden on the Customs authorities, banks and traders, while again diminishing the scope for corrupt practices. However, the administrative changes required may imply substantial re-training needs, and even a change in governmental and business ethos.

12. It would assist consideration of this item in the CTD and the CTG if Members that have already taken steps to simplify documentation and other official procedures would provide information on their experiences, the successes and constraints perceived, assistance they have received and further identifiable needs.

C. AUTOMATION AND USE OF INFORMATION TECHNOLOGY

13. The use of electronic data submission, in order to correct errors before goods arrive at borders and minimize delays; the use of communication systems to allow more effective risk assessment (also mentioned above); the adoption of electronic systems that facilitate post-release payment of taxes and duties; and the development of electronic data transmission between export and import administrations may all serve to facilitate trade.

14. While the introduction of information technology may give promising opportunities for developing countries, its use is likely to pose a number of challenges. The rapid technological changes that have taken place in recent years have opened new opportunities for trade facilitation. The use of electronic means may generate faster, cheaper, more accurate and more transparent transactions than the equivalent non-electronic means. All parties involved in a trade transaction can benefit from the use of modern information technology, developed as well as developing; and it may be particularly interesting to countries with scarce resources that are located at a large distance from their principal trading partners.²

15. However, the use of electronic means also poses challenges, especially for countries in which the basic physical and human infrastructure and the regulatory environment necessary for the use of electronic means are not yet fully developed. Difficulties involved in the use of electronic means in trade facilitation should therefore not be underestimated. Human capacity requirements include a literate workforce, people with basic knowledge in using computers and skilled technicians to repair and service software and hardware. Physical requirements include access to computer hardware and software as well as a reliable supply of electricity. A functioning telecommunications network is also indispensable.

16. That many developing countries, and in particular the least-developed countries, currently lag behind the developed countries in the use of electronic means is partly due to their overall developmental situation. Nevertheless, government policy and external assistance may alleviate that situation by targeting specific education and awareness creation within the business community as well as encouraging investment in an infrastructure conducive to the use of electronic means rather than discouraging its use, for example by bureaucratic obstacles and high taxes on computers and telecommunications equipment.

17. Many WTO Members, realizing that telecommunications and information technology are important sectors and that they would benefit from further liberalization in those areas, have adhered to the Telecommunications Agreement. Members that have not yet signed those agreements need to consider whether it is economically rational to continue to protect the domestic market in order for domestic industries to become competitive, or for customs revenue purposes, or if they would gain more by opening their markets to foreign competition and foreign investment.

18. These are areas in which developing countries would require financial, training and other types of assistance, but in which they could derive significant benefits. UNCTAD has played a significant role in this field through the introduction into a number of developing countries of the

² Various aspects of the use of electronic means in developing countries are raised in the Secretariat note "Development Implications of Electronic Commerce" WT/COMTD/W/51.

Automated System for Customs Data (ASYCUDA), a computerized customs management system which covers most foreign trade procedures, and the Advance Cargo Information System (ACIS), a logistics information system designed to improve transport efficiency by tracking equipment and cargo in transport and at interfaces and providing information in advance of cargo arrival. UNCTAD has also established a network of Trade Points, agencies which bring together all providers of services required to make a commercial transaction: customs, foreign trade institutes, freight forwarders, transport companies, banks and insurance firms. Each Trade Point is supposed to coordinate and share information with all other Trade Points.

19. At the WTO Trade Facilitation Symposium a success story of reform and modernization of customs administration by use of information technology was provided by Mr. Enrique Fanta Ivanovic, national director of customs in Chile. The reform and modernization of the Chilean Customs Administration through the use of Electronic Data Interchange (EDI), had led to a more efficient use of human resources, a reduction in the customs' response for processing an import declaration from an average of 10.8 hours to 2.2 hours (as a result of the use of EDIFACT), elimination of errors, increase in the quality of customs controls and less need for physical intervention.

20. It would again assist consideration in the CTD and the CTG if countries with some experience in this area would relate the pros and cons of their experiences.

D. TRANSPARENCY, PREDICTABILITY AND CONSISTENCY

21. Transparency, predictability and consistency of legislation and regulations can contribute substantially to trade facilitation. Issues identified in this context include the publication of all laws, regulations and administrative rulings; the application of such laws etc. only after their publication; uniform and consistent application of customs laws, regulations, guidelines and procedures; limitation of the discretionary powers of officials by making legislation, procedures and documentation requirements as transparent as possible; and limitations on penalization for inadvertent mistakes. It has been suggested that application of the Arusha Declaration on Customs Integrity, the 1993 WCO initiative which delineated some of the adverse economic and social consequences of customs malpractice and sought to rally concerned Members behind a call for progressive reform, would assist in this area. Other measures proposed at the international level include harmonization of national tariffs beyond the HS 6-digit level and the establishment of a database containing the specific customs requirements of all WTO Members.

22. All parties stand to gain from transparency, predictability and consistency apart from those which have made illegal gains from the lack of transparency and predictability. This is also an area in which technical assistance can be provided.

E. MODERNIZATION OF BORDER-CROSSING ADMINISTRATION

23. A modern, efficient border administration is important for the effective conduct of trade. Various regulatory, training and educational needs may be identified, including improved training for officials in the rules they are administering; increasing the ratio of professionals to other staff; and regulation of professional standards of customs brokers and customs warehouses. Other measures that may be identified include the adjustment of the opening hours of border crossings to commercial needs and the location under one roof of agencies that need to work closely together.

24. These improvements would certainly have beneficial developmental effects. Some would also require increased resources to bring them into effect and hence are issues for Governments faced with heavily competing claims for scarce resources, especially in times of economic adjustment. However, closer cooperation and uniting of agencies under one roof could help to reduce costs.

Funding might be sought from international financial institutions or the private sector to overcome infrastructural problems. It could be useful to obtain information, as part of the Work Programme, on existing programmes financed by the World Bank, regional development banks or other such agencies.

III. PHYSICAL MOVEMENT OF CONSIGNMENTS (TRANSPORT AND TRANSIT)

25. Many problems for transport operators relate directly to border-crossing requirements - in such areas as documentation, technical regulations, reporting and visa requirements. Attention to the areas dealt with in Section II above would ease the burdens for transporters considerably by reducing transit costs. Many of the areas identified may be subject to international negotiation (in some cases, such as improvement of market access conditions for foreign transport companies, potentially falling within the scope of the GATS). However, most of them touch on issues not currently included in the ambit of the WTO, such as port regulations and reporting requirements, air transport, or the harmonization of technical and fiscal measures placed on vehicles or of existing rules for the carriage of hazardous goods.

26. Other measures that may assist trade facilitation in the transport sector may include the harmonization or simplification of legal issues covering such fields as transport, banking, and insurance; changes in commercial practice such as the use by transporters, and acceptance by Governments, of internationally standardized contractual terms; standardized documentary credit practices; recognition of EDI as a tool of international trade; and the recognition of professional associations as partners in international trade.

27. All these issues appear directly relevant to concerns expressed by developing countries. The agreement and application of uniform international rules in areas such as information requirements for the movement of goods, reporting requirements for the movement of vessels in and out of ports, legislation concerning the movement of crews and passengers in sea transport, technical requirements for road transport vehicles, fiscal charges, restrictions, visa requirements for drivers, and rules regarding the carriage of hazardous goods may be of particular interest to SMEs in developing countries. Internationally agreed rules in transport and transit might therefore indirectly open up new market access opportunities, including neighbouring developing country markets.

28. Facilitation in the areas of transport and transit might particularly benefit a specific group of developing countries - the land-locked and island economies - which are highly dependent on transport and transit rules for their exports. As many such countries are among the poorest, their concerns should be given all due attention.

IV. PAYMENTS, INSURANCE AND OTHER FINANCIAL REQUIREMENTS WHICH AFFECT CROSS-BORDER MOVEMENT OF GOODS

29. A certain number of issues for trade facilitation resulting from commercial practices of banks and other financial institutions may be identified. These include the creation of more efficient payment and credit arrangements, for example through an internationally agreed method for ensuring the legal validity and security of electronically exchanged payment messages from or to non-banks (such as the so-called BOLERO system, parallel to the SWIFT system among banks). Restrictive governmental policies such as the prescription of specific payment methods that do not permit the use of such internationally recognized messaging protocols and inappropriate methods of evaluating exports for export credits also impede trade. Liberalization of exchange control and other formalities related to payments, insurance and other financial requirements would also assist in facilitating trade.

30. Every exporter, and particularly most developing country SME exporters, wants to limit the time between delivery and payment received as well as minimize the risks of not being paid at all. The more reliable the banks and the banking system in a developing country, the greater the chance that a bank in that country will be chosen as the "third party" to an international payment. The establishment of well functioning, secure payment systems in developing countries for imports and exports would therefore benefit both banks and traders.

31. The availability of export credit insurance is important to developing countries in covering commercial and political risks in international trade. The strengthening of credit insurance mechanisms would thus help developing country exporters. The availability of export credit is limited in most developing countries and expensive. Credit may only be available at high interest rates because of perceived high risks. Exporting SMEs in developing countries are therefore in particular need for increases in the availability of export credit at lower interest. Small trading nations and SMEs may profit most from international standards and good corporate practice in the areas of international payments and insurance.

V. CONCLUSION

32. Developing countries seem to have much to gain from trade facilitation. Facilitated procedures in developed countries would benefit developing country companies exporting into these markets. Facilitated procedures in developing countries would benefit importers and exporters alike, may increase possibilities for intra-developing country trade and might increase the attraction for foreign direct investment.

33. In general, it can be said that areas in need of trade facilitation in developed countries are even more so in developing countries. Small- and medium-sized enterprises are more important to developing country economies than in developed markets, and stand to gain most from trade facilitation, as obstacles to transactions may constitute a larger share of their costs than for large companies. Overly bureaucratic customs procedures, complicated rules and practices governing different modes of transport and restrictions and administrative requirements creating obstacles in payments and insurance put heavy burdens on companies. Small- and medium-sized enterprises often have to rely on commercial third parties to assist them in the management of international trade transactions. Simplification of trade procedures may therefore significantly encourage SMEs in making international transactions.

34. Trade facilitation often requires difficult changes in procedures and practices. Facilitated procedures may lead to staff reductions or deployment and hence to opposition from the officials previously employed to service cumbersome administrative procedures. Heavy bureaucracy may often shelter illegal activity, for example in the form of bribes which can provide low-paid customs officials with extra personal revenue.

35. Even if facilitated procedures require fewer staff, they normally require more equipment, especially in the form of modern information technology, and thus staff with higher education and new skills. Modern information technology equipment also requires a certain investment for set-up and maintenance.

36. Additional physical and human resources may both be needed in the initial phase of trade facilitation. As developed country companies are likely to be among the beneficiaries from developed country trade facilitation, there may be scope for cost sharing between the domestic and foreign private sectors as well as technical assistance from developed countries and international organizations.

37. The agreement and application of uniform international standards and regulations in the area of trade facilitation would be of particular interest to developing countries as it would make it easier for developing country SMEs to trade internationally, not least in neighbouring developing country markets.

38. Trade facilitation thus presents a number of challenges. However, the short-term costs of facilitating procedures must be compared to the longer-term costs of not doing so. Developing countries appear to have the most to gain from trade facilitation both in their own and in export markets.

ANNEX

Since the beginning of the trade facilitation programme, the following papers by delegations have been circulated:

G/C/W/122	European Communities	Assessment of Scope for WTO Rules in the Field of Import, Export, and Customs Procedures
G/C/W/123	Republic of Korea	National Experience Paper - Reforming the Customs Clearance System in Korea
G/C/W/125	Hong Kong, China	National Experience Paper - Import and Export Procedures and Requirements
G/C/W/126	Canada	Trade Facilitation
G/C/W/133	European Communities	Issues Relating to the Physical Movement of Consignments (Transport and Transit) & Payment, Insurance and Other Financial Questions Affecting Cross-border Trade in Goods
G/C/W/134	Republic of Korea	Matters Related to the Facilitation of Cargo Movement in Korea

In addition, the Secretariat produced two background notes, (i) an update on trade facilitation work undertaken in other international organizations (G/C/W/80/Add.1), and (ii) an inventory of delegations' suggestions for WTO rules on trade facilitation the context of the work programme (G/C/W/132). This inventory, which also references each concrete proposal made to relevant international instruments, will be revised in the light of proposals made at the December meeting and will be circulated in time for the next meeting.

A number of WTO bodies have held specific meetings dedicated to issues of trade facilitation to prepare replies to the request by the Chairman of the CTG. The CTG will take up the issue of trade facilitation again at a meeting to be held on 19-20 April 1999.
