POLICY DIALOGUE ON AID FOR TRADE

THE COSTS AND CHALLENGES OF TRADE FACILITATION MEASURES

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Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development **21-Nov-2012**

English - Or. English

TRADE AND AGRICULTURE DIRECTORATE
TRADE COMMITTEE

TAD/TC/WP(2012)25
For Official Use

Working Party of the Trade Committee

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4-5 December 2012
The OECD Conference Centre, Paris

This paper presents a preliminary version of the work to update the 2005 study of the Trade Committee on the costs of introducing and implementing trade facilitation measures, drawing on data that had been received by the Secretariat on 16th November 2012. Further information on the covered countries and data on additional countries are expected from the World Customs Organization (WCO) as soon as clearance has been provided from the concerned countries. This information will allow completing the paper and deepening the analysis.

Action required: For discussion

Link to the Programme of Work and budget: This work falls under Section 3.1.1.2.3 (Trade Facilitation) of the 2011-2012 PWB.

Cooperation: Data for the paper were collected by the WCO Secretariat

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JT03331296

English - Or. English

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I. Introduction

1. The costs of trade facilitation measures to developing country governments and administrations have been one of the central issues of the WTO negotiations on trade facilitation even before their launch.[1] In order to inform the discussions and build confidence in the feasibility of the proposed measures for developing countries, the Trade Committee undertook in 2005 to analyse the costs of introducing and implementing trade facilitation measures, based on the experience of fifteen non-member countries[2] that had just introduced, or were in the process of introducing, trade facilitation measures and had figures on their implementation expenses. The aim of the study was to provide indications as to the relative costs and complexity of the measures, the challenges presented by their implementation, and approaches for overcoming such challenges in practice.

2. The study, which was included in the OECD publication "Overcoming Border Bottlenecks, The Costs and Benefits of Trade Facilitation", showed that several trade facilitation measures were undertaken in the framework of normal operating budgets and without additional resources. Required implementation and operating expenses were quite limited compared to expected benefits. Only a few areas called for more technically demanding and complex changes, but had generally faced no shortage of donor support; they were mainly distinguished by their need for longer implementation and familiarisation periods for the local administrations.

3. Seven years later, the costs and challenges developing countries might face to implement a possible WTO Trade Facilitation agreement are still a significant cause of concern among a number of non-OECD countries. While the OECD Trade Facilitation indicators (TFIs) provide a better understanding of the relative impact of trade facilitation measures and of the potential benefits they may bring to global trade and to national economies, there is still a need to provide reassurance about the expenses and the challenges that the discussed measures may entail. It was thus decided to undertake an update of the 2005 study, using current data, with the aim of confirming, or adjusting as the case may be, the findings included therein.

4. The project sought to collect reliable and comparable data on the costs and challenges of introducing and implementing trade facilitation measures negotiated in the WTO, with a focus on the costs to government. As in 2005, data collection has been undertaken in collaboration with the World Customs Organisation and sought to cover six developing and least-developed countries, members of the WTO and the WCO, having recently completed or in the process of implementing trade facilitation reforms and having figures on their implementation expenses, involved resources and implementation timelines.

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1 The modalities contained in Annex D of the 2004 WTO General Council Decision stipulate that the negotiations "shall also address the concerns of developing countries related to cost implications of proposed measures".

2 The participating countries were Argentina, Barbados, Cambodia, Chile, Jamaica, Latvia, Mauritius, Morocco, Mozambique, the Philippines, Senegal, Tanzania, Thailand, Uganda and Zambia. They represent Africa, Asia, Europe and the Americas and various levels of development. Six of them are least developed countries.

5. The data were mainly drawn from actual incurred or planned expenses in domestic reform plans and capacity building programmes and do not in any way represent OECD Secretariat estimates of potential costs of the future WTO agreement. However, where measures are in the planning phase and are not yet fully budgeted, informed estimates by the concerned administrations have provided useful additional information. These cases are clearly identified in the study as estimates and not actual expenses.

6. The data cover the broad lines of the WTO negotiations on trade facilitation, including in particular: a) transparency and predictability measures, including publication and availability of information, internet publication, enquiry points, advance rulings; b) procedural simplification and streamlining, including pre-arrival lodgement and processing of data, separation of release from clearance, risk management, post-clearance audits, authorised economic operators; and c) coordination and cooperation between border agencies, including, but not limited to, single windows.

7. Included countries at this stage are Burkina Faso, the Dominican Republic, Kenya and Mongolia.[3] The country selection was obviously based on the willingness of the concerned countries to participate but sought to the extent possible to respect a balance of size, geographical and geopolitical conditions, and level of development.

8. Countries' differing situations should be taken into account in interpreting figures and outcomes: trade facilitation and customs reform endeavours did not start from the same point everywhere and some, though not all types of expenses are a function of the size of the concerned administrations. Furthermore, notwithstanding the coherence and consistency in trade facilitation efforts called for by multilateral agreements and institutions, there is flexibility in the approach and level of ambition for pursuing and implementing some of the measures, such as single windows. On the other hand, the interdependencies among the measures, clearly highlighted by the OECD work on trade facilitation indicators [TAD/TC/WP(2012)24] mean that the weaknesses in the implementation of some measures may limit the effectiveness of others.

9. Finally, it should be kept in mind that only a small cross-section of countries was studied. Their very diverse situations inevitably mean that practical application of trade facilitation measures in each country will differ in the immediate future. The aim of the study was not to generate hard and fast figures about how much each country is or should be spending for promoting trade facilitation but to provide indications as to the relative cost implications of trade facilitation measures, the challenges that such measures present, and approaches for overcoming such challenges in practice.

II. Assessing the costs and challenges of trade facilitation

10. A distinction needs to be drawn between costs and challenges. A number of measures may be relatively inexpensive to put in place but raise challenges both in terms of actual enforcement in practice and as regards their sustainability in the long run. The introduction of formal reforms is not always followed by full implementation in the day-to-day operation of border agencies and concerned economic agents because of the difficulty to change engrained behaviours and values and the desire of concerned public and private agents to preserve rents. Political momentum and sufficient time, rather than technical and financial assistance, will be essential tools for overcoming resistance to change.

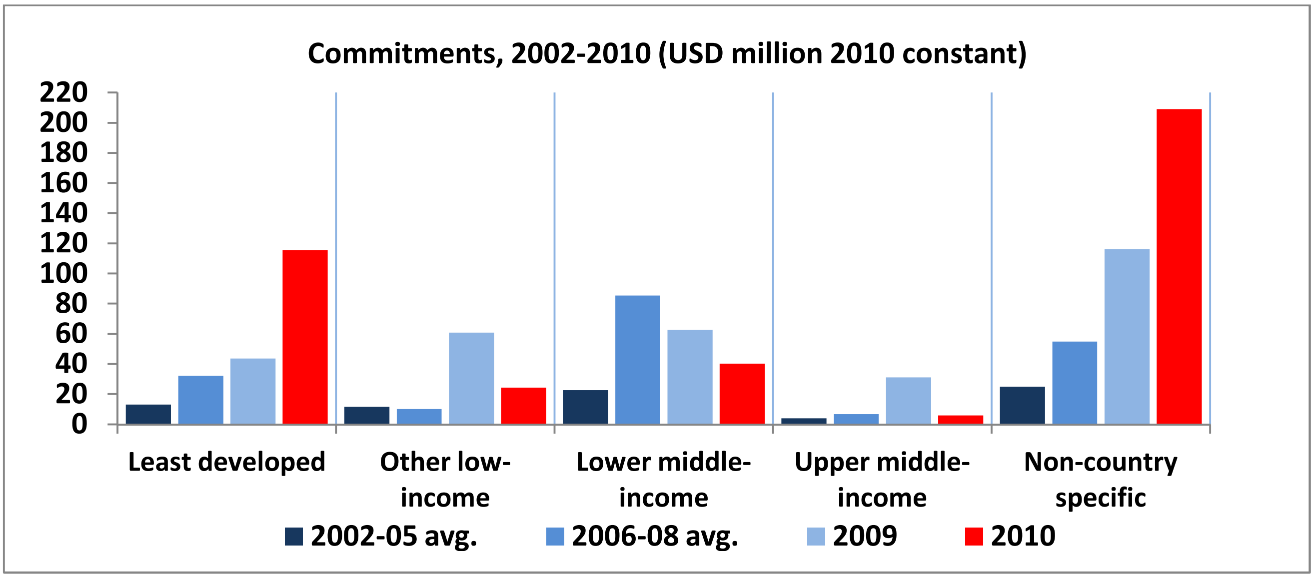
11. Another important distinction should be made between capital expenditure and recurring costs. The former will relate to the introduction of automated systems for advance lodgement and processing of data,

[3] The current, interim version of the paper includes partial information on these countries. Further information received on them and on the additional countries researched will be incorporated in a revised version of the paper.

risk management or single windows, the purchase of equipment, vehicles or buildings, or initial training in order to build capacity for certain tasks or operations not previously undertaken. Recurring expenses will primarily concern salaries, but also operation and maintenance of equipment and regular training to maintain skills at the required level. Measures that entail a significant upfront investment to introduce are not necessarily costly to operate once set up and the best case in point are single window mechanisms.

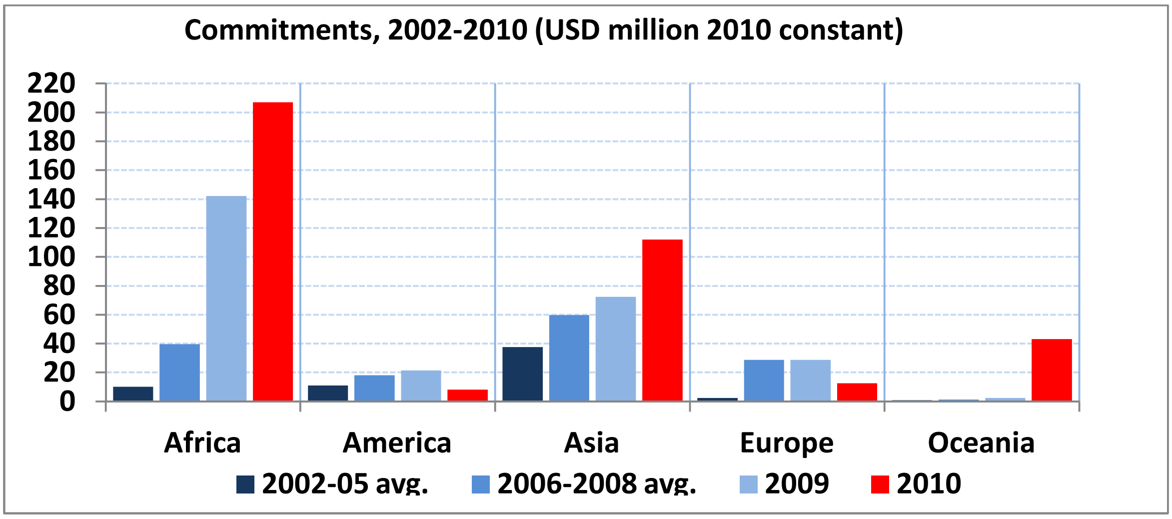
12. Initial expenses for purchasing equipment, training officials and putting in place new measures have been extensively covered by technical and financial assistance increasingly devoted to trade facilitation over the last decade (Figures 1, 2 and 3). Annual operating expenses on the other hand are not only relatively limited but could not be separated from the overall functioning of the customs and other border administrations.

Figure 1. Aid for Trade Facilitation by income group



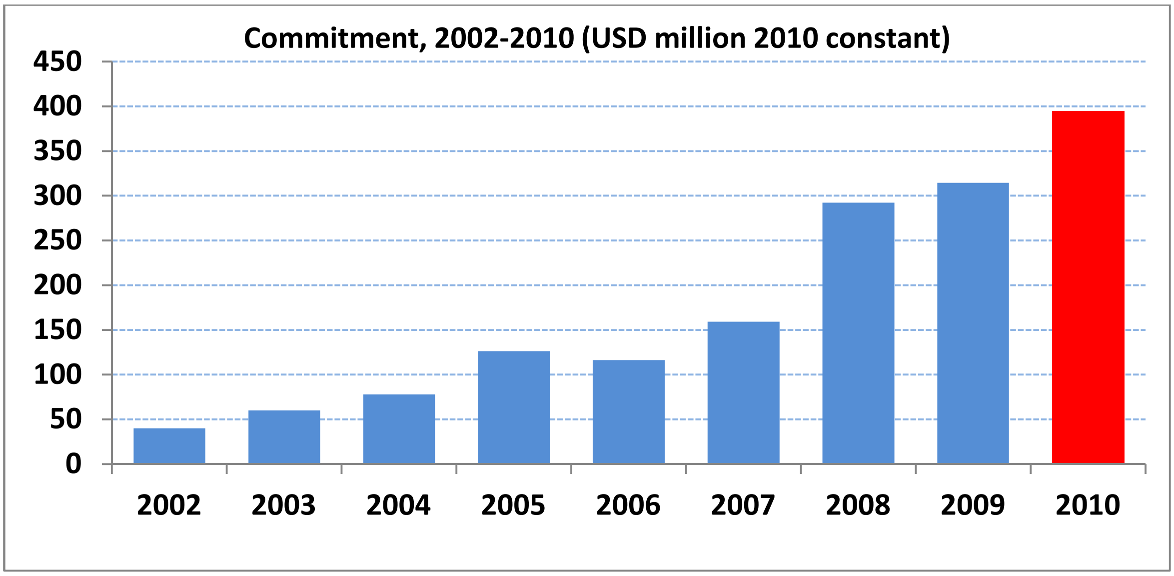
Source: OECD-DAC, Aid activities database (CRS).

Figure 2. Aid for Trade Facilitation by region



Source: OECD-DAC, Aid activities database (CRS).

Figure 3. Total aid for Trade Facilitation



Source: OECD-DAC, Aid activities database (CRS).

Typology of cost components[4]

13. The introduction and implementation of trade facilitation measures have entailed costs and challenges in one or more of the following areas: new regulation, institutional changes, training, equipment and infrastructure. An additional area highlighted by the current studies relates to awareness-raising and change management. Among cost components, equipment and infrastructure may often be the most expensive; however, training appears to be the most significant, as trade facilitation is primarily about changing border agencies' ways of doing business.

14. ***Regulatory costs*:** Trade facilitation measures may sometimes require new legislation, or the amendment of existing laws in accordance with the national legislative and regulatory process of each country. This will in turn involve time and staff specialised in regulatory work in ministries, the centre of government and parliament. A significant part of this endeavour will relate to preparatory work in order to properly assess the existing regulatory framework, ensure consistency and coherence with other domestic policies and identify potential unintended consequences on various users. Resources required for legislative and regulatory work differ depending on the country's legislative structures, procedures and frequency of changes in legislation. However, with the exception of major legislative changes, such as the adoption of legislation on electronic signatures, most changes pertinent to trade facilitation seem to be handled at the operational level and entail little additional cost. The progress of discussions on the future WTO trade facilitation agreement has generated a wealth of supporting material, produced by member governments and intergovernmental agencies, about the main regulatory and institutional aspects that would need to be taken into account to reform regulation.

15. ***Institutional costs*:** Some trade facilitation measures require the establishment of new units, such as a post-clearance team, a risk management team or a central enquiry point, which may mobilise additional human and financial resources. With respect to the human resources, countries can either recruit new staff or redeploy existing staff. The former option generally costs more, although the latter option may also entail training costs, expenses for physically relocating staff and resources devoted to forward planning. As

4 This section largely draws and expands on the corresponding section of the 2005 study.

relocation is not an uncommon management practice in customs, redeployment linked to newly introduced trade facilitation measures may simply be part of the general practice of relocation. However, redeployment is only possible to a certain degree if service disruptions are to be avoided. In general, the more customs administrations introduce sophisticated, specialised functions, the less they can redeploy staff from one task to another.

16. Although not actually expensive, the clarification of border agencies' respective fields of responsibility and their coordination around border services and controls may be institutionally challenging. Appropriate co-ordination and co-operation between border authorities constitutes in itself an important element of trade facilitation and sometimes results in significant reductions in time and costs for traders. Customs administrations may be responsible for the application not just of their own procedures and requirements but also those of a range of other authorities, particularly for ensuring compliance with documentary requirements (licences, certificates, etc.) for many purposes. The possibility to delegate controls or the requirement to coordinate border agency activities in a way that minimizes the burden to users, may call for strong directions from the centre of government.

17. ***Training costs*:** Training often appears as the most essential cost component of trade facilitation measures. Countries may choose between: *i)* recruiting new, expert staff; *ii)* training existing staff in a training centre; *iii)* on-the-job training; and *iv)* importing trained staff through personnel exchange with other ministries/agencies. Option *i)* is the most expensive since it implies a budgetary increase and can only tap into a limited pool of expertise with the necessary customs-specific skills and know-how. In a number of countries, option *i)* seems to be further constrained by a salary scale that is too low to attract staff with sufficient professionalism and integrity. Regular training is common practice in many customs administrations around the world, although it varies in frequency and duration, and training for specific trade facilitation measures is often part of such general training. On-the-job training results in no additional cost for the administration, but it may give rise to temporary costs for traders, in the form of lower performance of the public service. On the other hand, the possibility to massively train officials in new techniques, such as risk assessment, may be constrained not only by financial considerations, but also by the need to avoid disrupting the administration's normal operations. Option *iv)* may be relevant for cases such as post-clearance audit, where appropriate expertise may be drawn from the inland tax administration. Although this is a costless option for the state and for the customs administration, the loss of qualified staff from the tax administration may make it difficult to implement without high and sustained political commitment, even when customs and tax are under the same agency or department.

18. ***Equipment/infrastructure costs*:** Equipment and infrastructure are not a prerequisite for trade facilitation measures, although some of these measures, such as advance lodgement and processing of data, risk assessment or special procedures, are more readily implemented with appropriate equipment and infrastructure. Border agencies call for information and communication technology (ICT) products and infrastructure and scanners primarily to enhance the effectiveness and efficiency of customs operations and controls and only incidentally to sustain trade facilitation measures. For example, telephone lines and telephone equipment make it far easier for customs to communicate, and office automation provides genuine improvements in performance. None of these costs can be counted as direct costs of trade facilitation. Nevertheless, the studies show that insufficient equipment and infrastructure will make some facilitation measures more difficult to implement.

19. Most equipment and infrastructure should be viewed as implementation tools to be carefully combined and sequenced with regulatory, institutional or human resource changes. For example, as long as a country has not introduced modern risk management for targeting high-risk consignments and continues examining unnecessarily large numbers of low-risk consignments, scanners will not help reduce clearance times or enhance control performance. Likewise, while modern equipments and IT systems can be brought to bear on trade facilitation, a complementary investment in people is indispensable. As the technical

aspects of customs work are being improved, human resource development has to keep pace because any system can only be as efficient as the people who run it. Furthermore, choosing implementation tools before elaborating the relevant policies (for instance introducing computer networks before modernising control and clearance procedures) runs the risk of reducing available policy options and making subsequent changes lengthier and more costly.

20. ***Awareness-raising and change-management costs:*** The efficiency of several trade facilitation measures is also linked to the interaction of border agencies with economic actors and the capacity or willingness of the latter to go along with new modes of operation. Awareness raising activities are undertaken in order to promote better understanding and ensure the positive involvement of the private sector, so as to facilitate the introduction and enhance the sustainability of new measures. Private stakeholders are frequently included in a number of training and capacity building activities alongside customs and other government officials, possibly funded by the government or technical assistance programs in the country, and some reviewed countries have factored the costs of such participation in their expenditure forecasts.

III. Interim findings

21. The new four case studies confirm earlier findings about the link between efforts to improve customs and border efficiency and trade facilitation outcomes. Trade facilitation measures have introduced new ways to fulfil the traditional mandates of border agencies, often making them more efficient and effective by rationalising resource use. All reviewed countries have achieved progress on the topics under negotiation, displaying between 36% and 41% of full implementation of negotiated WTO measures, while another 54% of these measures on average is partially implemented across those countries.

22. Reported costs of trade facilitation measures were not large, both as regards resources to introduce the measures and operating expenditures, with the exception of costs related to information technologies. Costs to introduce the measures were primarily related to recruitment and training of specialised staff and for equipment, but the time necessary for satisfactory implementation of the measures constitutes an additional challenge. Reported operating costs were mainly related to salaries. Although aggregate figures of total trade facilitation costs in one country will not be directly transposable to other countries, budgeted or estimated capital expenditure to introduce trade facilitation measures in the reviewed countries ranged between EUR 3.5 and EUR 19 million. Annual operating costs directly or indirectly linked to trade facilitation did not exceed EUR 2.5 million. In both cases, the stated figures concern much more than trade facilitation as several reform elements are part of a productivity and revenue improving customs modernisation agenda. Far from contradictory, these two aspects appear clearly as mutually reinforcing[5].

23. The case studies also confirm that the costlier measures are related, in one way or another, to the introduction and use of information technologies. The single most expensive measure to introduce is generally single window mechanisms, although once put in place salary and maintenance expenditures to operate those mechanisms are not very important. The expenditure to establish a single window mechanism ranged from EUR 17 million in Mongolia to EUR 3 million in Burkina Faso. Kenya reported an expenditure of EUR 350 000 for their ORBUS system, which was however built as part of a wider automated customs network system (see below). Estimates about the time necessary to bring those mechanisms up to speed were estimated at three to five years in the Dominican Republic and around four years in Mongolia. On the other hand, the annual operating expenses budgeted for the single window mechanism were around EUR 33 000 in Mongolia, a figure that is less than half the annual operating

5 Trade facilitation and Customs modernisation reforms seem to bring about increased efficiency in revenue collection (see Chapter 4 “Trade Facilitation Reform in the Service of Development” in OECD (2009), “Overcoming Border Bottlenecks: The Costs and Benefits of Trade Facilitation”, p. 134).

expenses for publication mechanisms for example. Roughly 90% of this amount for operating the single window is devoted to salaries and the rest to computer equipment.

24. Other trade facilitation measures that rely on information technology include risk management systems and the possibility to lodge and process related documentation prior to the arrival of the actual consignment. Kenya reported having spent one million Euros to put in place the automated system for pre-arrival lodgement and processing of data, a figure that has to be read in conjunction with the lower figure reported for launching their single window system. In the other three countries expenses for introducing these mechanisms ranged from EUR 770 000 in Mongolia (of which 30% for the salaries of the experts that put the system in place) to EUR 150 000 in Burkina Faso. Annual operating costs for these measures are EUR 250 000 for the Dominican Republic, Kenya and Mongolia, while Burkina Faso estimates they would be about EUR 110 000. It should be remembered that the introduction of information technology concerns far more than trade facilitation and some costs, for instance those related in risk management and control selectivity, would have been incurred even in the absence of a trade facilitation agenda. Furthermore, an accurate cost assessment needs to factor in linkages between different elements of trade facilitation that cannot be correctly implemented in isolation, such as separation of release from clearance and risk management.

25. Authorities in the reviewed countries seem to devote more significant resources than was the case in the 2005 case studies. However these resources are not very large compared to the budget and total staff of their Customs agencies. The most resource intensive transparency measures in the reviewed countries concern internet publication and enquiry points. Expenses to establish internet communication ranged from EUR 19 000 in Burkina Faso to EUR 240 000 in Mongolia. Burkina Faso further estimated that it should cost around EUR 50 000 and take approximately two years to have enquiry points up and running. Annual operating costs for these two measures are around EUR 235 000 for internet publication and EUR 42 000 for enquiry points in Mongolia, EUR 50 000 and EUR 120 000 respectively in Kenya. The introduction of an advance rulings mechanism does not appear to be very costly, ranging around EUR 20 000 to EUR 25 000 in Mongolia and Kenya.

26. The costs of introducing and implementing trade facilitation measures also need to be seen in the light of their effectiveness. The expense of putting in place procedural simplification and streamlining needs to be viewed against the very significant gains in terms of trade cost reductions that these measures can entail, as shown by the OECD trade facilitation indicators work. These gains are estimated at 12% for low income countries, while for lower and upper middle income country groups, this is estimated at 14% and 11%, respectively [TAD/TC/WP(2012)24]. For instance, in the case of measures related to transparency or to document simplification and harmonisation, the costs are minor compared to the cost reduction benefits that can be expected (improvements in the area of formalities – documents account for an approximate 2.1% potential reduction in trade costs for low income countries, TAD/TC/WP(2012)24). Transparency and simplified documents not only enhance the capacity of traders to expedite documentary and procedural requirements in a cost-efficient way, but also reduce public authorities' workload due to fewer inquiries and fewer mistakes in filling documents. Likewise, while the establishment of a central enquiry point could constitute a cost for the central customs administration, it also eliminates or reduces the costs of regional customs offices for dealing with enquiries.

27. In addition, a cost evaluation has to be set against a specific time frame, as some measures may involve important one-off costs but spawn long-term benefits. Countries' experience shows that, although the revenue collected by efficient customs administrations remain relatively stable or even increase despite large tariff cuts, they have nonetheless become less important in the revenue stream of the government. Customs modernisation will result in particular in cost savings, especially of manpower, in the ability of the administration to handle a growing number of trade declarations without need for additional manpower and in shorter clearance time but more effective screening of cargoes.

Table 1. Illustrative table of costs for trade facilitating border measures

	Burkina Faso	Dominican Rep.	Kenya	Mongolia
Internet publ. (inception)	18 800			238 870
(operation)			50 000	234 345
Enquiry points (inception)	48 500			43 980
(operation)			120 000	41 680
Advance rulings(inception)	30 000			20 915
(operation)			25 000	
Risk management (incept.)	60 000	254 986		771 300
(operation)			250 000	231 745
Pre-arrival processing (inception)	45 000		1 000 000	290 785
Post-clearance audits (inception)	14 000	243 217	400 000	327 785
(operation)				170 880
Authorised econ.operators (inception)	5 500		120 000	693 920
(operation)				32 170
Single window (inception)	3 049 000	7 845 720	350 000	17 016 345
(operation)				32 615
Aggregate costs (inception)	3 400 000	11 811 733		19 705 290
(annual operation)			2 530 000	1 009 365

Shaded areas are estimates by the concerned country. As some specific cost figures were unavailable at this stage, the reported aggregate costs are not the addition of the costs of specific measures included in the table.