

Trade Facilitation: The Benefits of Simpler, more Transparent Border Procedures

Introduction

**What is trade
facilitation?**

International trade has grown rapidly in recent years, and with it the relative importance of border procedures such as Customs requirements, adding to the cost for governments and business, and ultimately for the customer. Indeed, surveys suggest that border-related costs such as the expense of supplying the required Customs documents or the surcharges arising from procedural delays when importing goods could total as much as 15% of the value of the goods being traded in some cases.

Why does it matter?

What does it involve?

This is a problem for all trading nations, and finding ways to make the whole process of trading simpler and smoother – trade facilitation – has been a specific subject on the World Trade Organization (WTO) agenda since the first WTO ministerial meeting in Singapore in 1996. WTO ministers went a step further at a meeting in Doha in late 2001, when they agreed that negotiations on trade facilitation will take place after the Fifth Session of the Ministerial Conference (in Cancún, Mexico, in September 2003) on the basis of a decision to be taken, by explicit consensus at that Session on modalities of negotiations.

**Making trade
facilitation happen**

**The case for WTO
rules**

For further information

These developments offer an important opportunity to direct inter-governmental attention to the role that sound regulatory frameworks can play in ensuring that day-to-day trading and control operations such as Customs or transport formalities are not unnecessarily trade-restrictive. A WTO agreement on trade facilitation could add renewed impetus to existing efforts by many countries to make their border control systems efficient, transparent and easy to understand.

For further reading

Where to contact us?

This *Policy Brief* draws on OECD work in this area to help understand the issues at stake and clarify the implications of WTO commitments in trade facilitation. ■

What is trade facilitation?

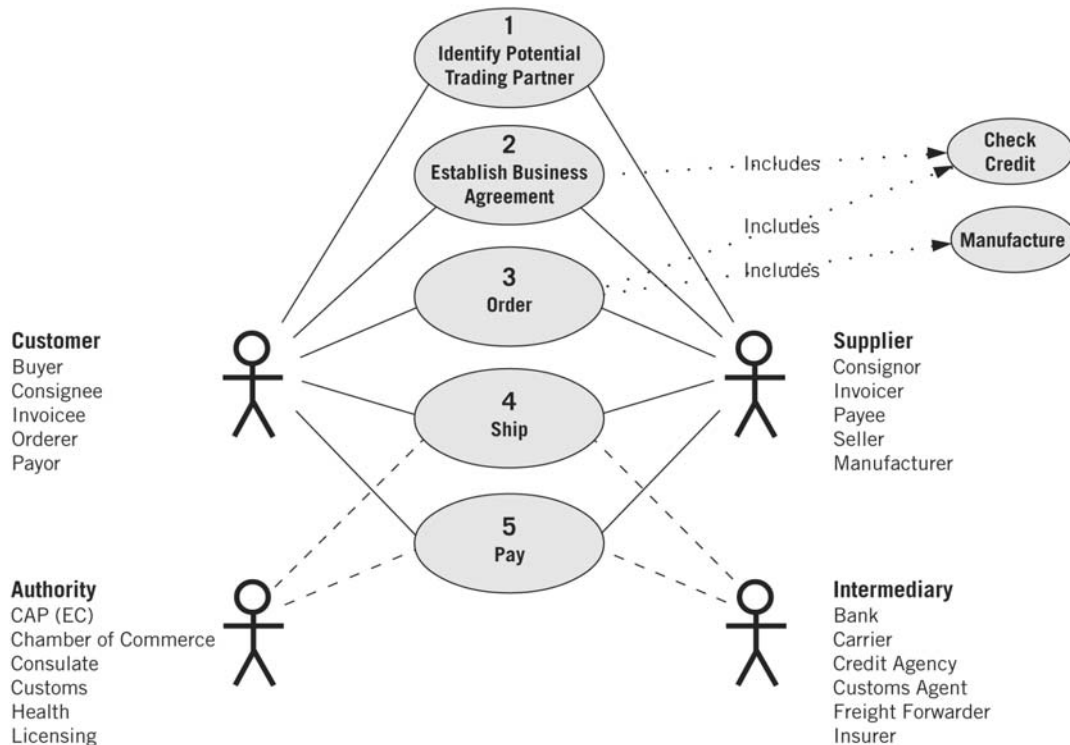
Trade facilitation covers all the steps that can be taken to smooth and facilitate the flow of trade (see Figure 1). The term has been used widely to cover all sorts of non-tariff barriers, including product testing and impediments to labour mobility, but in the WTO, discussions are limited to “the simplification and harmonisation of international trade procedures” covering the “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade”. It relates to a wide range of activities at the border such as import and export procedures (e.g. procedures relating to customs, licensing and quarantine); transport formalities; payments, insurance and other financial requirements. ■

Why does it matter?

The relative importance of the procedures that have to be gone through at the border when importing or exporting, have increased in recent years, adding to the cost of trading both for governments and business.

One reason is the **increased trade volumes** brought about by the progressive reduction of tariffs and quotas in international trade through successive rounds of trade liberalisation under the General Agreement on Tariffs and Trade (GATT). The volume of international trade has expanded relative to the size of many national economies, making it more difficult for administrations to cope on the basis of unchanged resources. At the same time, the reduction of other types of barriers

Figure 1. International Trade Transactions



Source: Based on the International Supply Chain Model, BPAWG, UN/CEFACT (January 2001)

brought border-crossing costs to business, such as waiting time and Customs procedures, into new prominence.

Increased trade velocity has also contributed. Modern supply chain management techniques and the rapid spread of information technologies and e-commerce have progressively increased the use of “just-in-time” techniques by manufacturing industry and encouraged the growth of integrated global supply, production and distribution systems. In this environment, where car manufacturers, for example, rely on the uninterrupted reception of the necessary components to meet production contingencies, business cannot afford to have imported or exported goods tied up for long periods because of unnecessary or over-complicated trade procedures and requirements.

There is also the question of costs inherent in the **increased complexity of trade**. Whereas in the past international corporations might have used just one location for production, today they are encouraged by globalisation and international competition to use a variety of locations for the manufacture and sourcing of components and for the manufacture of final products. At the same time, procedures and information flows put in place for traditional port-to-port and surface transport operations were unable to cope with the advent of rapid through-movement of containerised goods and jet airfreight. Preferential trade agreements have added to this complexity a proliferation of complex rules of origin.

In these circumstances, even operating methods that used to be satisfactory prove largely inadequate and need to be rethought, while problems posed by methods that were already sub-optimal are exacerbated. And inefficiency in border procedures exacts significant costs, both from the authorities who administer them and from the businesses who have to use them.

For *businesses*, border-related costs are both indirect, such as expenses related to supplying information and documents to the relevant authority, and indirect, such as those arising from procedural delays, lost business opportunities and lack of predictability in the regulations. Surveys aimed at cal-

culating these costs suggest that they may range from 2% to 15% of the value of traded goods.

Inefficiency costs to *governments* include unsatisfactory revenue collection and smuggling problems, as well as difficulties in implementing trade policy, for instance because of failure in determining the origin of products or in collecting accurate statistics. Inefficient border procedures are also likely to lead to poor export competitiveness and make the country involved less attractive to investment, reducing the ability of traders, carriers, agents, ports and airports in developing countries to play a full part in global trade expansion. By the same token, taking action to improve the efficiency of border procedures has been shown to produce results. Countries that have carried out reforms in this area have achieved a substantial increase in Customs revenue, despite the reduction in duties brought by trade liberalisation. ■

What does it involve?

Making the nuts and bolts of trading procedure easier to navigate requires transparency in the regulations and procedures, and consistency, predictability and non-discrimination in their application.

Transparency of relevant domestic regulations, procedures and practices is widely recognised as an essential element for ensuring that regulatory objectives are achieved efficiently while at the same time enhancing the benefits expected from trade and investment liberalisation. Transparency underpins the ability of market participants and stakeholders to fully understand the conditions and constraints for entering and operating in a market; to gain an accurate picture of the costs and returns of their involvement; to have the time and flexibility needed to meet requirements and adjust to potential changes; and to be equipped to deal with any discriminatory or arbitrary treatment.

Transparency is crucial in making domestic regulations and administrative practices more efficient and in enhancing their integrity. This is achieved by revealing the costs and benefits of policy decisions and administrative practices and ensuring that their purpose is clear and appropriately implemented.

Transparency can also help remove economic distortions that might undermine domestic policy objectives. Openness about the way the system works also improves public confidence in the government's performance and that of the regulatory system. It can also help to make a market more open by enabling businesses to make more informed decisions and take maximum advantage of the opportunities created by WTO rules and commitments.

Transparency implies making information on border requirements and procedures systematically available and easily accessible to all interested persons, for example by ensuring that laws and regulations are published ahead of their enforcement. But it also involves giving information on operational aspects, such as standard practices and processes in the operation of Customs and border agencies, guidelines on how requirements should be interpreted and enforced; and any available special procedures, to make sure that all potentially concerned traders are aware of them. Publishing information about forthcoming rules could improve the prospects of compliance by securing the support of stakeholders and improving their readiness to comply, while at the same time allowing operators to take informed decisions on their economic activity.

Consistency and predictability in the application of rules and procedures is also important. Uncertainty in trade operations translates very quickly into unwarranted transaction costs in the form of warehousing and demurrage expenses, transport and insurance fees and financing charges, as traders need to ward off potential disruptions in their production and logistics chain. Such problems can quickly become a strong disincentive for smaller businesses which lack the necessary logistic support to deal with such constraints. But non-discretionary and uniform administration of applicable requirements allows traders to know what to expect in their everyday dealings with Customs and other border agencies and to make informed decisions about their activities in a market. This requires clear and precise procedural guidance that is based on standard policies and operating procedures and is applied consistently whatever the authority or trader involved. Consistent application

of the rules guarantees efficiency and integrity in the administration, shielding it from attempts to obtain illegal advantages.

Non-discrimination is about ensuring the impartial and uniform application of all border-related regulations, procedures and practices. It goes beyond equal treatment between trading partner countries, to focus on the treatment of individual traders. Impartiality and uniformity does not mean all products have to be treated in an identical manner, but it does call for effective equality of administration where the same circumstances apply.

Simplifying border procedures helps achieve Customs and other public policy objectives in the most cost-efficient way, both for the administration and for affected traders. It is an essential path to increasing efficiency for Customs and other border administrations seeking to deploy limited resources to enhance productivity, face increasing budgetary constraints and improve revenue collection through more flexible, risk-based and targeted operations. At the same time, simplifying procedures lifts restrictions and burdens that unnecessarily add to traders' cost of doing business as well as generating undue delays at the border.

Measures to simplify border procedures and to avoid unnecessary burdens include doing away with unnecessary or outdated requirements, such as requesting information that is already available to the authorities, or requesting the same information more than once for different departments – Customs, food inspection agencies, health and safety authorities, etc. It also involves updating regulations to take account of changed contexts, technologies and markets; and ensuring that the implementation process is in proportion to the desired result. This means, for example, not introducing measures to improve revenue collection which cost more to implement than is actually gained in revenue. On the other hand, if Customs authorities can partly or totally process shipments before arrival of the goods, based on the transmission of the requested information in advance, or replace border controls by post-clearance audits, it simplifies the whole process. It reduces bottlenecks, which in turn reduces delays and related expenses for traders such as the risk of spoilage of

perishable goods and theft, and reduces opportunities for corruption by minimising direct transactions between officials and traders or their agents.

Due process – the availability of appropriate mechanisms for reviewing and correcting administrative actions related to Customs and border matters – is an important complement to regulatory transparency in ensuring the efficient operation of border procedures. Such mechanisms are often available in general legal frameworks that set out formal avenues for appealing against administrative rulings, actions and interpretation of applicable regulations as well as the general procedures to be followed. The essential quality of such mechanisms should be judged by their accessibility, their impartiality and their efficiency in offering redress in accordance with the legislation of the country.

Such a general framework may sometimes prove unsatisfactory for issues like Customs and border matters, because such matters are often highly technical in nature and urgent, something which is ill accommodated by the long average timeframes of administrative appeals procedures. That is why several countries provide for specific or additional avenues for Customs and border matters, aimed at a more efficient and timely handling of the issue. Specific provisions for appeals are often included in Customs or tariff legislation, especially with respect to the dutiable status of imported goods. ■

Making trade facilitation happen

A look at trade facilitation measures carried out to date by individual countries or under regional agreements show that there is no single, “one size fits all” way of pursuing transparency, simplification or any of the other principles. Possible approaches should take account of the specific circumstances, needs and capacities of individual implementing countries, although the multilateral consistency that a WTO agreement can offer is key to success. For example, despite the advantages of online information channels in terms of easy access and regular updates, paper-based information mechanisms are crucial for allowing access where electronic means are scarce. Likewise, defining and publicising typical times for Customs

clearance is not about establishing world-wide standard delays, but about informing traders of the typical situation in a given country so as to allow them to better schedule the movement of goods

An important tool for simplifying border procedures is the standardisation of border-related requirements, as such requirements quickly become burdensome when they have to be repeated in a different form and content on each side of the border. A first, quite common step is to use standardised forms for providing information. Others include adopting standardised data elements.

Another tool is techniques to assess and manage the risk that an individual shipment violates border controls, which allow Customs administrations to properly target border controls and correctly allocate limited resources. They allow Customs to devote minimal attention and intervention to “low risk” travellers and shipments and to process them quickly, allowing the re-deployment of Customs resources on intensified controls for travellers and shipments judged to represent a higher, or unknown, risk. In addition to improving Customs productivity and efficiency, risk management systems do away with unnecessary burdens on traders by downscaling physical inspection, reducing bottlenecks at border crossings, and replacing certain documentary controls at the border with post-transaction audits. They significantly enhance the predictability and consistency of border requirements by allowing the harmonisation of practices between different border points and the facilitation of information sharing.

Co-operation between border authorities to make controls more efficient and to simplify procedures is also very important. Traders often have to fulfil the same requirements repeatedly for different agencies in a country, such as health and safety, food inspection, import licensing, tax collection, quality inspection or intellectual property enforcement. Such duplication not only raises the cost to traders in time and money, it increases the risks of error or ambiguity. All this could be avoided through a co-ordinated intervention by border agencies, in the form of integrated inspection and clearance, or the establishment of a “single window” to meet all the requirements in one go. Co-

operation between import and export authorities in different countries can be enhanced through mechanisms to ensure secure and accurate communications between governments and through the mutual recognition of formalities carried out by the competent authorities of the other party.

Information and communication technologies are important tools for promoting trade facilitation by enhancing transparency, ensuring consistency and supporting simplification (although procedures can be simplified without the use of automation). Automation can speed up clearance procedures, for example by enabling the required data to be sent in advance of the arrival of the shipment, and not necessarily in office hours. Automation can also be used to harmonise the interpretation and implementation of Customs regulations across all border points, reducing the discretionary power of Customs officials and improving integrity. While the design and implementation of automated systems may require significant investment of time and resources, both by the administration and by private users, much may be achieved by relatively simple and open systems such as web-based solutions. And investment would be needed anyway to maintain existing systems and procedures, given the ever-continuing growth in world trade.

Although the costs of such investment and reform are proportionally larger for developing countries, jumping on the automation bandwagon at a later stage may also be advantageous, because it enables latecomers to immediately adopt recent, powerful and affordable IT infrastructures and technical solutions without wasting time and money on the older paperless trading technologies used in OECD countries for the past 30 years. Such investment seems to pay off relatively quickly through the benefits brought by the system. Internet-based border control systems may be developed on the margin of wider endeavours to improve telecommunications infrastructure in concerned countries and do not necessarily require the private sector to acquire specific equipment, thus enabling smaller firms to connect directly without the assistance of a Customs broker. ■

The case for WTO rules

The key advantages of achieving a WTO undertaking in the area of trade facilitation would be renewed political **impetus** to make border controls more efficient and strengthened international **coherence** in tackling the issue. The need to enhance efficiency in order to face an increasingly complex international trading environment has been an important driving force behind Customs reforms undertaken at national level around the world in recent years. However, it has frequently not gone far enough to do away with deeply entrenched outdated institutional settings and cumbersome procedures. To be successful, a trade facilitation agenda needs wide political support and the sustained commitment of those involved in the formulation and implementation of trade policy, both within the administration and among the economic actors.

Decisively launching the reform process and keeping it on the right track is crucial for achieving well-designed trade facilitation reforms that pay off quickly and end up being self-sustaining. Overcoming resistance to change from vested interests requires a considerable political effort that is not easy to muster without a high level of motivation. Trade facilitation rules in the framework of the WTO could offer this missing impetus at the multilateral level, providing an external discipline to ensure continuing domestic political commitment and shield from temptations to backtrack.

Coherence is also essential. Trade facilitation efforts, national or international, need to be consistent between different policy areas. Partial approaches that lack coherence appear a sure recipe for failure. Speeding up Customs clearance, for example, will not help move goods faster if there is no road system to carry them. It is also a question of better coordination between the narrow area of trade facilitation and the areas of Customs valuation, rules of origin, import licensing or sanitary controls.

Moreover, insufficient capacity and lack of resources may frustrate even well-designed efforts. Some impetus may be given by regional and bilateral initiatives but the likely inconsistencies in these efforts hamper the achievement of a higher level of

trade facilitation benefits. This appears for example very clearly in a number of assistance projects, whose results have been limited by their narrow geographical or sectoral focus and their incompatibility with the wider institutional framework. Trade facilitation rules in the WTO could provide a framework for coherence.

A coherent multilateral setting would also provide a solid background for designing well-targeted technical assistance and capacity-building projects, overcoming regional divides, ensuring that the projects' different components are mutually supportive and better targeting aspects of co-operation between border agencies of concerned countries.

It should be borne in mind that possible commitments in the area of trade facilitation are principally about working together towards the common goal of domestic and global efficiency and enhanced governance, rather than about countries making concessions as is the case with many WTO negotiations. Given this specificity, benchmarking, capacity-building and peer pressure would be critical in providing momentum, diluting the prospect of litigation under the dispute settlement mechanism.

To act as a driving force, such a multilateral effort needs to be challenging, but at the same time realistic. No external discipline or pressure can deliver tangible outcomes if the commitments go beyond the existing capacity of a particular country to meet them. Matching commitments with capacity means designing disciplines that correspond to the circumstances of member countries, and particularly developing countries. A coherent framework of principles will offer the necessary benchmarks for ensuring consistency, so as to establish a meaningful diagnosis of the situation in each concerned country; and judge the appropriateness and efficiency of individual implementation measures. In the case of a WTO agreement, an essential question would be how to preserve flexibility, while formulating provisions sufficiently substantial and objective to shape member country efforts.

But matching commitments with capacity also means providing corresponding technical assistance where appropriate. Multilateral disciplines on

trade facilitation will ensure a broad level of predictability in border controls in all participating countries, simplifying trade for all participants. The prospect of this benefit should bolster the willingness of donor agencies and the private sector to provide technical assistance aimed at underwriting the implementation of related commitments. In particular, the private sector may be eager to provide financial support for reforms aimed at enhancing economic activity if they are shown to be effective. ■

For further information

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For further reading

- **Business Benefits of Trade Facilitation**, available at www.oecd.org/ech/tradepolicy under Trade Facilitation/publications and documents/reports.
- **Transparency and Simplification Approaches to Border Procedures: Reflection on the Implementation of GATT Article X-Related Proposals in Selected Countries**, available at www.oecd.org/ech/tradepolicy under Trade Facilitation/publications and documents/reports.
- **Transparency and Simplification Approaches to Border Procedures: Reflection on the Implementation of GATT Article VIII-Related Proposals in Selected Countries**, available at www.oecd.org/ech/tradepolicy under Trade Facilitation/publications and documents/reports.
- **Transparency and Simplification Approaches to Border Procedures: Reflection on the Implementation of GATT Article V-Related Proposals in Selected Countries**, available at www.oecd.org/ech/tradepolicy under Trade Facilitation/publications and documents/reports.
- **Trade Facilitation Principles in GATT Articles V, VIII and X: Reflections on Possible Implementation Approaches**, available at www.oecd.org/ech/tradepolicy under Trade Facilitation/publications and documents/reports.
- **Trade facilitation reforms in the service of development**, available at www.oecd.org/ech/tradepolicy under Trade Facilitation/publications and documents/reports.

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They are published under the responsibility of the Secretary-General.

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