

# The WTO Trade Facilitation Agreement – Potential Impact on Trade Costs

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## THE POTENTIAL IMPACT OF THE WTO TRADE FACILITATION AGREEMENT CONCLUDED IN BALI ON TRADE COSTS

A WTO Agreement on Trade Facilitation was concluded at the Bali Ministerial in December 2013. The OECD has since re-calculated the potential benefits of the Agreement for various groups of countries, using [the OECD Trade Facilitation Indicators \(TFIs\)](#) and taking into account the fact that, in reaching agreement, WTO Members set aside a few provisions from their original agenda and cast a number of others on a “best endeavours” basis.

The re-calculation of the potential impact of the Agreement is based on two distinct scenarios: a) a scenario where WTO Members would implement all the options contained in the agreement, including those formulated on a “best endeavours” basis; and b) a scenario where WTO Members would only implement the mandatory provisions contained in the agreement, leaving aside discretionary provisions. These two scenarios seek to provide upper and lower bounds of potential trade cost reductions likely to be obtained through implementation of the Agreement. This impact will be strongly influenced by the way developing countries will categorize various measures, and by the timeframes adopted for implementation.

### “Full” implementation scenario

In this scenario variables corresponding to provisions that formed part of the negotiations but were not included in Agreement have been removed from our original estimates of likely trade cost reductions. This concerns very few variables, so that the estimates of potential cost reductions from the Agreement are practically unchanged from the estimates produced by the OECD in early 2013 ([OECD Trade Policy Paper no 144](#)). The new estimates are 14.1% of total costs for low income countries, 15.1% for lower middle income countries and 12.9% for upper middle income countries.<sup>1</sup> The highest impacts are still exerted by the same types of measures in almost all cases: for LICs indicators (f) Documents, (g) Automation, and (a) Information Availability (3%, 2.4% and 1.7% respectively); for LMICs (f) Documents, (h) Procedures and (g) Automation (2.7%, 2.3% and 2.1%); and for UMICs (h) Procedures, (g) Automation and (c) Advance rulings (2.8%, 2.3% and 1.3%).

### “Limited” implementation scenario

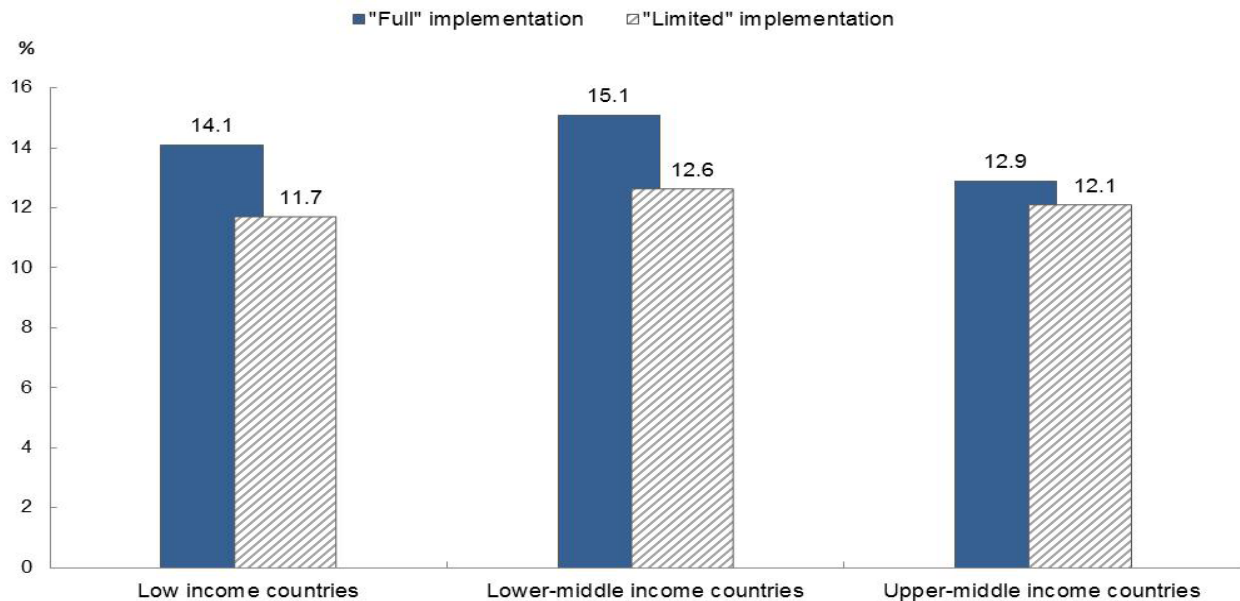
The “limited” implementation scenario assumes that countries that are already implementing best practices will continue doing so, but that others will not where implementation is discretionary. This scenario reveals significant opportunity costs for low and lower middle income countries, in particular.

For all three income groups, this scenario results in lower overall trade cost reductions. For LICs the potential trade cost reduction reaches 11.7%, 2.4 percentage points less than if all provisions were implemented. The three most influential types of measures remain the same, but their impact is now more limited: (f) Documents would potentially reduce costs by 2.5%, (g) Automation by 1.7%, and (a) Information Availability by 1.3%. LMICs could benefit from potential trade cost reductions of 12.6%, 2.5 percentage points less than in the case of “full” implementation of best practices, of which 2.4% for (f) Documents, 2.1% for (h) Procedures and 1.5% for (g) Automation. In the case of UMICs the impact would be of 12.1%, 0.8 percentage points less than if they “fully” implemented best practices, with a potential cost reduction of 2.4% for (h) Procedures, 1.9% for (g) Automation and 1.2% for (c) Advance rulings. The opportunity cost is expected to be lower for the group of UMICs because many of the countries already implement some of the measures that are now formulated on a “best endeavours” basis.

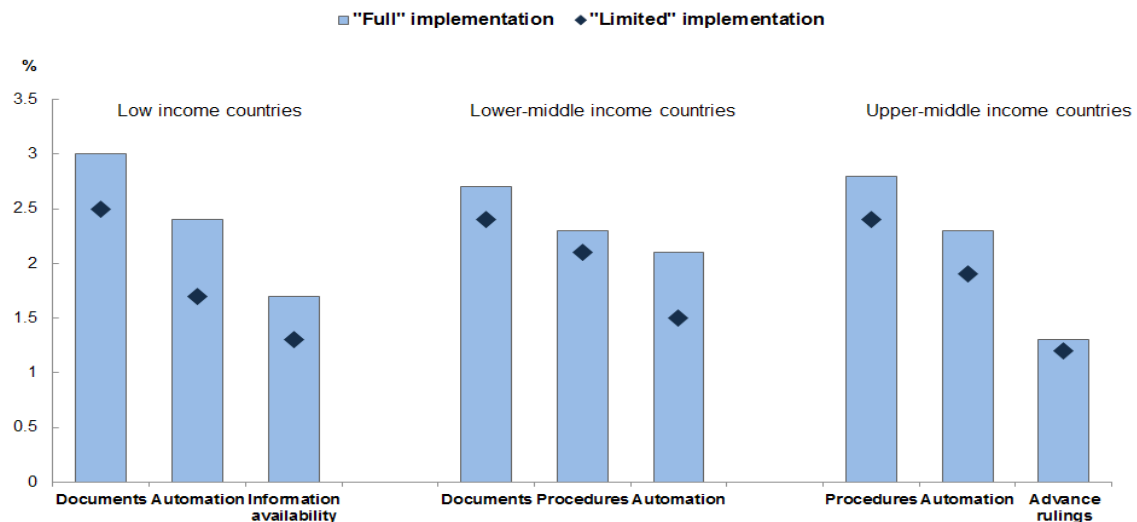
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<sup>1</sup> Instead of 14.5%, 15.5% and 13.2% respectively estimated previously.

**Figure 1. Overall potential trade costs reductions by income group**



**Figure 2. Potential trade costs reductions for the “top three” sets of measures**



## Country categorisations and timelines

The impact of the Agreement will likely range between the above upper and lower bound scenarios. However, realizing actual trade cost reductions will also be influenced by the implementation timelines established by concerned countries when they categorize their commitments.

The Agreement adopts a three tiered approach to commitments of developing countries (a. to be implemented immediately, b. calling for extra time and c. requiring technical assistance). Developing countries will notify those three lists upon the entry into force of the Agreement (or one year later in the case of LDCs), so it is only at that date that a more precise picture of commitments for each country and indicative dates for their implementation will be available. Definitive implementation dates for commitments designated as requiring extra time or assistance will only be known one year after the entry into force of the agreement (two years for LDCs).

Irrespective of possible categorisations, the assessment of specific indicators, in particular the ones composing the “top three” for each income group of countries, shows that most of the facilitating elements in areas such as the harmonisation and simplification of trade documents, the availability of trade-related information, or automation were preserved, but some measures are now discretionary. As regards the streamlining of border procedures, elements cast on a best endeavours basis are more numerous.

A number of these measures are straightforward and inexpensive thanks to the extensive harmonisation work undertaken in international fora. In most countries they should in principle not require significant amounts of technical assistance and should be possible to implement either immediately or following a modest transitional period. For those measures our calculations remain valid, but only WTO Members choosing to exercise all the options available in the text will reap the full benefits calculated. On the other hand, estimates for technically complex or more expensive measures, although valid in the long run, should be revised downwards in the short-to-medium run, taking into account the fact that a significant portion of low and lower-middle income countries might categorize them into the third tier (requiring technical assistance and subsequent extra time for implementation).

### About OECD trade facilitation indicators

OECD has developed the following indicators to assess trade facilitation policies:

<b>Advance Rulings</b>	Prior statements by the administration to requesting traders concerning the classification, origin, valuation method, etc., applied to specific goods at the time of importation; the rules and process applied to such statements.
<b>Appeal Procedures</b>	The possibility and modalities to appeal administrative decisions by border agencies.
<b>Co-operation – External</b>	Co-operation with neighbouring and third countries.
<b>Co-operation – Internal</b>	Co-operation between various border agencies of the country; control delegation to customs authorities.
<b>Fees and Charges</b>	Disciplines on the fees and charges imposed on imports and exports.
<b>Formalities – Automation</b>	Electronic exchange of data; automated border procedures; use of risk management.
<b>Formalities – Documents</b>	Simplification of trade documents; harmonisation in accordance with international standards; acceptance of copies.
<b>Formalities – Procedures</b>	Streamlining of border controls; single submission points for all required documentation (single windows); post-clearance audits; authorised economic operators.
<b>Governance and Impartiality</b>	Customs structures and functions; accountability; ethics policy.
<b>Information Availability</b>	Publication of trade information, including on internet; enquiry points.
<b>Involvement of the Trade Community</b>	Consultations with traders.

### Related links

- [Explore the OECD trade facilitation indicators by country](http://www.oecd.org/tad/facilitation/indicators.htm) at <http://www.oecd.org/tad/facilitation/indicators.htm>
- [Read OECD Trade Policy Paper 144](http://www.oecd-ilibrary.org/trade/trade-facilitation-indicators_5k4bw6kg6ws2-en) at [http://www.oecd-ilibrary.org/trade/trade-facilitation-indicators\\_5k4bw6kg6ws2-en](http://www.oecd-ilibrary.org/trade/trade-facilitation-indicators_5k4bw6kg6ws2-en)