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The Benefits of Implementing Trade Facilitation Measures in the Hemisphere: A Regional Forum

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About the Hemispheric Think Tank Working Group in Support of the 2009 Summit of the Americas

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The Working Group brought together researchers and policy analysts from the Western Hemisphere's leading think tanks to engage in intensive debate and dialogue and develop a strong intellectual and policy foundation for preparing and conducting the Summit.

In meetings in Ottawa and Washington, D.C., attended by leading national and multilateral officials, the group explored the critical problems the Summit could address, identified key areas of agreement and disagreement among countries, deeply probed the disagreements, and, where possible, sought to develop pragmatic approaches. These discussions and research have resulted in a series of policy papers that hope to mobilize and raise awareness of the Summit amongst regional governments and civil society.

The views reflected in this paper are those of the author and not of the Brazilian Center for International Relations (CEBRI).

Introduction

FTAA negotiations came to a standstill in 2004 and trade was omitted in the agenda of the Fifth Summit of the Americas to take place next April. The agenda of integration has expanded beyond trade to address other economic aspects such as infrastructure and energy, as well as political and social issues.

In such an adverse scenario for advancing a trade agreement, I propose that we should focus on the non-controversial task of implementing Trade Facilitation Measures (TFMs), aiming at reducing microeconomic barriers to trade. Non-tariff barriers, customs procedures, certification problems, technical norms, sanitary and bureaucratic actions restrict potential trade growth. Any attempt to decrease transaction costs, facilitate, simplify, harmonize, and expedite systems and procedures improving the business atmosphere can only increase regional cooperation.

The countries in our region should work proactively to promote TFMs with respect to customs-related and transparency-related measures, involving the provision of relevant information to the public. TFMs seek to reduce complexity, time and levels of error, and in parallel, to increase transparency and efficiency in all aspects.

A recent study, conducted in Brazil by the Brazilian National Confederation of Industry, points to the exchange rate and the costs associated with infra-structure and customs bureaucracy as the major barriers to the competitiveness of Brazilian exports. They showed concern with the excess of documentation requirements and official procedures/regulations; the lack of automation and use of information technology; poor transparency; and the need for modernization of border-crossing administration. The Brazilian government has established an inter-ministerial working group aimed at reducing and simplifying complex procedures and regulations. In Brazil, there are 18 institutions involved in the process of licensing exports and imports. The simplification of procedures is to facilitate trade with neighboring countries and to improve the atmosphere for trade negotiations. The Brazilian initiative calls for bilateral or regional agreements to promote customs coordination and cooperation to harmonize customs procedures.

There is a broad consensus among trade policy makers that the implementation of TFMs result in significant competitiveness gains by reducing transaction costs and improving the business atmosphere. Inefficiencies are sometimes more costly to industries than tariff barriers. An Asia-Pacific Economic Cooperation (APEC) study points out that clearing the red tape at country borders would generate approximately twice as much gain to GDP than tariff liberalization would. The Organisation for Economic Co-operation and Development (OECD) estimates potential annual worldwide gains of some US\$40 billion from just a one per cent reduction in trade transaction costs for goods.

Latin America experienced a recent inflow surge of trade and investment, in the absence of new trade and investment agreements. The export boom has been pushed by the huge and unprecedented world demand for commodities, especially from China and India, and the effects of that demand on world prices. Latin American countries' exchange reserves have never been so high.

Nevertheless, our region is growing only at half the world rates and three times less than dynamic emerging countries in Asia. Modest growth rates occur despite the much higher commodity prices of its exports, and coincide with huge availability of financial resources and capital. The question is how much the current financial and economic crisis will affect the region and how the economies will behave in an adverse scenario of reduced demand and falling prices. The huge challenge is how to sustain an adequate rate of economic growth, compounded with structural changes, productivity gains, continuous upgrading of exports, and market competitiveness.

Latin America secures a peripheral position in a world dominated by fast technological change. Good incentives may come from trade competition and the urge to open new markets, but a huge and slow bureaucracy counteracts many of the positive external incentives. Closer trade relations are a key factor.

This paper will address the costs and benefits associated with TFMs, and then it will review the proposals for both a WTO and a FTAA Agreement on Trade Facilitation.

Costs and Benefits Associated with TFMs

There is a broad consensus that implementation of TFMs result in significant welfare and competitiveness gains in both developing and developed countries. The importance of trade facilitation for the reduction of trade transaction costs has been highlighted. Reforming customs procedures, notably through automation, harmonization of information requirements, and risk-assessment methods, directly improves tax returns by enabling effective collection of import duties. Customs reform reduces levels of evasion, under declaration and fraud with customs officials, and allows correct and prompt tax collection. This is an important aspect to the development dimension of trade facilitation.

It is generally agreed that the introduction and implementation of most TFMs would entail some start-up costs for the government agencies. The following cost components were identified:

- Infrastructure/equipment costs: investment in new equipments and facilities, such as establishing processing lines and information and communication products.
- Regulatory costs: the modification of existing regulatory practices or adoption of new legislation.

- Human resource costs: the enhancement of administrative capacity, recruitment of new staff and training for both the existing and new personnel.
- Institutional/Operating Costs: Extent to which new institutions will be needed or restructuring existing institutions.
- Political Costs: Extent to which TFMs will be resisted by staffs within relevant institutions or by policy makers.

In addition, we can expect reduced revenues from fees and charges since governments cut expenditures through the elimination of duplicative or bureaucratic functions, and through more reasonable and efficient use of administrative resources.

It is interesting to notice that the main cost component may often not be related to regulatory, training or infrastructure costs, but to political costs. Implementation of TFMs involves various degree of change in how things are done and change is often perceived negatively by most, at least in the short-term. Countries need time flexibility for implementing TFMs with perceived high political costs.

The initial implementation of TFMs shall take into account the need for logical sequencing of the measures and the fact that those measures should be preferably implemented as part of an overall national trade facilitation program, as opposed to a series of measures implemented in isolation.

FTAA Trade Facilitation Negotiations

In the scope of FTAA negotiations, the following TFMs were agreed upon, covering customs-related issues: temporary importation, express shipment, simplified procedures for low value shipments, compatible electronic data interchange (EDI) system and common data; harmonization of commodity description and coding system; customs information dissemination/hemispheric guide on customs procedures; codes of conduct for customs officials; risk analysis and targeting methodology.

The negotiating parties also agreed on several transparency-related measures, regarding mostly the dissemination of reports and inventories, including those prepared by FTAA working groups through its web page. Some examples were: the existing procedures and requirements for temporary entry of business persons; the list of national contact points that provide information on national legislation affecting trade in services; and the national practices on standards and technical regulations and conformity assessment. They highlighted the importance of making more accessible information on government regulations, procedures, and competent authorities, using internet links to the FTAA web page. It was also established an Ad Hoc Group of Experts on customs-related TFMs.

World Trade Organization (WTO) Trade Facilitation Negotiations

The World Trade Organization General Council adopted in 2004 a Decision on the Doha Work Program outlining the modalities of the trade facilitation negotiations. Members submitted text-based proposals for inclusion in a draft WTO Agreement, addressing the three GATT 1994 articles, which the trade facilitation negotiations should improve and clarify: freedom of transit for goods from other Member states, trade-related fees and formalities, and transparency in the regulation and administration of trade regulations.

The proposals emphasized the need of effective cooperation between customs authorities on trade facilitation and customs compliance issues, aiming at reducing customs clearance formalities and expediting the release of goods. That would allow for a common framework of international rules that all WTO Members could use; prior knowledge regulations minimizing unnecessary delays and costs; and predictability and transparency.

Among the proposed measures were:

- the installation of inquiry points;
- the provision of an advanced ruling system on tariff classification;
- valuation and origin;
- the publication of relevant trade regulations and procedures, including fees and charges;
- establishment of enquiry points and single national focal points for trade regulations and other trade facilitation issues;
- establishment of a single window system, defined as a system allowing traders to submit all relevant documents at one time and place for approval by all government agencies;
- a modern risk analysis/management system;
- pre-arrival clearance;
- establishment of a national trade facilitation committee;
- expedited clearance of goods (subject to post-clearance audit) based on a bond, guarantee, or deposit arrangement;
- expedited procedures for express shipments and qualified traders/companies; and,
- the establishment of effective appeal procedures.

The adoption and use of international standards, the establishment of enquiry points, trade facilitation committees and online publication of trade regulations and procedures were ranked as priority measures. Several proposals also suggested the granting of a reasonable time-period between the adoption of a regulation and its entry into force.

Some developing countries raised concerns with respect to start-up cost implications. They argued that they do not have the resources necessary to update their customs procedures to more modern technological standards, but

the experience of some countries showed that costs are recovered over time through greater operating efficiency and increased tax collection.

The implementation in some developing countries of an IT-based single window system, a risk analysis system, and/or pre-arrival clearance measures, would entail some real setup costs and might require more time, while alignment of trade documents or the use of internationally agreed standard data elements could be implemented faster and at a relatively low cost.

Some also argued that a trade facilitation agreement would reflect the standards and international best practices of the developed world since those have been established by them. Furthermore, they are also reluctant to take on additional legal obligations that expose them to dispute settlement. Reference was further made to different levels of development and different needs.

A shared conviction among WTO members was that technical assistance, support for capacity building, and flexibility were essential for an effective participation of the developing world in trade facilitation work. That would involve human resources training costs or grants for countries requiring investments in infrastructure and equipment.

Conclusions

In the context of FTAA and WTO negotiations, countries had been dedicating a huge effort and amount of time to identify TFMs that, if implemented, would benefit all. In both negotiating processes members were in agreement on their utmost importance for the advancement of trade integration.

My recommendation is that the leaders of the 34 countries meeting in Trinidad and Tobago call for regional collective action for full implementation of some of the TFMs already identified, having the Organization of the American States to help monitor compliance. They should take advantage of the progress made so far and focus on analyzing the TFMs and evaluating the stage of implementation of each of the measures. In the absence of a Trade Facilitation agreement from the Doha Round negotiations, let's work on the regional level.

Instead of a legally-binding, rules-based agreement, let's work on a list of voluntary guidelines, which would coexist with and add to unilateral, bilateral or sub regional initiatives. A regional initiative can mobilize unilateral reforms. Leaders have the ability to mobilize their governments through top-down political direction, ensuring that their regional commitments translate into national action. They can also rise above domestic politics and adopt policies that provide regional collective benefits derived from TFMs.

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The Canadian Foundation for the Americas (FOCAL) is an independent, non-partisan think tank dedicated to strengthening Canadian relations with Latin America and the Caribbean through policy dialogue and analysis. By providing key stakeholders with solutions-oriented research on social, political and economic issues, we strive to create new partnerships and policy options throughout the Western Hemisphere. FOCAL promotes good governance, economic prosperity and social justice, basing our work on principles of intellectual integrity, racial diversity and gender equality.

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