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Cost and Benefits of Implementing Trade Facilitation Measures under Negotiations at the WTO: an Exploratory Survey

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Table of Content

Executive Summary

After a review of implementation cost information found in WTO members proposals to the NGTF and relevant research and policy studies, results of an expert survey on the implementation costs associated with 12 trade facilitation measures (TFMs) relevant to the negotiations are presented. Long-term savings greatly exceed the perceived implementation costs for all measures considered. However, TFMs under consideration by the NGTF for possible inclusion in revised GATT articles V, VIII and X should be selected carefully as overall cost implications for Governments differ significantly across measures, as does time needed for implementation in LDCs.

The type and extent of technical assistance provided, as well as the amount of flexibility to be given, may depend on the types of costs involved in implementing the various TF measures – 5 types of costs where considered in this study. The main cost component associated with implementing some of the TF measures may often not be related to regulatory, training, or equipment costs, but to political costs. Indeed, implementation of TFMs involves various degree of change in how things are done and change is often perceived negatively, at least in the short-term. Therefore, Governments may need time flexibility for implementing TFMs with perceived high political costs, while they may need technical assistance in the form of international experts for TFMs involving mainly HR training costs, or in the form of grants for those requiring investments in infrastructure and equipment.

Experts did rank *adoption and use of international standards*, *establishment of enquiry points, trade facilitation committees and online publication of trade regulations and procedures as priority measures*, although there was some disagreement on the English language requirements for publication and the need for single vs. multiple enquiry points. Provision of advanced and binding rulings on tariff classification, valuation, and origin, also a relatively “low cost” measure, is also given priority. The only “costly” trade facilitation measure included in the top 5 priority TF measure by the expert is the establishment of a risk management system. This is not surprising given the significant savings and private sector benefits associated with this specific measure (in terms of cutting average customs clearance time) and the fact that it may be implemented, in its most basic form, with limited investment in IT systems.

All experts point to the need for logical sequencing of the measures and the fact that trade facilitation measures should be preferably implemented as part of an overall national trade facilitation programme, as opposed to a series of stand alone measures implemented in isolation. However, it is noteworthy that some experts disagree on the details of implementation (e.g., enquiry points vs. single national focal points) and note that some measures may not be beneficial depending on how and where they are implemented. This finding suggests that the WTO may need to establish a long-term institutional mechanism to deal with evolving trade facilitation measures and issues. Countries may also agree on a subset of well-defined TFMs to be implemented by all, as well as on a complementary list of possibly more controversial TFMs from which countries would select, based on their own needs and specificity, a pre-determined number of measures for implementation.

Introduction

The WTO's 147 member governments agreed on 1 August 2004 to commence negotiations on trade facilitation. The issue of whether trade facilitation, along with four other so-called "Singapore issues", should be included in the Doha round of negotiation had been one of the issues that resulted in the failure of the WTO Ministerial Meeting in Cancun in 2003.

The main reason for the reluctance of many developing countries (DCs) to negotiate on trade facilitation as part of the Doha Development Agenda seemed to be the fear that implementation of such agreement would entail substantial investment in infrastructure and human resources for them, while at the same time requiring nothing from the developed countries who have already implemented many of the trade facilitation measures (TFMs) likely to be included in a multilateral trade facilitation agreement. Some also feared that a trade facilitation agreement might not reflect the needs and priorities of their countries in this area, as most of the standards and international best practices were established by a few developed countries based on their own needs and priorities. Finally, a binding trade facilitation agreement could have serious consequence on some countries because many of the lesser developed countries still derive a significant share of their Government revenue from Customs activities.

The August 1 Decision of the WTO General Council, often referred to as the "July Package", outlined the modalities of the trade facilitation negotiations in its Annex D[1]. Members agreed that the negotiating agenda would focus on clarifying and improving relevant aspects of Articles V (*freedom of transit*), VIII (*fees and formalities*) and X (*publication and administration of trade regulations*) of the GATT 1994; enhancing technical assistance and support for capacity building; and effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues.

In addition, Annex D specified that the negotiations "*shall address the concerns of developing and least-developing countries related to cost implications of proposed measures*". This issue was also specifically included in the negotiating agenda approved by members during the first meeting of the Negotiating Group on Trade Facilitation (NGTF) held in November 2004, along with the need to identify trade facilitation needs and priorities and special and differential treatment for DCs and least developed countries (LDCs)[2].

Although the negotiations on trade facilitation have progressed well and WTO members were able to agree on a Ministerial Declaration at the sixth WTO Ministerial Meeting in

[1] http://www.wto.org/english/tratop_e/dda_e/ddadraft_31jul04_e.pdf
[2] http://www.wto.org/english/news_e/news04_e/tradefac_15nov_e.htm

Honk-Kong in December 2005, information available on the potential benefits and costs of specific TFMs proposed to the NGTF is still lacking as research on trade facilitation remains at an early stage of development, especially in the less developed countries.

The objective of this paper is to address some of the concerns related to cost implications of trade facilitation (TF) measures by providing qualitative information on implementation costs (and benefits) associated with selected TF measures, which may provide some useful guidance to negotiators and policy makers as they decide which measures may or may not be included in revisions of the three GATT articles under negotiation, as well as in future trade negotiations. Following an overview of the related literature and a review of the cost/benefit information included in some of the WTO members proposals, the results of an exploratory expert survey on the cost of implementing selected TFMs are discussed.

A review of WTO proposals and the literature

a- Implementation costs in WTO Members' proposals to the NGTF

While the WTO Secretariat's compilation of members' proposals on the Negotiations on Trade Facilitation (TN/TF/W/43/Rev.4) specifically include sections on *Special and Differential Treatment* and *Technical Assistance and Support for Capacity Building* for each category of TF measures, it does not summarize the content of the proposals in terms of expected implementation concerns or costs (and benefits) of the various proposals and related measures. A review of the first 50 proposals submitted to the NGTF was therefore conducted to analyze members' opinions on the implementation costs (and benefits) of TF measures presented in their proposals. The following observations may be drawn from this review (see Annex 1 for details):

1. It is generally agreed in the various proposals that the introduction and implementation of most TF measures would entail some start-up costs for the government agencies in the short term. However, once the measures are established, it is unlikely that significant financial burdens would be involved to maintain these measures. In fact, most proposals recognize that the introduction and implementation of TF would eventually reduce government expenditures through enhanced transaction efficiency and transparency, elimination of duplicative or bureaucratic functions, more economical allocation and more reasonable and efficient use of administrative resources.

Box 1- Public resources saved through the development of border agency cooperation (TN/TF/W/48 by Norway)

Measures taken:

- A customs border cooperation agreement was signed between Norway and Sweden in 1960, involving 18 Norwegian and 21 Swedish customs officers along the border. A similar agreement between Norway and Finland entered into force in 1969.

- An agreement on customs cooperation between the EC and Norway was signed in 1997.

Benefits:
A calculation was made in 1995 of what the consequences would have been if the agreements had not been approved by the EU while at the same time maintaining the same level of service:

- 10 new customs offices would have had to be opened on the Norwegian side of the border.
- 100 new customs officers would have had to be employed.
- NOK 100 million (16 million USD, approximately) in additional costs for the customs authorities for new buildings, salaries etc (50% of these cost would be a one time investment and 50% would be an annual cost).
- NOK 250 million (39 million USD, approximately) additional costs for the economic operators, mainly due to longer waiting time and double stops at the border (annual costs).

2. The proposals generally suggest that the initial costs for implementing most of the TF measures would be rather modest. Since implementation of TF measures will primarily benefit traders – benefits to SMEs are particularly mentioned – some of the initial costs may be transferred to them through charges for the relevant services they receive. This has been done in some countries for advanced ruling and release of express shipments (see TF/TN/W/12 and TF/TN/W/15 submitted by the USA). Some TF measures, such as collateral security for release of goods (see TF/TN/W/19 by Australia and Canada), are in themselves financial services offered by the private sector.

3. Proposals largely recognize that costs of implementation vary substantially across TF measures. Some TF measures may require considerable start-up costs and time. For example, China, in its proposal TF/TN/W/26, suggests that that Internet publication of trade regulations and establishment of enquiry points "require high resource input, especially for some developing countries", with implementation costs closely related to the IT modernization level of individual members. Some other TF measures are thought to require only minimal incremental costs, e.g. Hong Kong, China believes that the simplification/minimization and the periodical review of import/export documentation requirements "does not entail substantial costs" or "give rise to major problems of capacity" (see TF/TN/W/31) - New Zealand, Norway and Switzerland share a similar opinion in their proposal TF/TN/W/36. Finally, a few TF measures are believed to generate pure benefits without entailing any significant implementation costs, e.g. the USA and Uganda proposal to prohibit consular transactions (see TF/TN/W/22), which they consider would 'result in costs saving to traders and administrators alike'.

4. The likelihood that the implementation costs of certain measures would vary according to the individual situation of each member country was also clearly acknowledged. The differences in the existing infrastructure and facility, the IT modernization level, the professional qualifications of customs staff, the degree of development of regulatory system, legal framework and legislative structure, etc. among the member countries may play an influential role in determining the costs. For instance, in its proposal TF/TN/W/9, Canada suggests that the costs for setting up advanced rulings would be minimal for countries with an established related program, whereas new costs for rulings publication, staff recruitment and supplementary training would be necessary for the others.

5. Four types of costs (or cost components) were mentioned in the proposals:

- *Infrastructure/facility costs*: For implementation of some measures, investment in new facilities, equipments and infrastructure was deemed necessary. For example, establishment of Internet publication calls for the development of an IT infrastructure (see TF/TN/W/13 by the USA, TF/TN/W/26 by China, TF/TN/W/40 by Argentina). Setting up express clearance systems and enhancing cooperation among border agencies may also involve costs for newly equipped processing lines and information and communication products, respectively.
- *Human resource costs*: Effective implementation of many TF measures implies the enhancement or amendment of administrative capacity, which typically require recruitment of new staff and/or supplementary training for the existing personnel. HR costs are mentioned in many proposals in relation to a wide variety of TF measures, including advanced rulings, risk management and operation of a 'single-window'.
- *Regulatory/legislative costs:* Some TF measures may require the modification of the existing regulatory practices or adoption of new legislations. These costs greatly hinge on the situation, including legislative structure and procedures, in each individual member countries.
- *Reduced revenue from fees and charges*: EC and Australia (see TF/TN/W/23) acknowledge that TF measures that involve the reduction/minimization of the numbers and diversity of fees/charges may reduce the government revenue accordingly.

6. There are no noticeable discrepancies in the opinions on TF implementation costs and benefits between developed countries and developing countries, including the LDCs.

Box 2 - Costs/benefits assessment of establishment of express clearance system (TN/TF/W/44 by SCTTPKM)

Measures Taken:

- In 1995, 'Regulations Governing Import and Export Customs Clearance Procedures for Express Consignments' were enacted and Customs began providing 24-hour/7-day services.
- In 1998, the Customs set up an ad hoc task force to improve the express clearance system, taking into account results of a review conducted by APEC in 1997. An Express Division was later established.
- In 2000, 'Directions Governing the Simplified Clearance Procedures for Express Consignments' came into force.

Benefits:

- The average clearance time was dramatically reduced, from 48 hours in 1996 to a mere 2 hours today.
- The volume of express entries increased sharply in the period from 2001 to 2003. While regular import/export entries grew by 11.4%, express entries increased by an impressive 58.7%.

- The ratio of express entries to total entries also rose steadily, from 71% in 2001 to more than three quarters in 2003.

Costs:

- 20 new processing lines were established, each equipped with an X-ray scanning machine. Some of the initial infrastructure costs were shared with express shipment providers.
- A total of 117 officers at the Express Division are involved, working day and night shifts so as to provide a 24/7 service. These officers were relocated from other divisions, with no need for major new personnel recruitment overall. Some of the operational costs are also borne express shipment providers.

Overall, most proposals, with the exception of W/44 and W/48 (see box 1 and 2), do not provide detailed assessment of the costs/benefits associated with the TF measures promoted. While deriving quantitative estimates of the implementation costs of specific TFMs may be difficult because of the country-specific nature of the exercise and the complexity in breaking down costs among TFMs, it may be important for negotiators to have a better, even if qualitative, understanding of the costs associated with each of the TF measures they will agree (or not) to include in the revisions of Articles V, VIII and X.

b- An overview of policy studies on the costs and benefits of trade facilitation

Quantification of the economic benefits associated with trade facilitation represents a major challenge due to the lack of reliable and precise data and the complexity of the underlying issues. A recent review of the literature in this area was conducted by OECD (2005). Quantitative studies generally show that reductions in trade transaction costs (resulting from implementation of TFMs at the border) may result in global welfare gains of the same or larger magnitude than those expected from tariff liberalization (e.g., APEC, 2002). These studies also generally show that no, or very few, countries would loose from global trade facilitation and that developing countries have the most to gain from implementation of TFMs, although important variations can be expected across countries, sectors, and types of traders (Francois et al., 2005; OECD, 2003).