

Developing the case for trade facilitation in practice

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Generic Policy Drivers

1. Modernising cross-border operations

- Growing trade volumes
- Finite enforcement resources
- Enabling modern supply chain management and logistics operations (e.g. containerisation)

2. National Competitiveness

- Reduce trade compliance burden and B-G transaction cost
- Trade and customs modernisation

3. World Trade Organisation

- Falling tariff levels
- Negotiations moving on to the non-tariff area
- “plumbing of international trade” -> trade facilitation

4. Supply Chain Security

- Explicit and implicit reference to trade facilitation measures
- Recognising that trade facilitation and collaborative controls with operators are necessary to tighten-up control

5. “Aid for trade” and capacity building

- Trade facilitation as central feature in development aid

See: Grainger, A.(2011)., "Trade Facilitation: A Conceptual Review", *Journal of World Trade*, Vol.45 (1), pp. 39-62.

Definition

- Trade facilitation looks at how procedures and controls governing the movement of goods across national borders can be improved to:
 1. reduce associated cost burdens and
 2. maximise efficiency while
 3. safeguarding legitimate regulatory objectives.
- Key point:
 - Trade facilitation's objective is to maximise public welfare
 - sometimes this comes at the expense of those with vested interests

See: Grainger, A.(2011)., "Trade Facilitation: A Conceptual Review", *Journal of World Trade*, Vol.45 (1), pp. 39-62.

Exporting Country

Transiting Country

Importing Country

Customs:

- export declaration

Domestic Transit

- Additional procedures frequently apply for moving goods from seller's premises to the border

Export Licences (many different line ministries)

- Requirements for these can be prolific, especially in developing countries
- Application, receipt, fees, queue at government office, attach licence to import declaration

Certificate of Origin

- Application, receipt, fees, queue at government office

Sanitary and Phytosanitary

- certain types of goods are subject to sanitary and phytosanitary requirements during transit and in the importing country. The Veterinary Health Certificate, Phytosanitary Certificate, Fumigation Certificate, and similar documents need to be obtained before export

Product specific certificates

- importers in third country are likely to require additional product specific certificates. Examples include : CITES Certificate, Dangerous Goods Declaration, test certificates, quality certificates, product material sheets

Customs:

- unless there is a transit agreement traders will have to make a transit declaration upon entry, arrange for a financial transit security (bond), lodge a transit declaration upon exit and request for the security to be returned
- In some countries inspection on entry and exit can be frequent; others may just check transit seals

Sanitary and Phytosanitary

- certain types of goods may be subject to sanitary and phytosanitary requirements

Transport Procedures

- Vehicle checks (weight, safety), cabotage checks

Immigration Checks

- Truck driver, ship's crews
- Cargo screening for illegal immigrants

Customs

- Import declaration; many countries also require pre-notifications and authorisations

Tariff Quota and Import Licences

- Application, receipt, payment of fees, queue at government office, attach licence to import declaration, keep a record of quota amount used

Commercial Procedures

- arrange contract with seller, agree Incoterms, contract with transport and logistics companies, arrange for payment for goods (e.g. letter of credit), insurance

Sanitary and Phytosanitary

- certain types of goods may be subject to sanitary and phytosanitary requirements and need to be declared to the relevant authorities

Immigration Checks

- Truck driver, ship's crews
- In cargo for illegal immigrants

Domestic Transit

- Additional procedures might apply for goods moving from the border to the importers facilities

Source: Grainger, A (2011) "Trade Facilitation", in Woolcock, S et al. [ed.] *Trade Policy Handbook*, Ashgate: London [forthcoming]

The Trade Facilitation Spectrum

- Top-down driven:
 - often based on international recommendations and perceived best practice
- Bottom-up driven
 - informed by experienced operational problems
- Cheap and quick
 - e.g. coordinating office hours
 - e.g. implementing departmental appeal procedures
- Project focused
 - e.g. developing and implementing bespoke electronic trade infrastructure
- Institutional
 - Customs Unions and the removal of borders
 - Governance arrangements for executives at the border
 - Cooperation with the private sector

Research contributions so far:

- Work by the “Economists”; examples:
 - OECD (2003)
 - Uses a trade database to calculate that each 1% reduction in trade-related transaction costs translates into a world wide economic benefit worth up to USD 43 billion
 - John Wilson et al. (World Bank and APEC)
 - Using gravity models that draws on four TF proxy indices, calculate that if APEC members who perform below average were able to improve their performance to half the APEC average, intra-APEC trade could increase by a staggering USD 254 billion and raise average gross domestic product (GDP) for the APEC region by 4.3%
 - David Hummels
 - suggests in his US centric model that for manufactured goods, each day saved in travel is worth an average of 0.8% of its value.
- Frameworks
 - Doing Business (Trading Across Borders dataset)
 - Global compilation of procedural requirements; analysis based on standardised assumptions (not necessarily reflected in practice)
 - Logistics Performance Index (LPI)
 - Worldwide survey of freight forwarders and express carriers
 - Diagnostic Trade Integration Studies (DTIS)
 - Evaluates a countries internal and external constraints on a country's integration into the world economy
 - WCO Time Release Study
 - Looks at the time taken between the arrival of the goods and their release from customs

Problem Statement

- The case for trade facilitation is somewhat incomplete
- Characterised by:
 - Generic policy drivers
 - High level international recommendations
 - Informed by economic models or frameworks with insufficient operational detail
- A robust case for trade facilitation needs to address:
 - What measures should be implemented; and why!
 - Their order of priority
 - Specific costs and benefits; and for whom!
 - Strategies for overcoming implementation obstacles (project risks)
 - How progress in trade facilitation can be measured
 - How success look like

Measuring trade compliance costs?

- Whose costs and benefits should be measured?
 - Which stakeholders (public or private) will benefit?
 - Who will lose out?
 - Unit of analysis: Company level, Industry level, Supply-chain level, Country level?
- Direct costs:
 - Fixed costs
 - Transaction specific (variable) costs
- Indirect costs:
 - Loss of competitiveness, business and tax-revenue
 - Misallocation of resources
 - ie. resource that could be put to more productive use, such as security)

Visibility Studies (mapping)

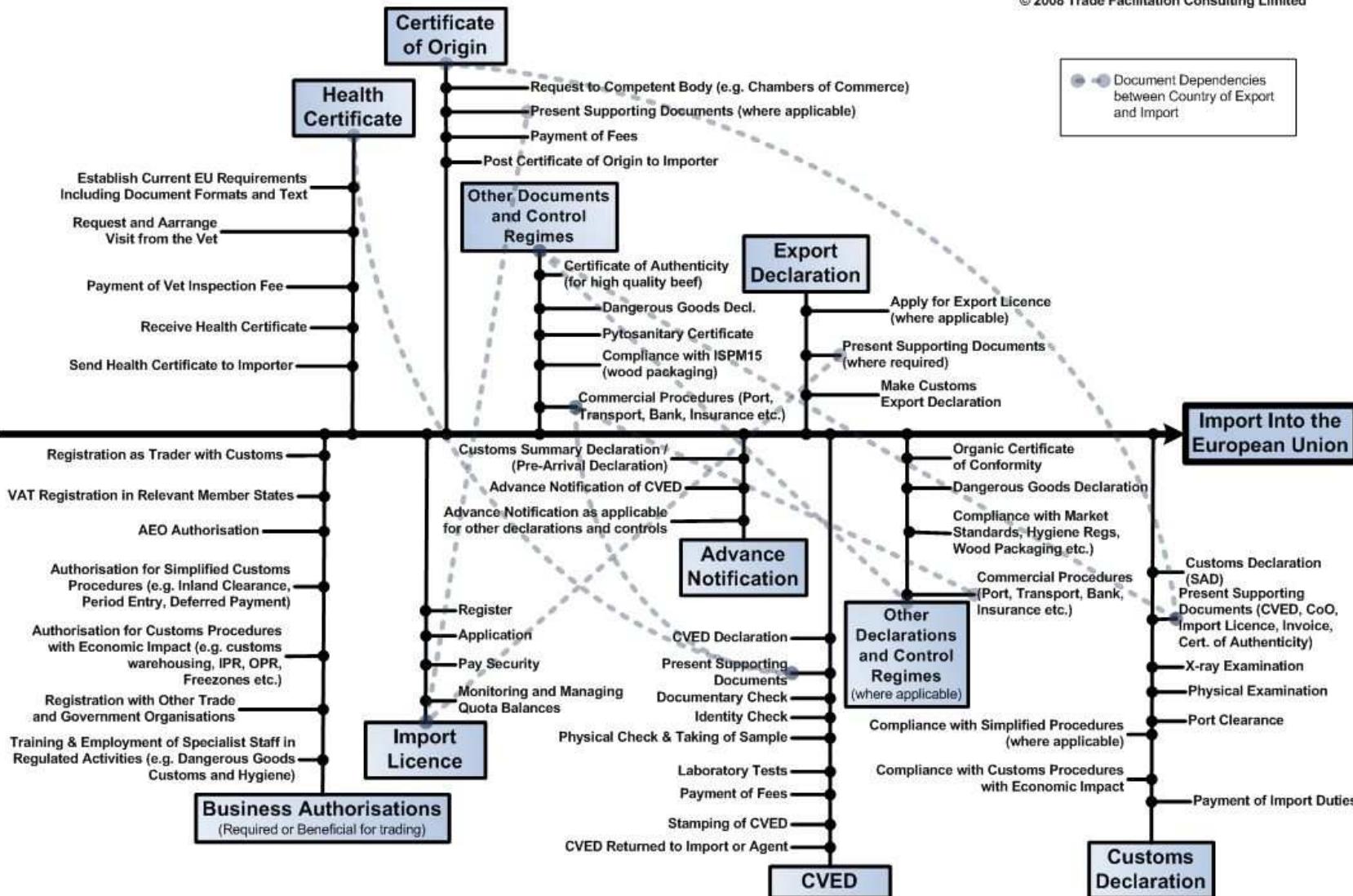
- Who are the stakeholders?
- What are their interests?
- How supportive are they about driving out costs across the supply chain?
- Who is able to pay?
 - Why should they pay?
- How accessible is cost and benefit type data?
- Can support for welfare-maximising reform be coerced?
 - Incentives
 - Sanctions (or threat of sanctions)

Role of coordinating (PRO)bodies

- Facilitate dialogue between stakeholders
- Help untangle complexity
 - Make operational and procedural complexity visible
- Help collate and prioritize reform requirements
 - Reactive to experienced frustrations
 - Grounded in operational practice
 - Pro-active (visionary)
 - May rely on international recommendations
- Help overcome reform obstacles
 - Lack of knowledge
 - Institutional limitations
 - Conflicting interests
- Lend support to the coordination of reform initiatives

Untangling complexity

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See: http://trade.ec.europa.eu/doclib/docs/2009/april/tradoc_142927.pdf

Research Proposal

- Generic model for trade compliance cost assessment and reform demands
 - Objective:
 - Help identify and map all trade compliance cost (fixed and variable) across the supply chain (within and between organisations)
 - Develop a generic trade compliance model for the entire supply chain
 - Gain an understanding of actual and perceived costs
 - Catalogue reform recommendations, grounded in experienced operational practice, that maximise public welfare
 - Plan:
 - Develop industry specific case-studies and industry specific trade compliance cost models
 - Expand scope to country or regional level
 - Develop a global compliance cost model that could be used in the context of WTO trade facilitation negotiations

Discussion

