



**National Foreign Trade Council
Position and Recommendations on Trade Facilitation
May 2004**

The National Foreign Trade Council (NFTC) believes the Doha Development Agenda (DDA) negotiations of the World Trade Organization (WTO) offer *all* WTO Members, but particularly developing country WTO Members, an opportunity to gain measurably from trade and investment through international negotiations to improve trade facilitation. Making the process of trading simpler and smoother pays dividends for all affected.

Trade Facilitation Is More Important to Economic Growth than Ever Before

Inefficient administrative and other border procedures are expensive, both for the authorities who administer the processes and for businesses who trade. Surveys have found that existing border-related costs could total as much as 15 percent of the value of traded goods¹ – exceeding, in many cases, the costs of tariffs -- and that the costs are increasing. Several factors contribute to this high and growing cost:

- The volume of international trade has grown faster than many countries' ability to cope administratively with it;
- The speed of trade has increased with e-commerce and greater use of "just-in-time" supply chain management;
- Globalization has expanded the number of locations contributing components to the production of one end product;
- The growing number of preferential trade agreements with varying rules of origin has, for better or worse, increased the complexity of trade.

For governments, these costs can include insufficient revenue collection, smuggling problems, and inaccurate statistics. Inefficient border procedures can make a country less attractive to foreign investors, as companies decide to forgo trading with or investing in a country that promises procedural delays, lack of predictability in regulations, costly overhead and lost business.

¹ Walkenhorst, Peter and Tadashi Yasui, "Benefits of Trade Facilitation: A Quantitative Assessment," APEC Capacity-Building Workshop on Quantitative Methods for Assessing NTMs and Trade Facilitation (October 2003), Bangkok, Thailand, Table 1, p. 4.

In contrast, studies show that trade facilitation provides measurable and substantial benefits to countries undertaking the efforts (from *both* the export as well as the import perspectives²), as well as to companies trading with or investing in those countries.

- Some researchers have estimated that trade facilitation could result in savings to traders and consumers of 2 to 3 percent of the value of traded goods.³
- Studies more specific to regions have found that non-OECD countries gain almost two-thirds of the total world benefits from trade facilitation because they have less efficient border procedures and therefore greater potential for improvements through trade facilitation, a larger part of their trade is in agro-food products which bear a heavier cost burden from inefficient procedures, and a larger share of their traders and small and medium-sized enterprises with less opportunities for achieving lower costs on their own.⁴

More specifically,

- A 3 percent reduction in landed costs from electronic documentation reduces trade costs by \$60 billion;⁵
- Each day saved in shipping time in part due to faster customs clearance has the same impact as a 0.5 percentage point tariff reduction for importers and exporters;⁶
- A 10 percent increase in the relative number of web hosts in an economy increases trade flows by 1 percent;⁷

² Ibid., p. 3.

³ United National Conference on Trade and Development (UNCTAD), "Fact Sheet 5," United National International Symposium on Trade Efficiency (17-21 October 1994), Geneva, cited in Walkenhorst and Yasui.

⁴ Walkenhorst and Yasui, p. 17. The economists found that non-OECD Asia-Pacific countries reap 24 percent of the total worldwide gains from a 1 percent reduction in trade transaction costs, followed by Latin America and the Caribbean with 13 percent; the Middle East and North Africa with 11 percent, and sub-Saharan Africa and the former Soviet Union, each with 7 percent.

⁵ Australian Department of Foreign Affairs and Trade and Chinese Ministry of Foreign Trade and Economic Cooperation, *Paperless Trading: Benefits to APEC*, Commonwealth of Australia, 2001, cited in John S. Wilson, Catherine L. Mann and Tsunehiro Otsuki, "Trade Facilitation and Capacity Building: A Global Perspective," (no date).

⁶ Hummels, D., "Time as a Trade Barrier," Working Paper, Department of Economics, Purdue University, Indiana, 2001, cited in Wilson, Mann and Otsuki.

- A 10 percent decrease in telecommunications costs increases trade by 8 percent;⁸
- Improvements in port efficiency, customs environment, regulatory environment and e-commerce increase the global flow of trade in manufacturing goods by \$377 billion. Compliance with GATT Article V (freedom of transit), proxied by port efficiency, increases manufacturing trade by \$107 billion; compliance with GATT Article VIII (fees and formalities connected with importing and exporting), proxied by customs environment, increases trade by \$33 billion. Compliance with GATT Article X (publication and administration of trade regulations), proxied by regulatory environment, increases trade by \$83 billion. Finally, improvements in service-sector infrastructures increases trade by \$154 billion (Wilson, Mann and Otsuki, 2003);⁹

In short, fostering trade facilitation is a “win-win” for everyone. It generates the greatest gains to countries that need to make the greatest number of changes. Again, new and strengthened commitments covering how goods cross borders will contribute to stability and certainty are needed for ensuring growth in trade flows, increasing government revenues, attracting investment, and enhancing manufacturing in developing countries in particular. Improved trade facilitation enables greater volumes of trade to be managed with the same level of resources.

NFTC Position

The NFTC, representing American business across all sectors, believes that an agreement on trade facilitation in the Doha Development Agenda round of negotiations will provide major benefits to all WTO Members. More specifically, the NFTC believes that a WTO agreement covering trade facilitation should consider innovative means by which members could achieve mutual benefits from improvements in trade facilitation, as well as modernizing Articles V (Freedom of Transit), VIII (Fees and Formalities Connected with Importation and Exportation) and X (Publication and Administration of Trade Regulations) of

⁷ Freund, Caroline and Diana Weinholt, “On the Effect of the Internet on International Trade,” International Finance Discussion Papers 693, Board of Governors of the Federal Reserve System, 2001, cited in Wilson, Mann and Otsuki.

⁸ Fink, Carsten, Aaditya Mattoo and Cristina Ileana Neagu, “Assessing the Role of Communication Costs in International Trade,” World Bank Working Paper 2929, The World Bank, Washington, DC, 2002, cited in Wilson Mann and Otsuki.

⁹ Wilson, Mann, Otsuki. The economists found that South Asia, East Europe and Central Asia gained the most, with Latin America and the Caribbean close behind.

GATT 1994. We believe that a trade facilitation agreement should encompass the following principles:

- Make the conduct by customs and other government agencies transparent.
- Ensure that nondiscriminatory rules and procedures are in place and are implemented with consistency and predictability.
- Encourage Members to establish border procedures that simplify product entry or exit.
- Encourage the use of modern systems for processing trade.
- Provide for a measurement of progress, such as reduced release times over a period of time.
- Provide for enforcement, based on objective assessments of progress. Enforcement is appropriate where there is systematic failure to honor facilitation obligations, affecting overall trade flows, rather than to address transaction-specific issues. While this principle is difficult for some Members to accept, it is important in helping policy leaders in overcoming resistance to change from vested interests. Enforceable WTO rules could provide the impetus to ensure a domestic political commitment and shield from temptations to excuse some practices from much-needed change.
- Include targeted and tailored trade capacity assistance.

Trade Capacity Building Is an Essential Component of Any New WTO Agreement Encompassing Trade Facilitation

Clearly, increasing the efficiency of border procedures costs governments money. While in some cases marginal procedural changes are all that are needed to reap substantial benefits, in others, successful trade facilitation might require investments in physical infrastructure and human resources that can cost millions of dollars.

This is where trade capacity building can play an important role in promoting trade facilitation. We believe such support is crucial to providing effective technical assistance to developing countries to help modernize their customs regimes and implement highly-beneficial customs reforms that will modernize and make more transparent their customs regimes. Technical assistance should include training in methodologies such as process re-engineering and management of change, which are critical to improving efficiency and enhancing facilitation. Development organizations as well as

country aid organizations have played and can be expected to continue to play a role here. The NFTC strongly endorses the language in the draft Ministerial under consideration in Cancun (the so-called "Derbez text") that recognized the need for trade capacity building and saw a role for the WTO to play in coordinating important efforts here.

American businesses very much supports the process of capacity building and will work energetically together with international organizations and local administrations to help manage the process of change and contribute expertise where required. These contributions can include, for example, assessments of capacity needs, providing expertise in international law, managing border transactions, and supply chain management; assisting in ways to measure improved performance.