

## Trade facilitation: a broadening agenda

*Trade facilitation has become increasingly important as an issue over the past decade. It is a key part of APEC's work, has been under negotiation in the Doha Round, and is a significant element of Australia's bilateral trade relations, particularly where Australia has a free trade agreement or where efforts are being made to broaden the trade relationship. Empirical research suggests that there are significant gains from trade facilitation, both by directly cutting costs or removing impediments to trade, and less directly, by reducing the time taken to comply with export and import procedures.*

Trade facilitation has often been regarded as an issue of second order importance in trade policy. But this position is changing as governments and industry seek to manage more complex supply chains and transactions across national borders with a minimum of regulation and "red tape". Trade facilitation is a key part of APEC's agenda, has been under negotiation in the Doha Round, and is an important and growing part of Australia's bilateral trade relations.

Trade facilitation can be defined in very different ways. Its meaning can range from improvements in customs administration at one end of the spectrum, to action to address a wide range of non-tariff barriers to trade at the other. There are different practices in different forums. In the World Trade Organization (WTO), the trade facilitation agenda has focussed on clarifying and improving General Agreement on Tariffs and Trade (GATT) Article V (Freedom of Transit), XIII (Fees and Formalities connected with Importation and Exportation) and X (Publication and Administration of Trade Regulations). But in the Asia Pacific Economic Cooperation (APEC) process, key facilitation areas are understood much more broadly to include customs procedures, standards, business mobility and the use of e-commerce.

Trade facilitation has been on the agenda of international discussions for many years, including in such forums as the World Customs Organization. It has, however, become increasingly important for a number of reasons. Thus:<sup>1</sup>

- as tariffs have fallen during successive GATT/WTO Rounds, other impediments to trade, including non-tariff barriers and "behind the border" issues, among them those related to trade facilitation, have assumed greater prominence;

- intense competitive pressures have led to more fragmented production processes in the global economy, with different geographical locations used for the manufacture of parts and components which provide input into the final product. As a consequence, processes and procedures which impede the movement of goods and services across borders have become more important to business;
- "just in time" manufacturing has meant that the time taken to deliver products and the reliability of delivery has become increasingly important. Addressing red-tape, transport services and other impediments to speedy, reliable delivery have therefore become increasingly important;
- the development of e-commerce has focussed attention on possibilities for reducing the time and cost of customs and other procedures through paperless trading and the use of electronic platforms; and
- the trade facilitation agenda has gathered momentum in various forums, including in APEC, in the WTO and through the negotiation of "new age" free trade agreements. The security aspects of customs and related procedures have also received increased attention since 11 September 2001. This has placed new demands on policy makers to balance their interest in reducing costs associated with trade with heightened concerns about international terrorism.

### **The economic significance of trade facilitation**

Estimates of the costs which trade facilitation seeks to address vary. Recent work by the OECD suggests that direct trade transaction costs can range from around 1 per cent to 15 per cent of the value of the goods traded when both export and import procedures are taken into account. The OECD notes that the costs of measures vary not only across countries, but also across sectors, and that they also depend on the definition

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<sup>1</sup> Some of these factors are identified in OECD, *Trade Facilitation Reforms in the Service of Development*, TD/TC/WP(2003)11/Final, July 2003.

employed. Agricultural products, food, fish and forest and wood products are generally subject to tighter border procedures. Procedures and paperwork can be particularly costly for smaller firms.<sup>2</sup>

The time taken to comply with export and import procedures is an important impediment to trade, in addition to their direct cost. A widely cited 2001 paper by Hummels found that each extra day spent in transport reduced the probability that the United States would source from a country by 1-1.5 per cent. For the largest categories of manufactured goods, Hummels found that a day saved in shipping time was equivalent to removing a tariff of 0.8 per cent.<sup>3</sup> The broad findings of this work have been confirmed in a 2006 OECD study, which finds that time taken to export “not only affects the volume of trade [but] more importantly also affects the ability of enterprises to enter export markets at all”.<sup>4</sup>

Recent work by the World Bank has sought to quantify the costs of paperwork and procedures associated with moving a standard container across borders for more than 170 economies. It

confirms that there are wide differences in the cost and time associated with export and import procedures. As **Figure 1** shows, the time taken to complete export procedures in East Asia and the Pacific is more than twice the OECD average. It is more than three times the OECD average in South Asia. Differences in the number of days required to prepare documentation are important in explaining the variation in time associated with export and import procedures.

The impact of bringing a wider range of countries closer to best international practice can be considerable, both for the countries themselves and for their trading partners. A study by Wilson, Mann and Otsuki suggests that bringing below average members halfway to the global average for four different trade facilitation indicators would boost international trade by some US\$377 billion.<sup>5</sup> The OECD estimates that world-wide welfare gains from a 1 per cent reduction in trade transaction costs would be around US\$40 billion, with all regions gaining. Another study by Francois and others found gains of around US\$70 billion from a 1.5 per cent reduction in transaction costs for merchandise trade.<sup>6</sup>

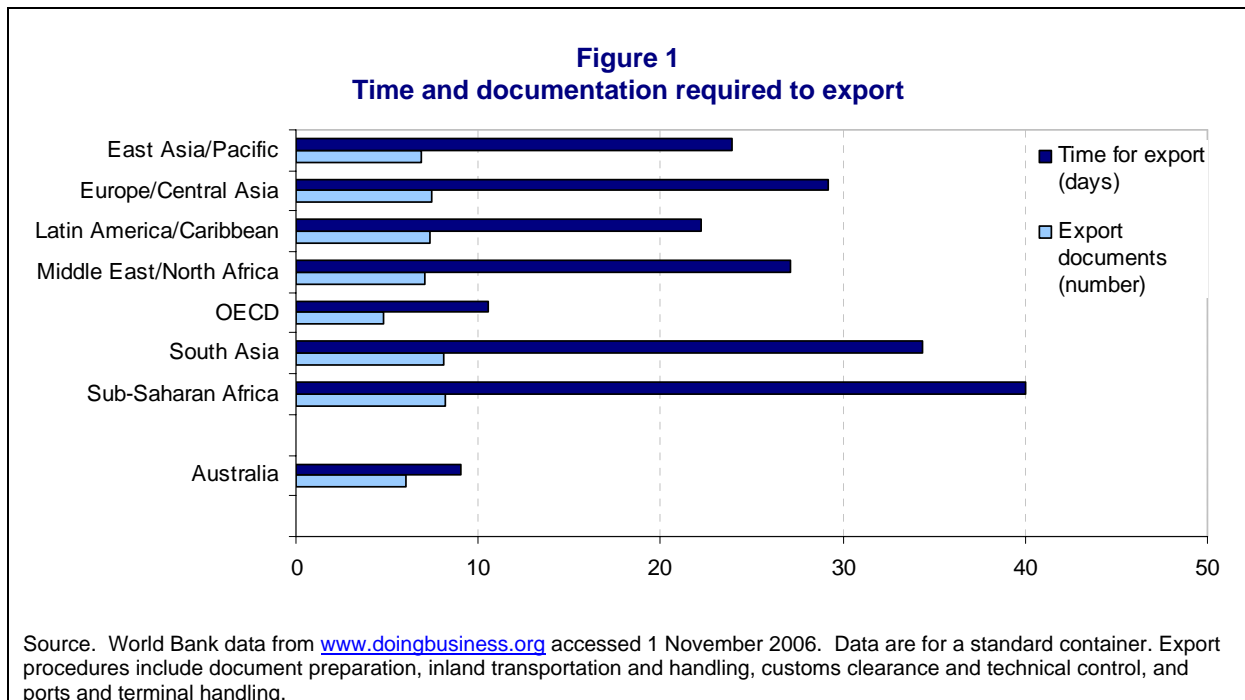
<sup>2</sup> See OECD, *Quantitative Assessment of the Benefits of Trade Facilitation*, TD/TC/WP(2003)31/Final, November 2003, pp.4, 6-7.

<sup>3</sup> D. Hummels, “Time as a Trade Barrier”, July 2001, at [www.mgmt.purdue.edu/faculty/hummelsd](http://www.mgmt.purdue.edu/faculty/hummelsd). An earlier draft of this paper found a tariff equivalent of 0.5 per cent and this estimate is sometimes quoted.

<sup>4</sup> See H. Nordas, E. Pinali and M. Grosso, *Logistics and Time as a Trade Barrier*, OECD Trade Policy Working Paper No. 35, May 2006. The quote is from p.43.

<sup>5</sup> J. Wilson, C. Mann and T. Otsuki, “Assessing the Benefits of Trade Facilitation: a Global Perspective”, *The World Economy*, Vol 28. Issue 6, June, 2005, pp.841-871.

<sup>6</sup> See OECD, *Quantitative Assessment of the Benefits of Trade Facilitation*; OECD, *The Economic Impact of Trade Facilitation*, OECD Trade Policy Working Paper No. 21, October 2005, p.9.



Australia has a strong interest in trade facilitation. Measures which facilitate imports in other countries are likely to have a positive impact on Australia's exports to them. Measures which reduce the time and cost of exporting in other countries are likely to lower the cost of imports for Australia. Australia also has a broader interest in trade facilitation where this contributes to development, particularly in our own region. Australia's interest has been reflected in its work in a number of different forums, including APEC, the WTO and other trade negotiations.

### **Trade facilitation in APEC**

Trade facilitation has long been an important area of APEC's work. The development of this issue was foreshadowed in the original APEC meeting in Canberra, but became a priority issue for APEC from the Seattle meetings in 1993. The initial focus was on customs harmonisation, standards harmonisation and mutual recognition of conformity assessment. However, the facilitation agenda was subsequently broadened to cover a much wider range of administrative, regulatory and other impediments to trade and investment.

#### **Box 1 Cooperating with the business community on customs issues**

One way APEC is working to achieve its goal of free and open trade in the Asia Pacific is through the harmonisation and simplification of customs procedures. Underpinning APEC's work has been the strong partnership between the APEC business community and customs administrations. The Conference of Asia Pacific Express Carriers (CAPEC), which represents the integrated express industry in the region and whose members include DHL International, TNT International Express and United Parcel Services (UPS), is one group working closely with customs officials to develop an efficient and modern customs system in the region. CAPEC has, for example, supported APEC with the implementation of electronic risk management systems that allow for low risk consignments to be cleared quickly. In another initiative, FedEx has assisted APEC in building a customs tariff database through which tariff information is published on the Internet, making the information more accessible and valuable to business.

Facilitation has remained a priority for APEC. In June 2001, APEC Ministers Responsible for Trade endorsed a number of key principles on trade facilitation. In the same year, APEC Economic Leaders agreed, in the Shanghai Accord, to the objective of cutting transaction costs by 5 per cent across the APEC region over the next five years. In 2002, Leaders endorsed an APEC Trade Facilitation Action Plan, which sought to provide a framework for actions by member economies to achieve reductions in transaction costs through measures in the four core facilitation areas of customs procedures, standards and conformance, business mobility and e-commerce.

The broad conclusion of APEC officials, in reviewing achievements under the Trade Facilitation Action Plan in 2006, was that it had been "an effective vehicle for implementing the call by APEC Leaders for a 5 per cent reduction in transactions costs over the region in five years." They noted that APEC economies had selected over 1,400 actions and measures for implementation under the Plan, with 62 per cent of them completed. Officials noted, however, that there was "significant room for improvement" in efforts to involve the private sector in trade facilitation. In welcoming the report by officials, Ministers concluded that APEC had met the target of achieving a 5 per cent cut in trade transaction costs.

#### **Box 2 The APEC Single Window initiative**

Single windows allow firms to lodge at one point standardised information covering all of the data required by government agencies for import, export and transit-related regulatory purposes. They can bring substantial benefits, in the form of reduced costs and "red tape", faster clearance of goods through customs, and more uniform application of regulations. Some economies in the APEC region are already trialling single windows, but their application varies.

The APEC Single Window initiative, endorsed by APEC Economic Leaders in 2006, is intended to share information on single windows, and develop a strategic action plan for implementing single windows in APEC. A special working group has been established in APEC to carry forward the initiative, with Australia as Chair.

The trade facilitation agenda is likely to remain an important component of APEC's work in the medium term. APEC Leaders in 2005 endorsed the Busan Roadmap, which called, among other things, for a further cut in transaction costs of 5 per cent by 2010. A further detailed action plan is to be prepared for consideration by Ministers Responsible for Trade in mid-2007. The Ha Noi Action Plan endorsed by Economic Leaders in 2006 also included a new initiative which will further simplify customs procedures by developing a common approach to single windows for the use of international traders, transport operators and government agencies (see **Box 2**).

### Trade facilitation in the WTO

Trade facilitation was placed on the WTO agenda for exploratory work as one of the four so-called Singapore issues in 1996.<sup>7</sup> It was, however, much less controversial than the other Singapore issues. WTO members agreed on 1 August 2004 to launch negotiations on trade facilitation under a mandate agreed in the so-called "July package".

Under the mandate set by the WTO General Council, negotiations were to clarify and improve aspects of GATT Articles V, VIII and X, "with a view to further expediting the movement, release and clearance of goods, including goods in transit". A Negotiating Group on Trade Facilitation was formed in October 2004 to carry forward the negotiations.

The Group has made good progress. Members have been well engaged and have commenced discussion of text-based proposals, including special and differential treatment for developing and least developed countries. The range of issues being discussed under GATT Articles V, VIII and X has been broad, although the focus on customs issues means that the concept of trade facilitation under discussion is much less extensive than the one used in APEC. To date, discussions have progressed largely without the pre-condition of outcomes in other negotiating groups.

Australia has viewed the negotiations on trade facilitation as a useful addition to the WTO's work. Our approach to the negotiations has been to support proposals which are likely to result in workable commitments that would have practical value for industry. Australia has sought to avoid overly prescriptive commitments that would place onerous demands on customs administrations.

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<sup>7</sup> A number of WTO agreements already deal with trade facilitation, including, as noted, several GATT Articles, as well as agreements on, for example, Customs Valuation and on Pre-shipment Inspection.

### Box 3

#### Trade facilitation in ANZCERTA

Since it came into effect in 1983, ANZCERTA and agreements which complement it have become vehicles for broader and deeper integration between Australia and New Zealand. Trade facilitation has been an important part of the developing process of integration. For example:

*Customs Harmonisation:* the customs authorities of the two countries agreed, under the Customs Cooperation Arrangement of 1996, to work to harmonise customs policies and procedures and to cooperate on enforcement. This was further affirmed by the signing of an updated Arrangement in November 2006.

*Mutual Recognition of Standards and Qualifications:* under the Trans-Tasman Mutual Recognition Agreement, which commenced operation in 1998, goods which can be legally sold in Australia can be (with some exceptions) legally sold in New Zealand and vice versa. In addition, persons registered to practice an occupation in Australia can (with some exceptions) practise in New Zealand and vice versa.

*Movement of Labour/Business Mobility:* under "the Trans-Tasman Travel Arrangement", citizens and permanent residents of Australia may (with the exception of those with certain criminal convictions) visit, live and work in New Zealand and vice versa.

*Quarantine Harmonisation:* Australia and New Zealand have agreed, among other things, to employ relevant international codes and standards, and to work towards harmonisation of quarantine administrative procedures.

The trans-Tasman work program is now focusing on "third generation" trade facilitation measures, including work towards a Single Economic Market with a commitment to enhance trans-Tasman business integration and reduce transaction costs for business by harmonising regulatory frameworks. Examples are the establishment of a Joint Trans-Tasman Council on Banking Supervision and a trans-Tasman Accounting Standards Advisory Group and closer cooperation between competition authorities in both countries.

## Trade facilitation and bilateral and regional relations

Australia's bilateral and regional relations with other economies frequently include a trade facilitation component. However, the nature of this varies considerably under several different types of trade relationship.

*a.) countries with which Australia has a free trade agreement.* Agreements here typically seek to address a wide range of non-tariff measures, including in relation to customs cooperation, e-commerce, standards, technical regulations and conformity assessment. The Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) has gone the furthest down this path (see Box 3), but other agreements with Singapore, the United States and Thailand also provide for a broad facilitation agenda. For example, the Australia-US Free Trade Agreement (AUSFTA) contains separate chapters on customs administration, standards and technical regulations and electronic commerce, which provide for the development of cooperation in each of these areas.

*b.) countries or regions where broadening the trade relationship is a high priority, but where a free trade agreement has not yet been concluded.* In the cases of Japan and China, for example, Trade and Economic Frameworks have been a useful means of building cooperation as a precursor to a full free trade agreement. The Trade and Economic Framework Agreement signed with Japan in July 2003 specifically provided for a broad programme of work on trade facilitation issues such as e-commerce, customs cooperation and paperless trading. Issues relevant to trade facilitation – such as customs procedures and standards, technical regulations

and conformity assessment procedures – are also being addressed in the free trade agreement negotiations currently underway, such as the bilateral negotiations with China and Malaysia, and the regional free trade agreement negotiations with ASEAN countries and New Zealand.

*c.) other countries or regions where Australia has no free trade agreement.* Here trade facilitation activities are typically not as wide ranging as in the two cases above, but can nonetheless be quite significant. In the case of the European Union, for example, a 1997 joint declaration committed Australia and the EU to working to strengthen bilateral dialogue on issues such as trade facilitation, customs cooperation and standards. A Mutual Recognition Agreement on Conformity Assessment, Certificates and Markings with the EU entered into force in 1999.

## Conclusions

Trade facilitation issues are not, in general, as sensitive as trade liberalisation. Particularly where they aim to cut unnecessary red tape and regulation, they are likely to be viewed positively by industry. They are also likely to generate readily acknowledged and understood gains for all economies that participate. Work on trade facilitation normally does not generate as much public interest as reduction or elimination of tariffs and barriers to services trade. Even so, it is a very significant objective of trade policy which has assumed greater importance over the past 15 years, particularly in APEC and in our relations with some of our key trading partners. The priority that the Australian Government has accorded to trade facilitation in these forums has already generated important gains. It is likely to yield further significant benefits over the coming years.

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