

Trade Facilitation in the DDA

For Cefic and the global chemical industry regrouped in the International Council of Chemical Associations (ICCA), trade facilitation (TF) is one of its main priorities in the Doha Round, intrinsically linked to the issue of market access. While there is wide agreement on the problem of trade inefficiencies and the potential benefits of trade facilitation, there is still disagreement, whether there should be a TF agreement within the WTO framework. There is also concern about the possible difficulties for developing countries to implement such an agreement due to their constraints on financial and human resources. While recognising these important concerns, Cefic believes that it is important to have a WTO TF agreement. A WTO TF agreement is not only supported by the European Chemical industry (Cefic), but also by the European employers, represented by UNICE, and by the International Council of Chemical Associations (ICCA). In Europe, business' position on TF is represented by the European Business TF Network which regroups all the major organisations active in this area.

This presentation will cover three main issues. Firstly, I will outline the difficulties business encounters when trading internationally, making action in this field imperative. Secondly, the presentation will discuss why a TF agreement should be placed within the WTO framework. I will stress that achievements regarding TF have been insufficient in other fora, that a WTO TF agreement would be beneficial for all, and I will discuss what such an agreement could look like. Lastly, I will address some of the concerns that are raised with regard to a WTO TF agreement, paying attention especially to those concerns raised by developing countries.

1. Why Trade Facilitation is important: current problems

When trading internationally, business is frequently faced with unclear, duplicative and cumbersome border procedures. UNCTAD estimates that for one border transaction, 20-30 parties may handle 40 documents, rekeying 60-70% of all data at least once. This leads to long delays at borders and significant administrative costs. Amongst other things, these border inefficiencies are the result of a lack of coordination between customs and other inspection agencies, the non-harmonisation of data requirements in different countries, and the lack of automation and transparency.

As a result, significant **costs** are imposed on business (for the administrative handling of the customs procedure and the higher transport costs due to delays). In some cases, the cost of complying with customs procedures may exceed the cost of the duty paid. Today, trade transaction costs are estimated to account for **between 7-10% of total value of world trade**.

Border inefficiencies have become an increasingly significant obstacle to international trade, as world trade increased (proliferation of internationally integrated supply chains) and other obstacles to trade decreased (tariffs). These trade inefficiencies (costs for red

tape at the border and the unpredictable delays/procedures) now pose a significant **non-tariff barrier** to trade (especially for SMEs).

As an internationally-oriented sector, the chemical industry is very supportive of TF. Chemicals are produced through a sequence of manufacturing processes in different countries. As upstream and downstream production sites are located throughout the world and depend closely on each other, the chemical industry relies on reliable, timely and economic-viable international deliveries. In order to optimise international trade, the chemical industry relies on simple, harmonised and modern customs procedures.

But such border inefficiencies do not only have negative impacts for business (and consumers who pay for the additional cost) but also for public authorities/countries. Border delays and expenses may significantly decrease a countries' international competitiveness, with regard to attracting investment and trade and the associated economic development opportunities. Thus, trade inefficiencies now represent an important **development barrier**.

Therefore, it is the aim of TF to decrease the transaction costs of trade, increase its reliability and thereby increase world trade flows. To achieve this aim, we need transparency of customs procedures, legal predictability, and simplification of border procedures to decrease delays at borders and the associated costs and thereby increase reliance of just-in-time deliveries. Officially, TF is defined as the simplification and harmonisation of international trade procedures including all activities, practices and formalities relating to the collection, presentation, communication and processing of data required for the movement of goods in international trade (ex. import & export procedures, transport formalities, payments of customs debts).

Annual gains of TF are estimated to be several hundred (300) billion € (by reducing transaction costs and increasing trade flows). TF is essential to fully realise the benefits of trade liberalisation.

2. Why a WTO Agreement?

Why should TF be dealt with by the WTO rather than by other international bodies or national measures? To date, there are numerous bilateral and plurilateral agreements setting rules for TF. Work on TF has been mainly done by various UN bodies (UNCTAD, UN ECE), the WCO and in bilateral agreements. However, despite this activity, the progress in this field has been limited which shows that these provisions are insufficient. Problematically, the existing standards miss mandatory character because they are largely in the form of best endeavours, guidelines, or declarations of intent. Thus, those agreements have not led to the necessary reforms to really improve custom procedures. In addition, there are currently too many entities involved, with overlapping activities and a lack of clear coordination. Good policies and standards should of course not be lost but may be integrated within WTO rules. The WTO should act as platform for cooperation among all international entities dealing with different aspects of TF.

But why would a TF agreement in the WTO be more successful? Firstly, the WTO has universal membership and therefore the ability to create truly international rules and procedures. Secondly, the WTO provides for an enforcement mechanism which ensures the effectiveness of such an agreement. Thirdly, the WTO can mobilise political support for national changes and thus lock-in the domestic reform process.

2.a) Elements to be included in a TF agreement

Firstly, a TF agreement should transpose the relevant GATT principles, notably 'transparency' (publish all requirements), 'non-discrimination' (same treatment for goods from different origin), and 'least trade restrictive practices' (rules/requirements proportionate to the aims pursued). A TF agreement should also simplify border procedures by introducing standardised information and data requirements (and one set of data requirements for imports and exports) and introducing the status of 'authorised trader'. The status of authorised trader should allow those trader who follows the rules of international trade to trade in fast track. Of course, if spot checks show that the rules are not strictly obeyed by an authorised trader, that authorisation should be revoked. Simplification should also be achieved through automation and the use of information technology. The creation of a 'single window' (or 'one-stop shop') dealing with all customs issues will further help to simplify and speed-up border control. A single window will concentrate all official border controls in the hands of one government agency, besides customs, to administer imports and exports (In some countries 80% of the delays that now occur are due to official agencies, other than customs.).

A TF agreement should also include special provision for developing countries. Firstly, to enhance the ability of developing countries to implement the rules created, capacity-building and technical assistance should be an integral part of a TF agreement. In addition, there should be a provision which allows less developed countries sufficient time to progressively implement WTO commitments.

2.b) Benefits of multilateral agreement on Trade Facilitation

A TF agreement will benefit manufacturers, traders, consumers and governments alike. A more transparent and predictable and less cumbersome customs framework will reduce the cost of trade transactions (COM estimate!) and reduce the time of border transactions. This will stimulate further growth in trade and enhance the investment climate. An international set of standards will also allow companies to reap economies of scale. This will make it easier, especially for SMEs, to trade internationally. Analysts point out that the reason why many SME are not active players in international trade has more to do with red tape than tariff barriers. The administrative barriers for enterprises who do not regularly ship large quantities are often simply too high to make foreign markets attractive.

Improved border controls will also improve border security. Increased efficiency and coordination will allow a more cost-effective control, i.e. a more focused interception of

illicit trade. Governments should also improve their revenue collection because more transparent border controls reduce the opportunity for corruption.

A TF agreement creates a win-win situation with benefits for ALL!

3. Concerns about a WTO TF agreement

After having established that there is a strong need for an international agreement on TF and that such an agreement should be set within the WTO framework, I would like to address some of the concerns raised, especially by developing countries, with regard to a WTO TF agreement.

It is argued that less developed countries may have difficulties to adhere to standards and procedures set in such an agreement because of their lack of financial resources and human capacity. There is a fear that an agreement would add new burdens to less developed countries when they already have difficulties in implementing current obligations. It is also sometimes argued that the existing resources should rather be invested in other areas such as health and education.

In responding to these concerns, let me firstly stress that the business community and the WTO members recognise that an agreement needs to be sufficiently flexible to take into account countries' different levels of development and economic strength. The agreement should account for particular trade profiles and needs, ensuring that all members, in time, can adopt the rules. The rules must offer developing countries the economic benefits of TF without requiring them immediately to achieve the same degree of TF as developed economies.

There may be two methods to achieve this aim. The agreement could provide for a degree of commitment depending on the level of development of each respective country. This is also referred to as the '**ladder concept**'. Different levels of facilitation need to be defined, with the highest 'rung' representing the most complex level of facilitation. Under the agreement, all countries would have to meet at least the conditions of 'rung' one. More developed countries, however, would commit to complying with the rules set out in a higher rung. Through technical assistance and capacity building, countries are encouraged to move progressively up the facilitation ladder. Such assistance can take the form of workshops, seminars, or capital expenditure.

This is an example of how an agreement could accommodate the concerns of developing countries. Furthermore, it should be noted that not all TF is resource-heavy. The implementation of the GATT principles (non-discrimination, transparency, and least-trade restrictive) is resource-light, for example. Other commitments, such as the single window and automation are of course resource-heavy. In this context, the great benefits of TF for developing countries should also not be forgotten. In relative terms smaller developing countries and businesses, and landlocked countries that face high cross-border costs, are likely to benefit most from international regulation. Developing countries also need to recognise that their integration into world trade depends on simpler customs procedures, with or without aid, with or without WTO rules. By not engaging in TF,

developing countries simply risk being bypassed by international flows of trade and investment.

One other main concern about TF is a fear that it could compromise national security by facilitating illicit trade. Combining trade facilitation and effective border controls is clearly the key challenge. However, we believe that trade facilitation is actually a means to improving national border controls. By means of a more focused approach to border controls, actual control will be increased. The creation of one set of rules internationally will also increase the reliability of the information provided.

Conclusion

In conclusion, I would like to reiterate the importance of TF for trade liberalisation, economic growth and development. Cefic therefore supports the negotiation and adoption of a WTO agreement on TF. While Cefic recognises the enormity of this task, we believe that the benefits for all outweigh the costs. Less developed countries will benefit from such an agreement in particular by fostering trade and investment. In order to help less developed countries to implement these new rules, technical assistance programmes tailored to meet the needs of each individual country should be developed.