

The year 2010 is approaching and the Lisbon strategy will have to be replaced by a new strategy. The Foreign Ministry has asked the National Board of Trade to discuss ideas for external commercial policies to support the reforms carried out domestically to increase growth. This can be called an “external dimension” of a new strategy. For this purpose we have written eight reports, covering a range of areas, and a summary. You can find it all at www.kommers.se/trade&growth

European companies exporting and importing to and from third countries face obstacles that firms which are only active on the internal market do not encounter. These companies have much to gain if they can rely on efficient, uniform and inexpensive border controls based on electronic communication.

Several studies show that reforms of a country’s own border procedures provide great economic benefits. Various reforms are under way in the EU, but we argue that more can be done and the pace should be quickened. The National Board of Trade therefore has a number of recommendations.

It should be possible for European business to make customs declarations electronically, at one time, to the customs administration of the company’s choice, independent of where the goods are entering or leaving the European Union or what member state the company is based in,

The planning for a European Single Window should start immediately with a view to implementation at the earliest possible moment

The advantages of the Authorised Economic Operator-programme (AEO) should be enhanced. Furthermore, the AEO should be better marketed, taking into account cultural differences when doing a concerted effort to promote the AEO-programme in countries lagging behind.

The European Commission takes initiatives leading to member states assuming a larger responsibility for financing the IT infrastructure for customs lined out in the MASP,

The European Commission issues the technical specifications of the necessary IT infrastructure systems in order to streamline and expedite procedures,

,The European Union continues to support the WCO Columbus programme and that measures are taken to better coordinate Aid for Trade efforts with the activities of the WCO in order to avoid overlap both in activities and information gathering.

Background

Trade facilitation can be defined as measures aiming at *reducing the complexity and cost* of the trade transaction process and ensuring that all these activities take place in an *efficient, transparent and predictable* manner. In this paper only trade facilitation related to customs procedures will be discussed. Other areas, like financial systems, The Single European Payment Area or legislation against money laundering, to mention a few, will not be treated in this context.

European companies have much to gain in ability to compete on today's global markets if they can rely on efficient, uniform and inexpensive border controls based on electronic communication.

The European Union is in the process of updating its customs framework with the Modernised Customs Code and the activities described in the Multi-Annual Strategic Plan (MASP) as basic step stones. They include e-solutions for customs procedures such as an Automated Import System (AIS), a computerised Transit system and an Automated Export System (AES), as well as a Security Programme and a Single Window. The efforts outlined in the MASP are of great value and are surely leading in the right direction, but it can be argued that the resources devoted to this important enterprise are limited and that the changes are too slow to have any positive impact in the near future.

The potential gains from trade facilitation have been analysed in the context of the Doha Development Round of the WTO. In a report from the Centre d'études prospectives et d'informations internationales (CEPII), published in May 2006, Yvan Decreux and Lionel Fontagné¹ describe simulations of the outcome of the WTO negotiations in a Computable General Equilibrium model (CGE). They find that applying a successful trade facilitation programme to all goods to and from developing economies more than doubles the economic gains from other potential outcomes of the WTO negotiations.

A study published by the National Board of Trade in Sweden in September 2006² points to the same results concerning the Doha Round. The Board simulates two parts of trade facilitation – reducing indirect as well as direct costs of border procedures. Even if trade facilitation mainly benefits developing countries, the Board also shows that trade facilitation brings no less than 29 percent of the *industrial countries* overall national income gains in the core scenario of the simulation. Most gains are effects of an individual country's own reduction of cumbersome procedures. This makes a strong case for the EU to look into the Union's and

¹ Decreux, F. and Fontagné, L., *A Quantitative Assessment of the Outcome of the Doha Development Agenda*, CEPII, Paris, May 2006.

² National Board of Trade, *Economic Implications of the Doha Round*, Stockholm, Sept. 2006.

the Member States' procedures and see what facilitation measures can be achieved.

Even if general equilibrium models have their limitations, the studies point in the same direction. The OECD has in a working paper from 2007 reached similar conclusions studying trade effects of customs procedures.³ The OECD studies the effects of the numbers of documents, signatures and days at the border necessary for a trade transaction, stating that these indicators give a measure of how "thick" a border can be said to be. The OECD points at a correlation between the number of days at the border and the numbers of signatures and documents. Using a gravity model the OECD study shows that a reduction of signatures of documents significantly reduces the numbers of days at the border and leads to an increase in trade.

The EU Customs Security Programme

The EU Customs Security Programme (CSP) is one important component of the Multi-Annual Strategic Plan. In the CSP the Authorised Economic Operator Programme (AEO) and the rules of pre arrival/pre departure declarations are important parts. The legal framework for these measures is given by Regulation 648/2005.⁴ Whereas the overall programme aims at introducing common security measures the AEO outlines a partnership between trade and customs. AEO has two certificates, one for customs rules and one for safety and security. Even though customs officials are keen to point out that the European AEO is unique in the way it encompasses safety measures, the main scope of the security and safety certificate is to protect against terrorism. Customs certifies companies that agree to work according to certain security principles and that can demonstrate a good track record. Certified companies will get advantages in lower inspection rates and less extensive demands on cargo information.

The AEO programme started in January 2008 and even though it is still early to draw any conclusions, the tendencies that can be observed are well worth noting. The vast majority of companies applying for AEO-status come from northern Europe. Companies in the Netherlands and in Sweden are used to this sort of partnership programmes. Companies in countries like the United Kingdom and Germany have also been very active. In other parts of the Union the companies seem to be more hesitant.

It is of crucial importance, if this programme is to succeed, that the benefits for companies in becoming AEO are clear and significant. Business

³ Wilson, N., OECD, Working party of the Trade Committee, *Examining the Trade Effect of Certain Customs and Administrative Procedures*, OECD Trade Policy Working paper No. 42, Paris, Jan. 2007.

⁴ Regulation (EC) No 648/2005 of the European Parliament and of the Council of 13 April 2005 amending Council Regulation (EEC) No 2913/92 establishing the Community Customs Code, OJ L 117 of 04/05/05

organisations in Europe have pointed out that the current regulation does not give enough benefits.

The success of the AEO programme is important in many aspects. Firstly it is a guarantee that the supply chain can recover quickly should an incident occur. An incident could be a terrorist threat, detection of a weapon of mass-destruction in the supply chain or a terrorist attack. The certified companies known to customs can rapidly be allowed to move through customs in such circumstances and hence, supply lines can be less disturbed. Also, it is an efficiency issue for customs. Customs administrations have much to gain from an effective risk assessment that allows them to concentrate resources on unknown or high-risk factor goods.

More importantly for trade, there are large trade facilitation gains to be had from the AEO programme. If AEO companies will be allowed considerable less inspections and far reaching reduction in information to be given for security purposes, it will allow the supply chain to run much more smoothly and reduce time for delivery of goods. However, the slow start of the AEO programme in some countries is a worrying tendency. The relatively small advantages in the AEO certification for companies at this stage make it a rational decision for companies to wait and see.

Another possible reason could be cultural differences. In countries where the role of customs traditionally has been control based on rules and formal contacts with companies the new approach of partnership can be difficult to accept and to promote, for both authorities and industry. In some countries in Northern Europe, customs authorities and trade have built institutions for exchange of information which have fostered trust between the parties. This has brought about a positive change in attitude in a relatively short time. Aspects of trust contra deregulation are discussed by Algan and Cahuc in *La Société de Défiance*.⁵ They note for instance that there is a negative correlation between mutual trust between citizens in a society and the number of administrative hurdles to overcome in order to start a company. The less trust the more hurdles. A number of the countries with a slow start of the AEO programme can be found in the category “low trust/many administrative measures”, for instance France, Spain, Portugal and Poland.

There is a risk of fragmentation of the European market should the AEO system work better in some parts than in other. The US has a comprehensive certification programme in Customs-Trade Partnership Against Terrorism (C-TPAT) in which more than 7000 companies participate. Important parts of European industry risk being excluded from the trade facilitation advantages in the AEO programme if they are not motivated to participate and will have a competitive disadvantage compared to their US counterparts.

⁵ Algan, Y., Cahuc, P., *La société de défiance. Comment le modèle social français s'autodétruit*, Paris, 2007, pp 61-70.

The National Board of Trade suggests that the advantages of the AEO-programme are enhanced and better marketed. The Board also suggests that the European Commission takes cultural differences into account doing a concerted effort to promote the AEO-programme in countries lagging behind.

The US certification programme Customs-Partnership Against Terrorism (C-TPAT), that started in 2001, and the EU:s development of the AEO-programme have been important reasons for the World Customs Organization to develop the Framework of Standards to Secure and Facilitate Global Trade, SAFE.⁶ The SAFE gives standards for AEO-programmes and the information that can be asked from companies for security reasons. 149 countries have in December 2007 signed letters of intent to implement the SAFE Framework, according to the WCO. The Framework is supplemented by the Columbus programme, giving support for developing countries wanting to implement SAFE.

With the proliferation of AEO programmes mutual recognition agreements of AEO programmes and companies in major trade partners are a vital necessity for many businesses. It will be a competitive advantage for European companies if the European AEO certification is recognised in important markets such as the USA, China, Canada and so on. Mutual recognition should be highly prioritised.

Pre-manifest rules and information processing

In order to make a correct risk analysis, which is among other things the basis for certification of companies the customs authorities need to gather information on the movements in the supply chain. The EU rules on pre arrival/pre departure declaration bound to come into force on 1 July 2009 are intended to achieve this goal. However, giving information on all export and import shipments also puts an increased burden of information filing on the European companies and on all companies doing business with the EU. It is crucial, therefore, that the information can be gathered in an as effective manner as possible and that the customs authorities can make good use of every item. At this time, however, it seems that the electronic systems to collect and process this data are lagging behind. If this leads to a situation where data is collected but not treated for risk assessment purposes the confidence for the MASP effort can be damaged. The possibilities to manually treat the information for risk assessment purposes will be very limited and varying between the member states.

Even though the EU:s Electronic Customs Decision and the Multi-Annual Strategic Plan implementing it are ambitious and well grounded documents there are evident risks that the planning lined out will not be achieved or will be watered down by compromise between various na-

⁶ World Customs Organization, *Framework of Standards to Secure and Facilitate Global Trade, SAFE*, Brussels, June 2005.

tional customs authorities answering for the practical implementation. According to sources in Swedish Customs, there will be no Pan-European system ready by the 1 July 2009. Companies based in one member state will not be able to file their documentation electronically with another member state's customs authority when shipping out through that country, unless they have representatives based in the country in question. Documentation will only be forwarded between different customs authorities if they have an agreement to do so and if there are technical possibilities to do so. It can also not be confirmed that there will be an automated common customs risk management system to process information gathered. For example, Greece is now giving the 31 December 2009 as the date when their treatment of pre-manifest information can start.

IT infrastructure

It is of vital importance to European businesses that, in their dealings with European customs, the Union should function as a customs area also in an administrative perspective. **It should be possible to make Customs declarations electronically, at one time, to the customs administration of the company's choice, independent of where the goods are arriving or leaving the European Union or what member state the company is based in.** European business should also be able to rely on that the same rules and standards will apply to the customs treatment of its goods, wherever the related customs operation takes place. The IT infrastructure should be standardised and of low cost, and should also allow for information to be used several times. For instance, it would be efficient if information given in pre departure manifests could serve as pre arrival information in the receiving country.

The National Board of Trade would like to stress that it is the responsibility of the member states to assume a larger responsibility for financing the IT infrastructure projects for customs authorities that are required. The Board also stresses the importance of a centralised and standardised way of addressing the infrastructure issues and encourages the European Commission to issue the technical specifications of the necessary systems.

Single window

At border controls, European businesses face more regulations and authorities than are involved in customs procedures. Phytosanitary controls and tax controls are two examples. In order to facilitate for trade a Single Window-approach would be beneficiary. The UN/CEFACT defines the Single Window as a "facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfil all import, export and transit-related regulatory requirements. If information is electronic, then individual data elements

should only be submitted once.”⁷ See figure 1. The MASP describes a Single Window that should be implemented after 2012.

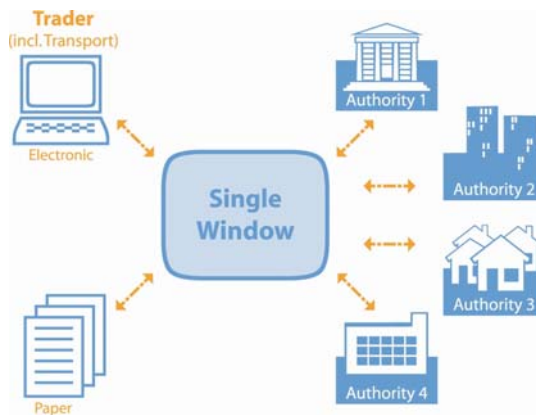


Figure 1. Single Window – a model.

It is the view of the National Board of Trade that this date is too far off. It will not influence the competitiveness of European businesses in the near future. There is also a risk that the developments in other countries will surpass the measures planned for the European Single Window and that once it is in place it will already be outdated. The legal difficulties with a Single Window, including those concerning confidentiality and protection of the individual’s rights, should not be underestimated, nor the technical difficulties. However, the gains from a Single Window approach in terms of trade facilitation are considerable and would be of great relevance to competitiveness. **The advantages easily motivate the efforts involved and the National Board of Trade strongly advocates that the planning for a European Single Window should start immediately with a view to implementation at the earliest possible moment.**

Aid for trade

The trade facilitation aspects of the current reform of the EU customs system will have a direct positive impact on both importing and exporting companies. Nevertheless, with increasing global trade, customs procedures in developing countries will not only be an obstacle for the poorer countries’ trade flows, but will directly affect European companies exporting to and importing from such countries. It is therefore important to support developing countries in the process of trade facilitation, also seen from our own competitiveness perspective. .

Within the field of Aid for Trade, trade facilitation is an important tool to enhance poorer countries trading opportunities and reduce trade costs. The EU is giving large support to the WCO with the aim to increase developing countries integration into the world economy.

⁷ UN/CEFACT Recommendation No.33

With 149 countries having signed letters of intent to implement the WCO SAFE framework it is evident that there is scope for trade facilitation on a global basis provided that the AEO systems created in all countries can be mutually recognized. The WCO Columbus programme aims at supporting the developing countries efforts in this area. At the same time the Aid for Trade programmes of the European Union often target trade facilitation. It can lead to overlaps and inconsistencies.

Aid for Trade has an important role to play to expand and facilitate developing countries export and import opportunities. Trade facilitation on a global level, in the field of simplification of the supply chain, can be an important way to enlarge markets for European firms, exporters and importers alike. Better trade procedures, also in third countries, will consequently have an impact on European competitiveness.

The National Board of Trade suggests that the European Union continues to support the WCO Columbus programme and that efforts are made to better coordinate Aid for Trade efforts with the activities of the WCO in order to avoid overlap both in activities and information gathering, that can put extra strain on the developing countries administrations.

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