

Trade Facilitation

– Impact and Potential Gains



Foreword

As the tariff levels and other trade barriers have decreased due to the negotiation in the WTO and other international agreements, the costs of cumbersome trade procedures are becoming increasingly visible. The need for trade facilitation has during a long period of time been heavily argued by the business community to be of pressing importance. The awareness of the costs of burdensome trade procedures has led to the inclusion of trade facilitation in the Doha Development Agenda.

The National Board of Trade, which includes the Swedish Trade Procedures Council - SWEPRO, has in this light conducted an in-depth study of the impact and potential gains of trade facilitation. In this report, results from both previous studies, international as well as national, and the experiences of the Swedish business community and individual companies of various sizes and types have been compiled and analysed in order to make the picture of trade facilitation as complete as possible.

The results have been significant and do not only support the need for trade facilitation, but also highlight, apart from the direct visible monetary rewards, the many hidden gains of trade facilitation. The process of facilitating trade has been shown to be beneficial in all types of environment and, as the Swedish experience illustrates, earns billions both for the business and public sector. The benefits of trade facilitation are particularly evident for developing countries and for small and medium sized enterprises in all regions.

It is our hope that this report will serve as a useful foundation for future work in trade facilitation, both at regional and global level, and show governments and business that there is a clear mutual benefit to be gained by addressing the issue of trade facilitation.

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Executive Summary

Trade facilitation encompasses the simplification, standardisation, harmonisation and elimination of the procedures, data requirements and administration involved in an international trade transaction.

The facilitation of trade procedures is seen by all major international business as vital for economic development. Several factors are fuelling the need for trade facilitation of which two are the globalisation of international trade and the rapid IT-development.

The complexity of international trade procedures makes it however very difficult to put exact figures on the monetary gains of trade facilitation. Various estimations have calculated the cost of cumbersome trade procedures to range between 2.5 - 15 percent of the value of traded goods. Cost calculations above 10 percent must however be regarded as somewhat questionable. A rough calculation of the lower estimation (2.5 percent) on the value of global trade would result in a cost of approximately US\$ 325,000,000,000. This amount gives a clear indication of the magnitude of the possible gains of trade facilitation.

It is not possible to simply convert these costs *per se* into gains. Still, with a very modest claim of a 50 percent improvement the benefits from trade facilitation are significant.

Even if there are direct monetary gains both for governments and their companies, the essential and main benefits from trade facilitation will be, as categorised below, materialised in other terms. These are in the end convertible to direct welfare gains.

This report shows that the gains from trade facilitation are numerous and can be seen in terms of:

1/ Increased Transparency and Predictability

- Direct substantial decrease in the administrative costs for companies
- Enhancement of Customs revenue from customs duties
- Minimisation of costly human errors and improved prevention of corrupt behaviour
- Increase in foreign direct investments (FDIs)
- Enhanced overall efficiency in countries' export and import sectors

2/ Time

Faster procedures also lead to:

- Lesser storage problems
- Decreased risk of the quality of merchandise being diminished
- Reduced threat of facing substantial penalty fees
- Decreased risk for theft
- Fewer delayed payments
- Reduction of loss of interest due to capital locked in goods

3/ Increased Business Opportunity

- Efficient Customs and trade procedures are key components in enabling companies to profit from potential business opportunities. Most Just-In-Time management methods are dependent on well-facilitated systems and companies will favour countries with such.

- Reduction of the “brain drain” for smaller countries.
- Indispensable foundation for all e-business activities, a future area estimated to be worth trillions of dollars.

4/ Amplified Customer Value

As the cost of attracting new customers is five times higher than keeping previous customers, the need to nurture customer relationships is vital. Trade facilitation creates customer value, which in the ever-increasing competitiveness of global trade is a decisive competitive edge.

5/ Improved Security

Transparency and simplification narrows the possibilities for criminal activity and well-facilitated administrations results in more revenue to fight crime and enables resources and manpower previously used for administration to be diverted to Customs core activities of fighting crime. It also reduces the risk of corruption within the Customs and other authorities.

6/ Money

The effects and direct monetary gains are however most apparent in the situation of individual companies and states.

- A Swedish company in the wholesale and retailing sector with a turnover of approximately SEK 750,000,000, estimates that the profits from the improved transparency, predictability, Customs clearing time and above all from increased business opportunities and better competitiveness as result of trade facilitation by the Swedish Customs, is around SEK 50-100,000,000 a year.
- According to internal calculations of a Swedish multinational company the cost of only internal administration is SEK 115 per trade transaction for intra-EU trade and SEK 3500 for trade with a third country. The difference for this company would amount to SEK 5,077,000 for roughly one year.
- In another Swedish company, as a result of the certification system within the Swedish “Stairway concept”, the administration cost has been reduced by 55 percent, with the total administration savings calculated to be approximately SEK 1,300,000 a year.
- The costs in Sweden of Customs administration for both companies and the Customs authorities in 1999 were estimated to be SEK 3,100,000,000. This rather low figure must be seen in the light of Swedish Customs being rated as top three in the world and, more importantly, Customs administration is only one part of the whole trade process chain.

The majority of the gains from trade facilitation are generated by chain effects, which will multiply the direct monetary gains several times. Thus, the total possible administrative savings as a result of trade facilitation are estimated to be considerable.

The gains from trade facilitation are particularly evident and important for:

- Small and medium sized enterprises (SMEs) because costly trade administration constitutes a larger share of their costs than for larger companies.
- Developing countries, firstly because SMEs constitute the significant majority of their business sector; secondly since costly trade procedures prevent vital foreign direct investments (FDIs) in the countries; thirdly due to its limiting effects on corruption; and fourthly because trade facilitation evidently increases revenue from tariffs (often the major source of governmental revenue).

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1 Introduction

The importance of trade as a tool for economic development stands uncontested in economic theory. Trade currently represents 30 percent of world GDP and is estimated to grow to 50 percent by 2020. The importance of efficiency in trade is especially important for smaller and more trade dependent countries such as Sweden, where trade in relation to GDP is twice as important as in France and four times as important as in the US.

The facilitation of trade procedures is seen by all major international organisations as vital for economic development, not least for developing countries. Trade procedures are perceived to be a future bottleneck and there are many factors that are fuelling the need for trade facilitation. The foremost factors are:

- The large increase in international trade
- The explosive IT-development, which has led to faster, cheaper and more efficient modes of trade and transport systems (such as Just-In-Time (JIT) management and electronic commerce)
- The rapid increase in bilateral and regional free-trade agreements that often feature complex Customs requirements (i.e. rules of origin)
- The significant change in the nature of internationally traded goods (from complete goods towards intermediate and sub-assembled products)
- The increase in the comparative cost of cumbersome and anachronistic trade procedures, as a result of the extensive work and progress done on other trade liberalising issues, such as tariff and quota reductions.

The World Bank regards trade facilitation as an essential component for overall success in economic growth and development¹ and the UN estimates the *potential savings* from trade facilitation to be of some US\$490,000,000,000.² This sum is a deadweight loss and comes neither the government, the companies nor the individual citizens in hand.

The magnitude of the possible gains has led to the issue of trade facilitation being included in the WTO framework.

Trade procedures refers, in their most basic sense, to all the processes and work involved in fulfilling the administrative work and information processing required for the movement of goods in international trade. There are of course several types of formalities, procedures and paperwork that are necessary in order for governments and industry to conduct, monitor and control the movements of goods and for safeguarding every part's legitimate interest. However, the fulfilling of an overwhelming amount of unnecessary regulations, rules, procedural requirements and administration constitutes a de facto cost that is beneficial to none.

The increase in security-consciousness further amplifies the need for better-managed and more transparent trade and customs procedures.

¹ World Bank, 2001. "Trade and Transport Facilitation – a Toolkit for Audit, Analysis, and Remedial Action." Page v.

² Presentation by Mike Doran at the UN/CEFACT BPAWG meeting in Geneva 3 December 2001.

There are in a normal trade transaction potentially 27-30 different parties involved, handling approximately 40 documents, 200 data elements (30 which are repeated at least 30 times) of which 60-70 percent are rekeying at least once.³ Specific examples of trade facilitating measures can be the simplification of Customs procedures, the harmonisation of national rules, the use of internationally standardised documents and the possibility to electronically submit documents to authorities.

Trade facilitation can be resembled to the improvement of a complex engine. Complicated and unnecessary trade procedures can be compared with the friction in an engine; the loss of power resulting from parts not fitting well together is an overall loss. An improvement in how the parts fit together (trade facilitation) would result in less friction/costs. This would constitute a profit that would per definition be equally distributed among all the involved parts (actors). Trade facilitation is a win-win game, where all countries gain.

The focus of this report has been two-folded. (1) In order to illustrate the actual benefits of trade facilitation it is necessary to show what trade facilitation is, its great complexity, as well as how it works in different contexts and lastly where future efforts primarily needs to be focused upon. In this context a layman's roadmap of trade facilitation has been developed. (2) The other focus has been to account for the actual benefits and gains from trade facilitation, in economical and monetary terms (where possible) but also in other terms such as security, efficiency, competitiveness, qualitative and development.

1.1 Definition

There are several definitions of trade facilitation, all relatively similar. The term generally refers to the simplification of procedural and administrative impediments to trade (such as Customs administration, standards and technical regulations), as well as associated information flows required to move goods internationally from seller to buyer and to pass payment in the other direction. Even if there are examples of scholars who include many more issues under the banner of trade facilitation, we will in this report use the widely accepted definition adopted by the WTO, where trade facilitation represents:

*"The simplification and harmonization of international trade procedures," with trade procedures being "the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade."*⁴

³ APEC Business Advisory Council, 1996. "1996 Report to Economic Leaders."

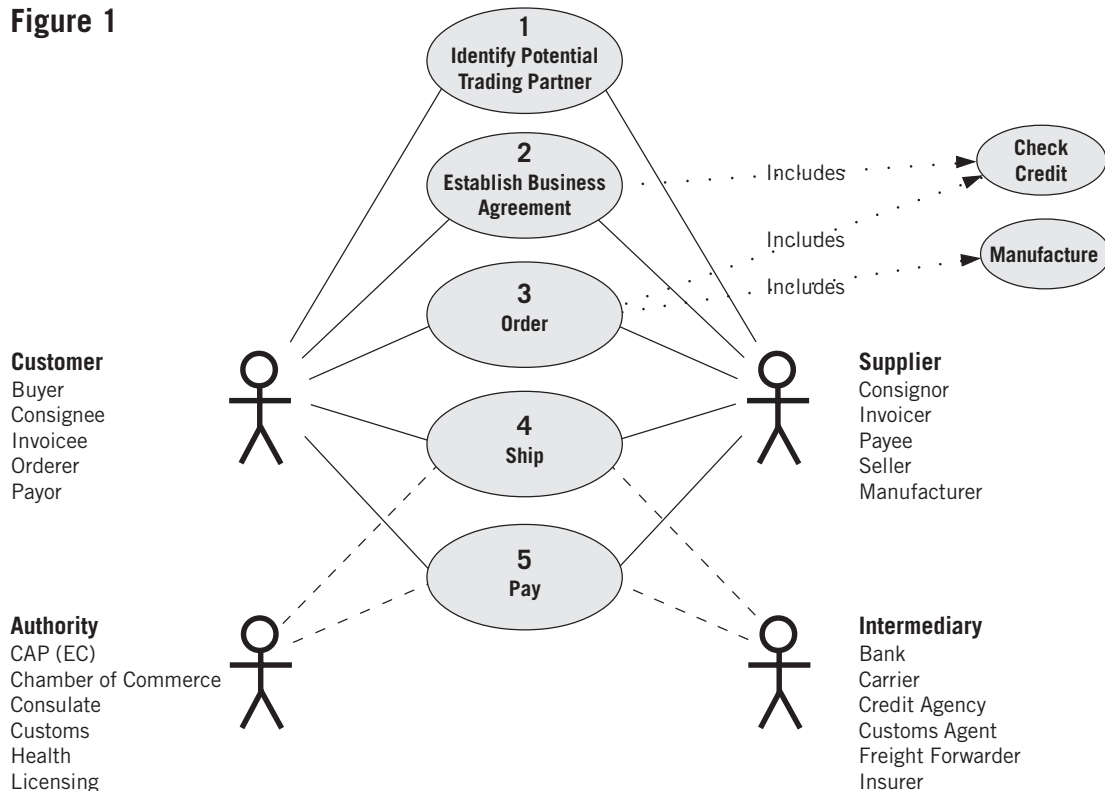
⁴ WTO homepage: http://www.wto.org/english/tratop_e/tradfa_e/tradfac2_e.htm.

2 The International Supply Chain and Trade Facilitation

International trade includes many processes and actors. Even if trade facilitation is important at all stages of a trade transaction, the gains of a measure must be compared with the cost of their facilitating effect. A beneficial way of identifying the key activities and relationships of the parties involved in trade is to use International Supply Chain⁵ analysis. This approach will also be rewarding when discussing the delimitations that in this report have been necessary to make.

Even the most basic illustration of an international trade transaction includes many possible parties and actions of which some are depicted below in figure 1.

Figure 1



2.1 Identifying Potential Trading Partner

The problems and costs connected to the identification of a potential trading partner on the *international* market are very similar to the processes at the national level. Even if an internationally standardised system of e-business, which would increase the possibility of comparing offers and finding new partners, might have trade facilitating effects, the role of international governmental programmes are, in this aspect, limited. This stage in the chain is in essence a matter of commercial marketing efforts and individual preferences.

⁵ The presentation of the international Supply Chain is based on the UN/CEFACT Business Process Analysis Working Group (BPAWG) Reference Model.

2.2 Establishing Business Agreement

It is generally at this stage that an intermediary for the first time becomes involved. The Supplier usually, while negotiating the terms of business/contract contracts a Credit-checking agency to verify the credit status of the Customer.

There are two types of scenarios that are important to separate, a "One-Off contract" and a framework agreement. When comparing the costs of a transaction, the single trade transaction will appear to be much more intricate and costly than the framework transaction, due to the fact that in the latter, the terms of business and its accompanying costs have already been negotiated beforehand and are thus not as visible in the individual contract.

2.3 Ordering

This phase normally begins when the Customer recognises a need for a product and places an Order under an established contact or a framework agreement. The Supplier receives the order and responds. This response can be an acceptance, which leads to the issuing of a dispatch advise and sending of the invoice, or a rejection, resulting in a change of the order until an agreement has been reached. Before the acceptance of an order, the supplier contacts an intermediary, if this has not earlier been done, to make a Credit check.

The negotiation between the Customer and the Supplier is a straightforward process and trade facilitation measures have, apart from the possible interactions with credit agencies, little marginal efficiency.

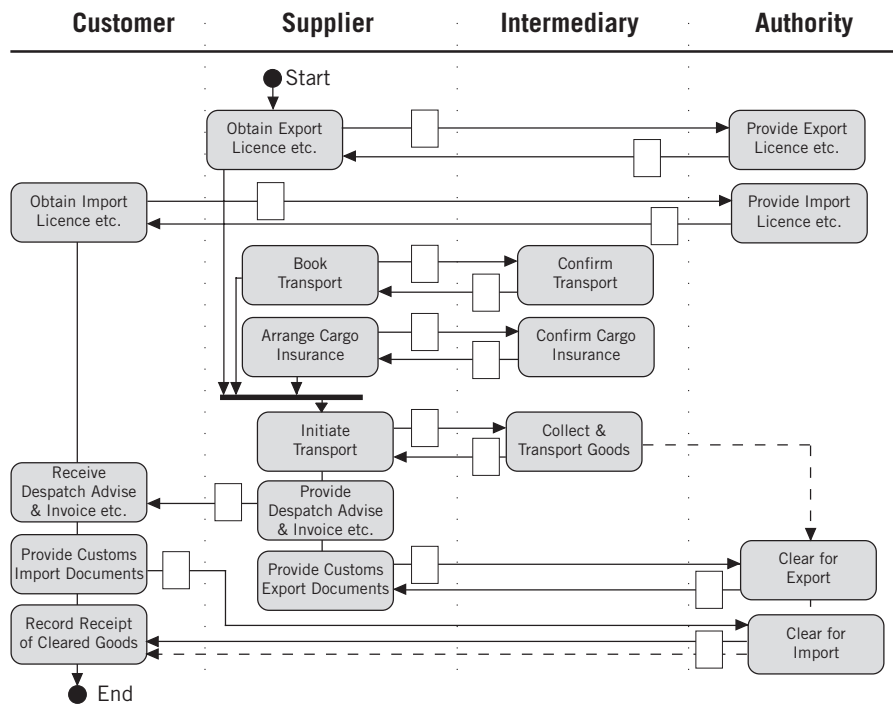
2.4 Shipment

The main focus of trade facilitation falls within the field of the actual movement of goods. The necessary preparations for enabling the goods to be delivered to the Customer includes interactions with several new actors both governmental (Customs, licensing and certificating bodies, etc.) and various other intermediaries (insurer, custom broker, freight forwarder, carrier, chamber of commerce, etc.). Which processes and which parties that are involved, depends of course to a high degree on the nature of the goods that are being traded. It is not uncommon that especially SMEs contract a custom broker who will then handle the whole transport and Customs process.

There are basically three main groups of actors involved: governmental bodies; insurers; and transport related intermediaries. The role of banks is also partly present, but the financing and payment aspect will be described in chapter 2.5.

Figure 2 is a very simplified activity diagram of a ship-situation, showing the most basic processes involved. This scenario could be the transaction of some form of raw materials that compared with food products or livestock is very straightforward.

Figure 2



2.4.1 Insurers

The liability of a transporter or freight forwarder is as a rule so limited that the goods need to be extra insured. The individual trade contract/business agreement states whether it is the Customer or Supplier who is responsible for the goods during transport and thus bear the cost of the insurance. Cargo insurance can be taken out on a single shipment or for several shipments within a prescribed period of time. The insurance premium is based on the value of the goods, length of transport, amount of re-loadings and type of transport.

There is, from a trade facilitation perspective, a difference in the scope of administrative procedures if insurance has been taken out on a single shipment or for a longer period of time. The need for insurance is in legal terms not mandatory even if it in practise is a pre-requisite for conducting international business.

2.4.2 Transport Intermediaries

The actual physical movement of the goods involves one or several additional actors. Mostly a freight forwarder or a carrier is booked which delivers the goods via rail, road, sea or air to the designated location. Connected to these operations are various administrative procedures and documentary requirements that are necessary to fulfil.

The most common view from the private sector, especially from SMEs, is to look upon both insurance and transport procedures as internal business deals, not procedures managed by governmental rules.

Supervising and administrating individual contacts between private companies, be they insurers, transporters or manufacturers, is not the direct role of trade facilitation programmes. Yet there are several issues that lie outside the scope of the private market, for example administrative problems concerning the personnel working on the transport vessels (Visa and passport formalities).

2.4.3 Governmental Bodies

A very large part of the costs of trade administration procedures are generated in the actual cross border situation where governmental bodies are the main actor (Customs, health authorities, export licence authorities, agriculture departments, chambers of commerce, Consulates, PSI Agencies,⁶ etc). The need and potential gains from facilitating Customs and other administrations are thus great and are perhaps the most important parts to start with and focus upon, in trade facilitation.

Customs and other authorities are faced with the apparently contradictory objectives of *enforcing government regulations while at the same time posing the minimum obstacle to legitimate trade*.

The central body involved is of course the Customs, which check all the documents and incoming (and sometimes outgoing) goods. The port operations are in practice so closely related to Customs controls that procedures theoretically connected to port management (and thus perhaps the transport sector) will be included under the heading of Customs procedures.

Yet the procedures for a trader, with regard to governmental demands, starts long before the actual border crossing, with finding out what specific information a particular country demands. Then follows the process of collecting and providing the right data and documentation including possible stamps and signatures and acquiring the right certificates and licenses for the goods, etc. At the actual border crossing all these various documents might have to be present physically together with the goods and sometimes also checked manually.

2.5 Payment

The payment cycle usually starts when the Supplier has accepted the Order. The Customer makes the necessary arrangements to pay the Supplier on completion of the terms of the contract. When the Supplier requests for the payment, the Customer instructs his Bank to initiate the payment. The payment is then executed through the banking system.

One widely used method is the use of a Letter of Credit (L/C), which is a document, meant to guarantee the seller payment. However, the requirements for the buyer to acquire a L/C might in some countries be very demanding and contribute to considerable costs. Governmental exchange control regulations in importing countries, as well as slow remittance of funds by international banks (which in interests alone can amount to substantial losses) constitute further problematic and expensive procedures in international trade.

All stages, but one, in an International Supply Chain can in a sense be described as business agreements between private actors – the exception being the processes connected to governmental bodies/demands.

The Customs and governmental procedures are however the most vital link to improve in the trade chain and the facilitation of the governmental trade demands is seen, by the UN, WTO, World Bank and by the Swedish enterprises, as the most essential aspects to improve. This area has the greatest potential for substantial gains both for the state, the companies and ultimately for the individual consumer.

⁶ The country of import may demand that a Pre-Shipment Inspection (PSI) Agency inspects the goods and documents in the exporting country before the actual shipping.

3 Main Issues in the Field of Trade Facilitation

The heterogeneous nature of trade is mirrored in the multitude of various Customs systems and procedures, as well as in the huge number of different regulations and documental requirements that traders are faced with. Even if much has been done to ease this situation, especially in the developed countries, a lot remains to be done. The main concerns can roughly be summarised under five headings:⁷

- Excessive data and documentation requirements
- Lack of transparency and use of pre-ruling systems as well as unclear and unspecified import and export requirements
- Inadequate procedures and a lack of especially audit-based controls and risk-assessment techniques
- High degree of unpredictability and lack of automation and insignificant use of information-technology
- Lack of modernisation of, and co-operation among, Customs and other governmental agencies, which thwarts efforts to deal effectively with increased trade flows.

How these obstacles exactly are shaped and to what extent they are in effect, depends of course on the specific country and type of goods studied. This makes it impossible (and fruitless) to even try to catalogue them all. It is however possible, as will later be shown,⁸ to point to the most common situation and some plausible exemplifying facilitating measures.

There will always be some administrative costs connected to trade transactions, this is inevitable, but the goal is to keep these costs to a minimum, without exposing companies or Customs and other administrations to larger risks. The main objectives are in summary:

- To simplify (and eliminate where possible) formalities and procedures related to import, export and transit of goods
- To harmonise applicable laws and regulations
- To standardise and integrate definitions and requirements of information as well as the use of information and communications technologies.

There is, as the OECD highlights, an important distinction to make between effects/costs connected to (1) specific procedures or requirements designed, directly or indirectly, to control trade and (2) *problems* with the operation and management of those procedures.⁹

⁷ As identified by the 350 participants at the WTO Symposium on Trade Facilitation in March 1998, see: "WTO Trade Facilitation Symposium – Report by the Secretariat."

⁸ See chapter 4.

⁹ OECD, 1999. "Procedural Factors as Non-Tariff Barriers."

Trade facilitation is a comprehensive and integrated approach to reduce the complexity and cost of the trade transaction processes. It aims at ensuring that all trade activities can take place in an efficient, transparent, and predictable manner, based on internationally accepted norms, standards and best practices. At the same time, it seeks to optimise the effectiveness of regulatory controls to ensure the safety and well-being of citizens and the collection of appropriate taxes and fees.¹⁰

The exact benefit of a trade facilitation measure differs from country to country, from company to company and from product to product. However, as several international studies prove, the overall positive gains of trade facilitation are beyond doubt.

3.1 Previous Work and International Experiences

As a consequence of the methodological difficulties in making larger explicit cost-benefit studies, few have been done. The major and most widely accepted studies and estimates are presented below. It is however very problematic to cross-compare them. They do not use the exact same definition of trade facilitation, nor similar areas (geography wise or commodity wise) or methodological boundaries and they estimate the costs at very different periods of time. This presentation will thus not be used to cross-compare the various previous studies, but simply highlight their results and show the magnitude of the possible gains resulting from trade facilitation.

US National Committee on International Trade Documentation (US NCITD) did the first and largest study in 1971.¹¹ It is a very comprehensive report and asserts from the factual data collected and developed in the study, that costly documentation is one of the major problems concerning international trade. The report estimated that the *total documentation costs in 1971 represented 7.5 percent of the value of the total US export and import shipments, approximately US\$ 6,500,000,000.*¹² However, this estimate was later altered to the even more staggering 10-15 percent, because the costs were assumed to exist at both ends of a transaction.¹³

SWEPRO in 1985 carried out a major study on "Data Interchange in International trade." It estimated that, based on data from companies and statistics from the Swedish Central Bureau of Statistics and the Customs, *the costs of Swedish trade procedures corresponded to approximately 4 percent of the value of the goods in both export and import situations, this constituted a procedural cost of SEK 14,000,000,000.*¹⁴

¹⁰ UNECE, (2002) "Trade Facilitation in a Global Environment."

¹¹ US National Committee on International Trade Documentation, (1971) "Paperwork or Profit\$ in International Trade" with the accompanying progress report two years later (1973) "Progress report on... Paperwork or Profit\$ in International Trade."

¹² Approximately US\$265,600,000,000 in 2001 prices.

¹³ Raven, John, (1996). "International Trade Procedures – Characteristics and Costing."

¹⁴ Approximately SEK 24,000,000,000 in 2001 prices.

In 1987, Ernst and Whinney was contracted to do a study and business survey for the European Commission.¹⁵ This study was the foundation for a report by Checchini on the Customs compliance cost of the intra-EC trade, which estimated this cost, including both imports and exports, to be 1.5 percent of the total value of the intra-trade between the 12 member countries. *The cost would be in the vicinity of • 7,500,000,000 and if the calculated costs of business foregone were to be added, the total cost of Customs compliance would amount to approximately • 12,000,000,000- 23,500,000,000.*¹⁶

The Asia Pacific Economic Co-operation (APEC) concludes in a study, within the thorough framework of their analysis on trade and investment liberalisation and on economic and technical co-operation, that the impact of trade facilitation in APEC, such as streamlining of Customs procedures, exceeds that of trade liberalisation, i.e. tariff reduction. *Trade facilitation was estimated to create a gain of about 0.25 percent of real GDP to APEC or roughly US\$ 46,000,000,000 in 1997 prices.*¹⁷

The Hague Consulting Group was contracted by the International Road Transport Union (IRU) to measure the ‘invisible’ barriers to the movement of road freight.¹⁸ *It was estimated that the ‘avoidable’ cost to road transporters in the studied five countries¹⁹ was in the amount of US\$ 8,000,000,000.* The report further estimates that the cost, if losses to producers, traders and tour operators as well as lost business opportunity were included, would be twice as high.

There are, in addition to the above-presented studies, several estimates, which lack a sufficient presentation of calculations and delimitation and must be treated with some caution.²⁰ In short, the studies analysed have a wide span of estimations regarding the costs of trade procedures, ranging from 2.5-15 per cent of the value of a trade transactions, It is more likely that the lower number is more accurate in a developed country, while the higher is perhaps somewhat more believable in a developing country.²¹ A rough calculation of the lower estimation (2.5 percent) on the value of traded goods globally would result in a cost of approximately US\$ 325,000,000,000²². This amount gives a clear indication of the magnitude of the possible gains of trade facilitation.

¹⁵ Titled "Border Related Control and Administrative Formalities."

¹⁶ Checchini, Paolo et al, (1988). "The European Challenge 1992 – The Benefits of a Single Market."

¹⁷ APEC, (2000). "Cutting Through Red Tape: New Directions for APEC's Trade Facilitation Agenda."

¹⁸ Apart from costs from delays at borders, which clearly fall within the field of trade facilitation, congestions, blockaded and traffic bans were included in the calculations. The presented cost must thus from a trade facilitating perspective be treated with some caution.

¹⁹ The five countries were UK; France; Italy; Czech Republic; Poland.

²⁰ The World Bank, OECD and UN/CEFACT are all independently developing studies within the field of trade facilitation.

²¹ The presented numbers can only be seen as efforts of estimating very different situations and should not be cross compared, they do however give clear indications of costs.

²² In year 2001 according to IMF statistics of exports and imports in world trade.

Even if the presented calculations show the substantial costs of poorly managed trade procedures, it is **not** possible to simply convert these costs *per se* into gains. Some of the procedures will cost more to reform than their potential facilitatory gain. It is however safe to say, that even with a very modest claim of a 50 percent improvement, the benefits from trade facilitation is probably immense.

It is a bit unfortunate that most of the more in-depth studies have been done on the conditions of developed countries, when the room for improvements and potential benefits are the highest in developing countries. With relatively minor changes, major improvements and gains can be generated. One example of this is the Philippine Customs, which by introducing an EDI system reduced the time for cargo held in Customs custody from 6-8 *days* to 4-6 *hours* for "green channel" goods.^{23, 24}

A Customs modernisation programme, partly facilitated by the World Bank, in Bangladesh have among many other things led to a decrease in Customs clearing time from 3 days in 1999 to 3 hours in 2002.²⁵

In Costa Rica, a trade facilitation programme including simplification of procedures, Single Window for warehouse clearing and electronic Customs declaration, decreased the average clearing time for goods from 6 *days* in 1994 to 12 *minutes* (115 minutes for goods requiring physical inspection).²⁶

The gains from this increase in efficiency and in its extension, in monetary gains are very large. For more background information on previous work, the OECD has made a report on the business benefits of trade facilitation, which is an excellent survey of the literature and previous work within the field of trade facilitation.²⁷

²³ 48 hours for consignments in need for more thorough controls.

²⁴ Maniego, Buenaventura, 1999. "The Role of Information Technology in Customs Modernisation."

²⁵ Draper, Charles, 2001. "Reforming Customs Administration: the Unlikely Case of Bangladesh."

²⁶ See WTO, 2001. "Trade Facilitation Experiences Paper by Costa Rica."

²⁷ OECD, 2001. "Business Benefits of Trade facilitation – preliminary findings from literature survey, with particular focus on SMEs and developing country firms."

4 Developing Trade Facilitation

Trade facilitation is by no means a new issue in international trade. It was already on the agenda in the League of Nations in 1923. The main strategy before the globalisation of the post 1950s was primarily to establish mutual recognition between different regimes and at the most to harmonise the various independent national systems, a process that in many aspects still is very important. The work by the UN, WCO, the World Bank, numerous NGOs and most recently the WTO, have since then increased the understanding of international trade facilitation, and now provides a smorgasbord of standards, trade and Customs procedures. The current challenge is to establish procedures and Customs systems based on best practice and mutually accepted standards, applicable in all environments. However, sketching a single blueprint of a trade facilitation process that is applicable to all countries and environments, is virtually impossible, it is nevertheless essential that all different methods, both available and under development, are mutually compatible. If effective tools and procedures are available, a country can after a review of its current procedures, develop programmes fitting its particular needs, preconditions and aims. This process appears to be as inevitable as it is logical.

Even if trade facilitation is a continuous process, which always needs to be adapted to a country's specific situation, there are several measures that have a global acceptance and are arguably both effective and necessary. Some of these measures include implementation of international standards and international agreements, which are dependent on a global usage for their success, while others are more of a national administrative nature. One can roughly perceive a natural chain of development: (1) measures related to standardisation and simplification; (2) the automation of procedures or consignment-based approach; and (3) the systemic approach, i.e. the releasing of the physical link between documentation and consignments.

In order for a trade facilitation process to be fully successful, three key elements needs to be present:

- **A strong political will and commitment**
- **A clear strategic plan**
- **A close co-operation with the business community.**

For developing countries, an additional element must be added, **well-funded and long-term technical assistance based on a partnership between donor and recipient.**

4.1 Standardisation and Simplification

The evolution from antiquated trade and Customs systems, with highly bureaucratised paper-based procedures, must start by making a thorough analysis and inventory of the existing trade and Customs procedures.

The aim is, to the furthest possible degree, to remove and rationalise unnecessary requirements; making laws and requirements transparent and easily available; decreasing the administrative layers in the process chain; and limit unnecessary checks without jeopardising security.

Most of the benefits from further facilitation such as automation and digitalisation of trade procedures remain empty, if Customs and other trade procedures have not beforehand been simplified, standardised and harmonised. Just constructing an electronic version of a dysfunctional paper-based system makes little sense.

Basic trade facilitation may be done in several ways but the following section constitutes some important actions based on international tools and past experiences of trade facilitation projects:

- Standardisation of data and documents should be performed, preferably combined with the implementation of standardised forms, in accordance with the UN recommendation No.1: "Layout Key for Trade Documents" (UNLK)²⁸
- Removal of specialised documents and unnecessary procedures (for example: only one authorising official, no consular legalisation of documents)
- Requirement of signatures and stamps on documents should be abolished
- Aligned documents should be employed,²⁹ i.e. documents printed on the same size paper with common items of information set out in the same relative position on each form
- Government authorities should request import an export data only once and allow submission of data to a single entity as well as to furthest possible extent use commercially orientated data, instead of specific Customs and other governmental data requirements
- Laws, regulations, administrative rulings, general Customs requirements and other information regarding procedures and data requirements should be publicised and easily available to all parties concerned. Changes should also be notified prior to their implementation
- Presentation of supporting documentation should not be required
- Penalisation of mistakes should be removed or substantially decreased
- Trade transactions should be allowed outside official office hours
- The level of professionalism at administrations should be raised by proper training of staff involved
- Audit based Control and Risk Management should be implemented to improve efficiency and security in governmental administrations, especially in the Customs situation.

4.2 Automated and Digitalised Systems

The digitalised age has opened great opportunities for trade facilitation, opportunities that in many cases are already being taken advantage of. The verifiable gains of automation of processes to facilitate trade are substantial. These gains will however rapidly fade, if the implemented digital systems are not compatible internationally and between different countries.

²⁸ The texts of the UN recommendations can be found on <http://www.unece.org/cefact>.

²⁹ Such as the EU single administrative document, the IATA airway bill, FIATA standard freight forwarders documents or ICC standard documentary credit forms.

When making the transformation from a paper-based approach to an automated, the common experiences show that even if the exact internal systems will differ, most of the digital solutions available are however relatively compatible. There are several methods and systems to use, from relatively simple email based systems to different web solutions, and to the more sophisticated EDI solutions, where most of the transactions are being performed without direct human input.

The rapid development and use of Information and Communications Technology (ICT), most importantly, the World Wide Web, have in recent years increased the possibilities to use IT as an effective tool. The ICT development and its web-solutions constitute a cost reduction that is very large and with a particular promise for SMEs. Internet based and especially EDI systems enable data to be exchanged with a minimum of human intervention both faster and more efficient.

Further efficient developments are the use of Single Windows, a system that allows traders to lodge information with a single body to fulfil all import or export related requirements.³⁰

There still is with all automated systems, a constant need to continue the simplification process parallel to any automation efforts, simply because the business environment is ever-changing – a fact that means that so are also the trade procedures.

4.3 Systemic Approach

The next logical step is to remove the so far fixed link between the documentation and data of a consignment and the physical consignment itself. The advantages of high-speed electronic data processing systems, will lose much of its effect if the presentation of the data requirements at Customs still has to be connected to the physical goods and its comparably slow transport speed. It is, with over 20 percent of goods today crossing borders before it is sold (estimations indicate that this share will in 2010 have risen to over 80 percent), inevitable that a consignment-based system must be abandoned for a more efficient systemic approach.

This means in essence that the documentation can be checked both before and after the actual border crossing of the goods. It can further enable authorisation of importers' warehouses as Customs zones and allow periodical declaration and fast track procedures for compliant traders (as a part of risk management programmes). The processes, for such a system to work, must be simple, with well functioning risk management and a close co-operation between Customs and private sector. Sweden and the recently introduced Stairway-system is a very good example of how to facilitate trade in the 21st century.³¹

Even if this presentation of trade facilitation development is very limited and only covers some of the most basic measures, it nevertheless gives a fair picture of the needed developments. For a more thorough presentation and a complete list of trade facilitation measures, it is recommended to study the work of UN/CEFACT.³²

³⁰ For more information regarding Single Window, see UN/CEFACT, 2002. "The Single Window Concept."

³¹ See, <http://www.tullverket.se/TargetGroups/Business/frameset.htm>.

³² In particular Recommendation 18: "Facilitation Measures related to International Trade Procedures" and "Compendium of Trade Facilitation Recommendations", both available on <http://www.unece.org/cefact>.

5 Gains from Trade Facilitation

Regardless of a country's level of simplified trade procedures, there are always gains to be made from further improvements. Trade facilitation is a continuous process that adapts to new technologies, environments and needs of the business community and governments.

In order to include the experiences, actual costs and benefits from trade facilitation, the co-operation with companies involved in international trade has been essential in this study. The presented gains and arguments have been collected both from previous studies, internationally as well as nationally, from the Swedish business community and from individual companies of various sizes and types, all in order to make the picture of the gains from trade facilitation as complete as possible.

Trade facilitation is, as have been shown, very complex and includes a multitude of variables. This is first and foremost the case when trying to aggregate and put a monetary figure on the direct gains. Simply trying to present a prototypical trade transaction is a task worthy Sisyphus himself. The costs and procedures of a single trade transactions is dependent on (1) which countries and possible transit countries that are involved (with different legislative system, demands, international agreements and processes); (2) what type of goods; (3) means of transport (air, sea, train, road or multimodal transport); (4) the human factor i.e. the error rate, efficiency, law abidingness and skills of the involved actors in the transaction (own employees, banks, insurers, transporters, freight forwarders, Customs and other public officials, etc); and (5) the internal procedural and administrative system of the companies involved in a business agreement.

This situation *does not* mean that trade facilitation in itself is either impossible or meaningless, just that putting an aggregate figure on the gains is very difficult. As the presentation in chapter 3.1, proves the benefits are massive, irrespective of how the studies are performed. It must however be emphasised that regardless of the problems of numerical measurement, *trade facilitation is as necessary as it is beneficial, something that is confirmed by all international studies on trade procedures and which the Swedish business community unanimously supports.*

Many of the gains are intertwined and it is sometimes hard to pinpoint cause from effect, but based on the inputs from both the private and the public sector, six main aspects can be found. Gains in terms of:

- **Transparency and Predictability**
- **Customer Value**
- **Time**
- **Security**
- **Business Opportunity**
- **Money**

These aspects will be presented separately and where possible also highlight the monetary cost or gains of their effects.

5.1 Transparency and Predictability

The increase in transparency and predictability is valued by the private sector as one of the most important gains from trade facilitation. Difficulties in acquiring information about rules and regulations, requirements to present same data at different instances, combined with disparate requests and administration for different countries and companies, are some of the many costs related to lack of transparency and predictability.

There is firstly a direct economical gain for all companies due to the decrease in the internal administration. The more transparent a process is, the lower the compliance costs, which relates to the producing, collecting, transmitting and processing of required information and documents.

When the European Single Administrative Document (SAD) was introduced and implemented, over 150 different types of special documentation that previously needed manual data input by companies, were removed. The gains for European traders as a result is immeasurable, but are partly reflected in the comprehensive increase in intra-EU trade.

Secondly, the easier a process is, the less likely are human or non-human errors. As international trade transactions usually requires error-free operations, even a tiny error can halt entire transactions, or at least multiply the compliance cost (one Swedish enterprise had their whole shipment halted and were forced to redo all paperwork due to a miscalculation of the öre adjustment, while another is being fined US\$900 for every error, including mistyping). The penalties connected to compliance errors constitute on top of this a stunningly high figure.

According to internal calculations of a Swedish multinational company the cost of internal administration per L/C transaction is SEK 115 for intra-EU trade and SEK 3500 for trade with a third country. The difference (SEK 3385) for this company would amount to SEK 5,077,500 for roughly one year.

By having a transparent system with high predictability, the efficiency and profits of the private sector greatly improves. This generates a more productive, competitive and profitable environment, benefits that according to the Swedish enterprises are immensely high. High predictability also means that the management and steering of the whole company can be greatly improved, benefits that are important, yet hard to calculate.

Trade facilitation is additionally an increasingly important factor for attracting foreign direct investment (FDIs). Cumbersome Customs and trade procedures are a very effective way of deterring companies from FDIs, resulting in loss of potential tax revenue, as well as job opportunities and prospective transfer of technology, all of which are wanted in most developing countries.

Chilean Customs estimated that the introduction of their Electronic Data Interchange (EDI) system, which decreased the processing time, resulted in business savings of over US\$ 1,000,000 per month, for a system cost of only US\$ 5,000,000.³³

³³ WTO, 2000. "Trade Facilitation: Chile's experience with the modernization of Customs administrations based on the use of information technology."

It is essential for developing countries that their mutual Customs and trade procedures become much more simple, transparent and predictable at both import and export side, since 40 percent of all manufactured goods and 30 percent of all agriculture products are traded *between* developing countries.

A more transparent system evidently creates better possibilities for fighting corruption, which is a plague in many developing countries. Combined with the faster and more efficient Customs procedures these measures will greatly enhance the revenue collections at Customs, often one of the largest sources of income in many developing countries.³⁴

5.2 Time

Delays at borders, in harbours and other checkpoints can take days, weeks and sometimes even months. It is easy to understand that this is a burden to trade. Delayed deliveries lead to delayed payments; penalty fees; quality diminishment of merchandise; storage problems; and increased risk for theft – the waiting at check points adds massive cost to already expensive transports. Each transaction needs time to be processed but that time can become unnecessarily long and costly due to low productivity of officials, burdensome administration, understaffing, lack of automation but also due to more deliberate delays such as low incentives for official, bribery, unofficial governmental regulations and premeditated for other reasons.

There are numerous studies showing how facilitation of Customs procedures have reduced Customs process time from days and weeks to minutes, without jeopardising the crime preventing role of Customs.

The decrease in border delays have for a large retail company with a turnover of around SEK 1,300,000,000 generated the possibility of using a central warehouse for the whole Nordic market, a restructuring that annually generates an additional SEK 1,000,000 in profit.

Lengthy processing time affects not only the opportunity cost, but also the capital standing of firms, this since capital bears interest and frozen capital kills other business opportunities.

The loss of interest from the time of delivery, until receipt of payment, results in a reduction of the exporter's capital standing and vice versa for the importer's capital standing with regard to time from payment to receiving the goods.

The cargo release time has, after the 5-year reform of the Peruvian Customs, been reduced from an average of 30 days to a maximum of 24 hours for green channel cargo (one or two days for goods chosen for inspection), while at the same time quadrupling the revenue collection.³⁵

At 12 percent interest and with the value of the Peruvian import in year 2000, this would very roughly have constituted a maximum gain to the involved companies of approximately US\$ 71,997,000.

³⁴ According to Kubota, Keiko "Fiscal Constraints, Collection Costs, and Trade Policies:" the average share of import duties to the government revenue is in low income countries 25,9 percent (compared to 0.5 percent in the OECD countries).

³⁵ For more information about the reform, see: Lane, Michael H., 2000. "International Supply Chain Management and Customs: Peru - a Case Study."

Delays in banks' payment processing may cause considerable costs in loss of interest, it has been stated (without giving exact details) that the time taken between delivery of a good to payment can vary from 88 to 208 days. This delay represents, at an interest of 12 percent, between 3-7 percent of the total value of the goods.³⁶

For operators whose capital reserves are thin, such as SMEs and most enterprises of developing countries, lengthy processing constitutes a prohibitive trade barrier.

Minimising the delays at border thus means a higher trade flow. A natural consequence of this is increased profit for companies due to higher cash-flow and increased possibilities the time for selling and buying goods. This is particularly evident for companies exporting to bordering countries.

A major international express delivery company can, as a result of the faster Customs procedures implemented by the Swedish Customs, utilise all their transport vehicles one extra hour a day, resulting in an hour of extra revenue. An hour of extra revenue will roughly increase the overall profits by 5-10 percent.

There are, furthermore, goods that are extra sensitive to delays, such as foodstuff, livestock and high-tech products, to which delays obviously will greatly decrease the value and sometimes destroy the goods completely, resulting in huge costs for the individual company. It is easy to understand what happens to tomatoes or apples when they are delayed at Customs or ports for weeks.

The longer the delays are at Customs, the higher the opportunity cost of conducting trade, reducing the possibility and benefits of cross-border trade.

5.3 Business Opportunity

The cost of not being able to take advantage of business opportunities or of businesses not considered, due to trade procedures, constitutes a potentially important factor. It is, as numerous studies show, extra problematic to measure, but composes a clear problem for many companies. Even if all types of companies are hit by lost business opportunities, the burden of trade impediments, which de facto is a fixed cost, constitutes a larger share of SMEs' costs than of larger companies.

Numerous SMEs produce innovative (and even unique) products with a sound potential for export. Yet, often their products, partly due to costly and complicated trade procedures, rarely reach beyond the domestic markets, thus limiting them from markets, which might multiply their turnover. There are some studies, which show that SMEs starting with international trade have a better rate of survival.³⁷

³⁶ WTO, 1998. "WTO Trade Facilitation Symposium – Report by the Secretariat", page 99-100.

³⁷ According to a McKinsey Consulting report February 2001 and a Goldman Sachs report, December 2000 referred to at a presentation by Ian Sayers from the International Trade Center at the workshop on trade facilitation in Geneva 2-3 April.

Trade facilitation does not "merely" benefit the trade or investing companies alone, but also all transport intermediaries who would otherwise not have had the opportunity to transport the goods to the "new" markets, hereby creating a chain effect.

Efficient administration and trade procedures are key components in attracting investments that in turn will create new business opportunities. In an era of outsourcing and JIT production techniques, the need for an efficient cargo infrastructure, the rapid passage of inputs and finished goods through Customs controls and streamlined transactions procedures speak for itself. A delay can disrupt the whole production and transport chain and may result in several potential opportunities being impossible to profit from. When asked to identify the reasons for investing in particular countries, companies frequently points to efficient trade and Customs procedures as a key component in the decision process.³⁸

Since the positive effects of a high inflow of foreign currency (via FDI's) in developing countries are much higher and also because SMEs in general constitutes the most significant share of their business sector, this means that the gains from improved market access are especially evident in developing countries.

The present development and use of e-business means that regular business does not necessarily have to be physically present on the market. As a result, e-business companies will be able to reach geographical markets, which were previously not accessible. This means that SMEs will not have to move to more developed, larger, or more profitable areas (countries), in essence reducing the "brain drain" by keeping innovative companies.

Apart from gains of cost savings and utilising business opportunity by improving existing trade procedures, trade facilitation and especially electronic business is also about the business *development* aspect of trade, creating new business opportunities. The UN foresees that electronic business and the use of the Internet World Wide Web and associated standards, will bring new business opportunities and revenue streams that are linked to modern business and transport solutions, which are estimated to be worth *trillions of dollars*.³⁹

5.4 Customer Value

In an international business environment that is getting ever more competitive, with shrinking margins and increased financial constraints, the need to be innovative and to retain and generate value to the customer is essential. It is in business terms estimated to be five times costlier to attract a new customer than to retain a previous customer. With this in hindsight, creating customer value, by providing accurate information and fast delivery at a low cost, is a vital competitive edge.

³⁸ WTO, 1999. "Trade Facilitation in Relation to Development – communication from the European Communities", page 2.

³⁹ UN/CEFACT, 2002. "Trade Facilitation in a Global Environment", page 10.

Due to the growing employment of JIT management in companies, where it is essential to know the exact status of the transported goods (in order for parallel consignments to arrive simultaneously and to know when to prepare other processes and to provide customers with accurate timeframes), well facilitated trade procedures is essential for a foreign based company to compete on equal terms with national companies, as well as for home-based companies with facilities located abroad.

A more surprising effect of the Swedish trade facilitation work is a case, where a company states that "the good-will" acquired from assisting Customs as a lookout for suspicious and criminal activity, gave them a competitive edge by being regarded as, not only a good supplier, but also a good citizen.⁴⁰

5.5 Security

Trade facilitation is beneficial both to the business community and governments. Traders gain through faster delivery and reduced transaction costs. Government profit in terms of enhanced revenue collection, increased economic efficiency, augmented predictability and increased opportunity to divert resources to fight criminal activities.

The awareness of the security issue in international trade has dramatically increased after the tragic events of 9/11. The almost exponential increase in international trade means similar increase in pressure on the Customs. Trade facilitation has in this respect a key role to play. Making Customs more efficient, by risk assessment, more efficient procedures and differing clerical work to crime prevention, means a higher safety for countries and their citizens.

A decrease in administration, leads to substantial gains for the Customs authorities, the Federation of Swedish Enterprises estimated that the administrative costs of trade procedures for the Swedish Customs in 1999 were SEK 600,000,000. This cost constitutes nearly half of the whole annual governmental appropriation.⁴¹

By simplifying and facilitating Customs procedures, chances increase that fraud and criminal activities will be discovered. The simpler and the more transparent the system is, the more easy it gets to detect suspicious behaviour. It further counteracts potential corrupt behaviour within the Customs, a cost that governments rarely speak of, but too many companies have felt.

The improved co-operation between economic operators and Swedish Customs, within the framework of the quality control programme and risk management, have resulted in transport companies assisting Customs officials as "frontline lookouts" for suspicious behaviour. A verified suspicion from a Swedish transport company, after receiving a dubious business proposal, lead to the detection of a smuggle attempt of cigarettes worth SEK 2,220,000.

⁴⁰ Interview with Kjell Johansson, Director General of the Swedish Customs, in "Ny tid för tullen", page 2.

⁴¹ The governmental appropriation to the Swedish customs was in 1999 SEK 1,107,047,000.

Facilitating Customs procedures means releasing financial resources as well as staff, both which can be diverted from routine clerical work to the core work of Customs, upholding laws and preventing smuggling of drugs and weapons and other criminal activities. A transparent system further narrows the scope for corrupt behaviour that leads to a diminishing black market sector often infected with costs due to crime and loss of tax revenue.

5.6 Money

A recent study carried out by the Swedish Customs on the costs of Customs procedures, found that the total cost of Swedish Customs procedures for the Swedish companies in 1999 amounted to SEK 2,500,000,000, of these costs approximately 60 percent were related to export procedures and 40 percent to import procedures.⁴² Add to this the estimated internal administration costs for the Swedish Customs authorities of SEK 600,000,000⁴³ for a rough estimation of the total cost and possible gain of only the Customs procedures to be SEK 3,100,000,000.⁴⁴

Even if this figure might seem high, it must be mentioned that Swedish Customs is rated among the top three in the world⁴⁵ and these costs will in many other countries be likely to be several times higher. Customs procedures are further merely *one* part of the governmental procedures, and the governmental bodies are just one aspect in the international trade chain. This leads to the strong assumption that this rather low Customs compliance cost is only a fraction of the real costs of poorly managed trade procedures.

In a very unlikely scenario where this cost could in equal shares be directly transferred to the citizens of Sweden, each person would bear a burden of a mere SEK 344 a year. This low figure is however very misleading, since this only constitutes the cost of the *direct* Customs related paperwork in Sweden and does not take into account the losses from chain effects or all the other actors and areas that have been put forward in the previous chapters. It further only focuses on an internal Swedish perspective, which ignores the costs that the companies must bear due to the heavy and cumbersome procedures in all other countries. These costs hit the Swedish consumer (and other consumers) by higher prices of all goods bought. If all these aspects could be included, the presented figure would be multiplied numerous times.

The fact that a unanimous business community continues to heavily stress the necessity of facilitating all parts of trade is a crystal clear indication of the hidden gains of trade facilitation. In the discussions with Swedish companies regarding the trade facilitation of the Swedish Customs, particularly the Stairway concept, it was repeatedly stated that the gains from the system far out-measured the previous administrative costs.

⁴² The Swedish Customs, 1999. "Näringslivets kostnader för Tullproceduren."

⁴³ Presentation by Mr Carl Ström, Regional Manager of the Confederation of Swedish Enterprise and responsible for Customs matters, at the EMPACT, partnership for the future seminar in Stockholm June 6-8, 2001.

⁴⁴ US\$ 313,343,000.

⁴⁵ According to a Swiss study on the views and experiences of companies regarding different governmental bodies. (Interview of Lars Karlsson, National Director Development at the Swedish Customs by Pelle Nisser in "Ny tid i Tullen.")

A Swedish company in the wholesale and retailing sector with a turnover of approximately SEK 750,000,000, estimates that the profits from the improved transparency, predictability, Customs clearing time and above all from increased business opportunities and better competitiveness, resulting from the Swedish Customs' new Stairway project, is around SEK 50-100,000,000 a year.

The administration cost in another Swedish company, as a result of the certification system within the Stairway concept, has been reduced by 55 percent, with a the total administration savings calculated to be approximately SEK 1,300,000 a year.⁴⁶

Even if the calculable effects in numbers, be they in percentage or figures, might seem low, all studies show the immense chain effect impact, that trade facilitation has on the economic well-being of governments, companies and consumers.

SITPRO⁴⁷ estimated in 1998 that by using electronic solutions and e-commerce tools you could save up to 90 percent of the transactions cost. Their estimates showed that the normal cost of to a paper-based purchase order is approximately US\$ 200, compared to the estimated \$ 20 cost of using electronic commerce.⁴⁸

Well facilitated trade procedures enables companies to focus on their core functions, which will improve their business and lead to better and cheaper products being developed and produced.

5.7 Potential Challenges

It must be remembered that there is always a cost connected to a change of status quo. This cost will for a trade facilitating measure, be borne by both the government (or funding organisation) and the companies. On whom the heaviest burden will fall, depends on the level of the country's development in trade procedures and on the type of trade facilitation programme.

For a developing country where the highest priority usually is to facilitate the actual Customs and the accompanying procedures, the cost borne the private sector is comparably low. The cost of Customs facilitation and technical assistance requirements depends on the type of reform a particular governments redeems the most necessary. For example, the loans of the World Bank to streamline and modernise Customs procedures in Tunisia amounted to US\$ 35,000,000 in 1999 and to Poland US\$ 38,000,000 for upgrading the physical and managerial infrastructure of port facilities,⁴⁹ while the implementation of an EDI system in Chile cost only US\$ 5,000,000 (a reform that had a pay off period of only 5 months).⁵⁰

⁴⁶ Anselmsson, Carlsson, Viklund, Elfving, 2002. "Tullverket och Servicetrappan."

⁴⁷ The UK Simpler Trade Procedures Board.

⁴⁸ WTO, 1998. "WTO Trade Facilitation Symposium 9-10 March 1998 – Report by the Secretariat", page 36.

⁴⁹ Wilson, John, S., 2001. "Trade Facilitation Lending by the World Bank – Recent Experiences, Research and Capacity Building Initiatives Draft paper prepared for the WTO workshop on Technical Assistance and Capacity Building in Trade Facilitation Geneva 10-11 May 2001."

⁵⁰ WTO, 2000. "Chile's experience with the modernization of customs administrations based on the Use of information technology."

Companies, especially larger companies are sometimes reluctant to implement new international systems and standards, because of the existence of company-internal well-integrated administrative systems. Changing all or parts of a functioning internal system and implementing a new standardised system will constitute a direct cost (sometimes perceived to be higher than the gain for the *individual* company). This might deter companies from implementing trade-facilitating measures, even if the business community as a whole has great gains to make. It is thus important to include the business community at an early stage in the development process of trade facilitation in order to create legitimacy and ownership and make the process as smooth and effective as possible.

The increased transparency that often follows trade facilitation might also unveil previously invisible costs, which can deter companies from getting involved in or continuing a trade facilitation process, it is thus necessary to stress that these costs were present beforehand and should not be attached to the costs of trade facilitating measures.⁵¹

Another challenge is the problem of cause and effect. What in one part of a trade network may appear to be a trade facilitation measure can in other parts create difficulties in other parts.⁵² It is very important to work with an international perspective and use international standards when facilitating national trade procedures. It must be stressed that there is no blueprint of a perfect trade facilitation programme that fits all countries, on the contrary, trade facilitative measures must be adapted to each country's individual needs, capabilities and general situation, but it must have an international perspective in order to create the highest positive impact on economic development.

It is relatively easy to measure the cost of trade facilitation in developing countries if only looking at the costs of the current aid programmes. It must however be emphasised that the costs of **not** facilitating trade procedures will be many times higher and in the long run unbearable.

⁵¹ An example could be the cost of implementing and using an EDI-system. Costs gets visualised in the accounting and can be mistaken for an added cost, when it in reality substitutes costs related to phone, paperwork and postage.

⁵² It can be argued that PSI may be a solution to the costs of Customs in an importing country. However it will firstly create an additional problem and cost in the exporting country and secondly, the exporter will include this cost in its export price, resulting in the cost finally being borne by the consumers in the importing country.

6 Final Remarks

Trade facilitation is, as have been shown a plus-sum game, but there are nevertheless some instances, where trade facilitation will have an extra strong influence, thus creating even higher gains. This is the case for:

(1) Developing countries, where the room for improvements and potential gains are substantial; and for (2) small and medium sized enterprises, since SMEs' costs of compliance with procedures are proportionately higher. The fact that developing countries have a higher proportion of SMEs, as well as benefiting more from increasing inflow of foreign capital (from FDI's), multiplies their potential gain from trade facilitation.

Still, the loud voice from companies in Sweden and in the rest of the developed world, proves that the need to make trade procedures easier is vital in all types environments.

Trade facilitation means that companies can focus on their core activities and as a result produce newer, better and cheaper products and services. Even if the gains cannot be directly lump-summed into the purse of every consumer, it is still the individual citizens that in the end profits from a better facilitated trade system by the distributional tax system, salaries, increased security and better, more and cheaper products. Basically the better and more profitable the companies and private sector gets, the better for the society as a whole, resulting in the end in increased welfare.

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Summary in Swedish

Vinster och effekter vid förenkling av handelsprocedurer - sammanfattning

Handelsprocedurer innefattar alla informationsflöden och administration som är nödvändiga när företag ska importera eller exportera, dvs. dokumentation, offentlig kontroll, förtullning, försäkringskrav, transportprocedurer, etc. Det har länge varit tydligt att krångliga regler och till synes onödiga administrativa krav inneburit en betydande kostnad och effektivitetsförlust för företagen, den offentliga sektorn och konsumenterna.

På grund av den höga grad av komplexitet i internationell handel är det mycket svårt att få fram en exakt siffra på hur stora kostnaderna är och därmed beräkna vinsterna som en förenkling av handelsprocedurer ger.

Olika internationella studier beräknar kostnaden till mellan 2-15 procent av värdet av varuhandeln, beroende på vilket land/länder som studerats och val av metod. Kostnadsberäkningar över 10 procent bör dock betraktas med viss skepsis. En grov beräkning av det lägre värdet på Sveriges import under 2001 skulle indikera en handelsprocedurkostnad på närmare 36 miljarder kronor. Denna beräkning ger en klar finger-visning om storleksordningen på kostnaderna.

Internationella studier och erfarenheter från det svenska näringslivet visar att förenklingar av handelsprocedurer framför allt ger följande vinster:

- Ökad transparens och förutsägbarhet
- Tidsbesparingar
- Nya eller förbättrade affärsmöjligheter
- Förstärkta kundrelationer
- Förbättrad säkerhet

Resultaten pekar på att behovet av att förenkla handelsprocedurer är extra stort för små och medelstora företag och i utvecklingsländer.

Ett svenskt företag i grossist- och detaljhandelsbranschen med en omsättning på ca 750 miljoner kronor beräknar att vinsterna till följd av svenska handelsprocedurförenklingarna i form av ökad transparens, förutsägbarhet, minskad tullklareringstid och framför allt nya affärsmöjligheter och ökad konkurrenskraft, ligger mellan 50 och 100 miljoner kronor per år.

Enbart tulladministrationen för svenska företag och tullmyndigheten beräknades 1999 kosta 3,1 miljarder kronor. Detta motsvarar en kostnad per capita på 344 kronor. Den svenska tullen är rankad bland de tre bästa i världen, vilket innebär att kostnaderna i mindre utvecklade länder är flera gånger högre.

Enligt företagsinterna beräkningar hos ett svenskt multinationellt företag uppgår kostnaden för enbart internadministration till 115 kronor per handelsuppörelse inom EU och 3500 kronor utanför EU. Skillnaden (3385 kronor) mellan procedurer inom och utanför EU, skulle för företaget i fråga motsvara en ungefärlig årskostnad på drygt 5 miljoner kronor.

Ett annat svenskt företag minskade sina administrativa kostnader till följd av förenklingar genom tullsamarbetet inom Servicetrappan med 55 procent. Besparingen till följd av minskade administrationskostnader beräknades till ca 3,1 miljoner kronor per år.

Det bör observeras att kostnader kopplade till tulladministration endast är *en* del i hela handelsprocedurkedjan. De relativt låga kostnadssiffrorna för tulladministration är något missvisande i och med att dessa endast omfattar kostnader *direkt* kopplade till tullprocessen. Om andra delar i handelsprocedurkedjan tas med i beräkningarna skulle de totala potentiella besparingarna och vinsterna till följd av förenklade handelsrelationer således vara betydande.

Rapporten har gjorts av Kommerskollegium och Handelsprocedurrådet - SWEPRO.

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Abbreviations and Acronyms

APEC	Asia-Pacific Economic Cooperation
BPAWG	Business Process Analysis Working Group (UNCEFACT)
EbXML	Electronic Business using eXtensible Markup Language
EDI	Electronic Data Interchange
EFTA	European Free Trade Association
FDIs	Foreign Direct Investments
FIATA	Fédération Internationale des Associations de Transitaires et Assimilés
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IATA	International Air Transport Associations
ICC	International Chamber of Commerce
ICT	Information and Communication Technology
IMF	International Monetary Fund
IRU	International Road Transport Union
JIT	Just-In-Time
L/C	Letter of Credit
NGOs	Non-Governmental Organisations
OECD	Organisation for Economic Co-operation and Development
PSI	Pre-Shipment Inspections
SAD	Single Administrative Document
SITPRO	UK Simpler Trade Procedures Board
SMEs	Small and Medium Sized Enterprises
SWEPRO	Swedish Trade Procedures Council
UN	United Nations
UNCEFACT	United Nations Centre for Trade Facilitation and Electronic Business
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe
UNLK	United Nations Layout Key
US NCITD	US National Committee on International Trade Documentation
WCO	World Customs Organisation
WTO	World Trade Organisation



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