



ITC

TRADE IMPACT  
FOR GOOD



1964-2014

# Implications of the WTO Agreement on Trade Facilitation on the LLDCs

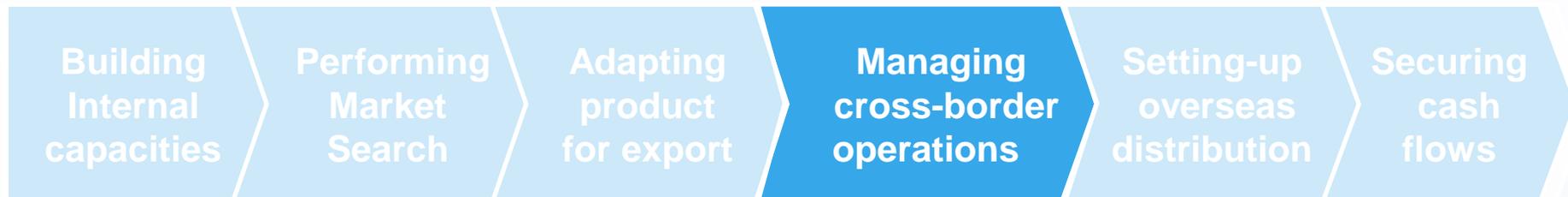
Ulaanbaatar, Mongolia, 3<sup>rd</sup> June 2014

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# The Export Competitiveness depends a lot on international trade procedures

## Breakdown of export costs



Collect, produce, transmit and process information and documents

Comply with border agencies requirements

Organize logistics from manufacturers premises to clients grounds

Logistics costs represent up to **~15%** of product value

~63% of logistics costs consist in transport costs including border-crossing costs

# Border inefficiencies translate into direct and indirect costs impacting business competitiveness

## Direct costs

- Time and resources invested in managing export administrative activities**
- Collect, produce, transmit and process required information and documents

## Indirect costs

### Increased operational costs

- Delays translate into extra transport, insurance or warehouse costs

### Increased working capital requirements

- Inventories immobilized are carried out by the exporter (except for EXW sales)

### Product deterioration

- Delays can lead to the degradation of products and render them unfit for sale

### Lost business opportunities

- Direct: joining a punctual regional trade
- Indirect: immobilized stock could have been sold to a local client

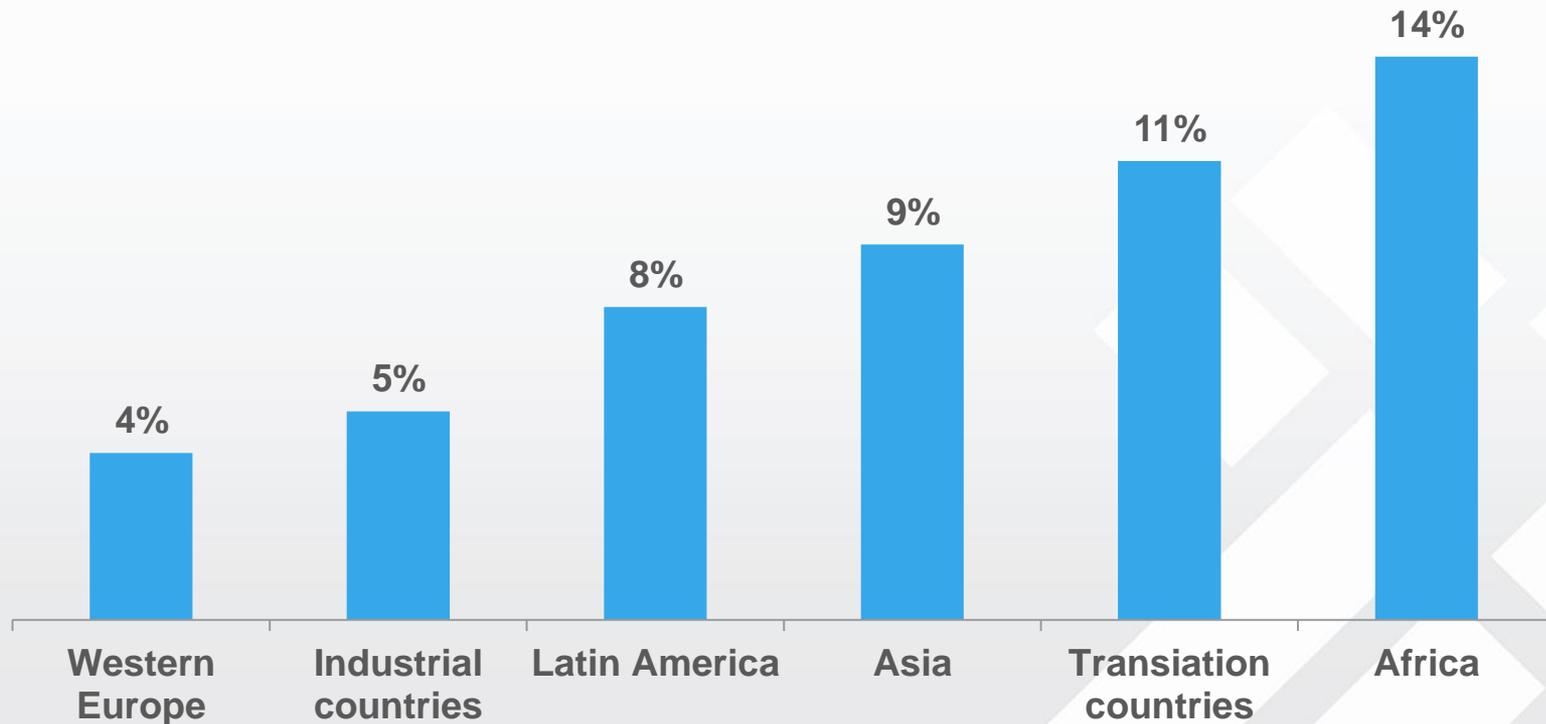
## SME are particularly vulnerable to these additional costs

- ! On a relative basis, SME dedicate more HR to export than large business
- ! Intermediate financing required to cover working capital needs is very expensive
- ! SME are often classified as “High risk” operators by border agencies...
- ! ...and they rarely can join “ Authorized Economic Operator” scheme
- ! SME cannot afford large logistics provider services who could speed up the border crossing process

# Logistics costs range from ~4% to ~15% of product value

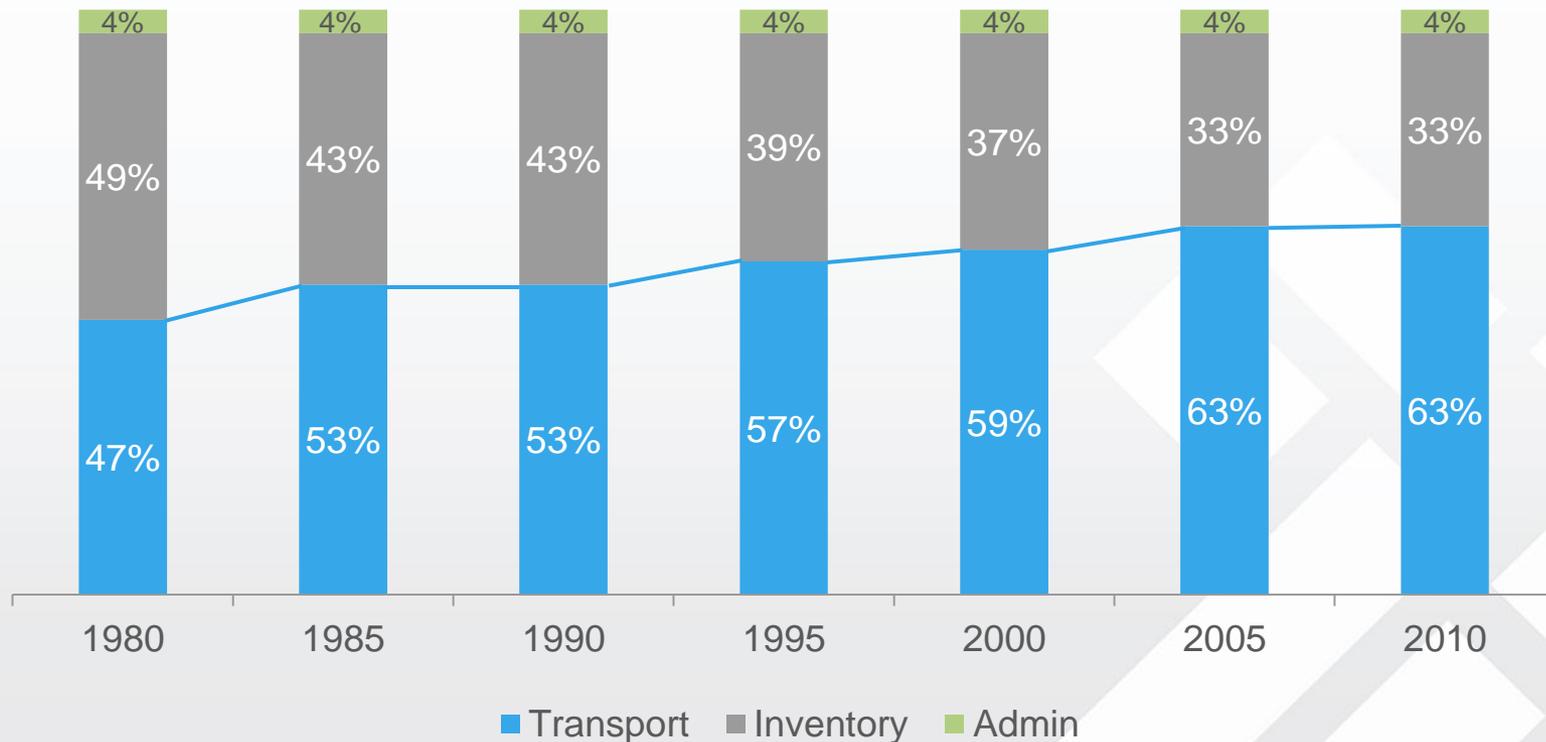
## Significant variations between regions

### Logistics cost as % of total product value by regional and country groupings



# Transport costs are continuously increasing and reach ~63% of total logistics costs

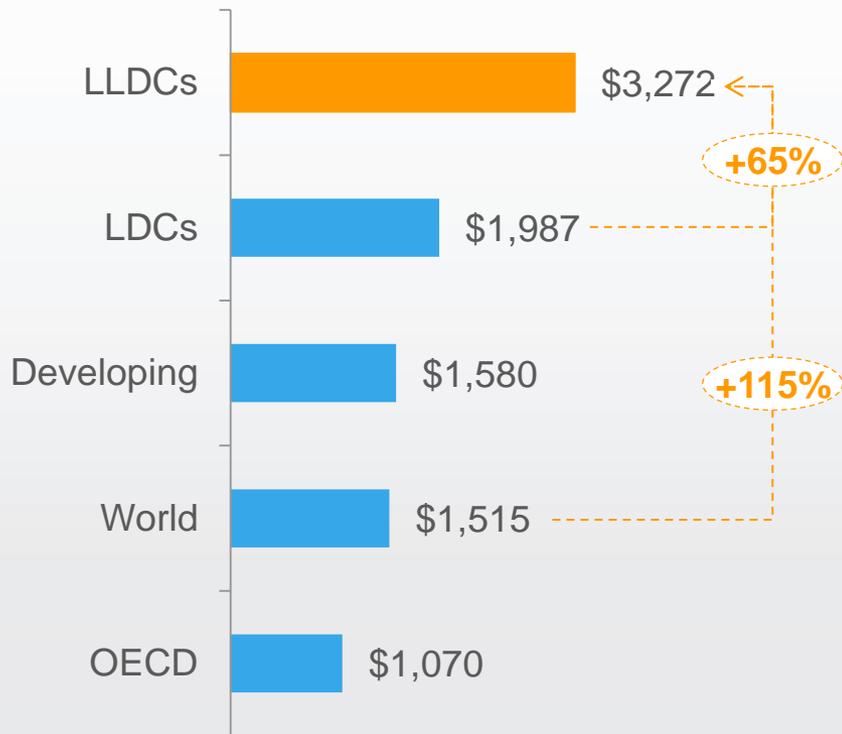
Evolution logistics costs breakdown  
(1980-2010)



# LLDC costs to trade is ~60% higher than LDCs average, double than world average

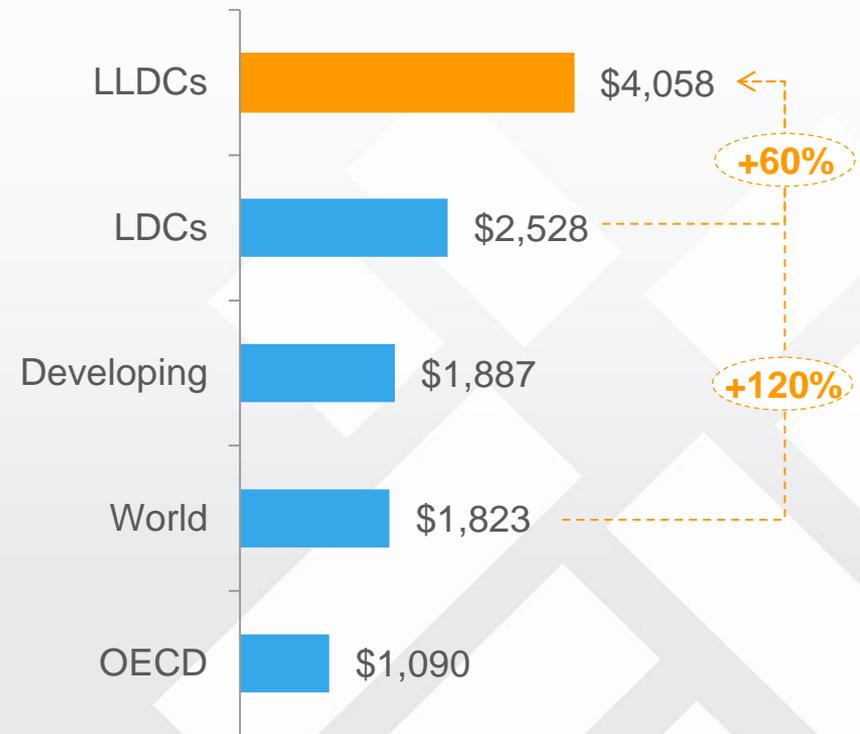
**LLDCs cost to export is 65% higher than LDCs average...**

\$ to export 20'CT



**And 60% higher to import**

\$ to import 20'CT

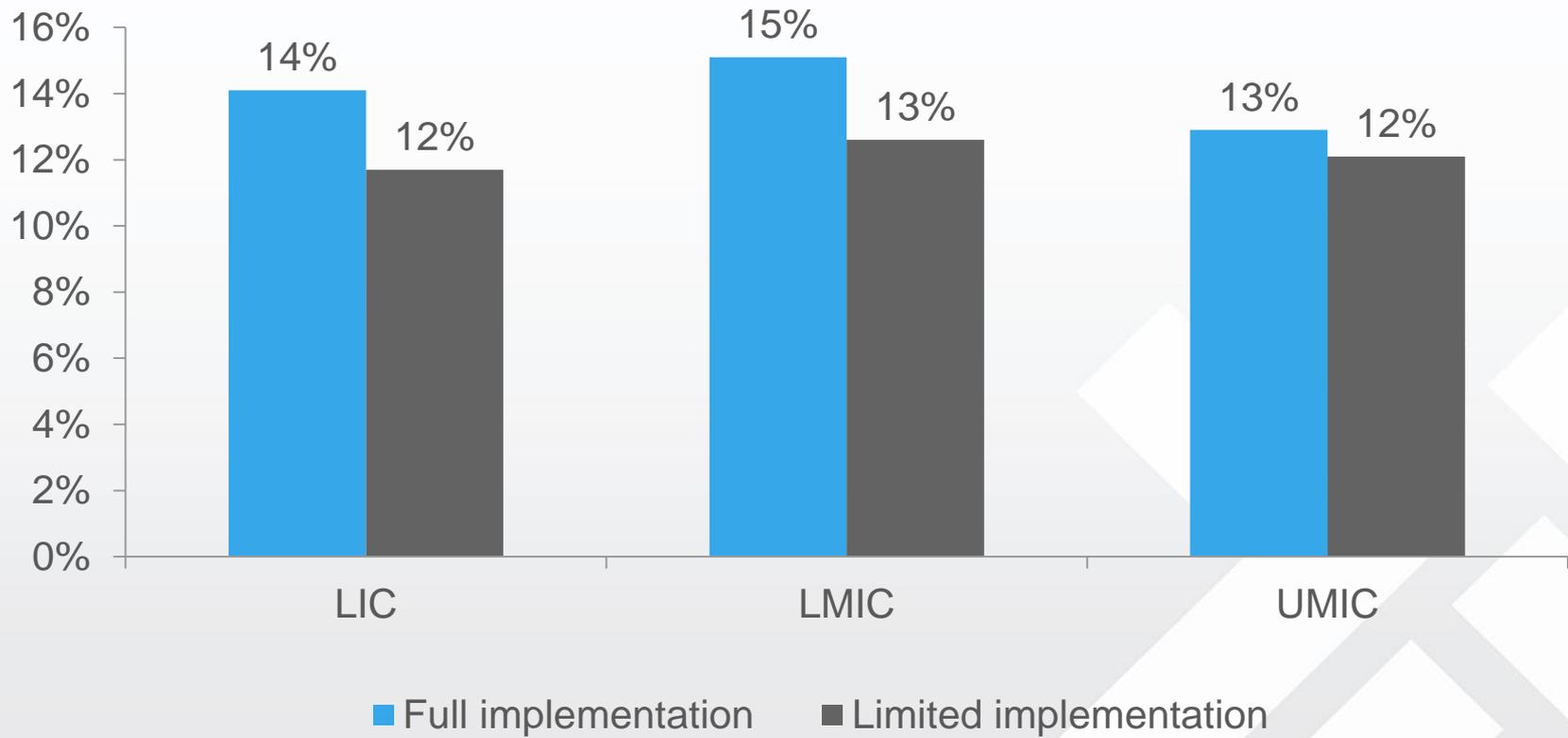


# Trade Facilitation is...

- ✓ **Transparency and efficiency in international trade supply chain through;**
  - Simplification,
  - Standardisation,
  - Harmonisation and
  - Modernisation
- ✓ **An ongoing and multi-agency function**
- ✓ **Better achieved through collaboration between public and private sector**
- ✓ **Has the potential to reduce costs and address inefficiencies**

# WTO TFA has the potential to save costs, improve administration efficiencies and governance structures

## Overall potential trade cost reduction by income group



## Obligation arising out of TFA are equally applicable to developing countries, whether LLDCs or otherwise

### **The Trade Facilitation Agreement provides for unique S&DT**

- The extent of obligations to be decided by the countries themselves
- The timing is also of the choice of Developing countries
- The obligations are linked with implementation capacity

### **But they are based on countries' development status, not on land-locked characteristics**

- Special treatment only provided for developing countries as well as for least-developed countries

## 2 provisions are more important to LLDCs than to other countries

	<u>Measure description</u>	<u>Impact on trade cost reduction</u>
<p><b>Freedom of transit</b> - <b>Art. 11)</b></p>	<p>Facilitated, transparent and non-discriminatory treatment offered to the goods in transit passing through the national territory</p>	<p><b>-2.3%</b> { <i>OECD Transit formalities indicator</i></p>
<p><b>Border agency cooperation</b> - <b>Art.8</b></p>	<p>Coordinating and harmonizing border-crossing procedures both at the national level and for the countries sharing the border to reduce cost and delays</p>	<p><b>-1.9%</b> { <i>OECD Transit agreements and cooperation indicator</i></p>

# Art.11 of the TFA clarifies and improves GATT Art.V on Freedom of Transit

New / improved provision	Impacts
Do not apply technical regulations and conformity assessment on goods in transit (Article 11.8)	Further limits burdensome procedure
Provide advance filing and processing for goods in transit (Article 11.9)	Becomes a binding commitment
Limit use of customs convoys (Article 11.5)	Only in high-risk circumstances Not when a guarantee has been granted Transparency obligation
Enhance member cooperation and appoint transit coordinator (Article 11.12 and 11.13)	Improved coordination to smoothen traffic in transit

# Other articles related to transit

Transit issues have been taking into account in many other provisions

- Publication – *Art. 1*
- Consultation before entry into force – *Art.2*
- Penalties discipline – *Art.6*
- Trade Facilitation measures for Authorized Operator – *Art.7*
- Border agency cooperation – *Art.8*
- Transit formalities and documentation – *Art. 10.1*
- Acceptance of copies – *Art. 10.2*
- Use of International Standards – *Art. 10.3*
- Single Window – *Art. 10.4*

# Article 8 – Border agency cooperation is of significant importance for LLDCs

## Key requirements deriving from article 8

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**Enhanced cooperation between countries sharing a common border ;  
key elements of cooperation include**

- Alignment of working days and hours;
- Alignment of procedures and formalities;
- Development and sharing of common facilities;
- Joint controls;
- Establishment of one stop border post control



**National border regulatory agencies are obliged to cooperate with each other, and coordinate their activities**

# ITC delivers its TF program in 4 priority areas

## Improving SMEs Competitiveness for exports through implementing the Trade Facilitation Agreement

1

**Comply with TFA  
short term  
requirements**



Ministries, customs and  
other border agencies

2

**Implement Public-  
Private dialogue  
provisions of TFA**



Ministries, customs and  
other border agencies

3

**Implement  
transparency  
measures of TFA**



Ministries, customs and  
other border agencies

4

**Strengthen SMEs  
ability to cross  
borders**



Traders, exporters  
freight forwarders

Mobilize private sector operators to collectively present their perspective in TF policy formulation

Partner with other trade facilitation agencies and Private sector organisations to achieve synergies

Mainstream regional integration dynamics and promote sharing of south-south best practices

Strengthen capacity of Trade supporting Institutions (TSIs) on Trade Facilitation

# Concluding Thoughts

## **Trade-related costs must be reduced**

- In particular in LLDCs where costs are significantly higher than in the rest of the world

## **Trade facilitation has the essential elements to reduce costs by addressing border inefficiencies helps achieving this goal**

- LLDCs should seize this opportunity to improve their country and their private sector competitiveness

## **Freedom of Transit (Art.11) and border agency cooperation (Art.8) are 2 provision which would specifically support LLDC in achieving their objectives of reducing cost**

## **Trade Facilitation and SMEs involvement in value chains are closely linked**

- SMEs are particularly vulnerable to cumbersome cross-border processes

## **Trade facilitation is most effectively pursued when stakeholders work in coordination**

- Government, SMEs, TSIs, TNCs, and development partners

**ITC, as the development partner for SMEs, has a comparative advantage in facilitating this process**

# Thank you for your attention

For Further information, questions or comments please contact

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