BIS Department for Business Innovation & Skills

TRADE FACILIATION – UK ISSUES

Trade and Investment Analytical Papers
Topic 10 of 18

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Contents

Summary

A growing body of evidence points to the importance of trade facilitiation for the benefits of trade and hence both international negotiators and for domestic regulators. This is particularly true for developing countries. But Trade Facilitation also has an important role in advanced developed countries like the UK.

The UK has a relatively "light-touch" regulatory regime, and scores well in international comparisons. But a closer look at the costs of trading here suggests that there is still room for improvement. However, incremental reductions in the cost and speed of trading will prove difficult. Many of the improvements will involve persuading Europe – other Member States and the Commission - of the need for reform.

In the broader sense, the major cost, and cost disadvantage, facing UK traders is inland transport. And while regulatory issues are relevant here, really major improvements will require significant infrastructure expenditures.

Policy-makers are also faced with a number of trends which go against the grain of trade facilitation such as tightened security procedures and trade restrictions in support of climate change objectives.

Aim

This paper examines the issue of trade facilitation from a UK perspective and identifies the main challenges facing UK policymakers.

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1. What is Trade Facilitation ?

There are a number of possible definitions of Trade Facilitation. In the past, the WTO has defined it as the "simplification and harmonisation of international trade procedures" where trade procedures are "activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade". Many proponents also make reference to the procedures applicable for making payments e.g. via commercial banks.

There are much broader interpretations of the term, however, in which Trade Facilitation refers to any measure or policy which expedites the movement, clearance and release of goods through customs. Such a definition could conceivably capture not only customs procedures, but things such as port facilities and transport[1]

Examples of possible issues covered by "Trade Facilitation"
• Customs procedures • Rules of origin • Tariff classification issues • Inward and outward processing reliefs • Health and safety regulations and standards • Inspections • Intrastat • VAT and excise collections at the border • Transport infrastructure • Freight forwarding charges • Border security procedures

Even on a narrow definition, the subject is broad and complex. A number of authors have therefore attempted to break it down into simpler components in order to better analyse, understand and ultimately tackle the issues. Grainger[2], for example, provides the following classification:

Regulatory Category	Examples of Related Activity
Revenue Collection	Collection of Customs duties, excise duties and other indirect taxes; payments of duties and fees; management of bonds and other financial securities
Safety and Security	Security and anti-smuggling controls; dangerous goods; vehicles checks; immigration and visa formalities; export licenses
Environmental and Health	Phytosanitary, veterinary and hygiene control; health and safety checks; CITES controls; ships waste
Consumer Protection	Product testing; labelling; conformity checks with marketing standards
Trade Policy	Administration of quota restrictions; agricultural refunds

Source: Grainger 2011

Similarly, the Swedish National Board of trade classifies the costs faced by companies as follows:

Cost	Example
Financial	Fees and taxes
Material	Installing and running an IT system
Administrative	Costs of establishing, storing and transmitting information
Nuisance	Waiting time and uncertainty

[1] The UN/CEFACT, the UN body that works on trade facilitation through the development of tools and recommendations, defines trade facilitation as: 'the simplification, standardization and harmonization of procedures and associated information flows required to move goods from seller to buyer and to make payment

[2] See Grainger, A. Trade Facilitation: A Conceptual Review. Journal of World Trade 45:1 2011

It further argues that the key principles of reducing costs are transparency, simplification, standardisation and harmonisation.

Many argue that transport issues – essentially infrastructure - should be treated separately from other elements of trade facilitation. The latter are largely concerned with institutional reform and "better regulation", while transport facilitation, though expensive, is a less complex issue. However, the World Bank, in its "Trading Across Borders" surveys, includes the costs and time of inland transport and port facilities, as does some of the economics literature which uses the World Bank data. This paper therefore covers trade faciliation in its broader sense, looking at both procedural aspects of trade within a county's borders and inland transport costs.

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2. Why Trade Facilitation?

A number of factors have prompted a growing interest in trade facilitation (TF) in recent years, particularly in relation to developing countries.

As tariffs have come down and some of the more obvious non-tariff barriers such as voluntary export restraints have been outlawed, attention has turned to some of the more subtle non-tariff barriers to trade. Increased research into Trade Facilitation issues, including a number of high profile cross-country surveys, have suggested that they can be just as important , and perhaps more important, as traditional trade barriers.

Evidence on the Importance of Trade Facilitaton

- UNCTAD estimated that the average customs transaction involves:
  - 20-30 different parties,
  - 40 different documents,
  - 200 data elements and the re-keying of 60-70% of data.
- An OECD report estimated that a 1% reduction in transaction costs would boost world GDP by $43bn, and two-thirds of this would accrue to developing countries.
- A study by CEPII estimated that halving the cost of trade bureaucracy could mean a saving of €300 billion a year worldwide. And for developing countries it more than doubles the gains from the DDA
- Djankov, Freund and Pham (2008) used World Bank data and a gravity model to test the impact of border delays . They found that for each additional day that a product is delayed at the border , trade is reduced by more than 1%.
- Hummels (Purdue 2001) estimated that each additional day spent in transport reduces the probability that the US will source from that country by 1– 1.5 %. Each day saved in shipping time is worth 0.8% ad-valorem for manufactured goods.

A particular focus of research has been the role of trade facilitation – or lack of it - in explaining developing country trade performance, and Africa's in particular. This issue is covered in more detail in the accompanying analytical paper on Trade and Regional Integration in Africa. The Box below highlights some of the important findings from research, as summarised in a paper by Portugal-Perez and Wilson.[3]

Trade Facilitation in Africa

- The gains for African exporters from cutting trade costs half-way to the level of Mauritius – the best performing African country in terms of TF costs - has a greater effect on trade flows than a substantial cut in tariff barriers. If, for example, Ethiopia cuts its costs of trading a standardized container of goods half-way to the level in Mauritius, this would be roughly equivalent to a 7.6% cut in tariffs faced by Ethiopian exporters across all markets.

- Trade facilitation measures can be divided into 'hard' infrastructure (highways, railroads, ports, etc.) and ' soft ' infrastructure (transparency, customs efficiency, institutional reforms, etc.). Using a gravity model, Francois and Manchin (2007) provide evidence which suggest that both hard and soft infrastructure matter for trade performance, and appear to explain more of the South-North variation in trade than tariffs.

- Export costs are among the highest for landlocked countries. To access overseas markets, landlocked countries rely on the physical infrastructure and logistic capacity of transit countries. Fifteen African countries are landlocked and about 40% of Africans live in these countries, which are dependent on the political stability, infrastructure, and institutional quality of their neighbours to reach overseas markets.

- Transport is important, but its relative importance is diminishing as a result of technological improvements, such as the introduction of containerization in maritime transport in the 1950s. Hummels (1999) finds that the difference between costs associated with shipping comparable ocean/shipped commodities over a long (9,000 km) route and a short (1,000 km) route decreased by 27 percentage points from 1974 to 1998.

- Maritime transport exhibits important economies of scale. Japan and Cote d'Ivoire are equidistant to the west and east coasts of the United States, respectively. However, Hummels (2006) found that shipping costs from Cote d'Ivoire are twice as high as shipping costs from Japan, even after adjusting for differences in the commodity composition of trade.

- Hummels and Skiba (2004) use data from importer–exporter pairs to estimate that doubling trade quantities leads to a 12% reduction in shipping costs.

Trade Facilitiation has the added attraction to policymakers that it can help counter the revenue losses that result from tariff cuts – an important consideration for some developing countries[4]. It also has the advantage that it can directly promote exports as well as imports, so it is politically attractive. Finally, trends towards increased outsourcing, splitting the value chain and just–in-time delivery, which characterise globalisation has made Trade Facilitation all the more important in allowing countries to particpate in international trade. Trade facilitation therefore emerged as the least controversial of all the so-called Singapore Issues[5] and negotiations have continued as part of the Doha Development Agenda (DDA).

However, Trade Facilitation is not just a developing country issue. For example, a 2006 study by the Swedish National Board of Trade concluded that, for advanced

[3] Why Trade Facilitation Matters to Africa: Alberto Portugal Perez and John Wilson
World trade Reviews (2009), 8: 3

[4] Trade Facilitation can boost trade flows without cutting tariffs so should boost tariff revenues. By contrast, the impact of tariff cuts on tariff revenues is ambiguous, depending on the elasticity of demand for imports.

[5] Investment, government procurement, competition policy and trade facilitation.

countries, Trade Facilitation accounts for 29 per cent of the gains from a possible multilateral trade liberalisation package. Even for the UK, which is generally regarded as having a fairly business-friendly Customs environment, there is evidence of scope for further Trade Facilitation improvements which could bring opportunities for greater trade.

- UK Customs processes around 29million customs declarations each year – 22 million imports and 7 million exports. Import declarations are received from around 186,000 different traders. The sheer volume of transactions means that even small savings on each declaration can translate into significant absolute gains.

- A 2009 government review concluded that the administrative burdens on UK business from significant trade regulation was in the region of £1bn per year[6].

- The "tariff equivalent" of TF costs for importers in advanced countries like the UK is often equal to or greater than tariff barriers. A report prepared for USAID found that, for the UK, like in other EU countries, the estimated tariff equivalent of the time taken to trade across borders is around 4.2% compared with an average applied tariff of 2.7%. [7] [8]

- As discussed below, although confirming that the UK is generally has a business-friendly Customs environment, international surveys suggest the costs of trading in the UK in the wider sense of the word are higher than in some other European countries.

[6] Simplifying Trade Across UK Borders: A Plan for Action. December 2009

[7] This tariff estimate excludes the impact of preferences such as Free Trade Agreements and the GSP. If these were taken into account the tariff facing importers would be lower.

[8] If inland transport costs are excluded, the TF costs are 2.3%, roughly equivalent to average applied tariffs.

Table 1: Tariff Equivalents of Time Taken to Trade

Country	Daily Time Cost by Import Basket		Estimated Tariff Equivalent of the Time to Trade Across Borders								Applied Tariff
			Country Weights				Region Weights				
	Current	Regional	Inland Transport	Customs	Port	Total	Inland Transport	Customs	Port	Total	
Germany	0.7	0.8	0.7	0.7	0.7	2.2	0.8	0.8	0.8	2.5	1.8
Greece	0.6	0.8	1.1	1.7	2.8	5.6	1.7	2.5	4.2	8.3	2.2
Iceland	0.9	0.8	0.9	1.8	1.8	4.5	0.8	1.7	7.7	4.2	1.5
Ireland	0.6	0.8	3.0	1.2	1.2	5.4	4.2	1.7	1.7	7.5	1.5
Italy	1.2	0.8	3.6	2.4	7.2	13.1	2.5	1.7	5.0	9.2	2.0
Japan	0.6	0.8	1.2	1.2	1.2	3.6	1.7	1.7	1.7	5.0	4.8
Korea	0.8	0.8	0.8	0.8	1.6	3.1	0.8	0.8	1.7	3.3	9.8
Netherlands	0.6	0.8	0.6	0.6	0.6	1.9	0.8	0.8	0.8	2.5	2.1
New Zealand	1.0	0.8	4.2	1.0	3.1	8.4	3.3	0.8	2.5	6.7	2.2
Norway	0.8	0.8	0.8	0.8	0.8	2.5	0.8	0.8	0.8	2.5	1.8
Portugal	0.6	0.8	0.6	1.2	2.5	4.3	0.8	1.7	3.3	5.8	4.2
Spain	0.7	0.8	1.4	4.4	1.4	4.1	1.7	1.7	1.7	5.0	2.4
Sweden	0.7	0.8	0.7	0.0	0.7	0.0	0.8	0.0	0.8	0.0	2.1
Switzerland	1.5	0.8	7.6	3.0	1.5	12.1	4.2	1.7	0.8	6.7	3.6
United Kingdom	0.9	0.8	1.8	1.8	0.9	4.6	1.7	1.7	0.8	4.2	2.7
United States	0.8	0.8	0.8	0.8	2.5	4.2	0.8	0.8	2.5	4.2	1.6

Source: USAID

A number of other specific factors have raised the profile of Trade Facilitation in the UK. These include expected commitments arising from WTO negotiations; the EU's Modernised Customs Code and its implementing provisions; a desire for improved security and border management and modernisation of border management agencies, including customs; a desire to improve trade competitiveness in line with the wider Better Regulation agenda.

The UK also has an interest in other countries' trade facilitation efforts as part of our capacity building efforts for developing countries, including aid-for-trade, and more generally, as costs and delays overseas can act as a barrier to UK exports.

3. How Does the UK Perform in International Comparisons?

The growing interest in Trade Facilitation has been reflected in and stimulated by the publication of a number of comparative surveys of performance.
These surveys tend to use a fairly broad interpretation of Trade Facilitation. The following summarises how the UK fares in a number of such surveys.

Table 2: UK Ranking in International Surveys of Costs of Trading

Survey	UK Previous Rank (Year)	UK Rank Most Recent	Scope
World Bank Trading Across Borders	18th (2009)	15th (2010)	Survey: Time and cost of document preparation, letters of credit, customs clearance and technical control, Port and terminal handling, inland transport handling.
World Bank Logistics Performance Index	9th (2007)	8th (2010)	Survey based on seven factors: effectiveness and efficiency of Customs; quality of IT and Transport infrastructure, ease and affordability of shipping; competence of local logistics industry; Ability to track and trace shipments; domestic logistics costs; timeliness of shipments.
Global Express Association (GEA)	1st (2008)	No update	Survey; Based on 15 "GEA customs barriers" survey questions capturing Different aspects of the services offered by customs and related agencies. The services including clearance of shipments via electronic data interchange; separation of physical release of goods from the fiscal control;
World Economic Forum: Global Enabling Trade Report	20th (2009)	17th	Survey, plus collation of other surveys, including the three above. Based on 9 "pillars", including market access; efficiency of customs; efficiency of import-export procedures; transparency of border administration; availability and quality of transport infrastructure and border administration; availability and use of ICTs; regulatory environment; and security.
World Bank Investing Across Borders Report	NA	First Report 2010. No ranking provided, but UK scores highly (Top3)	Assessment of regulation affecting inward foreign direct investment in 87 economies. Covers foreign equity restrictions; ease of starting a foreign business; Accessing industrial land and arbitrating commercial disputes.

The UK generally has a fairly high ranking, with differences in its precise position reflecting different methodologies and numbers of countries surveyed. However, a closer look at one of the surveys, the World Bank's Doing Business, report indicates that there remains scope for improvement.

The World Bank makes annual comparisons across 183 different countries using a business survey. It provides an estimate of the costs associated with a range of business activities and provides an overall country ranking for the Ease of Doing Business. It also provides rankings in relation to each individual business activity, one of which relates to Trade Facilitation (Trading Across Borders). Table 3 below summarises the results for 2011 for the UK, a number of other EU and non- EU economies.

Singapore and Hong Kong top the Trading Across Borders league table, which is not surprising given that these are basically regional clearing hubs, with a large proportion of their trade[9] being re-exports. These economies also rank numbers one and two in terms of the World Bank's overall ease of Doing Business index.

Given that the survey covers over 180 countries, the UK achieves a respectable ranking in terms of Trading Across Borders (15th). However, although ahead of most major EU competitors, the UK is still behind a number of smaller EU countries, all of which are subject to essentially the same EU regulatory framework as the UK. It is also notable that the UK also does not perform as well on Trading Across Borders as it does in terms of its overall ease of business rankings, where the UK ranks number one in the EU.

Table 3: World Bank: Doing Business and Trading Across Borders 2011

Economy	Ease of Trading RANK	Ease of Doing Business RANK	Economy	Ease of Trading RANK	Ease of Doing Business RANK
Singapore	1	1	France	26	26
Hong Kong	2	2	Portugal	27	31
UAE	3	40	Lithuania	31	23
Estonia	4	17	Lux	32	45
Denmark	5	6	Belgium	44	25
Finland	6	13	Romania	47	56
Sweden	7	14	Poland	49	70
Netherlands	13	30	Spain	54	49
Germany	14	22	Slovenia	56	42
UK	**15**	**4**	Italy	59	80
Latvia	16	24	Czech Rep	62	63
Cyprus	19	37	Hungary	73	46
USA	20	5	Greece	84	109
Ireland	23	9	Slovak Rep	102	41
Austria	25	32	Bulgaria	108	51

Source: Doing Business 2011

4. Main Issues for the UK

To understand the most important Trade Facilitation issues for the UK, it is instructive to look closer at the main costs of importing and exporting (document preparation, Customs clearance, ports and terminals handling and inland transport and handling), and compare the position with other European countries. In Table 4

[9] Over 95% according to the WTO International Trade Statistics 2010

the chosen comparators are Germany, which has a similar overall position to the UK, and Estonia, which is the highest ranked of all the EU nations.

The comparisons suggest there is little difference between the three countries in terms of the time taken to import and export, though inland transport and handling takes longer in the UK.

In terms of the main monetrary costs[10], however, trading in the UK is between 30% to 40% more expensive than in Estonia, and around 10%-12% more expensive than in Germany.

Inland transport and handling are by some margin the most important costs in all countries, accounting for over 50% of the costs in the UK. It is also the area where the UK cost disadvantage is most significant in absolute terms. It is nearly 70% more expensive than in Estonia and about 22% more expensive than in Germany. By constrast, in relation to the other cost elements, the picture is more mixed. For example, while the costs of customs clearance are said to be relatively high in the UK (presumably referring to freight forwarders charges), the costs of port handling appear to be lower than in, say, Germany.

[10] Because the costs are expressed in Dollars, the precise level in any given year is affected by changes in the Dollar exchange rate of the countries concerned.

Table 4: Trading Across Borders 2011: UK Comparative Position

Days Taken to Import and Export a Standard Container

	UK	Estonia	Germany
Export			
Document Preparation	2	1	3
Customs Clearance and Technical Control	1	1	1
Ports and Terminal Handling	2	2	2
Inland Transport and Handling	2	1	1
Total inc inland transport	**7**	**5**	**7**
Total exc inland transport	**5**	**4**	**6**
Import			
Document Preparation	2	1	3
Customs Clearance and Technical Control	1	1	1
Ports and Terminal Handling	1	2	2
Inland Transport and Handling	2	1	1
Total inc inland transport	**6**	**5**	**7**
Total exc inland transport	**4**	**4**	**6**

Cost $ of Importing and Exporting a Standard Container

	UK	Estonia	Germany
Export			
Document Preparation	125	200	142
Customs Clearance and Technical Control	75	25	30
Ports and Terminal Handling	200	175	250
Inland Transport and Handling	550	325	450
Total inc inland transport	**950**	**725**	**872**
Total exc inland transport	**400**	**400**	**422**
Import			
Document Preparation	220	200	182
Customs Clearance and Technical Control	75	25	55
Ports and Terminal Handling	200	175	250
Inland Transport and Handling	550	325	450
Total inc inland transport	**1045**	**725**	**937**
Total exc inland transport	**495**	**400**	**487**

Source: Doing Business 2011

5. Limits of Surveys

Surveys like those conducted by the World Bank are useful in providing broad brush comparisons of the costs of trading. And a country's performance in these surveys has important reputational implications, e.g., how a country is perceived by potential inward investors. However, they have limitiations. Covering so many different countries each year means that surveys inevitably have to adopt something of a "one size fits all" methodology, which does not always capture the fine-grained reality of trading. Grainger, for example, has counted in excess of 60 regimes with a potential impact on international trade operations[11]. International surveys can therefore tell us only so much about the policy solutions needed to tackle real operational problems encountered by traders.

It also means that the number of businesses included in the survey sample tends to be relatively small. In the case of the UK, for example, past results from Trading across Borders are thought to have reflected the views of a handful of traders, although efforts have been made to increase numbers in recent years.

Trading Across Borders measures companies' best estimates of the cost and time of exporting and importing a hypothetical standard container from a country's capital city using the nearest port. This can favour countries with a coastal capital. Also, for EU countries like the UK, it takes no account of the fact that more than half of trade is with other members of the European Union and hence are not subject to the requirement to present a Customs Declaration.[12] There may also be problems of consistent interpretation of questions country to country.

A 2009 study by Middlesex University[13] attempted to replicate the World Bank's survey for the UK, but to improve the statistical robustness of the results by interviewing a larger number and wider range of companies and experts than the World Bank sample. The key findings were:

- It is likely that the World Bank in the past had overstated the time for import/export trade across the UK border.

- The World Bank's cost estimates are broadly correct for import and export. However, as the report expresses costs in US dollars, the costs attributed to the UK are sensitive to the Dollar exchange rate.

[11] Grainger, A: Supply Chain Security: Adding to a Complex Operational and Institutional Environment. World Customs Journal 1,2 (2007)
[12] A range of barriers to trade within Europe, including TF barriers arising at the border, can be addressed using a service called SOLVIT. SOLVIT handles problems with a cross-border element that are due to bad application of EU law by public authorities within the EU member states
[13] Middlesex University, Centre for Enterprise and Economic Development Research: "Analysis of World Bank's Doing Business Report: Trading Across Borders Survey 2009

- Customs in the UK is extremely efficient and rapid, clearing 97% of goods within 2 hours. However the time taken to clear customs - an area where other surveys suggest the UK performs well internationally - has only a small influence on the *Trading Across Borders* results.

The report also pointed to difficulties in achieving consistent interpretation of the World Bank's questions. Even if the survey provides a reasonably accurate measure of the costs of trading in the UK, it is difficult to be sure that this is always true of other countries.

6. Challenges and Possible Responses

The UK already has a highly efficient and business-friendly Customs regime. For example, introduced in 1994, the CHIEF (Customs Handling of Import and Export Freight) system handles over 99% of all customs declarations electronically. This amounts to risk-assessing in the region of 30 million declarations each year, with most goods being cleared within seconds as a result.

However, further gains in efficiency are likely to be more difficult to come by. In 2009 BIS undertook a detailed study of the clothing and footwear sector – a sector which accounts for around 5% of UK's external trade, but around 30% of all Customs Declarations. This revealed a number of areas where traders feel improvements could be made.

Problems identified in this study include the complexity of the EU tariff, the Intrastat system of recording trade flows within the EU, and the difficulties and costs of complying with rules of origin and duty relief schemes.

One the most effective ways of removing some of these regulatory barriers is to eliminate the tariff themselves. This would reduce the costs associated with, for example, the complexity of the tariff and duty relief schemes, and make preferential rules of origin redundant. This serves to illustrate the complementary nature of tariff reform and Trade Facilitation.

The UK Clothing and Footwear Sector : Main Findings of a 2009 Study

- Most companies regarded the implementation of EU regulation by HMRC as efficient, appropriate and trade-facilitating. HMRC compares favourably with Customs administration in most other EU Member States. And the burden of trade regulation had fallen over time. Most problems were seen as originating in the EU rather than in HMRC.
- Since the end of licensing and quotas, the importance of regulation in the sector mainly stems from the sector's relatively high Most Favoured Nation (MFN) tariffs. While the average EU non agricultural MFN tariff is around 2.5%, average clothing and footwear tariffs are 11.2% and 10.7% respectively.
- High tariffs accentuate the importance of regulatory issues, including classification, valuation and security deposits, as well as duty relief schemes and rules of origin. The most effective way of lightening the burden of these regulations would be to eliminate the tariffs themselves.
- Customs declarations imposed a non-trivial cost on traders. One company estimated that the annual cost of making declarations was £600,000 . Many traders failed to see the necessity of classifying goods at the level of detail required in the customs declaration, especially where there was no customs revenue at stake. Customs valuation and the cost of bank guarantees for traders was also a source of complaint.
- For intra-EU trade, the regulatory burdens are much lighter, as no customs declaration is required and no duties are payable, which also means that duty relief and tariff preference schemes are irrelevant. But many traders felt Intrastat returns required unnecessary detail, were over-zealously enforced and involved duplication of effort.
- Because of the size of MFN tariffs in the clothing sector, preferences and the associated rules of origin play an important role in this sector. The biggest concerns of importers is the risk of future duty liability when claiming preferences, the complexity of rules of origin in the clothing sector, and the costs of acquiring, processing and storing origin certificates.

Short of this, the problem remains that many regulations affecting UK traders– around 93% of the overall burden - emanate from Europe, and it has proved very difficult to reform trade regulation at the EU level. For example, efforts to reform Intrastat and simplify the EU tariff have faltered due to failure to agree among Member States. And little progress was made in simplifying rules of origin in the clothing sector as part of the review of the GSP, despite pressure from the UK and some other Member States.

6.1 Growing Trade Volumes / Limited Resources

Like most countries, the UK faces the challenge of managing an ever growing volume of trade across its borders with a tightening of resources available for regulating those flows. This has required a number of responses, including improved risk management, e.g., better targeting of physical inspections by risk profiling. Also, it is thought that a small number of traders are responsible for the bulk of trade transactions, possible as little as 5 % of traders account for around 95% of transactions (95/5), with the ratio possibly being as low as (97/3). This means that it may make sense to try to develop the concept of "trusted traders" by providing a fast track for those larger traders based on their risk profile, compliance record and their willingness to invest in certain systems to manage their compliance. In Europe, this approach has been implemented through the Authorised Economic Operator scheme whereby traders are subject to a detailed audit of their processes against certain criteria, in return for a number of simplifications and facilitations in relation to customs procedures.

6.2 International Agreements

Trade Facilitation initiatives are being pursued in a number of international organisations such as the World Customs Organisation, the WTO and various UN bodies. This has resulted in a number of international conventions, for example, standardising the layout of trade documents. The WTO negotiations focus on issues such as transparency, advance notifications, establishment of enquiry points and use of advance rulings e.g. for tariff classification.

However, some authors argue that there can be a disjoint between international negotiations and the operational reality of Trade Facilitation on ground. The top-down approach of international agreements may not always be the most appropriate, as some problems may be better tackled at an operational level with a bottom-up approach. Some also question how any international agreement will be enforced, arguing that, ultimately, self-interest will be the main driver of compliance, rather than any international enforcement mechanism.

To emphasise the point about the importance of implementation of agreed regulations, it is instructive to observe the huge variation in the costs of trading across EU Member States, all of which operate under a common regulatory framework. For example, based on the 2011 Trading Across Borders Survey, importing and exporting costs twice as much, and takes three times as long, in the worst-performing EU Member States as in the best-performing. Clearly, common rules do not generate common outcomes.

Table 5: Trading Across Borders: Best and Worst EU Performers

Top 3 Best v Bottom 3 Worst Performing EU Economies
Average cost and time taken to Import plus Export

	All Trade Costs		Document and Customs Costs Only	
	Costs ($)	**Time (Days)**	**Costs ($)**	**Time (Days)**
Best 3	662	6.5	229	3
Worst 3	1363	20.3	386	14
Ratio	2.1	3.1	1.7	4.3

Top 3 are Estonia, Denmark and Finland. Bottom 3 are Bulgaria, Slovak Rep and Greece
Data taken from World Bank, Trading Across Borders 2011

6.3 International Trade Single Window (ITSW)

The regulatory burdens of border procedures can be reduced through the implementation of an ITSW. This has been defined as ”a facility that allows parties involved in trade and transport to lodge standardised information and documents with a single entry point to fulfil all import export and transit related regulatory requirements”. An ITSW works by centralising the electronic submission of documents required for import and exports, and means that traders do not have to submit the same information more than once even when faced with a multiplicity of regulation. [14]

There are a number of potential benefits of an ITSW and many of the countries near the top of the World Bank’s Trading Across Borders league table operate some form of Single Window, including Singapore and Sweden.

But there are also significant short term costs to implementing an ITSW, including capital costs and reconfiguring existing Customs IT systems. And in order to move towards a truly paperless system, all the various regulatory regimes which govern imports and exports also have to move towards paperless certification system. The EU’s GSP rules of origin regime, for example, has relied on paper certification to prove origin and hence eligibility for preferences, though this system is set to change to an electronic system in 2017. Other preferential arrangements retain a paper-based system for origin verification.

6.4 Inter-Agency Coordination

One potential problem facing traders is a failure of various regulatory agencies to coordinate their activities. This can contribute to delays and costs at the border, particularly for products that are perishable. While this sounds straightforward, inter-agency coordination is often fraught with difficulty in practice.

6.5 Transport

As noted above, the main influence on UK ranking is the cost and time taken for inland transport and port handling, rather than trade regulation per se. According to World Bank estimates, inland transport and port handling account for over 70% of the cost and approximately 50% of the time taken to complete a standard import/export transaction[15]. Customs and technical controls by contrast account for around 7% of costs and 14% of time.

[14] However, the term Single Window is, in practice, given to a wide variety of systems or varying degrees of sophistication.
[15] Based on a survey of traders and other companies with an interest in and knowledge of trade procedures.

Although a number of efforts have been made to better understand the regulatory and other costs of international trade, including the inland leg (see box below), major improvements to the costs and time of inland transport are likely to require major infrastructure costs. This poses particular problems in times of fiscal restraint.

7. Threats

Although the general thrust of policy in the UK and other countries is to promote Trade Facilitation16, there are a number of factors which are likely to work against the grain of Trade Facilitation in the short to medium term. Below are three examples.

7.1 Increased Security measures

Since 9/11, there has been increased emphasis on border security, which is likely to add to the costs of trade, depending on how it is managed. Overall, industry experts have estimated that, soon after the attacks, the total cost of security-inspired measures could amount to between 1 and 3 per cent of trade *ad valorem*.[17] This is a similar scale to the reduction in developed countries' bound tariffs on the imports of industrial goods, of 2.5 percentage points, agreed under the Uruguay Round. [18]

7.2 Climate Change

The failure to agree a global deal to limit carbon emissions has led to calls for so-called Border Adjustment Mechanisms (BAMs), i.e., tariffs based on the carbon content of imports. A number of studies have highlighted the potential complexity of administering these instruments. Many fear that these costs would pose a real threat to legitimate trade, including trade in goods produced carbon-efficient products[19].

7.3 Origin Marking

Discussions continue over whether the EU should adopt some form of Country of Origin marking regulation which would apply to imports from most countries outside the EU. Any such regulation would add to the cost of importing for products covered.

[16] Developments in the private sector have reinforced this trend. According to the OECD, the cost of business logistics fell from 16 to 10 per cent of GDP 1980-2000 for two main reasons. *First*, improved supply chain management models have made it possible for companies to operate with thinner inventories and therefore cut back on carrying costs. Overall inventories, fell from 25 to 15 per cent of GDP with increased reliance on just-in-time models. *Second*, the cost of transportation services has dropped in relation to other producer prices since the deregulation of the early 1980s. (OECD Economic Outlook 71. Economic Consequences of Terrorism

[17] See Leonard (2001). Cited in OECD Econ Outlook 71. 2002.

[18] However some authors such as Grainger have offered a contrary view, emphasising the synergies between improved security and trade facilitation. http://www.europarl.europa.eu/activities/committees/studies/download.do?file=21095

[19] See for example Swedish National Board of Trade

Department of Transport End to End Case Study – Key Findings

The Department for Transport has undertaken a number of analyses of end-to-end journeys through the UK's key international gateways. This analysis has included stages of the journey and processes such as border controls and security. These documents provide a platform for identifying key blockages in the transport system, prioritising policy options and reinforcing the commitment to serious long-term transport planning for international networks.

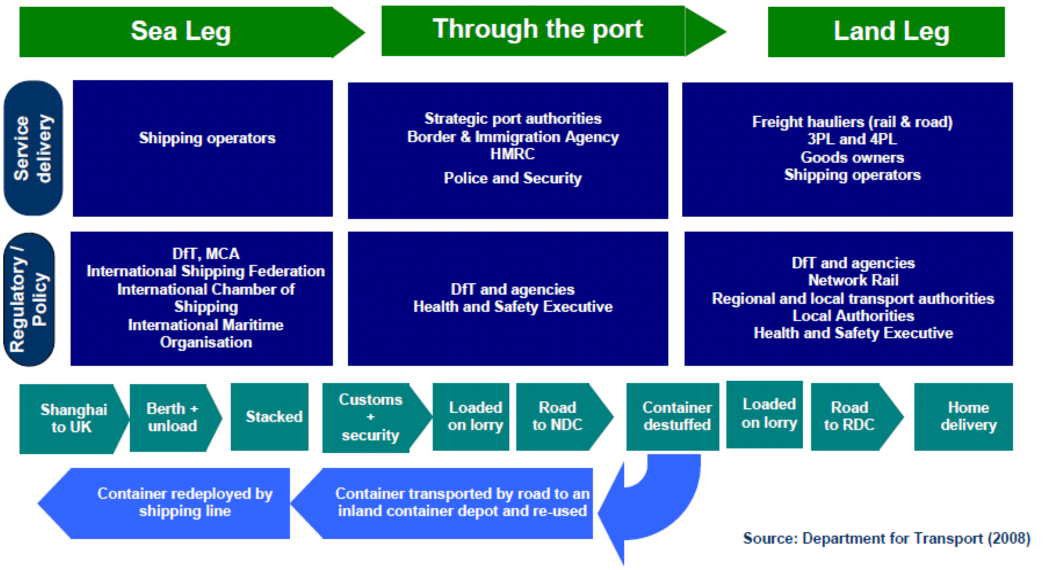
- Delivery and regulatory responsibility is highly fragmented across the end- to –end journey, with multiple public and private sector organisations involved. This leads to potential coordination failures.

- Due to the complexity of many end-to end journeys, there is little transparency of overall journey performance. Data is often incomplete or collected on an inconsistent basis, complicating the task of identifying problems and priorities for government.

- Inland transport to and from international gateways can be a significant cause of cost and delay.

- Policy should focus on improving the performance of existing infrastructure by developing measures to improve coordination between delivery partners and increase transparency across the end to end journey.

Figure 2: An end-to-end journey of a container of sofas from China to Newcastle



Source: Department for Transport (2008)

8. Conclusion

- Whether viewed in a narrow or broad sense, there has for some time now been a fairly widespread consensus that trade facilitiation is now one of the most important trade policy issues for international negotiators and for domestic regulators.

- While much of the emphasis has been on developing countries, there is also a recognition of the benefits for developed countries like the UK.

- The UK has a relatively light-touch regulatory regime, and scores well in in international comparisons. But a closer look at the costs of trading suggests that there is still room for improvement. However, incremental reductions in the cost and speed of trading will prove difficult. And many of the improvements will involve persuading Europe – other Member States and the Commission.

- In the broader sense, one of the major costs facing UK traders is inland transport. And while there are regulatory issues, really major improvements will require significant infrastructure expenditures. This poses obvious challenges in a time of fiscal restraint.

- Policy-makers are also faced with a challenge: a number of trends go against the grain of trade facilitation such as tightened security procedures and trade restrictions in support of climate change objectives.

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