

The Doha Round Negotiations on Trade Facilitation

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Successive Rounds of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) and now the World Trade Organization (WTO) have succeeded in substantially freeing up global trade flows. Over the past 60 years, the average level of import tariffs on manufactured products of the industrialized countries has been cut from a range of 20 to 30 percent to less than 4 percent. Non-tariff barriers—from quantitative restrictions to rules of origin, product regulations, and the like—have been regulated under WTO rules, which has substantially reduced their trade-restrictive and distorting effects. The result is that business has been able to compete more freely and fairly in global markets, consumers have had a bigger selection of better-quality products at lower prices to choose from, and governments have been able to rely on the dynamics of comparative advantage to increase growth and promote economic development. Trade has flourished and expanded 27-fold in volume terms since the GATT was created in 1948, an increase of three times more than global production.

Many of these issues are captured by the Enabling Trade Index (ETI) discussed in Chapter 1.1. As traditional trade barriers have come down, and in some cases been eliminated, attention has turned to facilitating trade flows by tackling other obstacles that may be less obvious than tariffs or quotas but that, nonetheless, interfere with the ease of moving goods across borders. Among these obstacles are cumbersome data and documentation requirements, restrictive administrative regulations, disproportionate fees and charges, and excessive formalities and other unwieldy border procedures, all of which impose high costs on trade and on business and consumers. The case was made at the WTO Ministerial Conference in 1996 for examining how multilateral action by WTO Member governments might help to reduce these costs without interfering with legitimate border management objectives such as revenue collection and security. After some years of analysis and debate in the WTO—a typical precursor to an agreement to launch formal negotiations—it was agreed in mid-2004 to address these obstacles by adding Trade Facilitation to the list of subjects that was being negotiated in the Doha Round.

What is at stake?

Over the past few years, a wealth of empirical evidence has been gathered on the transaction costs that are imposed on international trade by poor-quality border management and logistics. Moving goods from the farm or factory gate to markets overseas often involves a long and complicated supply chain, with the risk that a single bottleneck along the way can seriously affect the entire process. Connecting efficiently to markets is particularly critical for developing countries, whose firms and farmers typically do not enjoy a high enough margin of competitiveness internationally to be able to absorb high

transaction costs. Their ability to move their produce across borders quickly, reliably, and cheaply can mean the difference between their success or failure in integrating into the global economy.

The WTO Trade Facilitation negotiations do not pretend to target the entire logistical supply chain. A significant share of the costs of getting goods to markets arises in areas such as ocean and inland transport, port management, and warehousing. For the most part, these areas lie well outside the purview of the WTO, although the Doha Round negotiations on Trade in Services can play an important role in helping to increase competitiveness, productivity, and efficiency in these activities. The Trade Facilitation negotiations cover a relatively narrow, but still significant, link in the chain—the actions that governments take to control and administer the way in which goods move across their national borders, through the various documentary and physical inspection stages to clearing customs and receiving approval from border agencies such as the health and safety or revenue authorities.

There are no precise figures of the costs that poor trade facilitation, narrowly defined, imposes on business and consumers, but data collected by the World Bank for its excellent annual report on the costs of “Doing Business” in its member countries come close. These data cover all of the official procedural requirements involved in exporting and importing a standardized container of goods, and measure them in terms of the number of documents required, the time taken from start to finish, and the overall cost of meeting the requirements. The Organisation for Economic Co-operation and Development (OECD) countries set the benchmark for best practice as a regional group, requiring on average about 5 separate documents and clearing the goods in an average of 10 days at an average cost of about US\$950 per container.¹ In contrast, in sub-Saharan Africa almost double the number of documents are required: goods take from 35 days (for exports) to 44 days (for imports) to clear at an average cost per container of between US\$1,660 (for exports) and US\$1,986 (for imports). The overall world champion at trade facilitation is Singapore, where 4 documents are required and goods are cleared in, at most, 5 days at an average cost of around US\$400 per container. At the other end of the scale are many of the low-income developing countries, in particular the landlocked developing countries whose trade facilitation costs can mushroom as a result of the effort required to move goods in transit by road or rail through their neighbors to their nearest international port.²

Handicapping the world’s least competitive producers and poorest consumers with additional transaction costs of US\$1,000 or more for each container of goods that they manage to export or import is clearly absurd. The trade barriers they face in their main export markets are, in most cases, far less significant than these

transaction costs, and for many of them the costs of poor trade facilitation have a bigger impact than their tariffs on the domestic price of imported goods. In short, the stakes involved in completing the Trade Facilitation negotiations and implementing the results successfully are high for many WTO Members, particularly the majority of developing countries.

Negotiating objectives

Mandates for formal WTO negotiations are often fought over bitterly by governments, since they set the parameters for the final results. These mandates can end up laced with compromise language that conceals unresolved differences at the time a Round is launched, and when these surface further down the road, as inevitably they do, they risk bringing the negotiations to a halt while they are sorted out.

The mandate for the Trade Facilitation negotiations is refreshingly clear and straightforward. It sets out three objectives:

- to clarify and improve GATT rules on the movement, release, and clearance of goods, including goods in transit, with the aim of reducing the transaction costs of trade;
- to develop special provisions for developing countries and least-developed countries (LDCs) and provide them with technical assistance and capacity-building support that will help them to implement better trade facilitation policies and practices; and
- to improve communication and cooperation between the customs authorities of WTO Members.

The most important target of these negotiations is to assist developing countries and LDCs to implement trade facilitation reforms and to adopt better practices that will enable them to move goods across their borders more efficiently than they do today. The negotiations are not inconsequential for the industrial countries such as the United States or those in the European Union. They too have scope to make reforms and improve their practices, and better GATT rules will bring outside pressure on them to move in that direction as well as helping to avoid unnecessary trade disputes between them from flaring up, as they have done at times in the past. Overall, however, it is the developing countries and LDCs that have the most to gain. They have the biggest deficit to make up in reaching standards of international best practice and the accent has been placed firmly on assisting them do that in practical terms by providing them with technical and, where necessary, financial support, not on litigating against them through the WTO’s legal system.

Clarifying and improving GATT rules

Three GATT Articles are at the center of the Trade Facilitation negotiations: Article V, on facilitating transit trade, Article VIII on limiting border fees and formalities, and Article X on making trade regulations transparent so that foreign traders can understand them and work with them more easily in their day-to-day business activities. These Articles all date back to the original GATT agreement of 1948, and although they have stood the test of time remarkably well they are undoubtedly in need of modernization to reflect the ways in which commercial and business practices have changed.

A good example is the use of the Internet to publish trade regulations, to allow documentation requirements to be completed online, and to help border agencies use modern information technology to improve the efficiency and cost-effectiveness of their own operations. Other proposals that have been tabled under the rubric of clarifying and improving GATT Article X to create better and easier access to information for traders include the establishment of national enquiry points that serve as a one-stop shop for information about trade-related legislation and procedures; procedures to notify traders of upcoming changes in laws and regulations so that they can adjust their business practices ahead of time and avoid running into problems after the goods have already arrived at the docks; the provision of advance rulings about how goods will be treated when they arrive at customs, in terms of tariff classification or customs valuation, for example; and the creation of appeal procedures for traders to allow them, where necessary, to challenge decisions of customs or other border agencies in an objective and transparent manner.

The task of updating GATT Article VIII on border fees and formalities has attracted the largest number of proposals. These cover a lot of ground. One proposal aims to reduce border fees and charges by requiring that they be set in line with the actual costs of border administration. Another is to agree on common standards that can be used to simplify documentation requirements and harmonize them internationally as far as possible. A particularly valuable proposal for many traders is the establishment of a “single window” that allows all documentation and data requirements for importation, exportation, and transit to be submitted at the same time and once only, cutting out the duplication of effort that is involved in dealing with many different border authorities and agencies separately. Other proposals are that WTO Member governments should eliminate requirements for pre-shipment inspection, stop charging consular fees, and open up any system they have of mandatory customs brokers to much wider participation by foreign traders than is the case at present. There are proposals, too, to recognize and adopt modern customs practices, such as allowing the expedited release and clearance of goods, using risk assessment techniques and authorized trader schemes, and carrying out post-clearance audits.

Steps to facilitate transit traffic are the major objective of these negotiations for many landlocked countries that, as noted in the figures cited from *Doing Business*, are paying a very expensive price to get their exports and imports to and from their nearest ports. Proposals have been made to strengthen the nondiscrimination provisions (most-favored nation, or MFN, and national treatment) of GATT Article V, to reduce transit fees and charges and simplify transit formalities and documentation, to limit inspections and controls by using bonded transport, and to promote regional transit arrangements. In one respect at least, these proposals may be tricky to deal with since for transit countries, many of whom are themselves low-income developing countries, the prospect of dealing with substantially increased transit traffic from their neighbors can threaten to overload their road and rail infrastructure, which is already weak. This is an area, therefore, in which the logistical supply chain needs attention—not only through the WTO negotiations but also by development agencies and bilateral donors to help invest in upgrading transport facilities and creating new transit corridors. Trying to restrict or regulate transit traffic through excessive border controls is, in every respect, a second-best alternative.

In total, proposals for new or improved GATT disciplines have been tabled on about 50 issues. Part of the success of the Trade Facilitation negotiations is the fact that these proposals have originated from across the whole spectrum of WTO Member governments, reflecting a high level of engagement by developing countries and LDCs. In several cases, they have joined forces with the major industrialized countries to help get their point across. The original negotiating proposal to eliminate consular fees, for example, was jointly sponsored by Uganda and the United States, and Switzerland has co-sponsored proposals on improving transit rules with a number of low-income, landlocked, developing countries as well as landlocked countries in Eastern Europe. While alliances of this sort are not unheard of in other areas of the Doha Round, they have been particularly evident in the Trade Facilitation negotiations and they have created the sense of common purpose that is so important for crafting a multilateral consensus around an agreement that aims to serve the collective welfare of the whole membership. All WTO Members are both importers and exporters of merchandise trade, and all of them have a vested commercial interest in seeing the transaction costs of their trade reduced, in their own countries as well as in their trading partners. The prospect is for a win-win outcome for all concerned.

Support for developing countries

One reason that the start of negotiations on Trade Facilitation was delayed until 2004 was opposition from developing countries to including the package of “Singapore Issues” in the Doha Round. These issues—Foreign Investment, Competition Policy, Government

Procurement, and Trade Facilitation—were promoted heavily, by the European Union in particular, at the WTO's Ministerial Conference in Singapore in 1996. Trade Facilitation was always the least contentious of the four issues, but even so it did raise concerns, especially among low-income developing countries, that it would overload the capacity of these countries to upgrade their trade infrastructure by requiring them to take on additional, expensive but unfunded WTO obligations. When proposals to launch negotiations on the other three Singapore Issues were finally dropped at the WTO's Cancun Ministerial Conference in 2003, attention turned to crafting a negotiating mandate for Trade Facilitation that would allay these concerns.

The result provided *ex ante* assurance to developing countries and LDCs on three points: they would receive help to participate fully in the negotiations so that the substantive issues of most commercial interest to them would be taken fully on board; they would receive generous technical assistance and capacity-building support to implement the results of the negotiations; and, on a somewhat more defensive note, they would not be required to undertake new WTO obligations until that assistance and support has been provided. Once the negotiations got going and it became clear that developing countries and LDCs were enthusiastic about sharing fully in the potential benefits of a final agreement, attention turned to designing an effective delivery mechanism to ensure that the technical assistance and capacity-building support is provided and that it does produce real trade facilitation results on the ground, where it counts.

Enhancing the ability of low-income developing countries to participate effectively in the negotiating process may sound like a mere detail, but it matters a great deal for those that can afford to maintain only a very limited staff at their permanent missions in Geneva and that require the presence of customs and other experts from capitals at the negotiating table to make sure that their own commercial interests are well represented. A facility has therefore been set up to cover the costs of periodically bringing experts from low-income countries to Geneva for the negotiating sessions, thanks to funding that, to date, comes from Norway and the United Kingdom.

As for the second and third points of assurance provided in the negotiating mandate, negotiations to create an effective delivery mechanism for technical assistance and capacity-building support are still underway, but the broad lines that will be involved are already fairly clear.

The first step, which is already being organized by the WTO Secretariat, involves expert support to individual developing countries to help them review their current trade facilitation practices and to assess what more they would need to do to implement in full the package of draft proposals that is on the table today. About 70 WTO Member governments have requested

assistance under this needs-assessment program, and the secretariat is organizing missions at the rate of five or six countries per month to respond to these requests, with the help of customs experts from other intergovernmental agencies such as the World Bank and the World Customs Organization as well as from the national administrations of other WTO Members. Over the course of a one-week workshop held in each country's national capital, representatives from all relevant border agencies meet together to study the proposals, learn from the experts how other countries manage their customs and border procedures, and assess what steps they would need to take to raise their own trade facilitation practices up to international norms. Experience has shown that, beyond the preparation of a detailed needs assessment, one of the most valuable and rewarding results of the exercise is to generate better understanding and closer cooperation among the different national agencies involved in the border management process. That alone can begin yielding practical results on the ground and lower the transaction costs of the country's trade, even before official negotiations have been completed.

The finished needs assessment for each WTO Member government is an important input to the completion of the negotiating process back in the WTO headquarters in Geneva. Negotiators are currently working on a framework to implement the eventual Trade Facilitation agreement that would see developing countries and LDCs scheduling their trade facilitation reforms in three categories:

- those reforms that they have already undertaken or that they consider can be undertaken relatively easily and that they can therefore agree to implement straight away, as soon as the agreement is finalized;
- a second category that the national needs-assessment exercise has shown they would require time to carry out; and
- a third category for which they require not only time but also technical assistance and capacity-building support in order to complete satisfactorily.

Since the trade facilitation situation on the ground differs from country to country, each Member government's schedule is likely to differ too, but that is not a real concern. The aim is not to line up all WTO Members at the start, but to help them all to reach the finish successfully, especially those that need the help most.

Following up on the third category of commitments in a Member government's schedule—those that require not only time but also technical assistance and capacity-building support to implement fully—will clearly be an essential part of the process. It will require close cooperation between the WTO and other intergovernmental

agencies with expertise and experience in the area of trade facilitation as well as direct cooperation among individual WTO Members—those that require assistance on the one hand and those that are in a position to supply it on the other. The WTO is not a development agency, much less a development bank, and it has no intention of moving into that area of activity. Under its Aid-for-Trade program, the WTO aims to help its low-income Member governments to advocate their case for increased development financing from development banks and bilateral donors to allow them to build trade-related capacity. It will use that program to make the case for providing capacity-building support for trade facilitation projects, among others. Completing the implementation of this third category of commitments will take time, but—given the size of the returns that can confidently be expected from each dollar invested in facilitating trade—there should be no doubt about its eventual success.

Prospects for success

Although the Trade Facilitation negotiations began only three years after the rest of the Round had been launched, they have more than made up for their late start. At the time of writing, all of the main elements of an eventual Trade Facilitation agreement have been tabled in proposals by WTO Member governments, the process of reviewing and refining those elements and turning them into draft legal provisions has begun, and an extensive program of technical assistance for developing countries LDCs is well underway in their capitals to help each of them assess what reforms they will need to carry out in order to implement the agreement when it finally comes into force.

Trade Facilitation is being treated as part of what is termed the “Single Undertaking” of the Doha Round. This means that it cannot be split off or completed separately from other subjects under negotiation, such as Agriculture and Services. Accepting the Single Undertaking formulation was a necessary condition for some Member governments to agree to start negotiations on Trade Facilitation. It is a formulation that is credited with having made the Uruguay Round negotiations a comprehensive success in the 1990s. Tying all of the negotiating subjects together prevents any attempt at cherry-picking when it comes to agreeing on the overall results, and results that are broadly popular for all WTO Members (such as Trade Facilitation) can help leverage through others for which finding consensus is an altogether more difficult affair. Equally, of course, the Single Undertaking may cause delays to Trade Facilitation if problems develop elsewhere on other negotiating issues, but at the moment there is no sign of that having happened to any significant extent.

One hallmark of these negotiations has been the engagement of developing countries, including many of

the LDCs. This reflects their belief that the eventual Trade Facilitation agreement will yield significant benefits for their trade expansion and economic development. Great care is being taken to craft meaningful development provisions—in WTO jargon, “Special and Differential Treatment” provisions—into the agreement that will ensure it produces genuine change and makes a real difference to the ease with which developing countries can expand their trade.

In sum, the prospects for a successful conclusion to the Trade Facilitation negotiations are good, and the benefits for business and consumers from a new agreement will be significant. These negotiations do not have the high political profile of some other parts of the Doha Round, but that is no bad thing when it comes to making steady progress at the technical expert level in Geneva. Once completed, the new agreement will add another page to the WTO rulebook that underwrites the openness and stability of the international trading system, and it will signal real changes on the ground in Member governments’ trade facilitation policies and practices that will allow traders to get goods across borders more quickly, reliably, and cheaply than they can today.

Notes

- 1 World Bank 2007.
- 2 The biggest loser, according to the World Bank figures cited in *Doing Business 2008*, is landlocked Chad, whose trade facilitation costs to import a container of goods stand at US\$5,520 and whose exercise takes over 100 days.

References

World Bank. 2007. *Doing Business 2008*. Washington, DC: World Bank.