

Statement on  
***The Trade Policy Response to Covid-19: A Call for Urgent OECD Action***

7 April 2020

Across OECD countries and beyond, governments are taking ambitious initial responses to minimize the implications of the Covid-19 pandemic for their citizens, while limiting severe damages to our economies and societies. It is clear that the size of the economic shock will critically depend on the length, extent and coordination of containment and mitigation measures, amongst others. Each month of containment is expected to result in a 2 percentage point loss in annual GDP growth<sup>1</sup>, and their implications for global value chains may last well after the crisis dominated headlines. Some sectors of the economy will see limited effects resulting from the pandemic, while others will face existential challenges.

In this context, we urge governments to ensure a coordinated, coherent and cooperative international response, which is the only way to meet the challenge of a global pandemic and maintain trust in our global trade and investment system. We welcome the commitment of *G20 Trade and Investment Ministers*<sup>2</sup> in this regard. We encourage strong collaboration between governments and the trade community when developing and implementing policy responses. For the OECD, it is now more important than ever to deliver its best policy advice - on both, short-term collective response measures and the longer-term recovery plans that need to be implemented.

In this context, we urge the OECD Trade Committee to provide support to the Organization's member and partner countries in establishing necessary, effective, and evidence-based measures to address the Covid-19 pandemic. Such support is critical in guiding member and partner countries to adopt measures that are designed in a targeted, risk-proportionate, transparent, WTO-compliant, and temporary manner - ideally with sunset clauses and a clear "exit strategy" - to ensure that emergency interventions do not restrict trade and investment more than necessary. Further, OECD work in this regard can and should safeguard that governments do not misuse these developments to adopt or keep arbitrary, discriminatory or protectionist policies that disrupt supply chains and put further strains on the economy. It can in part do so by highlighting the crucial role of open trade and global value chains as fundamental drivers to recover from this global crisis.

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<sup>1</sup> [OECD \(2020\)](#): Secretary General Angel Gurría's Statement for the G20 Videoconference Summit on COVID-19

<sup>2</sup> [G20 \(2020\)](#): G20 Trade and Investment Ministerial Statement 30 March 2020

We call on the OECD and its Trade Committee in particular to carry out monitoring and in-depth analysis of the impact of COVID-19 on world trade, investment and global value chains, with policy guidance on how governments will need to work together through the response and recovery phases:

- **Ensure transparency by establishing a framework to monitor and analyze trade policy measures that are introduced by governments in response to the Covid-19 pandemic**
- **Highlight the risks of global supply chain disruptions to the global Covid-19 response and economic recovery, including through export bans, and the need for risk-proportionate and evidence-based trade policies.**
- **Foster coordination, coherence and cooperation by working towards a joint trade policy approach, including a common understanding of essential goods and services, which covers the entire supply chain needed to produce, deliver and maintain such goods and services, including flexible travel requirements associated with their delivery.**
- **Promote cross-border efforts to facilitate the flow of information and data to increase digital resilience and to ensure wide access to the latest intelligence, best practices, technologies, and research related to the COVID-19 response.**
- **Examine the harmful effects of “Coronacrimes” across economies and markets including illicit trade, frauds, counterfeits, cybercrime, hoarding and price gouging scams, in collaboration with other bodies such as the OECD Task Force on Countering Illicit Trade.**
- **Emphasize that a reduction in tariff and non-tariff barriers is an effective tool in stimulating the economy, and should be a critical part of a holistic economic policy response to this pandemic.**
- **Work across the OECD to develop guidance on support programs and assistance to businesses, especially for SMEs and economic sectors that are particularly affected by this crisis.**
- **Understand the urgency of the current situation for businesses, many of which are facing serious cash-flow constraints that threaten their sustainability and current ability to exist.**

## **Policy Issues Requested to be Addressed by OECD Member Countries and Partners**

*Business at OECD* members strongly encourage OECD member and partner governments to urgently consider and address the following preliminary points to ensure continued cross-border trade flows and avoid global supply chain disruptions, including for (1) vital medical supplies and equipment, (2) critical agricultural products, (3) other essential goods and services, and (4) all goods and services<sup>3</sup>. In this context, we caution however that efforts to disentangle global value chains into essential and non-essential goods and services<sup>4</sup> will lead to arbitrary restrictions and disruptions of highly complex supply chains:

### **Vital medical supplies and equipment**

- *Avoid exacerbating demand pressures through unilateral decisions, including export restrictions on medical equipment<sup>5</sup>, pharmaceuticals, and other products, parts and components that are directly or indirectly vital in fighting COVID-19. These disrupt production, prevent life-saving goods to move where they are needed the most, and erode trust in the international trade and investment system.*
- *Temporarily suspend tariffs for medical products, parts and components that are directly or indirectly vital in fighting COVID-19 - including medical equipment and hospital supplies (including ventilators, patient monitoring systems, disinfectants and sterilization products), personal protective equipment (including masks, protective garment), COVID-19 testing kits, thermometers, relevant pharmaceuticals and soap - ideally at WTO level and at least for the duration needed to offset the worst supply shortages.*
- *Explore simplification of domestic regulatory requirements and procedures, including national authorizations, certification and licenses, for products and inputs that are directly or indirectly vital in fighting COVID-19 to reduce costs and speed up processes, without compromising on the standards needed to ensure human health and safety.*
- *Expedite trade facilitation for products, parts and components (including replacement parts) that are directly or indirectly vital in fighting COVID-19, and provide for rapid inspection, as necessary, and release of these products at the border to avoid additional bottlenecks in the supply of medical supplies and equipment, including personal protective equipment (PPE).*

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<sup>3</sup> This structure follows the G20 Trade and Investment Ministers' commitment to "ensure the continued flow of vital medical supplies and equipment, critical agricultural products, and other essential goods and services across borders" (30 March 2020).

<sup>4</sup> We highlight further that in the customs context, the use of the term "services" may raise additional issues, as customs administrations do not always have the authority to be involved in the clearance of cross-border service transactions.

<sup>5</sup> For example, we emphasize that medical devices are made of components coming from all over the world. We are highly concerned that disrupting one element of the GVC may have strong repercussions.

- *Ensure that – within necessary safeguards – the international movement of persons with essential activities regarding a sanitary crisis remains as free and predictable as possible.*
- *Ensure that government procurement processes (i) engage all industry partners in processes to find solutions, (ii) relax state-required localization measures for essential medical supplies, (iii) avoid stockpiling medicines that could lead to shortages of critical medicines, (iv) adhere to good regulatory practices and maintain and enhance pharmacovigilance systems to ensure safety and efficacy of medicines, (v) respect intellectual property (IP) and engage rights holders to address supply challenges where necessary. Avoid any new steps that limit foreign supplier access to government procurement of necessary medical equipment.*
- *Commit to maintaining an IP system that will promote public-private partnerships and drive continued innovation, recognizing that incentives provided by the IP system enabled industry to quickly mobilize and devote resources, technical knowledge and know-how to combat Covid-19.*
- *Combat illicit trade across global supply chains including related to medicines, medical supplies, equipment, and other life science and healthcare technologies and product that undermine Covid-19 mitigation efforts.*
- *Develop a coordinated approach to supporting developing country partners with emergency supplies and humanitarian assistance.*

### **Critical agricultural products**

- *Foster co-ordination on a common understanding of essential goods and services recognizing the entire food supply chain as essential, including food and drink products, ingredients, packaging and packaging materials (which among others are essential for food safety and transportation), fertilizers, veterinary, pet food, feed and other inputs with a view to avoiding restrictions and delays at borders.<sup>6</sup>*
- *Keep supply chains going for critical agriculture and food products to safeguard access in OECD countries and beyond.*
- *Further consideration should be given to measures to re-distribute food, which cannot reach its intended market, to those in need of assistance and as a means to avoid food waste.*
- *Develop a coordinated approach to supporting developing country partners with emergency supplies and humanitarian assistance.*

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<sup>6</sup> For example, disruption of transportation of aluminium and semi-finished products can result in delayed deliveries of can sheet and foil sheet for the packaging of food and drinks, but also pharmaceutical and medical products.

## Other essential goods and services

- *Avoid arbitrary border closings to goods and services.*
- *Keep cargo and transport moving, by ensuring that logistics providers such as air cargo and shipping facilities, and the services that support them, remain operational throughout - both to transport essential goods but also to minimize damage to the global economy. In this context, OECD and governments should call on countries to keep borders open for the movement of goods, to strike the right balance between trade facilitation and security, and address the shortage of air cargo pilots and risks to maritime shipping infrastructure caused by quarantine requirements.<sup>7</sup>*
- *Ensure the movement of digital IT equipment is facilitated at borders, as the importance of digital capacity is critical for the functioning of our societies and economies<sup>8</sup>*
- *Where goods and services have been designated essential, consider procedures for priority clearances for these goods and services. Green Lanes should provide for the rapid inspection and release of all freight, including but not limited<sup>9</sup> to essential goods.<sup>10</sup>*
- *Ensure that – within necessary safeguards – the international movement of essential business persons and labor remains as free and predictable as possible, and any restrictions are evidence-based and risk-proportionate<sup>11</sup>. This should particularly concern amongst others:*
  - *Hi-tech medical equipment technicians, who must be able to move across borders in a timely manner to service medical devices and equipment;*

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<sup>7</sup> While appropriate public health measures are needed to protect workers at ports, airports, borders and customs facilities, such measures should be proportionate and facilitate the movement of goods across borders. Some countries have completely closed borders not only for passengers but also for freight. Such policies may not stop the virus but will certainly prevent people from receiving essential goods.

<sup>8</sup> For example, complex ICT and telecommunication goods and services underpin other essential services and critical infrastructures such as hospitals, telecoms networks, utilities, governments, financial institutions etc. and a disruption in the provision of goods and repair and maintenance services to these sector would be highly disruptive and further exacerbate the crisis.

<sup>9</sup> In the absence of an agreed international definition of ‘essential goods and services’ limiting the use of ‘green lanes’ in this way could be problematic

<sup>10</sup> For example, companies dealing with waste provide an essential service to society. Wastes need to be shipped without delay to get their most appropriate treatment, as that is an essential task to protect our health and the environment, and to keep the circular economy moving ahead. It should be safeguarded that the principles relating to transport of essential goods including green lanes should apply *mutatis mutandis* to shipments of waste.

<sup>11</sup> [WHO \(2014\)](#) and [OECD \(2020\)](#) highlight that travel restrictions delay but do not prevent pandemics (e.g. by 3-4 weeks when 90% of air travel is restricted in affected countries). Travel restrictions per se, in particular international restrictions, are estimated to reduce the attack rate (which represents the proportion of the population who are infected) by just 0.02%.

- Personnel, who are needed to scale up the production of goods and inputs that are directly or indirectly vital in fighting COVID-19;
  - Personnel, who test, produce and distribute vaccines;
  - Agricultural workers and food processors to avoid disruptions in food supply chains, particularly as the growing seasons starts.
  - Personnel who operate, maintain and conduct on-site repairs for customers who maintain critical infrastructure, including ICT and telecom services and equipment, power and aviation equipment repair.
  - Logistics personnel, who must be able to travel between their home base and outbound destinations to uphold global supply chains, including air cargo pilots and crew;
  - Business persons, as a condition of trade and investment, who are indispensable for upholding critical elements of supply chain and legal functions.<sup>12</sup>
- Explore control mechanisms and conditions that avoid multiple day quarantine upon arrival or return, and consider adopting special visas, work permits and more flexible regulations to facilitate trade in this context, including for the above-mentioned groups. Provide government templates for self-declaration.
  - Explore mechanisms to counter basic aversion behavior and uncertainty, and to incentivize the international movement of essential business persons and labor where shortages of essential goods and services may occur, including through the provision of goods to protect these persons where shortages exist.
  - Explore ways to support payments for demurrage and charges for containers unable to dock in or depart from seaports due to Government lockdowns.
  - Fight trade in counterfeit goods and other consumer frauds particularly where shortages may occur, including medical devices, general hospital equipment (including masks, protective garment, disinfectants and sterilization products), COVID-19 testing kits, relevant pharmaceuticals as well as fast-moving consumer goods (including water, toiletries, toothpaste, OTC medicines), fake food and alcohol, to protect citizens, infected patients and healthcare professionals from the risks of falsified products..<sup>13</sup>

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<sup>12</sup> In this context, we emphasize potential implications under tax law. For example, in order to satisfy the *management and control test*, board of director meetings are supposed to be held in the location of the company the board governs. If the directors cannot be present in the location of the company, the company might fail the test and face adverse tax consequences. Further, if employees are supposed to work in a specific location, but are forced to stay in another one under current containment measures, this could potentially create a *permanent establishment* in this other country, with equally adverse tax consequences for the company.

<sup>13</sup> In this context, we emphasize that the closure of retail stores may lead to an increased risk of fraudulent practices online.

- *Ensure that vitally needed research and development, public-private cooperation, and business operations to combat Covid-19 are not constrained by undue restrictions on international data flows and sharing of information.*

## **All goods and services**

- *Avoid arbitrary border closings to goods and services.*
- *Keep cargo and transport moving.*
- *Maintain efficient and effective customs operations.*
- *Publish clear, coherent and timely<sup>14</sup> guidance regarding border-measures and procedures and ensure transparency for business in a rapidly changing landscape, particularly where measures are applied under the designation non-essential, and ensure standardized documentation requirements.*
- *Provide best practice precautionary sanitary measures for implementation at all levels of international trade for the protection of workers, consumers and citizens and ultimately the economy.*
- *Support businesses struggling to maintain liquidity, particularly SMEs, with a package of measures - ranging from postponing the payment of customs duties and waivers, to allowing delayed payment of customs debts, to agreeing on a seaborne FOB value when rerouting urgent parts via air.*
- *Emphasize the importance of temporary crisis period relief regarding the provision of officially supported export credits to ensure exporters have the support and flexibility they currently need, including temporary relief from the minimum down payment requirement (Chapter II.10). Beyond temporary crisis relief, support will be required for those companies suffering from structural disruptions caused by the crisis such as value chains disruptions and distress in sales pipelines due to an inelastic rebound of orders.<sup>15</sup>*
- *Stimulate the economy by avoiding or at least temporarily suspending trade tensions to reduce the risk of a severe and longer-lasting recession.*

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<sup>14</sup> In this context, we encourage governments to recognize the value of real-time information sharing, digital communications and international coordination on COVID-19 response.

<sup>15</sup> Generally, ensuring a global level playing field of the trade and investment landscape can support such a rebound. However, there is a high risk that for the period after the COVID-19 crisis unfair global competition on export finance will increase even more than in the past, which makes a modernization of the OECD Arrangement on Officially Supported Export Credits as outlined in our November position paper increasingly urgent.

- *Closely consult with the private sector. This is particularly important as many of our businesses are collaboratively searching for ways to reduce damages to suppliers and clients in global supply chains.*