Implementation of the WTO Trade Facilitation Agreement: The Potential Impact on Trade Costs

The WTO Trade Facilitation Agreement (TFA) creates a significant opportunity to improve the speed and efficiency of border procedures, thereby reducing trade costs and enhancing participation in the global value chains that characterise international trade today. The 2015 OECD Trade Facilitation Indicators (TFIs) find that the implementation of the TFA could reduce worldwide trade costs by between 12.5% and 17.5%. Countries which implement the TFA in full will reduce their trade costs by between 1.4 and 3.9 percentage points more than those that do only the minimum that the TFA requires. The opportunities for the biggest reductions in trade costs are greatest for low and lower middle income countries.

What are the OECD Trade Facilitation Indicators?

The 2015 OECD TFIs cover 152 countries across different geographical regions and levels of development. Using cost estimates from the updated ESCAP-World Bank Trade Costs Dataset, they provide the most current assessment of the potential impact of implementing the measures included in the WTO TFA. They also allow countries to identify their strengths and weaknesses in trade facilitation, prioritise areas for action and mobilise technical assistance and capacity building in a more targeted way. The OECD TFIs measure the actual extent to which countries have introduced and implemented trade facilitation measures in absolute terms, but also their performance relative to others, using a series of quantitative measures on key areas of the border process.

The updated OECD TFIs also allow countries to monitor their progress since 2012 and to make comparisons with individual countries or groups of countries of interest. Two interactive web tools allow users to compare country performance across the 11 trade facilitation indicators, to discover the key measures driving the performance of a selected country in a specific indicator, and to simulate the effects of potential policy reforms.

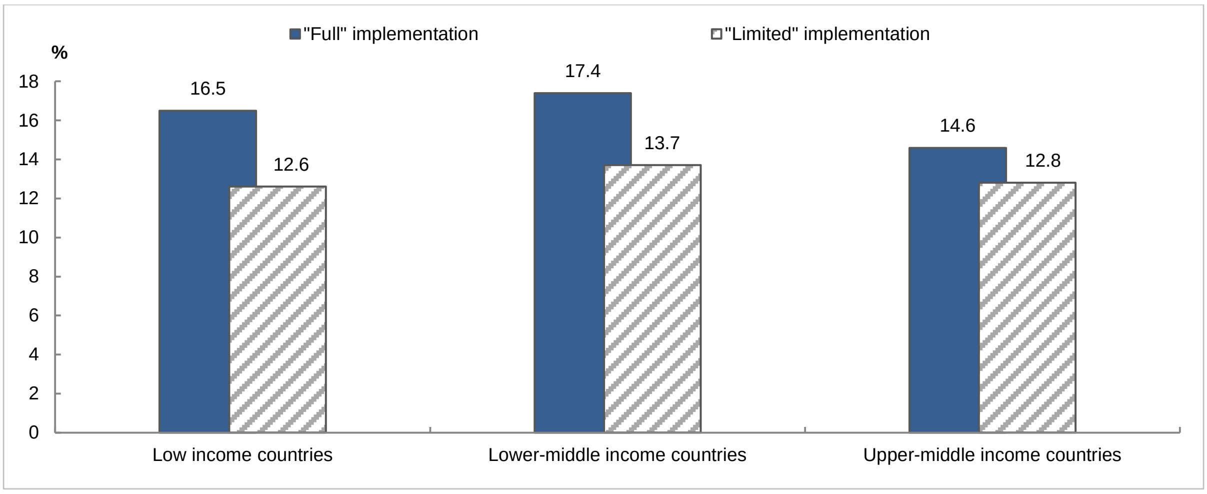
What reduction in trade costs is expected from implementation of the TFA?[1]

- The potential cost reduction from a "full" implementation of the TFA is 16.5% of total costs for low income countries, 17.4% for lower-middle income countries, 14.6% for upper-middle income countries and 11.8% for OECD countries according to 2015 TFI data.[2]
- If countries limit themselves to the mandatory provisions of the agreement, the potential reduction reaches 12.6% for LICs, 13.7% for LMICs, 12.8% for UMICs and 10.4% for OECD countries.
- 2015 OECD TFI data show that a higher level of ambition in implementing the best endeavours provisions of the TFA would generate very substantial benefits of 3.9, 3.7, 1.8 and 1.4 percentage points more than if countries only implemented mandatory provisions. The opportunity costs are particularly high for the low and lower middle income country groups, as many upper middle and high income countries already implement measures that are formulated on a "best endeavours" basis.

[1] The calculation of the potential impact of the TFA is based on two scenarios: a) a *"full" implementation* scenario where countries implement all the options contained in the Agreement, including those formulated on a "best endeavours" basis; and b) a *"limited" implementation* scenario where countries implement only the mandatory provisions contained in the agreement, but taking into account that some of the best endeavours measures have already been implemented by some of these countries. These two scenarios provide upper and lower bounds of potential trade cost reductions likely to be obtained by implementing the TFA. The impact will be strongly influenced by the way developing countries categorise various measures and by the timeframes they adopt for implementation.

[2] The significantly higher estimates of potential cost reductions compared to 2012, where impacts were found to be 14.1% for LICs, 15.1% for LMICs and 12.9% for UMICs, are due to the larger country sample, which provides a better coverage of low income countries; the more thorough data coverage of the 2015 TFI database; and the more recent cost estimates used.

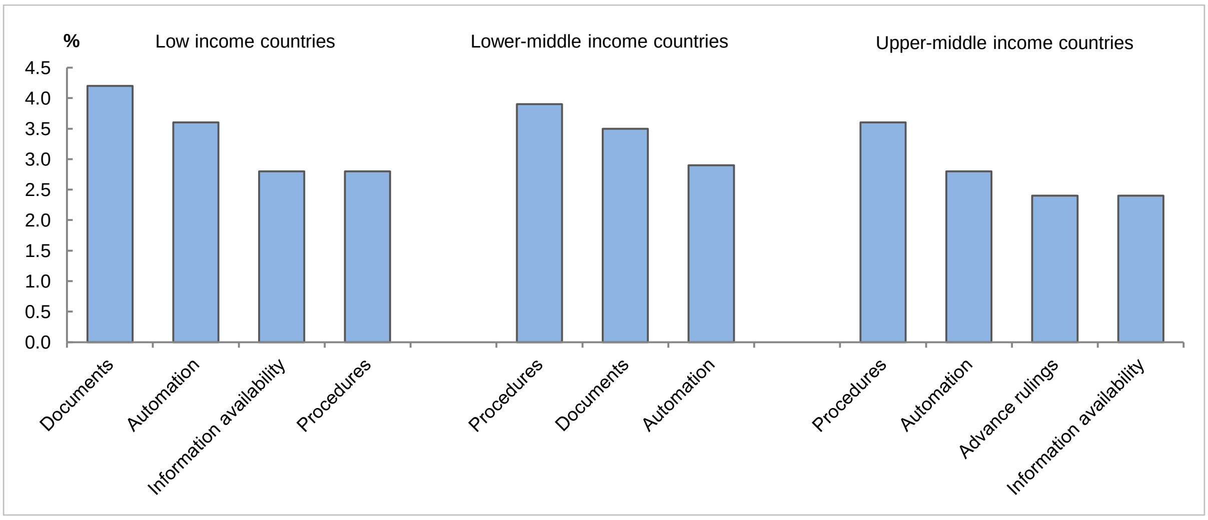
Figure 1. Overall potential trade cost reductions by income group



What trade facilitation measures are estimated to have the greatest impact?

- Improvements in the area of **formalities** (simplification of trade documents; streamlining of border procedures; and automation of the border process) appear to have the greatest impact on trade costs, generating cost savings of 2.8% to 4.2% depending on the level of development. Other policy areas that have an important potential for cost reductions are the availability of trade-related information and the possibility to request advance rulings.
- For low income countries the measures with the potential to most reduce trade costs are: harmonising and simplifying trade documents (4.2%); automating trade and customs processes (3.6%); ensuring the availability of trade-related information (2.8%) and streamlining border procedures (2.8%).
- For lower middle income countries, streamlining border procedures are estimated to have the greatest impact (3.9%), while harmonising and simplifying trade documents and automating trade and customs procedures would reduce costs by 3.5% and 2.9% respectively.
- For upper middle income countries the measures with the greatest expected impact on trade costs are streamlining border procedures (3.6%), automating trade and customs processes (2.8%), ensuring the availability of trade-related information (2.4%) and providing advance rulings on customs matters (2.4%)

Figure 2. Potential trade cost reductions by measure



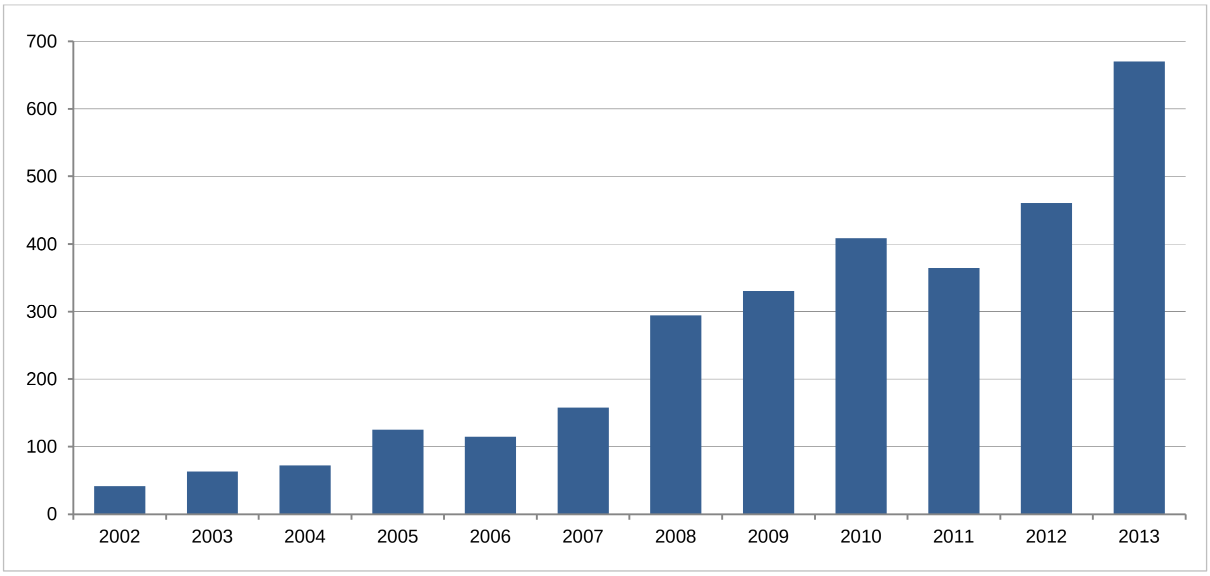
What support is available to help countries implement trade facilitation measures?

Expenses for purchasing equipment, training officials and putting in place new measures have benefitted from substantial technical and financial assistance for trade facilitation over the last decade. Since 2005, approximately USD 1.9 billion has been disbursed in aid for trade facilitation.

Donor commitments directed to simplifying and modernising border rules and procedures reached USD 670 million in 2013, an almost eightfold increase from the 2002-05 base-line average. The largest beneficiary was Africa, which received USD 268 million in 2013, a 25-fold increase over a ten-year period. Indeed, aid for trade facilitation resisted the financial crisis relatively well, declining by 10% between 2010 and 2011, compared to the 14% decline in overall aid for trade commitments in 2011.

In addition, the equipment and infrastructure needs of trade facilitation reforms have also benefited from the substantial funds directed to trade-related infrastructure, with USD 18.7 billion devoted to transport and storage and USD 1 billion devoted to communications in 2013.

Figure 3. Commitments 2002-13 (USD million, 2013 constant prices)



Source: OECD-DAC Aid activities database (CRS), under the “trade policy and regulations; trade facilitation” purpose code.

About the OECD Trade Facilitation Indicators

OECD has developed a set of indicators to assess trade facilitation policies, including the following:

Information Availability	Enquiry points; publication of trade information, including on Internet
Involvement of the Trade Community	Consultations with traders
Advance Rulings	Prior statements by the administration to requesting traders concerning the classification, origin, valuation method, etc., applied to specific goods at the time of importation; the rules and process applied to such statements
Appeal Procedures	The possibility and modalities to appeal administrative decisions by border agencies
Fees and Charges	Disciplines on the fees and charges imposed on imports and exports
Formalities – Documents	Acceptance of copies, simplification of trade documents; harmonisation in accordance with international standards
Formalities – Automation	Electronic exchange of data; use of risk management; automated border procedures
Formalities – Procedures	Streamlining of border controls; single submission points for all required documentation (single windows); post-clearance audits; authorised economic operators
Internal Co-operation	Control delegation to Customs authorities; co-operation between various border agencies of the country
External Co-operation	Co-operation with neighbouring and third countries
Governance and Impartiality	Customs structures and functions; accountability; ethics policy

Further Reading

OECD Trade Facilitation Indicators – An overview of available tools (November 2014)
http://oe.cd/tfi-tools

Trade Facilitation Indicators – State of Implementation (June 2014)
http://oe.cd/tfi-implementation

Trade Facilitation Country Notes
http://oe.cd/tfi

Interactive Policy Simulator
http://oe.cd/tfi-sim

Contribution of Trade Facilitation Measures to the Operation of Supply Chains (May 2015)
http://oe.cd/trade-papers

The Costs and Challenges of Implementing Trade Facilitation Measures (May 2013)
http://oe.cd/tfi-dev

The Potential Impact of Trade Facilitation on Developing Countries' Trade (March 2013)
http://oe.cd/tfi-impact

TFIs: The Impact on Trade Costs (August 2011)
http://oe.cd/tfi-impact-costs

More Information

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