Inter-American Development Bank

Integration and Trade Sector

TECHNICAL NOTE

No. IDB-TN 733

Facilitating Trade in Latin America and the Caribbean

An Implementation Policy Agenda

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January 2015

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Inter-American Development Bank

2015

Cataloging-in-Publication data provided by the
Inter-American Development Bank
Felipe Herrera Library

Rankin Staples, Brian.
Facilitating trade in Latin America and the Caribbean / Brian Rankin Staples.
p. cm. — (IDB Technical Note ; 733)
1. International trade. 2. Commercial policy. 3. Latin America—Commerce. 4. Caribbean Area—Commerce. I. Inter-American Development Bank. Integration and Trade Sector. II. Title. III. Series.
IDB-TN 733

http://www.iadb.org

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The preparation of this knowledge product was funded by the Institutional Capacity Strengthening Fund (ICSF), thanks to the contribution of the Government of the People's Republic of China.

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Acronyms

AEO	Authorized economic operator
APEC	Asia Pacific Economic Cooperation
AfT	Aid for Trade
EDI	Electronic data interchange
ETI	Enabling Trade Index
EU	European Union
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GVCs	Global value chains
ICTs	Information and communications technologies
IDB	Inter-American Development Bank
INT	Integration and Trade Sector of the IDB
LAC	Latin America and the Caribbean
LAIA	Latin American Integration Association
LSP	Local/Regional Service Providers
MFN	Most Favored Nation
OECD	Organization for Economic Cooperation and Development
PTAs	Preferential Trade Agreements
RCEP	Regional Comprehensive Economic Partnership
RECAUCA	Regulation to the Central American Uniform Customs Code
RTAs	Regional Trade Agreements
SAD	Single Administrative Document
SAFE	Framework of Standards to Secure and Facilitate Global Trade
SW	Single Window
SMEs	Small and medium sized enterprises
SCFAP	Supply Chain Connectivity Framework Action Plan
TFA	Trade Facilitation Agreement
TPP	Trans Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
TTCs	Trade transaction costs
UN/CEFACT	United Nations Center for Trade Facilitation and Electronic Business
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe
USA	United States of America
WCO	World Customs Organization
WEF	World Economic Forum
WTO	World Trade Organization

Executive Summary

The potential benefits of trade facilitation have been estimated as simply staggering by most definitions or metrics. This includes its impact on increasing global trade flows, estimated at 15% by the World Economic Forum, as well as on global GDP, that would rise close to 5%. Even if these numbers are discounted by eliminating some of the many assumptions they were built on, the global harvest of trade benefits is seen as practically unprecedented.

Addressing excessive trade transaction costs is critical to achieve this harvest; nevertheless, larger policy objectives are also at stake. Between 1994 and 2007, trade grew at nearly twice the rate as the world economy, with goods exported reaching close to one quarter of global GDP. Transport and logistics technologies fuelled trade growth, and gave rise to fragmented production in all parts of the globe, which, in turn, allowed developing economies to increasingly participate in global value chains. Recently, growth in trade has slowed considerably, and trade facilitation initiatives are seen as providing an important impulse to trade.

Predictably, however, these opportunities face many significant challenges. These include the prerequisite of having political support, robust private sector participation, having the WTO Bali Trade Facilitation Agreement (TFA) adopted, and establishing the subtle balance between encouraging trade facilitation and providing security obligations. This Note focuses on some of the major issues in implementing trade facilitation measures and reforms in Latin America and the Caribbean, and raises related policy issues for broader discussion and review, including on the role of national trade facilitation coordinating bodies, common business process mapping procedures, and the importance of addressing preferential origin matters in a trade facilitation strategy.

One of the first challenges is actually defining trade facilitation and reconciling the definitional and conceptual differences between the border- and customs-centric definition, as found in the TFA, versus the “door-to-door” and “whole supply chain” definitions. This Note proposes that although the TFA definition be accepted and even embraced, all trade facilitation needs analyses use the broadest possible definitions of trade facilitation. These broader definitions can then be used to perform country specific trade facilitation diagnostics. Such diagnostics can identify the

most urgent trade facilitation needs a country is facing, either of regulatory nature and/or in infrastructure, and the most effective sequencing of the required trade facilitation remedies.

The benefits of diagnosing on the basis of the broadest possible trade facilitation perspective and identifying trade facilitation sequencing regardless of their inclusion or not in the TFA, not only engenders support from politicians and the private sector given the positive impact of trade facilitation remedies, but also supports what might be termed as their trade-related emergent properties. Emergent property is a property which pertains to a collection or a complex system, which the individual components, by themselves, do not have. In other words, one could not predict the property of water while examining the individual properties of oxygen and hydrogen. In the same sense, Single Window or Advance Rulings may be legitimate trade facilitation measures, but by themselves they provide only limited trade facilitation: evidence suggests that the deeper benefits of trade facilitation only occur once a wide array of trade facilitation measures and reforms has been implemented, as opposed to individual reform measures.

Identifying and sequencing trade facilitation needs from the perspective of the entire value chain supports the objective of trade facilitation itself: enhancing a country's ability to seamlessly dock into the network of global value chains, and allowing global value chains to integrate efficiently into a country.

In this sense, it can be argued that trade facilitation should result in business facilitation that not only encompasses the reform and modernization of border agencies, but also requires improving the efficiency and effectiveness of business-to-business importing and exporting processes, and comprises private sector training and capacity building, leading to improved overall predictability in international commerce.

The purpose of this note is to provide insight and contribute to the discussion on trade facilitation implementation issues of relevance to Latin American and Caribbean countries.

1. Introduction

The ability to export a good or service and to compete effectively in today's interconnected markets does not only depend on the entrepreneurial skills of the producer or provider, on the product itself or on the elimination of tariff and quotas in the importing country. It also depends on the cost, efficiency and timeliness of government services provided in the exporter's country, on the competitiveness of other private entrepreneurs responsible for moving the goods, and on the actions (or inaction) of government agencies in the markets of destination. Often, a good will have to transit through a third country to reach the buyer, so the policies applied by third countries regarding goods in transit also affect the ability to export. In other words, there are costs of trading which are beyond the control of the potential exporter, and his or her competitiveness also depends on the minimization of those costs. We are of course referring to what are called, in economists' jargon, "trade transactions costs" (TTCs). Overall growth in trade volumes, and growth in volumes of tariff free trade in particular, have increased focus on the need to address and reduce TTCs.

The minimization or elimination of TCCs is one of the primary goals of trade facilitation policies. Another critical goal of trade facilitation is the predictability that comes with standardized and harmonized requirements and procedures before, at, or after the border. Predictability is the cornerstone that allows companies, and governments, to plan and pursue strategic objectives – without it, the effectiveness of supply-chain planning and competiveness is severely restricted. Essentially, predictability turns trade facilitation into business facilitation.

This Note provides an overview of the importance of trade facilitation policies in streamlining trade procedures and boosting world trade, with a particular focus on Latin America and the Caribbean (LAC). After framing trade facilitation policies in the more general context of reducing TTCs, the document provides arguments of why they matter more now than ever for the region. The relevant measures that should be part of any trade facilitation strategy are presented.

At the WTO Ministerial held in Bali in December 2013, the members of the organization concluded the negotiations of a Trade Facilitation Agreement (TFA). The measures included in the agreement provide a basic policy roadmap; in fact, LAC has already made substantive progress in their implementation. However, although the WTO TFA is comprehensive,

especially as it relates to border and customs issues, it does not and could not address all trade facilitation needs and realities, nor all the trade facilitation policy and technical assistance levers.

The Inter-American Development Bank (IDB), through the Integration and Trade Sector (INT), has been engaged for long time in trade facilitation in LAC. It has provided knowledge and expertise, and funded its activities in a number of ways using a diversity of financial and non-financial instruments, including capacity building, tailored to the specific needs of each country. Nevertheless, there remains much to be done in the region in view of the challenges in the implementation of trade facilitation measures and reforms that will lead to a timely and cost-effective movement of goods and services across borders.

2. What is Trade Facilitation?

It has been said that all international trade in goods could be reduced to three flows: the flow of goods themselves, the flow of the data and documentation for goods, and the financial flows that pay for the goods and the services related to their movement and delivery. Notwithstanding the apparent simplicity of this description of the global supply chain, facilitating trade covers a broad spectrum of factors and it is difficult to clearly define its boundaries. Proof of this difficulty can be found in the various definitions of trade facilitation, as outlined in the World Economic Forum's (WEF) 2014 Global Enabling Trade Report[1] (see Box 1).

Box 1. Various Definitions of Trade Facilitation

"All international organizations recognize that trade performance depends on many more factors than trade policy alone. This set of additional factors is often regrouped under the heading of trade facilitation. The scope of trade facilitation differs across organizations active in this field. The Enabling Trade Index (ETI) takes a more holistic approach by considering all trade-enabling measures. For the sake of comparison, we summarize the approach of various international organizations to trade facilitation:

• ***World Trade Organization****. The WTO defines trade facilitation as "the simplification and harmonization of international trade procedures" covering the "activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade." In the Doha Development Agenda, trade facilitation negotiations focus on freedom of transit, fees and formalities related to importing and exporting and transparency of trade regulations – which essentially relates to border procedures such as customs and port procedures and transport formalities.*2

1 WEF (2014), *The Global Enabling Trade Report 2014*, p 5. http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2014.pdf.

2 http://gtad.wto.org/trta_subcategory.aspx?cat=3312.

• ***European Commission***. *The Commission defines trade facilitation as the simplification and harmonization of international trade procedures including import and export procedures, which largely refer to the activities (practices and formalities) involved in collecting, presenting, communicating and processing the data required for the movement of goods in international trade.*[3]

• ***Organization for Economic Co-operation and Development***. *For the OECD, trade facilitation is about streamlining and simplifying international trade procedures in order to allow for an easier flow of goods and trade at both national and international level.*[4]

• ***United Nations Conference on Trade and Development***. *For UNCTAD, any measure that eases a trade transaction and leads to time and cost reductions in the transaction cycle fits into the category of trade facilitation. The latter can be effected through more efficient procedures and operations or through removing any deadweight economic loss and redundancies. It may cover measures regarding: (a) formalities, procedures and documents and the use of standard and electronic messages for trade transactions; (b) the physical movement of goods through improvements and the use of standard and electronic messages for trade transactions; (b) the physical movement of goods through improvements in services, the legal framework, and the transport and communications infrastructure, as well as the use of modern information technology tools by services providers and users; and (c) the timely discussion and dissemination of trade-related information to all concerned parties.*[5]

• ***World Customs Organization.*** *For the WCO trade facilitation amounts to the avoidance of unnecessary trade restrictiveness. This can be achieved by applying modern techniques and technologies, while improving the quality of controls in an internationally harmonized manner.*[6]

•***World Bank***. *The term trade facilitation refers to a series of complex, border and behind-border measures. Broadly defined, these measures include anything from institutional and regulatory reform to customs and port efficiency and are inherently far more intricate and costly to implement. The Bank's areas of focus are: infrastructure investment; customs modernization and border-crossing environment; streamlining of documentary requirements and information flows; automation and electronic data interchange (EDI); ports efficiency; logistics and transport services; regulation competitiveness; transit and multimode transport; and transport security.*[7]*"*

Source: WEF, *The Global Enabling Trade Report 2014*

The WEF uses its Enabling Trade Index (ETI) as a mechanism for examining barriers to trade in the supply chain. The main categories of the ETI are highlighted in the following table[8]:

[3] http://ec.europa.eu/taxation_customs/customs/policy_issues/trade_falicitation/index_en.htm.

[4] http://www.oecd.org/tad/facilitation/whatistradefacilitation.htm.

[5] http://unctad.org/en/Docs/sdtetlb20051_en.pdf.

[6] http://www.wcoomd.org/en/topics/facilitation/overview/customs-procedures-and-facilitation.aspx.

[7] http://go.worldbank.org/QWGE7JNJG0.

[8] WEF (2013). *Enabling Trade - Valuing Growth Opportunities*. The WEF explores each category and examines how the various barriers interact and assesses the impact of the barriers on the trading operations of countries.

Market access	Border administration	Telecom and transport infrastructure	Business environment
1. Domestic and foreign market access - Quotas - Import fees – not tariffs (e.g. tax schemes) - Local content requirements - Rules of origin - Technical, sanitary and phytosanitary measures or other requirements - Import/export licenses	2. Efficiency of customs administration 3. Efficiency of import-export procedures (e.g. coordination between border agencies; administration burden of complying with standards)	4. Transparency of border administration (e.g. facilitation payments) 5. Availability and quality of transport infrastructure 6. Availability and quality of transport services 7. Availability and use of information and communication technologies (e.g. tracking, electronic-tolls, communication)	8. Regulatory environment - Investment policy - Hiring foreign workers - Other regulatory environment issues (including trade finance) 9. Physical security

There are also additional definitions of trade facilitation: "*Any measure, or set of measures that aims to increase the cost-effectiveness of international trade transactions*"[9] (Global Facilitation Partnership for Transportation and Trade); or "*The simplification, standardization and harmonization of procedures and associated information flows required to move goods from seller to buyer and to make payment*"[10] of the United Nations Center for Trade Facilitation and Electronic Business (UN/CEFACT).

The objective of comparing and contrasting these sometimes competing definitions is not merely academic. They can impact the way that trade facilitation needs are diagnosed and trade facilitation measures or remedies are actually implemented. In this regard, being the only definition that has the potential to be a multilateral obligation, it is important to consider the contents of the WTO Bali Trade Facilitation Agreement (see Appendix "A" for a stylized recapitulation). The TFA will be examined in more detail in the section on trade facilitation measures.

As opposed to some trade facilitation definitions that cover the supply chain from the beginning to the end, the scope of the TFA is narrower and clearly customs-centric. The centrality of the border in the TFA reflects in many ways the competing negotiating objectives of developed and developing countries, with the developing countries primarily concerned with the costs of implementing trade facilitation measures (be they broadly or even narrowly defined). Even while embracing the ATF trade facilitation measures as much needed trade policy anchors,

[9] Global Facilitation Partnership for Transportation and Trade, http://www.gfptt.org/node/19

[10] UNECE, Trade Facilitation Implementation Guide, Introduction, http://tfig.unece.org/details.html

most trade practitioners and policy makers agree that the scope and ambit of trade facilitation is much wider. Thus, it is generally considered to include those policies, measures and reforms that aim at removing obstacles to the movement of goods across borders defined in a general way (land border crossings, ports, airports) and related to exports and imports and goods in transit. In turn, procedures are generally understood to comprise the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade.

It is important to note that, although not explicitly contained in the TFA, there is a critical interplay between trade facilitation and security. It is generally a given that trade facilitation is directed only to legitimate traders. Furthermore, trade facilitation results in increased efficiencies so that border agencies will have more resources to address security concerns.

Trade facilitation is not under the exclusive responsibility of customs agencies. While many of the measures are generally under their legal mandate, trade facilitation involves all government agencies that intervene at some point in the supply chain and requires their coordination and collaborative work.

However, lowering TTCs also involves the improvement of trade logistics throughout the whole supply chain from producer to consumer, as well as investment in transport (roads, railways, ports and airports) and technology (information and telecommunications) infrastructures. In this regard, the "whole supply chain" approach reflected and largely measured in the World Economic Forum's ETI could provide one of the widest and deepest concepts and definitions of trade facilitation.

3. Why Facilitate and Secure Trade Now?

Over the past two decades the movement of goods has been made easier by the removal of traditional barriers to trade: mainly tariffs and quotas. Tariffs have been significantly reduced, from a global average of over 10 percent in 1995, to less than 5 percent today.[11] While this has lowered the costs of trade worldwide, it has also revealed the existence of "non-traditional" barriers more prominently. Consequently, countries must address the reduction of TTCs, such as those stemming from poor infrastructure and/or those incurred through inefficient clearance processes or documentation requirements, and the lack of coordination among border agencies or

[11] IDB Integration and Trade Sector based on TRAINS and IDB INTrade data. www.iadb.org/intradebid.

excessive number of inspections, in order to ensure that every stage of the supply chain functions efficiently and trade is as frictionless as possible. Solving infrastructure deficiencies requires access to large amounts of financial resources[12] and implies long lead times, whereas that is not necessarily the case for other, "soft" trade facilitation measures. However, the latter require significant political capital in order to implement the necessary reforms.

This situation has resulted in TTCs becoming more prominent in policy discussions, in the design of government strategies and in the funding priorities of global and regional financial institutions and donors. There are several reasons for this.

There have been a number of studies that have shown that reducing TTCs will have a positive impact on global GDP and trade flows. The World Economic Forum's study on the issue suggests that a focus on trade administration and infrastructure barriers has the potential to increase global GDP up to six times more than by removing remaining tariffs. Trade flows would increase by approximately 15%.[13]

A 2013 OECD analysis of the WTO TFA indicates that its implementation would lead to a significant reduction in TTCs in developing countries. Areas that have the largest potential to improve trade volumes and reduce trade costs for imports and exports include "the availability of trade-related information, the simplification and harmonization of documents, the streamlining of procedures and the use of automated processes." The analysis concludes that the "combined effect of improvements in these areas is greater than the simple sum of the impact of individual measures, reaching an almost 14.5% reduction of total trade costs for low income countries, 15.5% for lower middle income countries and 13.2% for upper middle income countries."[14] This analysis suggests that a coordinated multifaceted approach will provide countries with the best return on investment.

Global trade, including trade of emerging and developing countries, has become more complex in its structure and composition as the process of production has become more fragmented. It no longer simply involves the shipment of finished goods from one country to

[12] This is particularly true in LAC where the relatively high freight costs of exporting as well as the difficulties of domestic transport for potential exporters are a barrier to trade. The former is well documented in Mesquita Moreira, M. et al (2008), *Unclogging the Arteries* and the latter in Mesquita Moreira, M. et al (2013) *Too Far to Export*.

[13] WEF (2013), *Enabling Trade - Valuing Growth Opportunities.*

[14] Moïsé. and Sorescu (2013), *Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade.* OECD Trade Policy Papers, No. 144, OECD Publishing

another. Technological progress and the reduction in the cost of transmitting information and knowledge have resulted in trade that increasingly consists of the movement of intermediate goods around the globe via integrated production chains. Globally, intermediate goods now account for roughly 60% of total trade.[15] Interestingly, in the case of LAC, intra-regional trade exhibits higher levels of intra-industry trade than trade with other regions, except in the case of Mexico, indicating a higher "potential for development of modern, sophisticated supply chains" through trade within the region.[16]

Fragmented production represents an interesting dynamic in international trade. One of the most important facilitators of fragmented production has been e-commerce: communication and commercial Internet costs have become negligible and these capacities are critical to coordinating production and transportation around the globe. Fragmented production, thus enabled, results in higher volumes of smaller shipments crossing more borders and, inevitably, increased TTCs. Somewhat paradoxically, it will be new and more sophisticated forms of e-commerce that will introduce the ways and means to tackle these increased TTCs.

This means that moving goods across borders quickly and inexpensively is essential for firms to be competitive, and for countries to boost trade and participate more fully in the world economy and to promote the development of supply chains. Today, as inputs and intermediates manufactured in different countries and continents are used to obtain a final good, the number of times a good, at different stages of production, crosses borders has increased dramatically. Therefore, the smooth and timely crossing of the border or shipping of the good (whatever the means of transportation) has become a crucial element in global and regional competitiveness.

The costs of not delivering crucial inputs, parts and components or the final good itself on time are multiplied several times in the presence of product fragmentation, as the whole supply chain is impacted. Trade facilitation is not just about moving goods faster through borders but also about ensuring reliability and reducing uncertainty through simplified, standardized and predictable border procedures.

In a recently published book, Olivier Cadot and Jaime de Melo clearly make the point of the importance of trade facilitation in this new environment: "(w)hat matters for firms is

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[15] IMF (2013) http://www.imf.org/external/np/pp/eng/2013/082613.pdf.

[16] See Giordano (2013), *After the Boom. Prospects for Latin America and the Caribbean in South-South Trade, Trade and Integration Monitor 2013*, page 17.

lowering practical obstacles for moving goods, services, capital, people and know-how. In this networked environment, the price wedge created by a tariff is less important: participating in a value chain requires firms to find ways to add value by innovating with other links in the chain. In short, 21st century trade policy is essentially about improving the 'programmability' of the environment in which cross-border supply-chains operate, i.e. the simplification of trade procedures and the predictability in customs regulation to reduce trade costs…."[17] An IDB publication further supports the importance of trade facilitation in the success of global value chains: "… by going beyond the traditional focus on production, the concept of value chain upgrading reveals how value can be created through a variety of non-manufacturing activities (e.g., design, logistics, and distribution) and factors such as variability, reliability, responsiveness, flexibility, and adaptability."[18]

In this context, using David Hummels and George Schaur's expression, time is a trade barrier.[19] They estimate that each day spent in moving a good is equivalent to 0.6% to 2% of the value of the good (just as if an *ad-valorem* tariff of that rate were applied). This shows that the effect of reducing the time spent in moving a good can be very significant.

As goods cross borders more frequently and even several times due to the expansion of international trade and the development of value chains, the concern for secure trade and security issues has grown. Trade facilitation should be seen as a complement and an incentive for improved security at the borders. In fact, several trade facilitation measures adopted either unilaterally, or through trade agreements or in the context of cooperation between border agencies, allow for a more effective security control without impeding legitimate trade or increasing intrusive inspections. Authorized economic operators (AEO; see Appendix B) and risk management systems are two of the more prominent instruments that both facilitate trade and increase security. International standards for both were developed by the World Customs Organization (WCO) in its 2012 Framework of Standards for Secure and Facilitate Global Trade (SAFE). Both measures are included in the WTO TFA.

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[17] Cadot and de Melo (2014), "Aid for Trade: Looking Ahead" in *Aid for Trade: What Have We Learnt? Which Way Ahead?*, edited by Cadot and de Melo, CEPR Press and FERDI, 2014. http://www.voxeu.org/content/aid-trade-what-have-we-learnt-which-way-ahead.

[18] Pietrobelli and Staritz (2013), *Challenges for Global Value Chain Interventions in Latin America*, IDB Technical Note IDB-TN-548, May 2013.

[19] Hummels and Schaur (2012), *Time as a Trade Barrie*", NBER Working Paper 17758, January, http://www.nber.org/papers/w17758.

In this regard, it should also be stressed that the policy goal of trade facilitation is not only to reduce the cost of trading and smoothen the movements of goods, but at the same time to make trade more secure by controlling the flow of goods that cause harm or whose transaction has been declared as illegal. The latter not only includes arms or illegal drugs but also goods protected under intellectual property rights, and plants and animals protected under international conventions such as CITES.[20] Notwithstanding the fact that the aim of trade facilitation measures is to simplify procedures and documentation, and reduce physical inspections, they simultaneously permit to increase the level of security in international trade.

A great deal of empirical work has been done on the relationship between trade barriers and trade performance.[21] The World Economic Forum's ETI provides a valuable tool for analyzing this relationship. The ETI measures the extent to which countries have developed institutions, policies and services to facilitate trade in goods, by analyzing the main "enablers" of trade – market access, border administration, transport and communications infrastructure, and business environment. WEF's analysis shows that on average, a 1% increase in a country's ETI score translates into a 4% increase in bilateral trade.[22] These results reinforce the notion that trade facilitation measures help countries boost trade and integrate into global value chains (GVCs).

These findings are particularly important for LAC, which is relatively open in terms of providing market access for foreign goods, but does not fare as well in a number of areas of logistics involved in importing and exporting goods.[23] For example, countries like Chile, Costa Rica and Peru have applied average tariff rates of less than 4%, and in Guatemala and Nicaragua over 80% of imported goods enter the country duty-free, making these markets appealing to foreign exporters. On the other hand, however, LAC countries have some of the highest TTCs when it comes to border administration, transportation and communication services, and physical

[20] CITES is the Convention on International Trade in Endangered Species of Wild Fauna and Flora whose aim is to ensure that international trade in wild animals and plants does not threaten their survival.

[21] Moreira, Volpe and Blyde (2008); Helble, Mann and Wilson (2009); Moïsé, Orliac and Minor (2011).

[22] For a detailed description of the ETI and methodology see: WEF (2012), "The Global Enabling Trade Report 2012: Reducing Supply Chain Barriers", and WEF (2014), "The Global Enabling Trade Report 2014," World Economic Forum, http://www.weforum.org/issues/international-trade.

[23] For a more thorough discussion on the high costs of trade in LAC, see IDB-World Bank-ECLAC (2010), *Bridging Integration Gaps. Scenarios and Policy Recommendations to promote Physical Infrastructure and Reduce Intra-regional Trade Costs*, Policy Discussion Brief presented at the Third Meeting of the Finance Ministers of the Americas and the Caribbean, Lima, May 2010.

security[24], all of which hinder the ability of firms to efficiently move goods across borders. LAC exporters also face unnecessary TTCs that inhibit both their ability to export as well as to integrate themselves into GVCs. For example, the WEF *Enabling Trade Report 2014* found that access to finance, access to imported inputs at a competitive price, and high costs and delays to domestic transport, were the biggest hurdles to exporting in LAC.

LAC countries have in fact made progress in some areas. For example, the WEF *Enabling Trade Report 2014* shows that between 2009 and 2012, LAC countries have, on average, improved their efficiency in customs administration, the availability and quality of infrastructure, and the availability of information and communication technologies.

Complying with the administrative requirements of exporting is a fixed cost. The number of documents, procedures, time involved in processing payment of tariffs, fees and other charges, etc., is not related to the value of exports. Therefore, such costs represent a higher burden for small and medium-sized enterprises (SMEs). Trade facilitation promotes SMEs as exporters, with all the benefits that this carries in terms of their formalization and employment creation.

Trade facilitation is needed now to help countries, firms and SMEs participate in the fragmented production that has become a dynamic and dominant feature of international trade today.

4. What Measures Facilitate Trade?

4.1 The WTO Bali Agreement on Trade Facilitation

As a starting point, we will look at facilitation measures through the prism of the WTO Trade Facilitation Agreement (TFA). Let us examine the issues and proposed mitigating measures from three perspectives: transparency, simplification/harmonization/standardization, and international customs cooperation.

Transparency

Article 1 - Access to information, often necessary to have prior to an export, import or transit operation in order to evaluate if the transaction is going to be profitable, can be costly. The **Publication and Availability of Information** reduces the cost of obtaining it. Today, this cost is

[24] Hanouz, Estevadeordal, Giordano and Moreira (2014), Latin America and the Caribbean in South-South Trade: Trade Performance and Main Obstacles to Developing Trade, in *The Global Enabling Trade Report 2014*, World Economic Forum, April 2014.

further reduced if the information is made available through Internet. Governments should also establish “inquiry points” where foreign governments, traders and other interested parties can request further clarification of procedures, laws, tariffs, fees, transit requirements, etc. As an additional measure of transparency, the official place where the information can be found as well as the contact information of the inquiry point should be notified to trade partners, through the WTO or directly.

Article 2 - Legitimate changes in laws and regulations affecting the movement, release and clearance of goods, including those in transit, occur continuously as governments improve the framework in which trade operations are conducted. The **Opportunity to Comment and Inform before Entry into Force** provides traders and other private sector interested parties the ability to provide useful advice in the design stage of such changes that could result in less burdensome ways of achieving the government’s policy objective. Publishing new laws and regulations prior to the entry into force and establishing a consultation mechanism increases transparency and allows time for adaptation to traders.

Article 3 - Advance rulings are binding decisions prior to importation made by the relevant border authority, requested by a trader on the tariff classification of a good, its origin (to determine eligibility for possible preferential treatment), its valuation, and the possible applicability of exemptions or a quota. On this basis the trader knows, prior to arrival at the border, how his or her good will be treated, and the charges that will be applied.

Article 4 - On occasions, a trader may disagree with the administrative decision of the customs agency or the latter may issue an erroneous ruling. Such an event may raise the cost of exporting, importing or transiting up to a point that the operation fails. Thus, establishing **Appeal or Review Procedures,** either administrative and/or judicial, reduces the risk of being subject to arbitrary decisions.

Article 5 - In certain specific cases, **Other Measures to Enhance Impartiality, Non-discrimination and Transparency** are required so as not to cause unnecessary costs to a trader. For example, in order to protect human, animal and plant life and health, authorities may enhance the level of controls or inspections at the border for foods, beverages and feedstuffs. Thus, trade facilitation is served by requiring that systems for issuing **Notifications for enhanced controls or inspections and Detention** be in place, as well as **Test procedures** that provide the opportunity for a second test in case of an adverse first one.

Simplification, Harmonization and Standardization

Article 6 - Disciplines on Fees and Charges Imposed on or in Connection with Importation and Exportation have been part of trade rules since the GATT of 1947. The WTO TFA expands on them by adding obligations on transparency such as the publication of such fees and charges. The basic principle is retained: fees and charges for customs processing have to be limited to the approximate cost of the services rendered or in connection with the specific exportation or importation operation itself. **Penalty disciplines** are also established in case of breaches of regulations, laws or procedures so as to make them commensurate to the severity of the violation.

Article 7 - Reducing the time required for the **Release and Clearance** of goods exported, imported or in transit, as well as reducing the range of time that such process may take is one of the central objectives of trade facilitation. It has always been important, but in the global structure of trade dominated by the fragmentation of production it can make the difference between participating, or not, in global value chains. As described above, now goods may have to cross borders several times in different stages of production. On-time delivery of parts and components is crucial, otherwise inventories would have to be higher and this is costly. The measures recommended simultaneously allow for more secure and expedited trade.

The trade facilitation instruments that contribute to a faster and more secure process of release and clearance are:

- **Pre-arrival Processing**: allowing for the submission of all required documentation prior to arrival at the border.
- **Electronic Payment** of duties, taxes, fees and charges.
- **Separation of Release from Final Determination of Customs Duties, Taxes, Fees and Charges** so that goods can be released prior to the final determination of duties and other fees and charges.
- **Risk Management** systems so as to focus on high-risk consignments and expedite the release of low risk ones.
- **Post-clearance Audit** to ensure compliance.
- **Establishment and Publication of Average Release Times**. The exporter and the importer can adequately program the shipments to arrive on time.

- **Trade Facilitation Measures for Authorized Operators**. Appendix B describes what Authorized Operators are and their importance in facilitating trade while establishing and maintaining appropriate levels of security.
- **Expedited Shipments**. The release, in an expedited manner, of goods that enter through air cargo services and are commonly known as "courier services".
- **Perishable Goods**. Efficient transportation and facilitation of perishable goods to preserve quality and value are particularly important for LAC, as the region has become an important exporter of fresh agricultural and sea products.

Article 8 - Border Agency Cooperation is an essential component of any strategy that aims at facilitating border crossings. Cooperation requires mutual trust and in some cases requires an outside catalyst. Aligning working days and hours, harmonization of documents and formalities, building and sharing common facilities, joint controls and establishing one-stop border controls, reduce the cost of intra-regional trade that is relatively high in LAC.

Article 9 - Countries should establish procedures to allow the **Movement of Goods under Customs Control Intended for Import** within their territories, in order that imported goods could be cleared at inland customs offices instead of at the border crossing itself, thus facilitating movement of goods through the border by reducing congestion and the time required to complete the import operation.

Article 10 - The simplification, reduction or even elimination of **Formalities Connected with Importation and Exportation and Transit** to facilitate trade can be achieved through various measures and instruments:

a) **Formalities and Documentation Requirements** – the simplification and reduction of documents and procedures should be examined taking into consideration goals such as the rapid release and clearance of goods, reducing the time and cost of compliance, and choosing the least restrictive measure given the policy objective. The development of a Single Administrative Document (SAD) for use by all agencies should be considered. Those documents and procedures that are no longer required should be eliminated.

b) **Acceptance of Copies** of documents by border agencies can have a significant time saving as documents could go to all agencies at the same time. This would be particularly useful in a paper-based regime.

c) **Use of International Standards** for policies, procedures and documents contributes to trade facilitation as traders and operators would face the same requirements in different destinations, allowing them to take advantage of economies of scale when it comes to complying with formalities and documentation. The WCO is an important international standard-setter in customs formalities, documentation, procedures, security and operations. UN/CEFACT recommendations on lay out for key trade documents, country codes, etc., can form the basis for the document simplification process.

d) The **Single Window** (SW; see Box 2) allows for the submission of all documentation and data requirements of all border agencies through a single point. The SW is particularly relevant for those countries that are implementing a paperless process. One caveat is to ensure all documentation and processes have gone through a simplification, harmonization and standardization process before establishing a SW or as part of the establishment process.

e) **Pre-shipment Inspections** to determine tariff classification and valuation increase the cost of trade as they duplicate the border clearance process, so they are no longer allowed in the WTO TFA except when they are related to sanitary and phytosanitary purposes.

f) **Use of Customs Brokers** is a common practice in many countries. However, a mandatory requirement to use brokers has been identified as a factor that increases cost for exporters, particularly when licensing restrictions limit the number of authorized brokers. The WTO TFA prohibits the introduction of their mandatory use, but applies the ”grandfathering clause” when they are already in place, while specifying transparency obligations for the rules related to their use and licensing.

g) **Common Border Procedures and Uniform Documentation Requirements** throughout a country’s territory contribute to transparency and predictability, as all shipments would receive similar treatment at any entry point.

h) **Rejected Goods** intended for import by the competent authority because they do not meet sanitary or phytosanitary or technical regulations should be re-consigned or returned to the exporter, instead of being destroyed or confiscated.

i) The **Temporary Admission of Goods/Inward and Outward Processing** allows for certain trade operations, such as the importation of goods exempted from the payment of

duties if they are intended for re-exportation without any changes, or admitted for processing, manufacturing or repair for subsequent exportation.

Article 11 - Freedom of Transit is another obligation that has been in place since the General Agreement on Tariffs and Trade (GATT) of 1947, and an important one in certain regions where transit through third countries is an essential way of accessing foreign markets. This is the case for example of Central America, and of Bolivia and Paraguay in South America. Clarification and expansion of the disciplines for treating goods in transit is crucial in these circumstances, and this has been addressed in the WTO TFA. Among others, the disciplines cover regulations and formalities, imposition of fees and charges, Most Favored Nation (MFN) treatment, and simplification of formalities, documentation and controls.

Customs Cooperation

Article 12 - Customs agencies should cooperate in many areas to facilitate trade but also to reduce the cost of ensuring compliance. For example, to exchange information for purposes of verifying an import or export declaration when there are reasonable doubts about its veracity and accuracy. It is also a basis for additional cooperation and sharing information on best practices in enforcing compliance, and builds mutual confidence between the agencies.

4.2 Beyond Bali

The trade facilitation discussion is generally focused on measures that governments can undertake to make the trade transaction process simpler, faster, more predictable and less expensive. In this context, the focus is on the border and the experience of the transaction as the good crosses an international border. This focus is valid but it should not be the only focus if importers, exporters, manufacturers, and governments want to maximize the benefits of facilitating trade. There are five general areas in which measures undertaken by traders, intermediaries and governments can facilitate trade. These are:

- **Commercial measures** – Undertaken by buyer and seller to improve the efficiency of the transaction such as including qualified supplier lists, terms and conditions of sale, delivery, finance and payment procedures, and use of commercial documents aligned to recognized international standards.
- **Transportation measures** – Involves buyer and/or seller (depending on terms of sale and delivery), logistics service providers, transportation providers and port authorities and other regulators. Information on the transportation documentation needs to be

consistent with commercial documentation, and packing and packaging must meet transportation requirements, and all security requirements.

- **Customs and Cross-border management** – Involves a country's border agencies including customs, agriculture, health, standards, security, immigration and others, depending on the legal requirements established by the government. Facilitation measures focus on three areas: clearance, security, and cross-border management.
- **Payment** – Involves buyer, seller, financial institutions, export financing agencies and governments. Facilitation measures are focused on three areas: payment procedures, instruments for trade finance, and supply chain finance.
- **Infrastructure** – The four elements identified above involve improvements in services to facilitate and secure trade. This element focuses on improvements in the transportation infrastructure. It may not matter that services are improved if the condition of roads, railroads, ports, and/or customs facilities negate any improvements on the service side. In addition, there has been significant discussion on the need to move to an electronic system to facilitate trade; however, if a country's telecommunications system is not sufficiently robust, or is not maintained or does not have staff that are properly trained, then any benefits from moving to a paperless system are negated.

A fundamental aspect for the success of trade facilitation measures is the coordination of all border agencies. Lacking such coordination among relevant government agencies, the full benefits of trade facilitation will not be realized. That is why, among the provisions of the WTO TFA, is the obligation "to establish and/or maintain a national committee on trade facilitation or designate an existing mechanism to facilitate both domestic coordination and implementation of provisions of this Agreement."[25] Some trade facilitation instruments (for example, the SW) cannot be made operational without this coordination and others, such as the AEO, become more functional when adding an inter-institutional aspect.

Many of the measures included in the WTO TFA and other trade agreements that contain provisions on trade facilitation require a coordinated approach by stakeholders and an understanding of the available financial and human resources, telecommunications and other infrastructure in order to maximize the impact of the measure. The single window (see box below) is one example of such a trade facilitation instrument.

[25] See Article 14 of the Agreement, http://wto.org/english/thewto_e/minist_e/mc9_e/desci36_e.htm.

Box 2. The Single Window

The single window (SW) environment is one of the key components of trade facilitation. In many ways, it combines many of the desirable elements of trade facilitation: simplification and harmonization of procedures, coordination among border agencies and use of information and communications technologies (ICTs). The United Nations Center for Trade Facilitation and Electronic Business (UN/CEFACT) defines an International Single Window[26].

> *"A facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import,* export, *and transit-related regulatory requirements. If information is electronic, then individual data elements should only be submitted once. In practical terms, the single window aims to expedite and simplify information flows between trade and government and bring meaningful gains to all parties involved in cross-border trade. The single window is generally managed centrally by a lead agency, enabling the appropriate governmental authorities and agencies to receive or have access to the information relevant for their purpose. In addition, participating authorities and agencies should co-ordinate their controls. In some cases, the single window may provide facilities for payment of relevant duties, taxes and fees".*

The main benefits for governments are:

- Accurate revenue yields;
- Improved trader compliance;
- Use of sophisticated "risk management" techniques for control and enforcement purposes
- More effective and efficient deployment of human, financial and technical resources.

The main benefits for the private sector are:

- Reduced costs through reducing delays;
- Faster clearance and release;
- Predictable application and explanation of rules;
- More effective and efficient deployment of resources;
- Reduction on data entry errors.

It is important to note that the SW is not a system or a solution to be purchased out of a box. Rather, it is the basic concept of good government that more can be accomplished in achieving the mission-critical goals of each agency by working together cooperatively rather than independently. The common theme of SWs is that agencies must work together for the good of all. Furthermore, whatever blueprint or strategic plan is set forth to address this need for agency coordination, it must be developed within the target country and by the relevant stakeholders in order to optimize cooperation.

4.3 Trade Facilitation in Preferential Trade Agreements

Recognizing the importance of trade facilitation, LAC countries have been gradually adopting a number of disciplines in this area in the context of regional integration initiatives and in their free trade agreements. In other words, LAC countries are already using trade agreements –

[26] UN/CEFACT Recommendation No. 33, Establishing a Single Window, http://www.unece.org/fileadmin/DAM/cefact/recommendations/rec33/rec33_trd352e.pdf

multilateral, regional and extra-regional – as a mechanism for coordination and harmonization of trade facilitation policies.[27]

The proliferation of preferential trade agreements (PTAs) has become an established, ever expanding and well-studied phenomenon in the sphere of international trade. It is a dynamic and rapidly changing process, with more than half of all PTAs coming into existence in the last ten years. We are now witnessing the emergence of the "mega-bilaterals" and "mega-regional" agreements, including but not limited to the Trans Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Transatlantic Trade and Investment Partnership (TTIP).

Many of the provisions contained in the WTO TFA are not entirely new or unknown to LAC countries, and some have already been adopted or are in the process of adoption. One of the reasons for this is that a number of provisions are also included in the PTAs that some LAC countries have negotiated with intra- or extra-regional trade partners. In some cases, the measures may be worded differently or be more binding compared to the WTO text, but their aim is similar.

In this context, it is relevant to evaluate the progress on trade facilitation issues within the scope of LAC preferential trade agreements. In the IDB *Trade and Integration Monitor 2014*, an analysis was carried out regarding the presence of trade facilitation provisions from the TFA in a sample of 48 LAC PTAs signed since 1995. The sample includes 18 countries from Latin America and 15 from the Caribbean, 26 intra-regional agreements and 22 agreements negotiated with LAC's 5 primary extra-regional partners: Canada, China, the European Union, Japan, and the United States. The sum of exports covered by both the intra- and extra-regional agreements in the sample represents 87.6% of total LAC exports in 2012.

Three quarters of the PTAs surveyed contain at least one trade facilitation commitment. All extra-regional PTAs (22 in the sample) contain this type of commitment, while 11 of the 26 (44%) intra-regional PTAs lack them, primarily those within the LAIA framework. Within the sample, 244 commitments on trade facilitation were identified, for an average of 5 commitments per agreement. This is less than half of the 12 selected from the TFA. The average number of commitments differs markedly between intra-regional PTAs (3.4 commitments per agreement)

[27] Neufeld (2014) provides a comprehensive and nuanced analysis of the subtle co-evolution between the increasing awareness of the benefits of trade facilitation, and the increasing inclusion of more and more sophisticated trade facilitation provisions in PTAs.

and extra-regional ones (7 per agreement). This finding is not surprising, given that trade facilitation provisions were introduced precisely in the negotiation of the extra-regional PTAs. In particular, those PTAs with the larger economies such as the US or the EU have given traction to the trade facilitation agenda, as evidenced in their PTAs with Chile, Colombia, Panama, and Peru.

Assessing the degree to which LAC PTAs already establish commitments with respect to the provisions of the TFA, it can be noted that, with respect to bilateral relations, trade facilitation commitments undertaken in PTAs represent only 20% of the total potential multilateral coverage, with 22% coverage in extra-regional agreements and 19% in intra-regional PTAs. What is evident from this indicator is that there is an 80% gap between the trade facilitation commitments undertaken within the PTA framework and those specified in the WTO TFA, hence the relevance of the multilateral agreement for the region (Giordano, 2014).

The sample of trade facilitation commitments reviewed in LAC PTAs reveals that while these are found in three quarters of the agreements, LAC still has significant ground to cover to fully implement the provisions laid out in the TFA.

One of the interesting spillover benefits of trade facilitation benefits in PTAs is that although they might be initiated as a result of a bilateral obligation, such as in the case of appeals or advance rulings, they are often implemented multilaterally.

The other major impact of PTAs on trade facilitation is through the rules of origin regimes that are necessarily associated with preferential trade arrangements. It could be reasonably said that preferential rules of origin and origin administration are two areas of international trade that could most benefit from standardization and harmonization: the resulting trade facilitation rewards would be big and would significantly impact trade volumes. In fact, customs authorities from around the world are regularly seeking technical assistance and capacity building support from the World Customs Organization (and from the IDB in the case of LAC countries) in the area of preferential trade on rules of origin, including origin procedures and practices (i.e. preferential origin verification).

These facts present interesting questions: although PTAs do contain related bilateral obligations in these matters, do or should related TFA provisions (i.e. advance rulings, appeals,

consultation and notification) apply to preferential rules of origin? It would seem that they could or should, in light of the transitional undertakings found in the Agreement on Rules of Origin.[28]

Trade facilitation is also prominent in regional integration schemes, given that one of the major impediments to integration is the high cost of trading and the lack of appropriate measures that address the deficiencies in the "soft" infrastructure of trade, i.e. trade-related procedures, regulations and institutions.

These various initiatives present an opportunity for LAC to modernize its trade policies and procedures and continue to work toward implementing trade facilitation measures that will help the countries in the region boost the volume and diversity of trade, and participate more fully in global production chains.

5. Implementing Trade Facilitation Measures

Having addressed the issues of identifying the content of trade facilitation and the most appropriate definition for trade facilitation analytical purposes, the following section shifts the focus from "what is trade facilitation" to "how to implement it". This will include proposed steps and best practices on how to meet the operational challenges of implementation.

5.1 Importance of Commitment at All Levels

The development and implementation of a national trade facilitation policy/program requires commitment by various stakeholders, including the government – at both the political and operational levels – and the business community, i.e. exporters, importers, logistics and transport service providers, financial institutions, etc.

By its very broad nature, trade facilitation transcends the mandate of any individual government department and requires a mechanism that transcends the traditional "stove-pipes" approach and enhances coordination among government agencies.

In certain cases, political commitment must involve express support and/or decrees from political leaders and presidents. A standout example is President Obama's Executive Order on

[28] The IDB is recognized as a leading center of excellence for rules of origin research and for origin-related capacity building. In this regard, it is important to note the link between origin expertise and the effective management of tracking and traceability issues, which are becoming prerequisites for product and brand integrity. See Harris and Staples (2009), *Origin and Beyond: Trade Facilitation Disaster or Trade Facilitation Opportunity?* IDB Working Paper # IDB-WP-147 http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35030331).

“Streamlining the Export/Export Process for America’s Businesses” (see Appendix D which contains the complete text of the Executive Order). What is it about trade facilitation that requires such “top down” support?

5.2 The Need for Policy Coordination and National Trade Facilitation Bodies

Trade transaction costs (TTCs) can arise from a diversity of causes: documentation to be completed, methods of payments of tariffs, fees and other charges, dealing with several government agencies, uncertainty about clearance and release times and physical inspections, asymmetric information regarding tariff classification and therefore on tariff to be assessed, etc. A number of policy actions or levers have been recommended to lower these costs, but the lists have expanded, as well as their reach, as new challenges have arisen (such as security issues), the priorities and focus of government agencies have evolved (with less emphasis on tariff revenue collection as result of liberalization, and higher concern for counterfeited and harmful products, for example), and technological progress has changed how trade and borders are managed (with the introduction of automation, computers, scanners, the Internet).

Coordination and harmonization of trade facilitation measures as well as a comprehensive approach to their implementation are necessary conditions for these measures to effectively reduce TTCs. As already mentioned, coordination between the relevant government agencies involved in the process of exportation, importation and transit within the country is critical. In addition, coordination between agencies in different countries is essential for the smoother movement of goods and to effectively allow for the movement of goods in transit.

The harmonization of measures and the adoption of international standards by governments reduce trade costs, as traders do not have to deal with different procedures, formalities, documentation, standards and institutional frameworks.

Finally, given that one of the objectives of trade facilitation is to reduce costs throughout the whole supply chain, partial adoption of measures may not fully accomplish this objective. Different agencies and different measures intervene in different stages of the chain. Therefore, a piecemeal approach to trade facilitation should be discouraged. Well-designed and applied trade facilitation measures facilitate trade even before the decision of exporting or importing is made. Implementation of a trade facilitation initiative can be successful if there is:

- Strong political commitment;
- A clear strategic plan; and

- Cooperation between government and business.

As stated previously, in one sense the goal of trade facilitation is business facilitation. However, it is important to maintain a balanced view of the private sector (exporters, importers, service providers) during trade facilitation discussions. The private sector is composed of many trade facilitation stakeholders that must be notified and consulted with when new legislation and regulations are introduced. By the same token, trade facilitation dialogue should not be allowed to deteriorate into a one-way string of complaints by the private sector about border and border related agencies. In the context of trade facilitation conceived from an "end-to-end" perspective, there are trade facilitation undertakings for the private sector on their own, public authorities such as customs on their own, and others that must be undertaken together and in partnership with each other.

At the institutional level, the WEF recommends that countries "create a national mechanism to set policy priorities for improving supply chain efficiency based on objective performance data and feedback loops between government and firms."[29]

The establishment of a national trade facilitation body could provide the structure to lead the trade facilitation process. UN/CEFACT "recommends that Governments establish and support national facilitation teams with balanced private and public sector participation in order to:

- Identify issues affecting the cost and efficiency of their country's international trade;
- Develop measures to reduce the cost and improve the efficiency of international trade;
- Assist in the implementation of those measures;
- Provide a national focal point for the collection and dissemination of information on best practices in international trade facilitation; and
- Participate in international efforts to improve trade facilitation and efficiency."[30]

Ensuring that all stakeholders, both public and private sector, are active participants on this body will improve the understanding of all about the specific needs and issues faced by stakeholders, and will enable the development of solutions that are acceptable to all. It will improve communication amongst stakeholders and provide an opportunity to ensure all are working towards a common, agreed objective. A national body would be in a position to identify

[29] WEF (2013), *Enabling Trade - Valuing Growth Opportunities.*

[30] http://www.unece.org/cefact/recommendations/rec_index.html.

issues and prioritize the implementation of measures, in view of resolving these issues and taking into account factors such as urgency, complexity and cost.

The means to move towards the establishment of a national body can take many forms and the initiative can come from the government or the private sector. The following is an example of how the process can start. Notable is the experience of partnership in Brazil, as presented in Mein (2014):

> "In May 2004 the Alliance to Modernize Brazil's Foreign Trade, better known as Procomex, was officially inaugurated as an informal movement bringing together more than 50 business associations that endorsed the vision, with the presence of senior officials from Customs and the Ministry of Development, Industry and Trade. By providing a mechanism for the private sector to listen to Customs and for Customs to carry on a dialogue with the private sector, often using specific themed events, Procomex started the two sides down a lengthy road of confidence building."[31]

5.3 The Trade Facilitation Audit

At the current juncture, the trade facilitation agenda is beginning to descend from the macro level of analysis of benefits to the more specific identification of needs, and increasingly toward technical implementation considerations. Trade facilitation has become a high profile priority for the international trading community and this represents an important opportunity to increase the efficiency and effectiveness of trade. Furthermore, it has been established that the largest benefits will accrue to developing economies and SMEs, in particular. However, with opportunity also come challenges: in the words of the WEF 2014 Global Enabling Trade Report "*...real-world impact will only come with implementation of the negotiated measures."*

In this context, it might be useful to consider the underlying differences between the narrower border- and customs-centric scope of trade facilitation as contained in the TFA concept, versus broader definitions such as that contained in the WEF's Enabling Trade Index (ETI). However, faced with two overlapping definitions how are policy makers to proceed? Surely mere compliance with the TFA cannot be the only objective, even if that alone would produce trade facilitation benefits.

[31] See Mein (2014), *Customs-private sector partnership: not just wishful thinking*, World Customs Journal Volume 8, Number 1, March 2014.

More importantly, what if sole compliance with the TFA was, in fact, out-of-step with actual trade facilitation needs? For example, what if a country's poor railway infrastructure was slowing down imports and exports to a degree that could not be overcome only by customs reform in that country? Or, a perfectly adequate port infrastructure cannot by itself overcome the inefficiencies of outdated customs laws and practices. These matters address the interplay between regulatory and physical infrastructure, and the required sequencing of trade facilitation remedies. Of course, as it relates to compliance with the TFA, the issue is further complicated by the fact that physical infrastructure is not included in the scope of the ambit of the TFA.

Even taking into consideration the facts that regulatory reform is less expensive to implement, and that regulatory and government coherence should be designed to maximize existing physical infrastructure, facilitating trade in that manner may not be the most appropriate approach for maximizing a country's competitiveness and economic growth potential.

For trade facilitation, the devil is in the detail. There are a number of implementation issues that need to be factored for successful implementation, including the identification of priority issues, the need for coordination and communication between government and business and amongst various government agencies, the presence of adequate telecommunications and physical infrastructure, as well as the political will for legislative and regulatory changes.

Ultimately, trade facilitation measures will be implemented on the basis of expectations of economic growth, improved revenues, improved security of the supply chain, and increased employment resulting from increased profitability of business.

Identifying and sequencing a country's trade facilitation needs from the broadest possible perspective, including private sector participation, is one way to ensure that a country can truly take advantage of the opportunities inherent in trade facilitation to become more competitive.

This Note proposes that the most efficient way to answer these questions is to perform a comprehensive trade facilitation audit of a country that identifies the regulatory and infrastructure hurdles that products face from the importation of inputs to the export of finished goods. Once major legal and/or physical "chokepoints" have been identified, then the order in which they should be addressed should become readily apparent. In other words, the trade facilitation audit should be taken from the broadest trade facilitation perspective possible. In this way, identified priorities could be addressed in a rational sequence.

Identifying and addressing trade facilitation needs from the broadest perspective allows policy makers and private sector interests to collaboratively work together in the identification of those issues that are most negatively impacting a country's competitiveness, as well as the order by which these priority needs are to be addressed. In this sense, the identification of major trade facilitation "chokepoints" attracts better "buy in" by politicians, the private sector and policy makers, resulting in remedies - precisely because the objective is to make the country more competitive and attractive for investment, as opposed to the distinct concept of compliance with multilateral trade facilitation norms or obligations. It also improves "aid-for-trade" effectiveness when funding responds to integrated and national trade strategies that feature less likelihood of duplication.

The trade facilitation audit of a country's supply chains and their components forms the basis for the development of a national trade facilitation strategy which responds to issues and deficiencies in the existing supply chain structure.

It should be a comprehensive audit looking at trade facilitation in the context of the economy, trade flows, trade policies and government objectives. The audit should include legal and regulatory issues, business processes logistics and infrastructure. Perspectives of all stakeholders should be incorporated into the audit. Stakeholders to be included should be the following, among others:

- Forwarders/agent brokers/multimodal transport operators
- Exporters
- Importers
- Shipping lines
- Road carriers
- Airlines
- Express operators
- Ports
- Airports
- Border crossing points
- Commercial banks
- Exchange controls/central bank
- Pre-shipment inspection agencies

- Chambers of Commerce
- Government Department of Trade/External Trade

The audit would provide clarity on the present trade facilitation situation in the country and lead to the establishment of objectives, goals, priorities and the corresponding sequencing for implementation of required measures, and result in a comprehensive approach to maximizing the economic benefits for a country through reduction of TTCs.

In the situation where a country has already completed a comprehensive audit, this process could be used to focus on improving specific components of the supply chain which have not been included in previous trade facilitation initiatives. The process also needs to take into account the specificities of the countries involved.[32]

The following is a non-exhaustive listing of factors that should be considered when looking at regulations, procedures and processes where there is potential to reduce TTCs:

- Does the measure meet the international standard (situational analysis)?
- If not, what needs to be done to meet the standard (gap analysis)?
- What are the national and international legal requirements for implementing the measure?
- What is the financial cost of implementing and continuing operation of the measure?
- What are the human resource and training requirements?
- What is the benefit of implementing the measure?

5.4 Post Audit – Next and Final Steps

As outlined above, the purpose of a trade facilitation audit is to broadly and quickly identify the issues that are hindering the flow of goods and services in a specific country and, of equal importance, the sequence in which these obstacles should be addressed.

One example, which can also be considered as a "best practice", is the APEC Supply Chain Connectivity Action Plan that identifies so-called chokepoints that impede supply chain connectivity.

The identified chokepoints are the following:[33]

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[32] The World Bank Study *Trade and Transport Facilitation Assessment – A Practical Toolkit for Country Implementation* (2010) provides a comprehensive and detailed approach for conducting an audit and for establishing a prioritized implementation plan.

[33] Source: Appendix 6 to 2013 CTI Report to APEC Ministers, http://publications.apec.org/publication-detail.php?pub_id=1457

- Chokepoint 1 - Lack of transparency/awareness of full scope of regulatory issues affecting logistics; lack of awareness and coordination among government agencies on policies affecting the logistics sector; absence of single contact point or champion agency on logistics matters.
- Chokepoint 2 - Inefficient or inadequate transport infrastructure; lack of cross border physical linkages (e.g. roads, bridges).
- Chokepoint 3 - Lack of capacity of local/regional logistics sub-providers.
- Chokepoint 4 - Inefficient clearance of goods at the border; lack of coordination among border agencies, especially relating to clearance of regulated goods at the border.
- Chokepoint 5 - Burdensome procedures for customs documentation and other procedures (including for preferential trade).
- Chokepoint 6 - Underdeveloped multi-modal transport capabilities; inefficient air, land, and multimodal connectivity.
- Chokepoint 7 - Variations in cross-border standards and regulations for movements of goods, services and business travelers.
- Chokepoint 8 - Lack of regional cross-border customs-transit arrangements.

The Action Plan also identifies specific objectives and policy recommendations for eliminating or mitigating the chokepoints, i.e. compiles "inventories" of policies that are required to best address and resolve each of these eight chokepoints. In illustration, an outline of the objectives and policy recommendations for overcoming Chokepoint 3 is presented in Appendix D.

This is an innovative policy approach which, adapted to the LAC region and national conditions, can help experts associated with national trade facilitation bodies work more effectively to meet their trade facilitation objectives.

However, even this process of complementing a trade facilitation audit with detailed policy inventories requires additional steps to implement effective trade facilitation measures. This involves the complex undertaking known as business process mapping, a major tool in value chain analysis. The following highlights the importance of mapping for companies: the same approach can be used for public and private entities with a view to facilitating trade:
According to Kaplinsky and Morris (2002):

> “Value chain analysis plays a key role in understanding the need and scope for systemic competitiveness. The analysis and identification of core competences will lead the firm to outsource those functions where it has no distinctive competences. Mapping the flow of inputs – goods and services – in the production chain allows each firm to determine who else’s behaviour plays an important role in its success. Then in those cases where the firm does not internalize much or most of the value chain in its own operations, its own efforts to upgrade and achieve efficiency will be to little effect. The same challenge is true for national or regional economic management - upgrading the performance of individual firms in a region may have little impact if they are imbedded in a sea of inefficiency.”[34]

Looking at country-level experiences, and as outlined below in Mein (2014), the Brazil example shows that business process mapping can be a complicated and time-consuming process which requires a common undertaking by stakeholders to build an accurate map of existing processes (present state) and proposed maps to improve those processes (future state) so as to maximize benefits for all trade stakeholders:

> "…the Procomex Institute was able to work in partnership with the government and organized an effort to map business processes. The goal was to draw up an easy-to-visualize iconic description of existing problems in import and export procedures, and to identify opportunities for improvement. …The above process was developed in 114 day-long meetings held between April 2011 and December 2013. A total of 502 professionals from 180 different companies and 36 business associations took part, as did representatives from seven government agencies. Groups average 25 participants per meeting. The output was 49 detailed business process maps, distributed as follows:

- Three maps for temporary admissions: “as is”, “to be” and joint “to be’.
- Fifteen maps for exports, including maritime (regular cargo, roll-on roll-off, commodities), land and air cargo (Customs).

[34] Kaplinsky & Morris 2002, pp. 11-12.

- Nine maps for agricultural products (animal origin, grains, and containerised foods) – these were prepared jointly with senior officials from the Agricultural Sanitation Agency.
- Two maps for exports for the army.
- Twelve maps for imports-maritime (regular cargo and commodities), air and land.
- Six detailed business process maps for customs transit for air, maritime and land cargo.
- Two maps for drawback.
- A table listing all forms/documents/systems and the required data for maritime, air and land exports."[35]

6. Summary Remarks and Observations

This Note examines major components and elements of trade facilitation, as well as policy recommendations on implementing measures to facilitate trade. The following main observations have been made:

❖ In today's trade environment of fragmented production and global value chains, the need for trade facilitation is greater than ever in view of reducing trade transactions costs and promoting increased predictability in the global supply chain.

❖ Trade facilitation investments generate significant benefits and returns to governments, traders, and especially SMEs.

❖ For analytical and implementation purposes a very broad definition of trade facilitation is recommended, i.e. going beyond border and customs matters exclusively. It is recommended that this broad approach be adopted by national trade facilitation coordinating offices as well.

❖ A comprehensive country-level trade facilitation audit should be performed to identify major "chokepoints" or other obstacles to trade facilitation (i.e. of regulatory nature and/or pertaining to physical infrastructure), as well as the proper sequence in which they should be addressed.

[35] Mein (2014), *Customs-private sector partnership: not just wishful thinking*, World Customs Journal, Volume 8, Number 1, March 2014.

- The process of mitigating identified trade chokepoints starts with establishing objectives, identifying policy alternatives, establishing the most effective policy choices, assigning responsibility and timelines for the measures to be implemented, and using business process mapping techniques to ensure development of the most effective facilitation mechanism. This process should involve all stakeholders.

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Appendix A – Main Elements of the WTO Trade Facilitation Agreement

TRANSPARENCY	Article 1. Publication and availability of information	1. Publication of information on procedures, applied rates of duties and taxes, fees and charges imposed by government agencies, rules for the classification or valuation of goods, laws, regulations and administrative rulings, restrictions or prohibitions, penalty for breaches, appeal procedures, agreements with any country, procedures relating to the administration of tariff quotas. 2. Information available through Internet. 3. Inquiry points. 4. Notification to the WTO of location of publication and contact information of inquiry point.
	Article 2. Opportunity to comment and information before entry into force	1. Opportunity to comment and information before entry into force. 2. Regular consultations between border agencies, with traders and other stakeholders.
	Article 3. Advance rulings	Mandatory on tariff classification and origin
	Article 4. Appeal or review procedures	Right to appeal or review
	Article 5. Other measures to enhance impartiality, non-discrimination and transparency	Notifications for enhanced controls or inspections, prompt notification of detention of goods, right to second test in case of adverse ruling.
HAROMIZATION AND STANDARDIZATION	Article 6.Disciplines on fees and charges imposed on or in connection with importation and exportation	General and specific disciplines fees and charges imposed or in connection with importation and exportation and on penalties.
	Article 7. Release and clearance of goods	1. Pre-arrival processing 2. Electronic payment 3. Separation of release from determination of customs duties, taxes, fees and charges 4. Risk management 5. Post-clearance audit 6. Establishment and publication of average release times 7. Trade facilitation measures for authorized operators

		8. Expedited shipments 9. Perishable goods.
	Article 8. Border agency cooperation	Alignment of working hours and of procedures and formalities, common facilities, joint controls, one-stop border post control.
	Article 9. Movement of goods under customs control intended for import	Allow goods intended for import to be moved from customs office of entry to another customs office where goods would be released or cleared.
	Article 10. Formalities connected with importation and exportation and transit	1. Simplification of formalities and documentation requirements. 2. Acceptance of copies. 3. Use of international standards. 4. Single window. 5. Pre-shipment inspection 6. Use of customs brokers. 7. Common border procedures and uniform documentation requirements throughout territory. 8. Rejected goods. 9. Temporary admission of goods/Inward and outward processing.
	Article 11. Freedom of transit.	Provisions regarding the treatment of goods in transit through the territory of a third country.
COOPERATION	Article 12. Customs cooperation.	Cooperation between customs agencies for exchange of information for verifying an import or export declaration.

Appendix B – Authorized Economic Operators in Latin America and the Caribbean

Securing and facilitating trade while establishing strategic alliances between customs administrations and the private sector is the main objective of the Authorized Economic Operation (AEO) programs.

Nowadays, customs administrations' responsibilities have evolved and expanded beyond their traditional role of revenue collection. Globalization and other factors such as the threat of terrorism require customs administrations all over the world to be the first line of defence against external threats but also to facilitate the movement of legitimate goods across borders. Supply chain security and trade facilitation are at the top of the agenda of any Director General in any customs administration in the world.

To meet these seemingly contradictory objectives, the international community, led by the World Customs Organization (WCO), has established best practice guidelines emphasizing both trade facilitation and supply chain security through Customs-to-Customs and Customs-to-Business partnerships. One of the best ways to develop Customs-to-Business partnerships is through the development of AEO programs, which identify and reward businesses that comply with WCO or equivalent standards for supply chain security.

The WCO defines an AEO as "a party that provides evidence of compliance with supply chain security standards by adopting practices for the improvement of and compliance with security requirements as well as of a satisfactory tax and customs record, all of which resulting in the granting of an authorization or recognition as AEO by the customs authority". Under the AEO program, Mutual Recognition Agreements (MRA) between Customs Administration can be signed to provide benefits to those AEO certified companies in the origin and in the destination of their trade operations.

Since 2009, the IDB has provided technical assistance and capacity building for specialists in Customs Administrations and private sector organizations in LAC – in conjunction with other international organizations such as the WCO and several customs administrations (especially from Canada, Spain and USA) – towards developing and strengthening AEO programs in the region. As a matter of fact, the LAC region leads the development of AEO programs in the developing world, with 10 countries already offering the certification to the

private sector in Mexico, Guatemala, Costa Rica, Panama, Colombia, Uruguay, Peru, Argentina, the Dominican Republic and Jamaica.

As a result, more than 400 companies have been certified in LAC, over 200 customs officials have received training both in workshops and e-learning courses, and one Mutual Recognition Agreement has been signed between the Mexico and Korea customs.

Worldwide, more than 50 countries have already implemented an AEO program including the USA, Canada, all member countries of the European Union, Japan, China, and Korea. The AEO certification is on its way of becoming an essential certificate to conduct international business. As a matter of fact, several multinationals from Europe and North America already require the AEO certification from potential supplies as a prerequisite for doing business with them.

The IDB, with contributions from the multi-donor Regional Infrastructure Integration Fund (RIIF) with contributions from Canada, Colombia, Mexico, Spain and he USA, will undertake additional activities of institutional strengthening: the first is to build an AEO certification process that incorporates other agencies involved in border control, such as police, agriculture, health, narcotics, environment and sanitation. A joint certification would identify risks systematically and holistically, and would reflect the concept of the single window where one certificate meets all agencies' requirements. The second area is to align the Regulation to the Central American Uniform Customs Code (RECAUCA, per its Spanish acronym) to international norms. Changes are needed to make participation in the AEO more accessible to small and medium size enterprises (SMEs).

Appendix C – United States President's Executive Order: Streamlining the Export/Import Process for America's Businesses

EXECUTIVE ORDER

STREAMLINING THE EXPORT/IMPORT PROCESS FOR AMERICA'S BUSINESSES

By the authority vested in me as President by the Constitution and the laws of the United States of America, and in order to reduce supply chain barriers to commerce while continuing to protect our national security, public health and safety, the environment, and natural resources, it is hereby ordered as follows:

Section 1. Policy. The United States is the world's largest economy and the largest trading Nation. Trade is critical to the Nation's prosperity -- fueling economic growth, supporting good jobs at home, raising living standards, and helping Americans provide for their families with affordable goods and services. It is the policy of the United States to promote commerce through the effective implementation of an ambitious 21st century trade agenda and vigorous enforcement of our Nation's laws relating to trade, security, public health and safety, the environment, and natural resources. In support of these goals, and to ensure that our Nation is well-positioned to compete in an open, fair, and growing world economy, the Federal Government must increase efforts to improve the technologies, policies, and other controls governing the movement of goods across our national borders.

In particular, we must increase efforts to complete the development of efficient and cost-effective trade processing infrastructure, such as the International Trade Data System (ITDS), to modernize and simplify the way that executive departments and agencies (agencies) interact with traders. We must also improve the broader trade environment through the development of innovative policies and operational processes that promote effective application of regulatory controls, collaborative arrangements with stakeholders, and a reduction of unnecessary procedural requirements that add costs to both agencies and industry and undermine our Nation's economic competitiveness. By demonstrating our commitment to utilizing technology, coordinating government processes, fulfilling international obligations, and embracing innovative approaches to promote new opportunities for trade facilitation in the 21st century, we can lead by example and partner with other countries willing to adopt similar programs. This will

encourage compliance with applicable laws and, more broadly, result in a more prosperous, safe, secure, and sustainable trading environment for all.

Sec. 2. Policy Coordination. Policy coordination, guidance, dispute resolution, and periodic reviews for the functions and programs set forth in this order shall be provided through the interagency process established in Presidential Policy Directive–1 of February 13, 2009 (Organization of the National Security Council System), or any successor.

Sec. 3. International Trade Data System. The ITDS, as described in section 405 of the Security and Accountability for Every Port Act of 2006 (the "SAFE Port Act") (Public Law 109-347), is an electronic information exchange capability, or "single window," through which businesses will transmit data required by participating agencies for the importation or exportation of cargo. To enhance Federal coordination associated with the development of the ITDS and to provide necessary transparency to businesses, agencies, and other potential users:

(a) by December 31, 2016, participating agencies shall have capabilities, agreements, and other requirements in place to utilize the ITDS and supporting systems, such as the Automated Commercial Environment, as the primary means of receiving from users the standard set of data and other relevant documentation (exclusive of applications for permits, licenses, or certifications) required for the release of imported cargo and clearance of cargo for export;

(b) by December 31, 2016, the Department of Homeland Security shall confirm to the Secretary of the Treasury and the ITDS Board of Directors (Board), which serves as the Interagency Steering Committee established under section 405 of the SAFE Port Act, that the ITDS has the operational capabilities to enable users to:

> (i) transmit a harmonized set of import and export data elements, to be collected, stored, and shared, via a secure single window, to fulfill U.S. Government requirements for the release and clearance of goods; and
>
> (ii) transition from paper-based requirements and procedures to faster and more cost-effective electronic submissions to, and communications with, agencies;

(c) the Board shall, in consultation with ITDS participating agencies, define the standard set of data elements to be collected, stored, and shared in the ITDS; and continue to periodically review those data elements in order to update the standard set of data elements, as necessary;

(d) the Board shall continue to assist the Secretary of the Treasury in overseeing the implementation of, and participation in, the ITDS, including the establishment of the ITDS capabilities and requirements associated with the collection from users and distribution to relevant agencies of standard electronic import and export data; and

(e) the Board shall make publicly available a timeline outlining the development and delivery of the secure ITDS capabilities, as well as agency implementation plans and schedules. Agencies shall take such steps as are necessary to meet the timeline, including timely completion of all appropriate agreements, including memoranda of understanding, and other required documents that establish procedures and guidelines for the secure exchange and safeguarding of data among agencies and, as appropriate, with other Federal Government entities.

Sec. 4. Establishment of the Border Interagency Executive Council. (a) There is established the Border Interagency Executive Council (BIEC), an interagency working group to be chaired by the Secretary of Homeland Security or a senior-level designee from the Department. The BIEC shall also have a Vice Chair, selected every 2 years from among the members of the BIEC by a process determined by the members. The BIEC shall develop policies and processes to enhance coordination across customs, transport security, health and safety, sanitary, conservation, trade, and phytosanitary agencies with border management authorities and responsibilities to measurably improve supply chain processes and improve identification of illicit shipments.

(b) The Department of Homeland Security shall provide funding and administrative support for the BIEC, to the extent permitted by law.

(c) In addition to the Chair and Vice Chair, the BIEC shall include designated senior-level representatives from agencies that provide approval before goods can be imported and exported, including the Departments of State, the Treasury, Defense, the Interior, Agriculture, Commerce, Health and Human Services, Transportation, and Homeland Security, the Environmental Protection Agency, and other agencies with border management interests or authorities, as determined by the Chair and Vice Chair. The BIEC shall also include appropriate representatives from the Executive Office of the President.

Sec. 5. Functions of the BIEC. The BIEC shall:

(a) develop common risk management principles and methods to inform agency operations associated with the review and release of cargo at the border and encourage compliance with applicable law;

(b) develop policies and processes to orchestrate, improve, and accelerate agency review of electronic trade data transmitted through relevant systems and provide coordinated and streamlined responses back to users to facilitate trade and support and advance compliance with applicable laws and international agreements, including (in coordination with, and as recommendations to, the Board) policies and processes designed to assist the Secretary of the Treasury, as appropriate, with activities related to the ITDS;

(c) identify opportunities to streamline Federal Government systems and reduce costs through the elimination of redundant capabilities or through enhanced utilization of the Automated Commercial Environment capabilities as a means of improving supply chain management processes;

(d) assess, in collaboration with the Board, the business need, feasibility, and potential benefits of developing or encouraging the private-sector development of web-based interfaces to electronic data systems, including the ITDS, for individuals and small businesses;

(e) engage with and consider the advice of industry and other relevant stakeholders regarding opportunities to improve supply chain management processes, with the goal of promoting economic competitiveness through enhanced trade facilitation and enforcement;

(f) encourage other countries to develop similar single window systems to facilitate the sharing of relevant data, as appropriate, across governmental systems and with trading partners; and

(g) assess, in consultation with the Department of the Treasury, opportunities to facilitate electronic payment of duties, taxes, fees, and charges due at importation. The Federal Government endorses electronic payment of duties, taxes, fees, and charges due at importation, and currently allows payment electronically through various systems.

Sec. 6. Regulatory Review. To support the Federal Government's rapid development of the ITDS that, to the greatest extent possible, relies upon the collection, exchange, and processing of electronic data, each agency that utilizes the ITDS shall:

(a) as part of the retrospective review report due to the Office of Information and Regulatory Affairs (OIRA) on July 14, 2014, pursuant to Executive Order 13610 of May 10, 2012 (Identifying and Reducing Regulatory Burdens), unless directed otherwise through subsequent guidance from OIRA, determine whether any regulations should be modified to achieve the requirements set forth in this order; and

(b) promptly initiate rulemaking proceedings to implement necessary regulatory modifications identified pursuant to subsection (a) of this section.

Sec. 7. Reports. (a) Within 180 days of the date of this order, agencies with border management interests or authorities shall report to the Board on their anticipated use of international standards for product classification and identification.

(b) By July 1, 2014, and every year thereafter until July 2016, the BIEC, in consultation with the Board, shall provide to the President, through the Assistant to the President for Homeland Security and Counterterrorism, a report on the implementation of section 5 of this order.

Sec. 8. General Provisions. (a) Nothing in this order shall be construed to impair or otherwise affect:

> (i) the authority granted by law to an executive department, agency, or the head thereof; or
>
> (ii) the functions of the Director of the Office of Management and Budget relating to budgetary, administrative, or legislative proposals.

(b) This order shall be implemented consistent with applicable law, and subject to the availability of appropriations.

(c) This order is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the United States, its departments, agencies, or entities, its officers, employees, or agents, or any other person.

(d) Independent agencies are strongly encouraged to comply with the requirements of this order.

BARACK OBAMA

THE WHITE HOUSE,
February 19, 2014.

Appendix D - APEC Supply Chain Connectivity Action Plan: Objectives and Policy Recommendations for Overcoming Chokepoint 3

Presented here, as an example of a "best practice" for overcoming a chokepoint, is the APEC Supply Chain Connectivity Action Plan on Chokepoint 3.

<table>
<tr><td colspan="2">Chokepoint 3: Lack of capacity of local/regional logistics sub-providers</td></tr>
<tr><td colspan="2">Objectives:
To improve understanding on the current business environment in which local/regional logistics providers operate; SMEs in particular
To enhance engagement of local/regional sub-providers (LSPs) in the region
To enhance competiveness of LSPs in the region.</td></tr>
<tr><td>Policy Recommendation</td><td>Benefits</td></tr>
<tr><td colspan="2">TRADE FACILITATION</td></tr>
<tr><td>1. Promote Trusted Trader programs that reward LSPs who comply with applicable customs laws and regulations.</td><td>Efficiency gains will greatly benefit small players in the industry. I a local/regional logistics sub-provider is trusted, they can move product more quickly across borders and to market. Such programs enhance legitimate trade.</td></tr>
<tr><td>2. Encourage programs designed to help LSPs navigate port congestion</td><td>Reduces impact on smaller logistics providers, as it would take less hours and labor required to move product out of ports.</td></tr>
<tr><td colspan="2">IMPROVE KNOWLEDGE</td></tr>
<tr><td>3. Promote inter-agency communication and information sharing among logistics related domestic government entities within an individual economy.</td><td>Better understanding the internal situation of each economy is a crucial step to simplifying trade procedures, reducing paperwork, and facilitating cross-borer logistics in general.</td></tr>
<tr><td>4. Publish a State of Logistics annual report or a self-evaluation of an economy's own internal logistics situation using existing data from international organisations or other sources where possible.</td><td>Such analysis on voluntary basis would help identify weaknesses and success stories in each economy to aid in cross-economy evaluation and understanding, and also better support efficient use of trade and logistics facilitation resources.</td></tr>
</table>

5. Maintain a regional arrangement or communication network to share logistics related information resources in a systematic manner for the benefits of the SME LSPs.	Such arrangements and networks will promote information sharing across economies and will benefit all APEC economies and their LSPs.
6. Maintain and provide current, comprehensive, and standardized local or regional business information that is easily accessible to LSPs.	Adoption of this recommendation will lower barriers to market entry for local/regional LSPs.
STAKEHOLDER ENGAGEMENT	
7. Establish a decentralized online platform that support cross-economy communication, and self-determined sharing of logistics information over the internet.	Using technology to facilitate information sharing, allows for faster communication and more efficient use of each economy's human resources.
8. Maintain guidelines for encouraging private enterprises to contribute industry level real-time cross-border logistics and supply chain information to the public by way of the online platform.	Participation of the private sector is a key element for the government sector to better understand the logistics industry situation and needs.
9. Enable and empower relevant personnel in the cross-border trade related government entities of each economy to participate and contribute to the logistics information sharing online platform.	
ENHANCE COMPETITIVENESS	
10. Implement effective and efficient cross-border logistics promotion policies based on a holistic view of regional business and supply/value chains.	Reduces unknowns for the LSP actor, and thereby promote ventures into new or niche markets or more specialized logistics verticals. Enables economies to understand how their respective logistics systems operate and encourages LSPs to expand service into other economies.
11. Make available the cross-border logistics information resources to SME LSP stakeholders.	Better information leads to improved business intelligence for SME LSP players; allowing them to compete more effectively.

12. When conduction self-evaluation, use the State of Logistics economy reports and existing data and information sources as cross-economy comparison tools, and acknowledge potential behind-the-border issues that would otherwise be difficult to identify.	
13. Promote customs and border personnel certification systems and provide relevant training programs.	By introducing certification systems and ensuring that logistics personnel will attend continuing training programs at regular intervals and receive different levels of certification accordingly, it will be possible to improve the quality and international competitiveness of logistics personnel.
14. Maintain capacity-building programs to assist local/regional logistics service providers with fulfilling current market requirements.	Increases competition, decreases costs, and reduces barriers to entry.

Source: Appendix 6 to 2013 CTI Report to APEC Ministers. Available at
http://publications.apec.org/publication-detail.php?pub_id=1457