



TRADE BEAT

MONTHLY NEWSLETTER OF THE INTERNATIONAL
LIAISON UNIT

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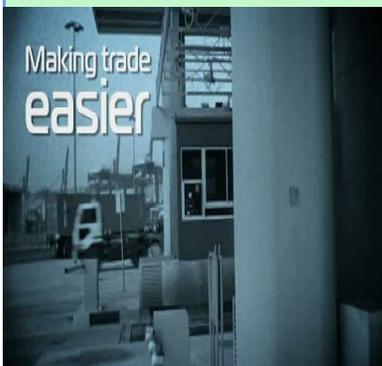
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Trade Facilitation — Concepts & Scope



Trade facilitation is a critical component of the multilateral trading system, and is an essential element that contributes to an efficient system of international trade. It is a vital tool for the economic growth and development of nations and provides for economic competitiveness which guarantees a place within the global economy. Born out of a series of international trade negotiations, commonly referred to as Rounds, the multilateral trading system was designed to progressively reduce and remove barriers to trade, and was initiated under the General Agreement on Tariffs and Trade (GATT). The GATT was an international treaty developed in the Geneva Round in 1945, which was implemented to further regulate world trade and aid in the economic recovery of nations following World War II.

After several rounds of trade negotiations, new ground was unearthed in the realm of international trade, through the GATT 1994 Articles which concluded with the formation of the World Trade Organization (WTO) at the Uruguay Round in 1995. Trade facilitation in the WTO began with the adoption of GATT 1994 Articles, and outlined the issues and responsibilities of the contracting parties. *Article V—Freedom of Transit*, sought to achieve unhindered movement of goods across frontiers which would see a reduction in delays and the Most Favoured Nation (MFN) treatment being accorded to all Members. *Article VIII—Fees and Formalities Connected with Importation and Exportation*, sought to ensure that the payment for services occurred in a simple, transparent and predictable way so as to eliminate undue burden on the importer or the exporter. *Article X—Public Administration and Trade Regulations*, stipulated mandatory requirements relating to the publication of trade related information such as trade policies, trade laws, regulations, judicial decisions duties and charges, and to effect impartiality, transparency and predictability of operations.

As the WTO progressed, agenda items extended to topics which encompassed every aspect of international trade and contributed to its ultimate objective of ensuring that free trade occurred in a rhythmic and predictable way. To enable this objective, trade facilitation at the multilateral level became a primary goal. For quite some time there was debate concerning how trade facilitation would be handled and what forum was most appropriate to arrive at relevant decisions. Some international organizations felt that trade facilitation measures should be binding and negotiated at the multilateral level, while others felt that it was more appropriately discussed at the bilateral level where parties could negotiate based on their particular objectives. After roughly a decade of negotiations, a multilateral trade facilitation agreement was achieved through the WTO at their ninth ministerial

Background

The Trade Facilitation Agreement is a significant achievement for the WTO and represents an opportunity for the economic development of the world's nations, as well as the advancement of the international trading system. Since the advent of the system, several issues transpired which created hindrances to international trade flows, as countries are naturally inclined to protect their domestic industries, by regulating their imports. Overtime, this practice resulted in crippling effects on the international trading system, which was eventually plagued by a proliferation of tariff and quota restrictions, that resulted in the disruption of the WTO's objective of a smooth, free and predictable trade. Global calls were therefore made to the organization to negotiate an agreement at the multilateral level which would have binding rules that would diminish such activities, and restore balance to the trading system.

Through the works of the WTO, significant progress has been made in reducing trade tariffs and deconstructing quota systems. However, lengthy border clearance procedures, perpetuated by an inundation of documentary requirements, was another major cause for concern for the international trading process. Since countries were obligated to adjust their tariff and quota restrictions, this was another way envisaged to protect their markets. Consequently, the WTO, as well as other international organizations, with similar trade facilitation agendas, had to sensitize the world economies on the repercussions of these trade practices on the global trading system and countries were therefore encouraged to implement trade facilitation measures. Governments came to the realization that a comprehensive approach was required for the efficient management of end to end procedures concerning trade. Import procedures were now seen as critical to the export product and the lack of transparency about rules and regulations, redundant and lengthy clearance processes, and multiple document requirements in different formats and with different data elements, increased the costs and time of conducting trade. Today, these obstacles are seen as posing greater barriers to trade than tariffs and quotas do. Hence, it is more important than ever to achieve the trade facilitation objectives and increase the overall predictability in global trade.

What is Trade Facilitation?

According to the United Nations Centre for Trade facilitation and Electronic Business (UN/CEFACT), trade facilitation is "the simplification, standardization and harmonization of procedures and associated information flows required to move goods from seller to buyer and to make payment". This definition implies that trade facilitation is not only concerned with the efficient movement of goods but also with the associated administrative procedures that goes along with the movement of goods, as well as the coordination of the agencies that contributes to making this process happen. The primary goal of trade facilitation is to ensure that trade (imports and exports) happens quickly, cost effectively and predictably across borders, over safe and secure platforms. Its focus concerns the simplification and harmonization of formalities, procedures, and the related exchange of information and documents between the various partners in the supply chain.



What is the Relevance of Trade Facilitation?

Trade facilitation is relevant in terms of the gains that may be derived from the various parties involved in the trade process. There is a great potential benefit for governments, in terms of the public entities responsible for collecting revenue from facilitating the trading process. Trade facilitation contributes to developing more efficient systems and enhancing the use of a country's resources, thereby allowing better trader compliance which can significantly increase tax collection from traders. In order to maintain high security levels and effective government controls, a more efficient and transparent delivery of public services is necessary and will consequently diminish opportunities for corruption. Further trade facilitation is beneficial to traders as it reduces transaction costs and increases the speed of operations, resulting in faster transaction time for business which directly contributes to greater competitiveness. Additionally, for individual countries, adopting trade facilitation measures immediately attracts foreign investments which translates into employment opportunities for its citizens and contributes to economic growth and stability.



Role of Customs

The primary role of customs at the international level in trade facilitation is one of cooperation with the appropriate international trade related organizations concerned, as well as to provide administrative support to meet the objectives. Customs is charged with cooperating sufficiently as to improve international trade flows as well as to enforce the applicable laws and regulations through the exchange of information on Customs related aspects of the trade. Customs is also responsible for utilizing established international standards and harmonized procedures, as well as to provide training and technical assistance to build its capacity in applying trade facilitation measures.

Fundamental Principles of Trade Facilitation

Transparency entails disclosing information in a way that is easily accessible and understood in terms of the operational and administrative aspects relating to the border requirements of a country. This fosters openness and promotes international business confidence in a particular market.

Simplification is the process of eliminating all unnecessary elements and duplications in trade formalities, processes and procedures while avoiding unnecessary restrictiveness. It refers to the ease, speed and efficiency with which rules and procedures to trade are carried out. E.g. Simplified procedures for authorized traders.

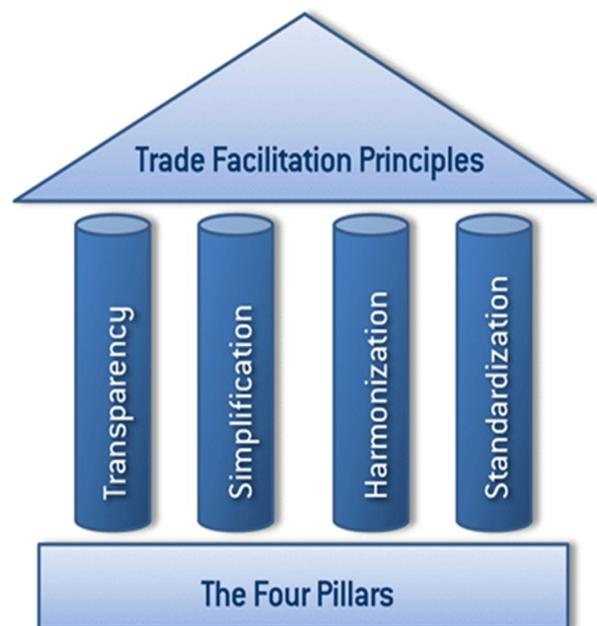
Harmonization is the alignment of national procedures, operations and documents with international conventions, standards and practices. It is the simplification of trade by using a common global system as it relates to international movement of goods, e.g. an internationally recognized certification.

Standardization is the process of developing formats for practices and procedures, documents and information internationally agreed by various parties. Standardization requires full cooperation between government authorities and the business community in order to align and harmonize practices and methods.

Consistency and Predictability refer to the degree of uniformity and certainty with which rules and procedures are carried out. This results in improved confidence of traders and further complements the development of transparency in processes.

Non-discrimination is the extent to which there is impartiality, uniformity and equity in the application of rules and procedures relating to comparable products and services which are being traded. Eg. Equal transit procedure treatment of vessel irrespective of flag

Due Process refers to the legal mechanism which enables accessibility to an impartial and efficient mechanism for reviewing and correcting administrative actions relating to Customs and border matters such as an appeals mechanism.



Mechanisms for Core Principles

Information Channels - Access to trade related information should be easy and accessible. Mechanisms include frequent publications and the establishment of a single point for accessing of both electronic and non-electronic information e.g. frequent and up to date postings on customs website and an information hotline.

Predictability mechanism – such as the circulation of citizen charters, codes of ethics, administrative guidelines, standards, modern legislation and operating practices of customs and the easy access to advance rulings ensure that the trade can be planned and executed.

Review Mechanisms – Reviews should be frequent and feedback encouraged from stakeholders to ensure constant engagement with the industry. E.g. consultation meetings with industry.

Appeal Mechanisms- Appeals should be varied and available to traders whether administratively or judicially e.g. Commissioners right to mitigate.

Public Consultation – Public consultations are essential for the change process to ascertain consensus and compliance particularly targeting stake holders e.g. press releases, symposiums, public forums.

Integrity – how trade officials carry out their duties. Codes of conduct such as the Arusha Declaration for Customs Officers are important tools in trade facilitation as they set standards of behavior for officers.

Risk Management - includes appropriate customs procedure for identifying high and low trade risks. Facilitation of post transaction audits for low risk groups and reserving physical inspection for high risk traders.

Cooperation between involved authorities - results in an overall reduction in administrative costs, eliminates duplication of procedures and requirements by different state authorities, and reducing the incidence of errors, e.g. single window system.

Automation – Information and Communications Technology (ICT) determines the speed of the clearance process and is essential to trade facilitation.



The importance of trade facilitation cannot be over-emphasized. Countries are tasked with developing hospitable trade environments that allow the ease of movement of goods between participating territories. By ensuring that trade agreements are upheld and ratified, nations are better able to tackle the key issues of development that directly affect its human and fiscal elements. The ultimate goal of trade facilitation is the creation of a global economy that eliminates the lengthy delays and high costs surrounding border clearance and streamline the processing of goods using global standards, while ensuring the security and stability of the trade environment.

In our next issue we will examine the WTO Trade Facilitation Agreement, its specific requirements, and the obligations and constraints affecting implementation by the Members.



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