How important are Trade Facilitation and Border Measures for trade? Reducing the Costs

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Senior Trade Facilitation Adviser
International Supply Chain

Country Of Origin

Producer
Buying agents, bank, road/Rail operator, consolidator, freight forwarder

Agents

Customs

Port Operator

Marine Carrier

Country of Destination

Marine Carrier

Port Operator

Customs

Agents

Buyer

Custom House brokers, Bank, De-Consolidators, Road/Rail Operator
4 types of procedures to be accounted for

**Commercial Procedures**
- Establish Contract
- Order Goods
- Advise On Delivery
- Request Payment

**Transport Procedures**
- Establish Transport Contract
- Collect, transport and Deliver Goods
- Provide Waybills, Goods Receipts Status reports

**Regulatory Procedures**
- Obtain Licences
- Provide Customs & cargo Declarations
- Apply Security Procedures
- Clear Goods for Export / Import

**Financial Procedures**
- Provide Credit Rating
- Provide Insurance
- Provide Credit
- Execute Payment
- Issue Statements
What are the export transaction cost to consider?

1. Building Internal capacities
2. Performing Market Search
3. Adapting product for export
4. Managing cross-border operations
5. Setting-up overseas distribution
6. Securing cash flows

- Collect, produce, transmit and process information and documents
- Comply with border agencies requirements
- Organize logistics from manufacturers premises to clients grounds
Border inefficiencies translate into direct and indirect costs impacting business competitiveness

### Direct costs
- **Time and resources invested in managing export administrative activities**
  - Collect, produce, transmit and process required information and documents

### Indirect costs
- **Increased operational costs**
  - Delays translate into extra transport, insurance or warehouse costs
- **Increased working capital requirements**
  - Inventories immobilized are carried out by the exporter (except for EXW sales)
- **Product deterioration**
  - Delays can lead to the degradation of products and render them unfit for sale
- **Lost business opportunities**
  - Direct: joining a punctual regional trade
  - Indirect: immobilized stock could have been sold to a local client
SME are particularly vulnerable to these additional costs

- On a relative basis, SME dedicate more HR to export than large business
- Intermediate financing required to cover working capital needs is very expensive
- SME are often classified as “High risk” operators by border agencies…
- …and they rarely can join “Authorized Economic Operator” scheme
- SME cannot afford large logistics provider services who could speed up the border crossing process
Logistics costs range from ~4% to ~15% of product value. Significant variations between regions.

Transport costs as % of total product value by region and country groupings:

- Western Europe: 4%
- Industrial countries: 5%
- Latin America: 8%
- Asia: 9%
- Transition countries: 11%
- Africa: 14%

1. Source: UNECA 2004
~46% of logistics costs are made of transportation costs (incl. border-crossing costs)

**Breakdown of logistics costs¹:** worldwide Average

(\% of total logistics costs)

- **Transportation &...**: 46\%
- **Warehousing**: 27\%
- **Inventory carrying**: 21\%
- **Customer Service**: 3\%
- **Administration**: 2\%
- **Total Costs**: 100\%

¹ Source: Establish Davis Logistics Costs database, 2013 – Worldwide
Overview of Jamaica cross-border performance according to WEF and WB indicators

| WEF - Enabling Trade 2014 | WB - LPI 2014² |
|---------------------------|----------------|----------------|----------------|
| **Border administration index**¹ | **Custom performance index**² |
| Dev. Countries | Jamaica | World | S IDC | OECD | Dev. Countries | SIDC | World | Jamaica | OECD |
| 82.5 | 76.0 | 69.5 | 67.8 | 21.1 | 2.5 | 2.6 | 2.7 | 2.9 | 3.6 |

1. The index value decreases as performance increase
2. The index value increase with performance
Jamaica border operations performances vs. pears: Exports

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<tr>
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<th># days to export</th>
<th># of forms to export</th>
<th>$ to export 20’CT</th>
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<td>Developing Countries</td>
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Deep-diving in Jamaica border operations performances vs. pears: Imports

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<th>$ to export 20’CT</th>
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### Key Insights of ITC NTM studies in Jamaica

**Most frequent NTM affecting exports**

<table>
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<tr>
<th>#</th>
<th>NTM</th>
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<tbody>
<tr>
<td>#1</td>
<td>Export inspection</td>
</tr>
<tr>
<td>#2</td>
<td>Certification requirements</td>
</tr>
<tr>
<td>#3</td>
<td>Other export technical measures</td>
</tr>
<tr>
<td>#4</td>
<td>Licensing or permit to export</td>
</tr>
</tbody>
</table>

**Most frequent NTM affecting imports**

<table>
<thead>
<tr>
<th>#</th>
<th>NTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>Technical requirements&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>#2</td>
<td>Pre-shipment inspections and other formalities</td>
</tr>
<tr>
<td>#3</td>
<td>Charges, taxes and other para-tariff measures</td>
</tr>
<tr>
<td>#4</td>
<td>Quantity control measures</td>
</tr>
</tbody>
</table>

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1. E.g. Large Number of documents, Numerous administrative windows, Arbitrary behaviour of officials, Delay related to reported regulation

Source: Jamaica, Company Perspectives, An ITC series on Non-Tariffs Measures
What traders want to improve their exports competitiveness?

**At-the-borders**

**Predictable and transparent rules and procedures**
- Business need to know what to expect before planning a transaction

**A single control point for all public services**
- To reduce duplication of efforts

**Standardized forms, assembled into a ‘single bunch of documents’**
- Compatible with trade documents and transport contracts, preferably in electronic format

**Simple and smooth processing of formalities**

**Behind-the-borders**

**Adequate infrastructure to support trade and transport goods quickly and securely**
- Ports, roads, rail, storage facilities

**Service providers who can connect buyer and seller efficiently**

**Means to allow goods to proceed promptly to their final destination**
- No longer itineraries, no unpacking, no delays

**Have the comfort to be part of the policy making process**
## The Trade Facilitation Agreement meet SMEs’ requirements

<table>
<thead>
<tr>
<th>What traders want?</th>
<th>What does the TFA provide?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predictable and transparent rules and procedures</td>
<td>Art. 1 – Easily accessible trade related information</td>
</tr>
<tr>
<td></td>
<td>Art. 3 – Issuance of advanced rulings</td>
</tr>
<tr>
<td>A single control point for all public services</td>
<td>Art. 10 – Establishment of a “single window” that allows traders to submit documentation to a single entry point</td>
</tr>
<tr>
<td>Standardized forms</td>
<td>Art. 10 – Use of international standards in an effort to promote uniform documentation and data requirements.</td>
</tr>
<tr>
<td>Simple and smooth processing of formalities</td>
<td>Art. 10 – Review and reduce formalities and documentation to diminish administrative obstacles to trade</td>
</tr>
<tr>
<td>Be part of the policy making process</td>
<td>Art. 2 – Opportunity to comment regulations before entry into force and regular public-private consultation</td>
</tr>
<tr>
<td></td>
<td>Art. 13 – Set-up of NTFC</td>
</tr>
</tbody>
</table>

*Source: ITC 50th Anniversary of Trade Impact for Good*
What has the Jamaican government committed to under international obligations? Selected other TFA provisions

**Transparency measures**

Art. 4 - Traders have the right for administrative review and judicial appeals procedures

Art. 5.2 - Traders are entitled to be promptly informed in the event their goods are detained for inspection

Art. 5.3 - Traders have an opportunity for confirmatory test in case the test results are at variance with their declarations

**Process simplification**

Art. 7.1 - Traders have right to submit documents in advance of arrival of goods for processing

Art. 7.7 - Compliant traders designated as ‘Authorized Operators’ would have access to additional TF measures

Art. 10 - Facility for temporary admission, inward and outward processing
How can ITC help? Presenting our integrated TF program

Improving SMEs Competitiveness for exports through implementing the Trade Facilitation Agreement

1. Comply with TFA short term requirements
   - Ministries, customs and other border agencies

2. Implement Public-Private dialogue provisions of TFA
   - Ministries, customs and other border agencies

3. Implement transparency measures of TFA
   - Ministries, customs and other border agencies

4. Strengthen SMEs ability to cross borders
   - Traders, exporters, freight forwarders

Mobilize private sector operators to collectively present their perspective in TF policy formulation

Partner with other trade facilitation agencies and Private sector organisations to achieve synergies

Mainstream regional integration dynamics and promote sharing of south-south best practices

Strengthen capacity of Trade supporting Institutions (TSIs) on Trade Facilitation
ITC vision: implement the TFA ensuring private sector interests are taken into account

TFA implementation

1

Ministries, customs and other border agencies

- Regulatory reforms
- Customs and border agencies capacity building
- Border processes optimisation
- Publication of trade procedures

Private sector support

2

Traders, exporters freight forwarders

Public-Private Dialogue

Stakeholder alignment on key reforms to improve the country export competitiveness

- Raising awareness
- Training
- Capacity building
- Strengthening TSI network
The Way Forward for the private sector

- Be aware what is happening in the world
- Align and equip yourself with emerging trade realities
- Collaborate among yourselves
- Develop partnership with government regulators
- Benchmark with peers and globally

It is a continuous process
Concluding Thoughts

**Trade-related costs must be reduced**
- For the private sector to use trade as a vehicle for growth, diversification and innovation

**Trade facilitation helps achieving this goal**
- TF reduces both border and behind-the-border processes costs

**Trade Facilitation and SMEs involvement in value chains are closely linked**
- SMEs are particularly vulnerable to cumbersome cross-border processes

**Trade facilitation is most effectively pursued when stakeholders work in coordination**
- Government, SMEs, TSIs, TNCs, and development partners

**ITC, as the development partner for SMEs, has a comparative advantage in facilitating this process**