



UNITED NATIONS  
ECONOMIC COMMISSION FOR EUROPE

# TRADE FACILITATION

*...An Introduction to the Basic Concepts and Benefits*

---

**Trade facilitation reduces the transaction cost and complexity of international trade and improves the trading environment in a country, while at the same time enhancing government controls**

**Trade Facilitation results in direct benefits both to Governments and to the business community in terms of increased economic efficiency, better security, faster delivery of goods, and reduced costs**



# TRADE FACILITATION

*... An Introduction to the Basic Concepts and Benefits*

## Introduction

Economic growth is a clear priority for Governments and a primary basis for achieving the social and economic well-being of their citizens. Greater participation in international trade has long been identified as an essential element in attaining this objective. Governments and international organizations worldwide have undertaken significant work to establish an expanded international trading system, based *inter alia* on reduced tariffs and liberalized trade policies.

However, to cope with the resulting significant increase in trade volumes and the consequent risk of major bottlenecks along transport chains and at national frontiers, these developments must be supported by expeditious and cost-effective methods of carrying out international trade. Trade facilitation is a key element in competitiveness and the international community is now giving increased attention to the broader development and implementation of trade facilitation measures and instruments.

## What is Trade Facilitation?

Trade facilitation aims at developing a consistent, transparent, and predictable environment for international trade transactions. It is based on internationally accepted norms and practices resulting from the:

- ▶ simplification of formalities and procedures,
- ▶ standardization and improvement of physical infrastructure and facilities,
- ▶ harmonization of applicable laws and regulations.

The primary goal of trade facilitation is to reduce the transaction cost and complexity of international trade for businesses and improve the trading

environment in a country, while at the same time optimizing efficient and effective levels of government control.

The dual role of Governments - providing trade facilitation while carrying out statutory obligations - has become increasingly important in the current security-conscious international environment.

A commercial transaction is not completed until the traded goods are delivered to the buyer and payment has been made to the seller. For a given product to remain competitive on foreign markets, the cost of its commercial transaction must be as low as possible. The tools of Supply Chain Management, which attempt to manage the whole series of activities involved in trading goods, are essential in this regard. However, they need to be complemented by effective procedures at national frontiers so that no unforeseen or undue delays or unexpected additional costs are incurred.

The satisfactory completion of a transaction therefore relies on the:

- ▶ efficient movement of the goods from the seller's to the buyer's premises,
- ▶ compliance of goods with the buyer's requirements,
- ▶ agreed commercial documentation,
- ▶ compliance with regulations and fulfilment of the required Customs and any other documents and procedures at the time of border crossing,
- ▶ necessary arrangements for effecting payment.

This approach clearly widens the scope of trade facilitation from an issue focusing on commercial documentation and Customs procedures to a broader one, including the physical movement of the goods.

International trade necessarily implies the crossing of borders. This could involve numerous administrative and technical problems for trade. Countries should therefore not limit themselves to national regulations and procedures. Rather, they should work with other countries to achieve international harmonization, simplification and standardization of procedures and documents, as well as the harmonization and standardization of national trade and transport system components. Therefore, trade facilitation should cover measures regarding formalities, procedures and documents and the use of standard messages for trade transactions.

In addition, measures must be included to improve the physical movement of the goods, through the:

1. supply of better (transparent, predictable, uniform) services, implying adequate legal environment, appropriate transport and communications infrastructure, organized services providers companies, etc.;
2. use of modern information and communications technology tools by services providers and users;
3. increased awareness of all concerned actors regarding the potential benefits that they may achieve through trade facilitation.

## What are the benefits ?

Trade facilitation results in direct benefits both to Governments and to the business community. Governments will profit in terms of enhanced revenue collection, increased economic efficiency and better security and protection of society. Traders gain through faster delivery and reduced transaction costs.

Trade facilitation measures can particularly benefit developing countries, where the removal of trade inefficiencies may be many times more beneficial to industries than the reduction or removal of tariff barriers. Indeed, as tariff rates decline under the WTO, the importance of trade facilitation in trade development will increase significantly.

The gains from trade facilitation are considerable, especially for small companies for whom the costs of compliance with procedures are proportionately higher. This is particularly true in the case of low-value shipments, where the cost of administrative procedures represents a large portion of total delivered cost.

As a consequence of the increased focus on security, some countries are considering major security check procedures at their national frontiers. However, it is important to realize that trade facilitation and risk management techniques, if properly implemented, can in fact increase countries' abilities to meet pressing security requirements while at the same time enhance the continued smooth flow of goods and services between countries.

Attracting foreign investment is a high priority for many countries. The potential for success in this area can be greatly improved if govern-

ments provide an efficient, supportive and facilitated trade environment. Simple and efficient trade procedures improve the investment climate and enhance the competitiveness of countries and enterprises in international markets.

In terms of trade development, trade facilitation measures are arguably as important as tariff reductions and have the potential to significantly enhance the capacity of small and medium-sized enterprises to participate in international trade.

### Government Benefits

- **increased effectiveness of control methods**
- **more effective and efficient deployment of resources**
- **correct revenue yields**
- **improved trader compliance**
- **accelerated economic development**
- **encouragement of foreign investment**

### Trader Benefits

- **cutting costs and reducing delays**
- **faster Customs clearance and release through predictable official intervention**
- **simple commercial framework for doing both domestic and international trade**
- **enhanced competitiveness**

## Increased International Focus

Trade facilitation is increasingly recognized as an essential element for trade competitiveness and economic prosperity. This is reflected in the WTO's Doha Ministerial Declaration of November 2001, which indicates the need to review and clarify specific articles of the GATT 1994 and provide technical assistance and support capacity building in the area of trade facilitation.

Governments and trade now have the opportunity to study the available trade facilitation instruments (see boxes) and consider their effective implementation before the issue is reconsidered at the 5<sup>th</sup> Ministerial Meeting in 2003.

## What are the Tools for Trade Facilitation?

Much work has already been done by inter-governmental bodies and international business organizations in developing the tools of trade facilitation. These tools can assist Governments and the trading community to improve international trade through the simplification of formalities and procedures, the standardization of physical facilities and means (including the use of modern transport, information and communications technologies), and the harmonization of applicable laws and regulations.

In the boxes below are examples of some of the facilitation measures available for Governments and business.

### Trade Facilitation Tools for Governments

- **UN/CEFACT:**  
- **Compendium of Trade Facilitation Recommendations UN/CEFACT (Nr. 1, 4 & 18 etc.)**
- **UN/EDIFACT**
- **UNCTAD Columbus Declaration**
- **World Bank Trade and Transport Facilitation Toolkit**
- **WTO Agreements**
- **WCO Conventions and Guidelines (e.g. the Kyoto Convention)**
- **IMO Conventions**
- **ICAO Conventions**
- **ICC International Customs Guidelines**
- **ISO Standards**

### Trade Facilitation Tools for Traders

- **UN/CEFACT:**  
- **Compendium of Trade Facilitation Recommendations UN/CEFACT (Nr. 1, 4 & 18 etc.)**
- **UN/EDIFACT**
- **ICC Incoterms 2000**
- **ICC Payment Instruments**
- **IMO Conventions**
- **IATA Conventions**
- **FIATA Guidelines**
- **OTIF Convention concerning International carriage by Rail**
- **ICS Standards and recommended practices**
- **ISO Standards**

## How can Governments and Trade Implement Trade Facilitation?

Governments are major stakeholders in international trade as they seek to achieve economic growth and improve the quality of life for their citizens. At the same time it is their responsibility, among others, to protect society from the import and export of illegal and harmful goods.

Governments could implement a trade facilitation regime based purely on enforcement, with the potential result of overregulation and excessive control. However, a preferred option would be to establish a policy based on enforcement and cooperation with the trading community. This approach will have more effect as both Governments and trade have common interests in improving the trade environment.

Facilitation will not hamper Governments from implementing necessary controls. However, by consulting the trading community on how the institutional and legislative process could be improved, compliance could be enhanced. Being party to the consultations, the trade community will be more inclined to comply with predictable and transparent rules and procedures that do not interfere with its logistical organization.

Governments can start facilitating trade by initiating a dialogue with the trading community and at the same time encourage business to discuss trade issues amongst themselves.

The next step could be to analyse the trading patterns of the country and decide where to start the facilitation process. This process could include:

- ▶ consideration of a regional or global solution;
- ▶ use of existing internationally agreed procedures and standards;
- ▶ inclusion of trade facilitation in policies for trade, transport, Customs, banking and trade finance;
- ▶ use of a system of control and audits based on commercial systems and information;
- ▶ training to improve the skills of persons involved in international trade both in government and in the business community.

The public/private sector trade facilitation bodies already established in many countries could play a key role in this process. In this regard, it is important to acknowledge that while many business and trade practices are common across all countries, each country may also have its own unique requirements and conditions.

Trade facilitation is a continuous process. Once Governments and trade have launched mechanisms, they should jointly continue to monitor trade-related national and international developments and, as necessary, adapt existing measures or draw up new ones to fit the changing environment.

## **Role of UNECE and UNCTAD**

The United Nations Economic Commission for Europe (UNECE) and the United Nations Conference on Trade and Development (UNCTAD) have been major players in trade facilitation development for over 20 years. The United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT), which is hosted by UNECE, has developed over 30 major trade facilitation Recommendations. UN/CEFACT has also developed UN/EDIFACT, the only international standard for electronic commerce. In addition to its own programme on trade facilitation development and promotion, UNCTAD works closely with UNECE to promote and implement UN/CEFACT Recommendations through technical assistance projects in many countries.

Thus, UNECE and UNCTAD can together contribute to future WTO negotiations on trade facilitation by sharing their expertise with Members, by contributing to the policy debate on trade facilitation development, by supplying specific standards for trade facilitation, and by providing technical assistance to developing and transition countries.

## Signposts for further information

- **United Nations** [www.un.org](http://www.un.org)
- **United Nations Economic Commission for Europe** [www.unece.org](http://www.unece.org)
- **United Nations Conference on Trade and Development** [www.unctad.org](http://www.unctad.org)
- **United Nations Centre for Trade Facilitation and Electronic Business** [www.unece.org/cefact/](http://www.unece.org/cefact/)
- **World Trade Organization** [www.wto.org](http://www.wto.org)
- **World Customs Organization** [www.wcoomd.org](http://www.wcoomd.org)
- **World Bank** [www.worldbank.org](http://www.worldbank.org)
- **World Bank Global Facilitation Partnership for Transportation and Trade (GFP)** [wbln0018.worldbank.org/twu/gfp.nsf](http://wbln0018.worldbank.org/twu/gfp.nsf)
- **Organisation for Economic Co-operation and Development** [www.oecd.org](http://www.oecd.org)
- **International Maritime Organization** [www.imo.org](http://www.imo.org)
- **International Civil Aviation Organization** [www.icao.org](http://www.icao.org)
- **International Air Transport Association** [www.iata.org](http://www.iata.org)
- **International Chamber of Commerce** [www.iccwbo.org](http://www.iccwbo.org)
- **International Road Transport Union** [www.iru.org](http://www.iru.org)
- **Intergovernmental Organization for International Carriage by Rail** [www.otif.ch](http://www.otif.ch)
- **International MultiModal Transport Association** [www.immta.org](http://www.immta.org)
- **International Chamber of Shipping** [www.marisec.org/ics/](http://www.marisec.org/ics/)
- **Fédération Internationale des Associations de Transitaires et Assimilés** [www.fiata.org](http://www.fiata.org)



**UN/CEFACT**

**SIMPLE, TRANSPARENT AND EFFECTIVE PROCESSES  
FOR GLOBAL COMMERCE**

***[www.unece.org/cefact](http://www.unece.org/cefact)***

*For further information, please contact:*

*Tom Butterly*  
Trade Division  
United Nations Economic Commission  
for Europe (UNECE)  
Palais des Nations  
CH-1211 Geneva 10  
Tel: (41-22) 917 11 78  
Fax: (41-22) 917 00 37  
E-mail: [tom.butterly@unece.org](mailto:tom.butterly@unece.org)

*Maxence Orthlieb*  
Trade Facilitation Section  
Trade Logistics Branch, SITE  
UNCTAD  
Palais des Nations  
CH-1211 Geneva 10  
Tel: (41-22) 907 20 01  
Fax: (41-22) 907 00 50  
E-mail: [maxence.orthlieb@unctad.org](mailto:maxence.orthlieb@unctad.org)