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**STRATEGIES TO ENHANCE TRADE FACILITATION IMPLEMENTATION
IN UNECE MEMBER STATES***

Note by the secretariat

DOCUMENT FOR INFORMATION

This document has been prepared as background material for the Policy Segment of the seventh session of the Committee for Trade, Industry and Enterprise Development (CTIED) on 16 May 2003.

BACKGROUND

A. *Trade Facilitation in a Global Trading Environment*

1. Trade facilitation is a diverse and challenging issue with huge potential benefits for both business and Governments on the national, regional and international levels. It cuts across a wide range of areas such as government regulations and controls, business efficiency, transportation, information and communication technologies (ICT), and the financial sector. It is at once a political, economic, business, administrative, technical and technological issue and all of these factors combine in the development of the trade facilitation strategy in a particular country or region.

* This document has been prepared by Mr. Heinz Schatzmann, UNECE Regional Advisor for Trade Facilitation. The views expressed in this paper are those of the author and do not necessarily reflect the view of the United Nations Secretariat.

2. Another major reason for the emergence of trade facilitation as a key economic policy issue is the changing nature of trade. It is no longer only access to world markets that is at stake but getting the goods to the market on time without major delays or cost increases due to legal, administrative, customs or technical barriers.

3. For example, global supply chains require an enabling environment that facilitates the free movement of goods and services across borders, while still taking into account the necessary regulatory and statutory instruments. This includes acceptance of the need for speed and agility in product production and flow of goods across borders; an open attitude to information sharing; the need for appropriate legislation to cover the acceptance of digital signatures and certificates; the development of a corporate culture that looks at and takes responsibility for the entire supply chain (as opposed to one's individual component only); and a keen focus on satisfying (and anticipating) the needs and preferences of clients.

4. Similarly, global e-commerce offers tremendous potential for economic development but it demands a rapid delivery system for products and services, commensurate with the concept of "instant" e-business. It is certainly self-defeating for e-business to operate in an environment where the business can be transacted at the touch of a button while the goods languish for days at the border! In this context, therefore, the potential for growth in e-business will be highly dependent on the availability of efficient transport and trade related procedures and processes.

5. It is therefore essential to ensure that trade facilitation is well integrated into national and regional trade policy and development plans. This point is particularly important in the regional context given the very strong growth of regional trade blocks in recent years and the potential for open regional trade development to be a building block for further global liberalization.

6. Trade facilitation and electronic business are vital factors in the development of world trade and, therefore, central to the remit of the United Nations Economic Commission for Europe (UNECE). Work in the trade facilitation area has been ongoing at UNECE and various other United Nations and international agencies for over 40 years, resulting in the development of over 200 trade facilitation instruments as listed in the UNECE/UNCTAD *Compendium of Trade Facilitation Recommendations*. UNECE itself has developed over 30 trade facilitation recommendations and the only international standard for electronic business, UN/EDIFACT.

7. To achieve improved worldwide coordination of these areas, the UNECE, which acts as the focal point within the United Nations on these matters, has established the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT). UN/CEFACT has adopted an integrated approach in this regard, focusing on the interdependency of trade facilitation and electronic business tools. UN/CEFACT is built upon the three pillars of trade processes and procedures; information; and technology. It seeks to provide simple, transparent and effective processes and standards for global commerce. In order to realize this goal, UN/CEFACT works to exploit advances in information technology and adopt new approaches to trade facilitation based on the simplification and harmonization of business and governmental processes.

B. Trade Facilitation Basics

8. In practical terms, trade facilitation focuses on creating efficiency and reducing costs across the entire trade transaction process, a process that involves a series of activities including:

- agreement of sale between the buyer and the seller
- processing of the agreed commercial documentation
- compliance with health, safety and other regulations and standards
- fulfilment of the required customs and any other documents and procedures at the time of border crossing
- the efficient movement of the goods from the seller's to the buyer's premises
- compliance of goods with the buyer's requirements
- payment for the goods
- disposal of goods and end products.

9. Trade facilitation, then, is a comprehensive and integrated approach to reducing the complexity and cost of the trade transaction process and ensuring that all these activities can take place in an efficient, transparent, and predictable manner, based on internationally accepted norms, standards and best practices. At the same time, it seeks to optimize the effectiveness of regulatory controls in order to ensure the safety and well-being of citizens and the collection of appropriate taxes and fees. In this context, it is important to realize the importance of revenue collection at customs for developing economies (often one of the largest sources of government revenue). Trade facilitation, therefore, primarily involves:

- simplifying (and eliminating where possible) formalities and procedures, in particular related to import, export and transit of goods
- harmonizing applicable laws and regulations
- improving and standardizing physical infrastructure and facilities, including transport, and customs facilities
- standardizing and integrating information definitions and requirements and the use of information and communications technologies so as to exchange this information efficiently.

10. Trade facilitation takes place at the national, regional and international levels. At the national level it focuses on simplifying and harmonizing the trade-related structures and procedures within a country. However, this in itself is not sufficient. As goods cross international frontiers, they move from one legal and administrative jurisdiction to another. It is therefore essential to harmonize trade facilitation norms and standards internationally and herein lies the important role of the United Nations and other international standards and rule-setting organisations.

I. KEY CHALLENGES

A. *Trade Facilitation Issues in the Transition Process*

11. During the past decade, economies in transition faced inadequate, and in some cases, declining, levels of international trade. This has inhibited the development of their economies and impeded their integration into the larger world economy. Many of these countries are attempting to develop adequate procedures and laws regulating the independent export/import activities of private and public enterprises. The new procedures and laws have to replace the old centrally planned system, with all the necessary transformations in technology, legislation and last, but not least, the human capital in public and private employment. Newly Independent States are facing the task of establishing and managing new international borders, as well as regulating “international” trade, which was previously managed centrally. The competitiveness of goods from economies in transition suffers from problems such as slow and inefficient procedures, unpredictable transport costs and lack of on-time delivery and other customer services.

12. These new administrations are facing shortages of administrative, technical and legal expertise and technical and human resources. They are looking for guidance and models, since in the process of constructing their institutions and rules they tend to repeat “old errors” already solved by other countries. To improve this situation, steps should be taken to:

- increase the involvement of all countries in developing global trade facilitation measures
- assist transition economies in eliminating obstacles to the introduction of electronic business solutions.

B. *Facilitation of Procedures*

13. Since 1990, the transition economies, and the Commonwealth of Independent States (CIS) in particular, have faced difficulties with regard to fast clearance of goods at the borders and optimizing the processing of documentation at various offices. For those States that had established borders before 1989 the nature of customs operations changed. For the new States with newly instituted international borders the creation of an entirely new infrastructure has become a necessity.

14. Governments in these countries are willing to establish modern commercial borders using modern systems and methods, and there has been a positive response on the part of their Western trading partners, and the European Union in particular, to help them do so. For this assistance to be effective, however, it should be packaged in more comprehensive programmes involving fewer ad hoc solutions.

15. Recommendations on the facilitation of international trade transactions, many of them developed by the UNECE, already exist. However, there is not enough awareness of these recommendations on the part of trade operators, nor, too often, on the part of technical assistance providers to the transition economies. Consequently, “procedures” continue to be indirect (non-tariff) barriers to trade whose effects are often reflected in increased, or unpredictable, processing times, which have a cost and a negative impact on trade competitiveness that is real but difficult to measure.

16. Responding to this challenge, and in compliance with the trade facilitation Recommendation No. 4: *National Trade Facilitation Bodies*, adopted by the UNECE, most countries in Central and Eastern Europe have created national trade facilitation bodies (“PRO” committees).

17. Developing national trade facilitation bodies, pursuant to the UNECE Recommendations, is also on the agenda of international trade activities in the Russian Federation and other countries of the CIS. The expertise of UN/CEFACT, SECIPRO, FITPRO and the other established national trade facilitation bodies cooperating with UN/CEFACT may thus become very useful for these countries.

C. *Electronic Business in Transition Economies*

18. The rapid pace of change in information and communication technology could widen even further the so-called digital divide between countries. More and more countries and enterprises, especially large multinationals, facilitate their trade operations by discontinuing the use of paper documents and by moving to modern means of electronic exchange of information in their commercial transactions and in the clearance of their goods. As large companies begin to require their partners to communicate business information via electronic means, enterprises in countries in transition, which do not have these capabilities, find themselves at a competitive disadvantage. Increasingly, international supply chains dominate trade in the region, and without adequate training and technology, the transition countries will face exclusion from a major trend on the world market.

19. Transition economies face problems in implementing modern information and communication technologies (ICT). In some cases, companies develop electronic means to facilitate their trade transactions, but customs and other agencies are not equipped to deal with them. In general, these countries have qualified ICT specialists and the challenge is to use part of this potential for trade facilitation.

20. A key problem for the automation of foreign trade activities in transition economies is the fact that customs are not equipped for such operations. If a company prepares a foreign trade operation through electronic means, the automated chain normally breaks at customs, mostly based on the lack of a suitable legislative basis. The adoption of laws on Electronic Signatures and on Electronic Documents is expected but, for the time being, customs authorities generally insist on their old requirements.

D. *Improving Information Flows*

21. The efficiency with which information can be submitted to official agencies is becoming a key factor in the competitiveness of firms or agencies involved with cross-border activities.

22. On a daily basis, international traders have to prepare and submit increasing amounts of information to various governmental controlling authorities, with each authority often having its own specific (automated) systems and paper forms. These extensive information requirements can become a considerable obstacle to business and can hinder the development of international trade.

23. With the increasing integration of economies around the world, facilitating the smooth flow of information becomes a pressing requirement of Governments and business. Efficient information systems and procedures can significantly increase the speed at which goods can move, reduce costs, improve

business efficiency, and enhance the overall economic performance of a country.

E. Creating a “Single Window” Environment

24. The “**Single Window**” environment aims to expedite and simplify information flows between trade and government and bring meaningful gains to all parties involved in cross-border trade. In a theoretical sense, a ‘Single Window’ can be described as “***a system that allows traders to lodge information with a single body to fulfil all import- or export-related regulatory requirements.***”

25. In practical terms a “Single Window” environment provides one ‘entrance’, *either physical or electronic*, for the submission and handling of all data, and documents related to the release and clearance of an international transaction. This ‘entrance’ is managed by one agency, which informs the appropriate other agencies, and/or directs combined controls. A “Single Window” environment is, therefore, a practical application of trade facilitation concepts to reduce non-tariff trade barriers and deliver immediate benefits to all members of the trading community.

Benefits for Governments

- Correct revenue yields
- Improved trader compliance
- Enable the use of sophisticated ‘risk management’ techniques for control and enforcement purposes
- More effective and efficient deployment of resources

Benefits for Trade

- Cutting costs through reducing delays
- Faster clearance and release
- Predictable application and explanation of rules
- More effective and efficient deployment of resources

F. Practical Aspects of the “Single Window” Environment

26. A “Single Window” environment does not necessarily imply the implementation of high-tech information and communication technology (ICT). However, facilitation can be enhanced if Governments identify and adopt relevant ICT opportunities. Over the last few years various “Single Window” programs have been developed and effectively introduced. A selection of these models is outlined below:

- **A single authority**, customs, coordinates and/or enforces all border-related controls. For example, in various European Union countries, customs Officers perform many tasks based on assignments from other governmental authorities.
- **A single system**, integrating the electronic collection, use, and dissemination of international trade data related to trade that crosses the border. For example, the United States established a pilot program that allows traders to submit standard data only once and the system distributes the data to the agencies that have an interest in the transaction.

- **An automated system** through which a trader can submit electronic trade declarations to the various controlling authorities for processing and approval in a single application. In this approach the approved permits are transmitted electronically to the sender's computer. Such a system is in use in Singapore and Mauritius. Moreover, in the Singaporean system, fees, taxes and duties are computed automatically and deducted from the traders' bank accounts.

II. UNECE STRATEGIES INCLUDING PROJECTS

27. UNECE's strategy to enhance the practical implementation of trade facilitation in its member States relates to the challenges faced by transition economies and mentioned above, i.e. the facilitation of procedures, electronic business, improvement of the information flow and creation of single window environments. To the greatest extent possible UNECE cooperates/coordinates to this end with other organizations in the field, their programmes, projects and initiatives. Currently the most important in this respect, apart from other involved UN organizations such as the United Nations Conference on Trade and Development (UNCTAD) are the World Trade Organization (WTO), the World Customs Organization (WCO), the European Commission, the Stability Pact, Southeast European Cooperative Initiative (SECI), and the World Bank.

A. *Support to Facilitation of Procedures*

1. The SECI Environment

28. The Southeast European Cooperative Initiative (SECI) has assisted in the establishment of national "PRO" committees to mobilize the public and private sectors to simplify procedures and otherwise facilitate trade. Within the SECI framework, and executed by the World Bank, a group of projects under the summary title "*Trade and Transport Facilitation in Southeast Europe (TTFSE)*" has been created, within which the Governments of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, the Republic of Moldova, Romania, and Serbia and Montenegro, have each solicited financial assistance to improve the infrastructure at their border crossings and to improve their trade procedures.

29. UNECE has supported and has been actively involved in the creation and work of the "PRO" committees as well as in most other activities under SECI and the Trade and Transport Facilitation in Southeast Europe (TTFSE), with a strong focus on strengthening operational capacity and improving trade procedures. This includes, inter alia, the promotion of 'Single Window' concepts in southeast Europe, which are currently applied or in development in several countries of the region.

30. Apart from this, and with a view to supporting the strengthening of the operational capacities of the governmental agencies involved in international trade transactions, the UNECE is actively involved in the development / launching of several projects in the SECI countries, all with the potential to be extended to other countries of the UNECE region. The two most important projects are introduced below:

1(a) The Professional Personnel Exchange and Training Project

31. Together with the Vienna based UN Office on Drugs and Crime and the SECI Regional Center for Combating Transborder Crime (Bucharest) the UNECE has jointly developed this program which primarily aims at enhancing the fight against organized crime and facilitating legitimate trade by developing and/or enhancing the infrastructure and mechanisms for the exchange of professional personnel as well as the joint training and operational capacity building of law enforcement agencies (police, customs, legal practitioners and others as appropriate) in southeast Europe. The expected outputs are:

- Sustainable development of the Training Function for law enforcement agencies (police, customs, legal practitioners and others as appropriate), in line or in analogy with the EU customs Training Blueprint, and with the aim of:
 - developing a training service which fully and autonomously supports the business strategy of the respective services as a whole, and contributes to improved operational performance through the training and development of its employees;
- Sustainable development of Personnel Management Function for law enforcement agencies (police, customs, legal practitioners and others as appropriate), in line or in analogy with the EU customs Personnel Management Blueprint, and with the aim of:
 - developing an effective human resources management system which supports the achievement of the respective services' objectives, is founded on and bound by national and eventually applicable EU personnel legislation, and which explicitly recognizes that people are an organization's most valuable resource;
- Sustainable development of the public relations and relations with economic operators functions for law enforcement agencies (police, customs, legal practitioners and others as appropriate), in line or in analogy with the relevant EU customs Blueprints, and with the aim of:
 - developing and implementing trade facilitation and law enforcement mechanisms which will minimize the costs of procedures for economic operators and the public as well as creating effective and efficient law enforcement procedures.

1(b) The customs Post-clearance Audit Project

32. Together with the joint Task Force combating commercial fraud and valuation fraud under the SECI Regional Center for Combating Transborder Crime (Bucharest), the UNECE is jointly developing this project with the aim of initiating the sustainable development of the customs post-clearance audit function in the customs organizations of the participating countries.

33. Recognizing that customs administrations play a pivotal role in international trade transactions and that without an efficient customs service many of the key elements of trade facilitation cannot be implemented, the main objectives of this project are to establish a post-clearance audit function with the:

- the legal power to execute audits concerning all customs-related matters as set out in national customs legislation;
- the organizational structure best suited to these specialized tasks;
- the professional, well-trained personnel able to fully understand and observe their duties and responsibilities;
- the practical guidelines / staff instructions on all aspects of post-clearance audits.

2. The Stability Pact Environment

34. Again with reference to trade facilitation in Southeast Europe, Working Table II of the Stability Pact has set up a Working Group on Trade Liberalization and Trade Facilitation, which has developed a Memorandum of Understanding (MoU) on Trade Liberalization and Facilitation that recently became effective between Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, the Republic of Moldova, Romania, and Serbia and Montenegro. This MoU resulted in principle, at the end of 2002, in the creation of a network of bilateral Free Trade Agreements between the above countries (Free Trade Agreements either applied, signed, initialled, or at least under negotiation) with the final aim of building a free trade area in Southeast Europe before the end of 2006.

35. UNECE has been actively involved in the activities of this Working Group since its establishment, providing expert advice. Now, at the beginning of the practical implementation of the above Free Trade Agreements, the advisory services are focusing on building and enhancing the operational capacity of the customs services in all countries involved, in a holistic approach that includes all key business areas of the customs administrations. This is based on the recognition that, for a successful implementation of these FTAs, three key aspects will have to be considered:

- Trade facilitation, combined with more simplified, quicker and smoother customs procedures at the border posts, as the development most desired by the business community;
- A decline in customs revenues caused by declining duties and tariffs, which will have to be managed with all the necessary measures from the Governments' side in order to secure State budgets, including quality improvements in revenue collection, both customs and inland.
- FTAs will inevitably lead to higher complexity of the practical implementation / administration of national trade policy in all the countries involved, bearing in mind that all the FTAs cover different types of commodities under different rules and with different tariff rates.
- customs is the primary implementation instrument of trade policy on national level.

In line with the EU customs Blueprints, the key business areas to be considered are:

Customs legislation

With the aim to build a stable and comprehensive legal system which ensures the uniform application of an EU compatible customs legislation, i.e. a system that is designed to strengthen the powers and penalties available to customs officers, and which sets out, in a transparent way, the obligations and rights of customs officers, economic operators, and the public.

Organisation and management

With the aim to develop a customs administration which ultimately matches the standards required for accession to the European Union, and meets the needs of its stakeholders, through effective business planning, management and communication.

Human resource management

With the aim to develop an effective human resources management system which supports the achievement of the customs administration's objectives, is founded on and bound by national and EU compatible personnel legislation, and which explicitly recognises that people are an organisation's most valuable resource.

Customs ethics

With the aim to develop a customs service which ensures that all staff observe the rule of law and perform their duties in a fair, impartial, honest, trustworthy, polite and professional manner.

Training

With the aim to develop a training service which fully and autonomously supports the business strategy of the customs administration as a whole, and contributes to improved business performance through the training and development of its employees.

Revenue collection

With the aim to ensure the maximum efficiency and integrity of revenue collection and management by developing and implementing appropriate policies, systems and procedures to collect and account for revenue. This ideally would take into account the eventual future collection and management of EU revenue and the auditing of possible future EU membership and thus procedures and accounts by both national and EU authorities.

Border and inland control

With the aim to develop straightforward and efficient customs control operations at ports, airports and land borders, and inland, capable of facilitating a flow of legitimate passengers and trade while ensuring the collection of national and eventual, future EU revenue as well as the social protection of national (and EU) citizens. One of the strategic objectives hereunder would be the development and establishment of the post clearance audit function.

Investigation and enforcement

With the aim to develop an effective and efficient customs service capable of the detection, prevention and investigation of fraud, and the preparation of cases for the prosecution of offenders. This service must be flexible enough to respond to an intelligence-led strategy based on the latest methods of targeted risk assessment to safeguard revenue and protect society. The service should also enforce compliance with all applicable national (and eventually EU legislation) through the consistent application of the law.

Customs laboratories

With the aim to develop customs laboratories which support the overall customs business strategy by establishing nature, tariff classification, origin and value of goods and thus maximizing the collection of duties and taxes, and providing support for the prevention of illegal traffic and goods.

Infrastructure and equipment

With the aim to develop an infrastructure and provide up-to-date equipment which supports the business strategy of the customs administration as a whole and contributes to improved business performance through the application of modern technology and its proper distribution.

Trade facilitation and relations with business

With the aim to develop and implement trade facilitation mechanisms which will minimize the costs of customs procedures for the trade as well as creating effective and efficient customs procedures.

Transit and movement of goods

With the aim to develop a transit system, based upon the rules of the TIR and the Common Transit Convention, which supports effective customs control, facilitates legitimate trade and the movement of legitimate goods, and uses modern technology.

Computerization

With the aim to develop an Information Technology (IT) service and integrated IT system environment which fully supports the business strategy of the customs administration, facilitates trade, and ensures that customs business is conducted to the highest level of efficiency and provides value for money.

B. Promoting Electronic Business in Transition Economies and the Creation of 'Single Window' Environments

1(a) The Stability Pact Environment

36. Recognizing that most transition economies are experiencing similar problems, the Stability Pact launched a project aimed at developing the infrastructure for electronic business, such as electronic networks, accompanying reforms to modernize business and government procedures. This project, called eSEE (e-Southeast Europe), started with a first meeting in Zagreb in January 2001.

37. The UNECE is developing / co-developing two major projects, UNeDocs and E-Med Business, which address the areas of information flow, electronic business and the 'Single Window' concepts. Both form major contributions to practical implementation of trade facilitation and are outlined below:

1(b) The UNeDocs Project

Objectives and Scope

38. UNeDocs aims to facilitate the preparation of information used in international trade and transport, for transmission as either paper documents or electronic forms, enabling SMEs, and parties in developing and transition countries to do electronic trade on the Internet in a simple and uniform way.

39. UNeDocs is a technical cooperation and implementation project whose objective is to work towards building digital bridges to overcome the digital divide as mentioned in the 'Millennium Declaration', by:

- Using the potential of ICT to allow small and medium-sized enterprises (SMEs) and parties in developing and transition economies to link to the international supply chain, therefore opening a level playing field for these economies to access international markets, lowering the cost of doing business, improving government functions and increasing the ability to compete in terms of response capacity to markets;
- Making available previous work on simplification, harmonization and standardization of documentary requirements for international trade using the potential offered by the Internet and complemented by a software system;
- Mobilizing financial means and resources in kind, know-how and technology to broaden the electronic business user base and implementation in less developed economies.

40. The scope of the project is to convert paper documents into electronic format, making full use of the PC and the Internet revolution, through easy-to-use and freely available solutions. The project will facilitate the transition from paper to digital format and vice versa, bringing paper documents into electronic formats through the implementation of UN Recommendation 1 a format (-UNLK), the UN Trade Data Elements Directory - ISO 7372 and using existing syntaxes.

1(c) Project on “Capacity Building in Trade Facilitation and Electronic Business in Mediterranean” (E-Med Business Project)

41. The UNECE, in partnership with the UN regional commissions for Africa (ECA) and Western Asia (ESCWA), the World Bank Group and a number of other international organizations launched the project “Capacity Building in Trade Facilitation and Electronic Business in the Mediterranean” (**E-Med Business**). Thirty participants include representatives of Egypt, Jordan, Lebanon, the Occupied Palestinian Territory and the Syrian Arab Republic (ESCWA region), Algeria, Morocco and Tunisia (ECA region) and Israel, Malta and Turkey (UNECE region).

Objectives and Scope

42. Under the project, capacity-building training will be given to Governments for simplifying, harmonizing and automating a variety of official procedures that affect trade. In addition, small and medium-sized enterprises will be provided with multimedia training tools for learning the basics of supply-chain management and electronic business. This will be done by promoting and implementing an integrated approach to simplifying trade procedures in non-EU European countries in the Mediterranean region, through internationally agreed norms and standards. The objectives of the project are supportive of the Euro-Mediterranean Partnership launched by the European Commission, which advocates creating an area of shared prosperity through the progressive establishment of a free-trade area between the EU and its partners as well as among the Mediterranean partners themselves.

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