



TRADE FACILITATION

Addressing Consumer and SME Interests and Concerns in Developing Countries

REPORT

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In the run-up to the 9th Ministerial Conference of the WTO the issue of trade facilitation is once again high up on the agenda of trade negotiators. Facilitated flows of goods can improve the variety, quality and quantity of the offer, push down prices, and increase levels of competition thus benefitting consumers at all levels. SMEs are the “traders” that have lower technical and financial capacities to overcome customs, documentation, infrastructure barriers as well as to absorb risks. At the same time, SMEs are essential for inclusive growth as they account for 60% of GDP and more than 70% of employment. A proposed project by CUTS aims to address the concerns of consumers and SMEs by promoting pro-consumer and pro-competitiveness TF reform in developing countries.

Based on the proposed project, CUTS International, Geneva organised a session on “Trade Facilitation: Addressing Consumer and SME interests and Concerns in Developing Countries” to draw attention to the importance of the current WTO TF negotiations for consumer welfare and SMEs competitiveness. The chair of the session, Rajesh Aggarwal, Chief of Business and Trade Policy at ITC, introduced the questions to be addressed by the panellists: What are the key issues for SMEs and consumers in current TF negotiations in the WTO? Which of the potential new TF standards will have higher impacts on SMEs and consumers? How could improved TF better enable SMEs to participate in global value chains and reduce costs for consumers? Is there a need to differentiate between “traders” based on their economic sizes and capacities to overcome TF barriers and bottlenecks? How can consumer groups be better involved in the design and implementation of TF standards and technical assistance needs assessments? Are there particular products that need fast tracking due to consumer needs (food, drugs, seeds, etc.)? How can supportive services such as logistic, transport and financial services better enable a pro-SME and pro-consumer TF reform in developing countries?

David Vivas Eugui, Senior Advisor to CUTS International, Geneva, argued that cumbersome and costly customs procedures and other trade-related barriers have induced many SMEs to operate outside formal channels in many developing countries. Given their limited financial and

technical capacities SMEs would stand to benefit the most from transparency, facilitated procedures, less bureaucracy and more legal and administrative certainty reducing red tape costs. Currently red tape costs account for about 2/3 of cross border transaction costs, the remaining 1/3 is due to tariffs. Yet, procedures to become an authorised trader, understanding regulations and procedures, access to credit, training in electronic procedures, access to hard and software and cost and fees disproportionate to their size, have hampered SMEs' participation in trade. Technical cooperation initiatives and chambers of commerce have often failed to involve and represent the special interests of SMEs.

Consumers have a stake in TF as they ultimately pay the transaction costs, but also because TF affects quality, availability and safety of goods. Their concerns of TF measures include collusive distribution arrangements, supply shortages of essential products, intellectual property rights limiting the transit of generic medicines and effective and quick assessment tools for sensitive products. So far they have been rarely involved in TF measures. As both consumers and SME have a high stake in TF to ensure internal reform and government actions on TF at the international level it is necessary to ensure the engagement of these two stakeholder groups.

According to Edouard Bizumuremyi, Commercial Attaché Mission of Rwanda, Rwanda has come to understand the contribution TF can make to reducing transactions cost for SMEs and prices for consumers. Yet, much remains to be done: in Africa it takes 37 days to import a container, in East Asia the corresponding figure is 22 days. This is only an example of the high transactions costs facing Africa. Another important constraint is access to information – the 100 pages of sanitary and phytoanitary regulations applicable to the import of honey to the EU can be summarized in a few, easily understandable steps. The fear that TF only facilitates trade for big companies needs to be addressed. Here the ITC and national authorities have a role to play, for example, chambers of commerce could provide guarantees for the exports of SMEs. Lastly, national realities need to be taken into account in TF negotiations to come to a “calibrated agreement”.

James Baxter, Deputy Permanent Representative, Permanent Mission of Australia to the WTO, pointed out 10 percent of the costs of goods are due to trade transactions costs. Even without an agreement WTO discussions on TF have the potential to foster government actions. Increased government transparency and freeing up of resources of custom agencies for product safety concerns, would be among the benefits of an agreement. In this regard, paying attention to facilitate the flow of perishable products is key for countries like Australia where many of the agricultural producers are SMEs. It is also important to reduce the perceived difficulty to export and to strengthen consumer protection. Engaging consumers will certainly be challenging, but promising, task for governments. With TF CUTS has identified an area offering large benefits for consumers and SMEs.

Jan Hoffmann, Chief, Trade Facilitation Section, TLB, DTL, UNCTAD, argued that TF can provide benefits for development, going beyond trade. The formalisation of trade increases government revenues, and introduced ICT can spread to SMEs and other government activities. Furthermore, TF improves governance, empowers women and strengthens regional cooperation. Yet, “chicken and egg” problems exist: TF measures are costly, but lead to more trade, and thus more funds to finance TF. Similar virtuous cycles exist for service provision and trade costs. So far UNCTAD's work on TF has not involved consumers, but will from now on.

Stephen Fevrier, Trade Adviser for Small States, Commonwealth Secretariat, commended CUTS for organizing a forum to consider the real beneficiaries of TF, i.e. SME and consumers. Transaction costs have the highest impact on SMEs as they do not benefit from economies of scale, are price takers and unable to hedge against risks. Risk management, reduction of costs, transparency, certainty, information and efficient functioning of supply chains are especially important for SMEs. A TF Agreement should ensure that costs of doing business are proportionate to the size of SMEs, and consider special conditions of landlocked countries.

As possible entry points for consumer groups and SMEs, Chambers of Commerce and National TF Committees, envisioned under the currently negotiated TF Agreement, were named. The drawback is that only 25% of countries have so far set up National TF Committees, but they nevertheless could and should serve as the link for the proposed CUTS project.

The TF measures deemed most important for SMEs and consumers by the panelist pertained to transit, internet publication and access to information, electronic payments (might require reform of existing laws), risk assessment, advance ruling, fast track for perishable products and appeal procedures. Single window procedures were mentioned most often for their benefits in lowering transaction costs, facilitating procedures and reducing bribery.

During the discussion an ITC staff member stated that reduction of transactions costs for SMEs and for consumers in small economies, esp. landlocked countries, is on top of their agenda. ITC can be an efficient convener strengthening the presentation of SME and consumer interests. Their advisors can still do much more to improve the understanding of SMEs of TF measures, e.g. the single window concept. Currently they are working on facilitating bank payments.

The Ambassador of the Solomon Islands, Moses Kouni Mose, shared concerns on the cost of implementing TF reforms. The main problem with a TF Agreement is to agree on obligations, while lacking the resources for compliance. In the end the costs would have to be passed onto consumers. Tom Butterly, UNECE, answered the concerns by referring to the "Trade Facilitation Implementation Guide" by UNECE listing TF measures, available support as well as costs. The panellists agreed with his statement that the long-term benefits of TF measures are likely to outweigh the costs. In the current negotiations the benefits of TF are not disputed, only detailed standards are. David Vivas Eugui and Edouard Bizumuremyi stressed that Part II of the TF draft text on technical cooperation (document Rev 17 of July 2013) contains a linkage between compliance and the delivery of targeted and effective technical assistance. This does not only have specific benefits for developing countries and LDCs but also systemic importance as no other WTO Agreement offers similar provisions.

Rajesh Aggarwal concluded the session by stating that conflicting interests among stakeholders exist, which are largely due to a lack of knowledge on TF. TF is to a large degree about fixing existing organisational inefficiencies, but this only succeeds if persons implementing the measures are aware of the bigger picture. Once a new agreement is signed, ITC will help countries to implement it.