

**TRADE SUSTAINABILITY IMPACT ASSESSMENT (SIA)
OF THE ASSOCIATION AGREEMENT UNDER
NEGOTIATION BETWEEN THE EUROPEAN COMMUNITY
AND MERCOSUR**

SECTOR STUDY: TRADE FACILITATION

MIDTERM REPORT

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**Interested Parties are invited to comment on this Consultation Draft:
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ABBREVIATIONS

CCA	Causal Chain Analysis
CET	Common External Tariff
CGE	Computable General Equilibrium
EC	European Commission
EU	European Union
HR	Human Resources
ICT	Information and Communication Technologies
RTA	Regional Trade Agreement
SIA	Sustainability Impact Assessment
SME	Small and Medium Sized Enterprises
TF	Trade Facilitation
UNCTAD	United Nations Conference on Trade and Development
WCO	World Customs Organisation
WTO	World Trade Organisation

1. INTRODUCTION

This Sustainability Impact Assessment (SIA) for Trade Facilitation is part of the second phase of a series of studies being undertaken for the European Commission to assess the impacts on sustainable development of a proposed trade agreement between the EU and the Mercosur trade area, composed of Argentina, Brazil, Paraguay and Uruguay (with the inclusion of Venezuela since 2006). The EU-Mercosur studies are themselves part of an ongoing programme of Sustainability Impact Assessment (SIA) studies of all EU trade negotiations that has been undertaken by the European Commission since 1999.

The first phase of the EU-Mercosur SIA programme consisted of a Preliminary Overview SIA together with three sectoral studies (for Agriculture, Automobiles and Forests). The Preliminary Overview SIA identified a number of other sectors and issues worthy of further study in the final phase of the programme. Following consultation on the findings of Phase One, Financial Services and Trade Facilitation were selected for two further sectoral studies in the final phase, alongside a Final Overview SIA.

The Trade SIA programme applies a standard approach in conducting impact assessments. This framework has two complementary elements:

- a balanced and integrated analysis of potential economic, social and environmental impacts;
- consultation with and dissemination of results to partners and key stakeholders as an integral part of the assessment process.

The sectoral SIA for Trade Facilitation assesses the potential economic, social and environmental impacts of the proposed trade agreement in Mercosur and EU countries, and identifies measures for avoiding, preventing or mitigating adverse impacts and enhancing beneficial ones. This Mid-Term Report presents the results of the study to date.

An overview of Trade Facilitation issues in the EU and Mercosur was presented in the Inception Report for the final phase of the EU-Mercosur SIA programme¹, along with a review of the status of the negotiations, and a discussion of the issues to be addressed in the sectoral study. This provides the basis for the initial assessment that is presented in this Mid-Term Report.

There are six sections in the report, including this introduction. Section 2 describes the SIA methodology, with particular reference to refinements and adaptations for the assessment of trade facilitation measures. Section 3 gives an outline of trade facilitation issues in the EU and Mercosur, and summarises the current status of the EU Mercosur negotiations. Section 4 presents an initial impact assessment, and Section 5 describes proposals for three case studies that will be carried out to illuminate the SIA findings. Section 6 describes the further work that will be undertaken to complete the study.

¹ IARC (2008a)

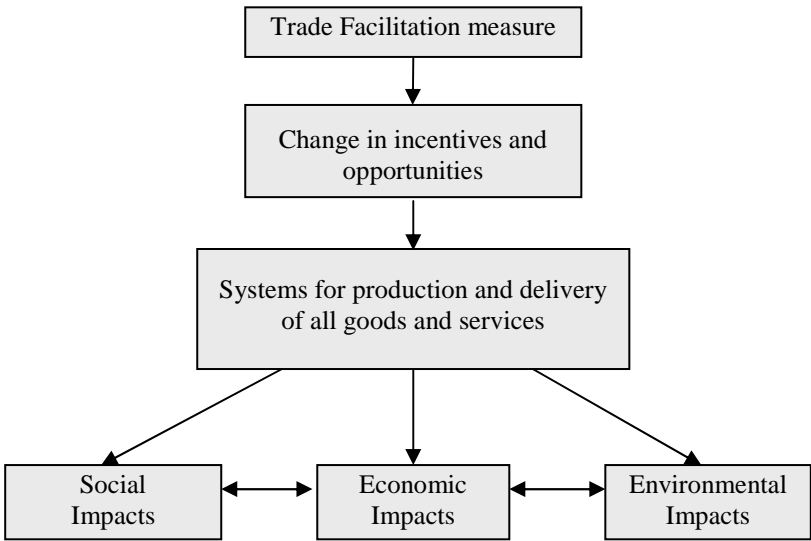
2. METHODOLOGY

2.1. Methodological framework

The methodological approach used in the assessment of trade facilitation measures is based on the framework for Trade SIA given in the EC’s Handbook for Trade Sustainability Impact Assessment², as applied to the EU-Mercosur negotiations as described in the Mid-Term Report for the Final Overview SIA³. Causal chain analysis (CCA) is the cornerstone of the SIA methodology, and is used to identify the significant cause-effect links between the proposed trade measure and its eventual economic, social and environmental impacts. The evidence that is used within the causal chain analysis is derived from theoretical reasoning, economic modelling, other quantitative analysis, the results of prior studies and expert opinion from key stakeholders.

The causal chain analysis for trade facilitation measures can be represented in the form of a causal chain diagram showing each of the main linkages in their logical order of causality (Figure 1).

Figure 1: Causal Chain Analysis of the Impact on Sustainable Development of Trade Facilitation Measures



The removal of a barrier to trade through a trade facilitation measure will alter the structure of incentives and opportunities in the markets that are directly affected by the measure. The new structure of incentives and market opportunities will induce a change in the economic behaviour of enterprises (producers or consumers) and of households (consumers). Consequent changes in imports and exports will in turn affect incentives and opportunities in all economic sectors, with potentially significant effects across the entire economy. These changes in the system of production and delivery of goods and services will have impacts on each of the three dimensions of sustainable development (social, economic and environmental), with further impacts arising from interactions between the three dimensions.

Figure 1 is a simplified illustration of the causal chain approach which is used in SIA to assess significant linkages and final impacts on sustainable development. It does not convey

² EC (2006)

³ IARC (2008b)

the full complexity of the linkages between each stage in the causal chain or of the cross-linkages between the social, economic and environmental impacts. Further, the direct and indirect impacts from trade facilitation measures may have cumulative impacts, which need to be considered in the appraisal of the trade agreement as a whole. The mechanisms through which these cause-effect relationships operate may be numerous and complex.

The effects illustrated in Figure 1 are essentially dynamic in nature. They do not occur instantaneously or simultaneously, and the speed of adjustment to a liberalisation measure will vary in different parts and at different stages in the causal chains. For trade facilitation measures there may also be long term dynamic effects that continue beyond the period of adjustment, resulting from structural changes in the entire socio-economic-environmental system. These dynamic effects within the intermediate and subsequent stages of the cause-effect relationships will influence the nature and magnitude of both short term and long term impacts on sustainable development.

2.2. Indicators

The impacts of trade facilitation measures are assessed by evaluating the significance of the linkages from the removal of a trade barrier to the changes in enterprise and household behaviour, and to the consequent impacts on the economic, social and environmental dimensions of sustainable development. For this purpose the sectoral study uses the set of nine core indicators defined in the SIA methodology (Table 1).

Table1. Core Sustainability Indicators

Sustainability dimension	Core indicator
Economic	Real income Fixed capital formation Employment
Environmental	Biodiversity Environmental quality Natural resource stocks
Social	Poverty Equity Health and education

These core indicators (or themes) are used to guide the assessment process and to summarise the impact of the trade measures on each of the three dimensions of sustainable development. The SIA methodology also allows for the development of second tier indicators for each SIA study, to describe results at a lower level of aggregation than the core indicators. These second tier indicators measure the significance of specific impacts within each of the nine core themes. For trade facilitation they are identified through the causal chain analysis described in the subsequent sections of the report.

In addition to the nine core indicators for sustainability outcomes, the methodology also allows for two process indicators which influence the long term economic, social and environmental impacts of trade liberalisation:

- Consistency with sustainable development principles
- Institutional capacity for effective sustainable development strategies

The inclusion of process indicators allows for the assessment of impacts on the key procedures, processes and practices that are needed for longer-term advancement of sustainable development.

2.3. Impact significance

The methodology defines the significance of an impact in terms of greater or lesser significance:

- lesser significant impact – marginally significant to the negotiation decision, and if negative, a potential candidate for mitigation
- greater significant impact – significant to the negotiation decision, and if negative, merits serious consideration for mitigation.

In evaluating the significance of impacts the trade facilitation SIA takes account of the following factors as defined in the SIA methodology:

- The extent of existing economic, social and environmental stress in affected areas;
- The direction of changes to base-line conditions;
- The nature, order of magnitude, geographic extent, duration and reversibility of changes;
- The regulatory and institutional capacity to implement mitigation and enhancement measures.

2.4. Scenarios

Two scenarios are used in assessing the potential impact on sustainable development of the trade facilitation negotiations:

- Base scenario: no change in the current situation, including no agreement on the trade facilitation measures being discussed within the WTO Doha Development Agenda negotiations. The baseline scenario assumes, therefore, no change to the commitments on trade facilitation that have been made by each of the partners within existing WTO agreements, and a continuation of existing trends in voluntary trade facilitation activities.
- Further liberalisation scenario: this represents the strongest probable implementation of the trade negotiations. Negotiating options for the actual trade agreement cover a range of intermediate scenarios, involving different commitments for each component of the trade facilitation agenda.

2.5. Assessment of impacts

The assessment of the further liberalisation scenario includes quantitative estimates of the impact on economic welfare associated with trade facilitation measures, obtained from an integrated CGE model⁴. Further quantitative information on the potential magnitude of impacts is derived from the causal chain analysis using baseline data and from other studies reported in the literature. However, the qualitative nature of trade facilitation measures is such that much of the assessment of economic, social and environmental impacts is based on qualitative analysis.

The main focus of the SIA is on the potential impacts at the regional level (EU and Mercosur). However, the SIA also provides information on potential impacts at the individual country level, where it appears that a particular country may be disproportionately

⁴ The EU-Mercosur CGE model is described in the Mid-Term Report for the Final Overview SIA.

affected (positively or negatively), or where countries are likely to respond in different ways. Equally, social and environmental impacts may vary significantly at the country or intra-country level. Factors taken into account include:

- The level of economic development in each of the countries;
- The specific trade facilitation measures proposed;
- The timescale over which these measures would be implemented;
- The nature of existing barriers in each country;
- Institutional capacity to implement the proposed trade facilitation measures.

The potential positive and/or negative impacts identified in the assessment are highlighted in an impact summary table using the following symbols:

-	Impact assessed to be non-significant compared to the base situation
↕	Positive greater significant impact
↕	Negative greater significant impact
↕↕	Greater positive and negative impacts likely to be experienced according to context
↑	Positive lesser significant impact
↓	Negative lesser significant impact
↑↓	Lesser positive and negative impacts likely to be experienced according to context
? or ?	Impacts uncertain

2.6. Mitigation and Enhancement

The SIA methodology allows for the assessment of possible preventative, mitigation or enhancement measures, subsequent to the assessment of potential impacts. These measures will be categorised in the same way as for the Final Overview SIA:

- Trade-related measures, which can be integrated into the trade agreement
- International and regional measures to improve the policy environment and strengthen national regulatory capacity
- National sectoral policy measures to remedy or regulate market imperfections
- National policy measures to mitigate adjustment costs.

2.7. Consultation

Consultation is a key part of the SIA methodology, and is being conducted as described in the Mid-Term Report for the Final Overview SIA. Consultees on trade facilitation have been targeted as part of the overall consultation programme. Their contributions have been taken into account in the preparation of this report, as described in the Mid-Term report on the Overview SIA.

3. TRADE AND NEGOTIATION ISSUES

3.1. The contribution of trade facilitation to trade and growth

Trade facilitation is generally understood to involve reducing the transaction costs associated with the enforcement, regulation and administration of trade policies. Reforms in this area are designed to reduce the costs involved in the cross border movement of goods and services⁵. In a narrow sense, the definition of trade facilitation reform measures is limited to the logistics of moving goods through ports, and the preparation and movement of documentation associated with cross border trade. A broader definition includes the environment in which transactions take place, including the transparency and professionalism of customs and regulatory environments, and the harmonisation of standards and conformance with international or regional regulations⁶. This broader definition will be used in the study.

The reductions of tariff barriers in successive rounds of international trade negotiations, the continued expansion of world trade, and the growth in global supply chain management practices have resulted in a heightened interest in the impact of on-the-border and inside-the-border trade transaction costs on international trade⁷. Estimates of the effect of directly incurred trade transaction costs range from 2 to 15 percent of total trade⁸. As the pace of global integration continues, developing countries' ability to link with global and regional markets is increasingly affected by the costs that the private sector incurs in trade transactions.

Several research studies have confirmed that a better trade facilitation environment increases import and export volumes. Wilson et. al. estimated the impact of trade facilitation on trade flows using a gravity model methodology⁹. Their results indicate large potential increases in trade and growth rates from trade facilitation reform in countries that have above average trade transaction costs. Djankov et al. find that on average, each additional day that a product is delayed prior to being shipped reduces trade by at least 1 percent¹⁰. As well as the effect on trade volumes it has been shown that a reduction in customs clearance times can have a significant influence on attracting foreign investment¹¹. Nordas et al. analyse the relation between time for exports and imports, logistics services and international trade and find that time delays result in lower trade volumes and reduce the probability that firms will enter export markets for time sensitive products¹². Clarke has studied factors that affect the export performance of manufacturing enterprises in African countries using a cross country manufacturing survey and finds that manufacturing enterprises are less likely to export in countries with poor customs administrations and restrictive trade and customs regulations¹³. Landlocked countries such as Paraguay face particular problems with international transit arrangements, and have proposed changes to WTO rules which would help address their difficulties¹⁴.

While reducing trade transaction costs generally has a beneficial effect in facilitating trade, a more immediate economic benefit comes directly from the lower costs. Other research

⁵ Staples, 2002

⁶ Wilson et. al. 2004

⁷ Deardorff, 2001

⁸ OECD, 2005a

⁹ Wilson et. al. (2004)

¹⁰ Djankov et al. (2006)

¹¹ OECD, 2005a

¹² Nordas et al. (2006)

¹³ Clarke (2005)

¹⁴ ICTSD/IISD (2005)

suggests that revenue enhancement may be an even greater incentive for customs reform than either cost reduction or trade facilitation¹⁵. In many developing countries customs reforms have increased government revenue significantly¹⁶, partly through increased efficiency in the tax collection system, and often through the contribution made by customs automation to reducing levels of rent-seeking and corruption¹⁷.

3.2. The Trade Facilitation environment in the EU and Mercosur

Comparative information on the trade facilitation environment in different countries has been collected through the World Bank's Doing Business project¹⁸, which assesses performance in each of the following areas:

- number of all documents required to export/import goods;
- time necessary to comply with all procedures required to export/import goods;
- costs associated with procedures required to export/import goods.

The Doing Business analysis also aggregates the results to rank countries in order of their overall performance. Table 2 shows the Doing Business estimates for these indicators for each global region.

Table 2. Indicators of constraints to trade across borders: regional comparison

	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)	Rank ^a
OECD	4.5	9.8	905.0	5.0	10.4	986.1	1
East Asia & Pacific	6.9	24.5	885.3	7.5	25.8	1,014.5	2
Latin America & Caribbean	7.0	22.2	1,107.5	7.6	25.8	1,228.4	3
Middle East & North Africa	7.1	24.8	992.2	8.0	28.7	1,128.9	4
Eastern Europe & Central Asia	7.0	29.3	1,393.4	8.3	30.8	1,551.4	5
South Asia	8.6	32.5	1,179.9	9.1	32.1	1,417.9	6
Sub-Saharan Africa	8.1	35.6	1,660.1	9.0	43.7	1,985.9	7

^a authors' ranking using similar method to the Doing Business country rankings

As may be seen from Table 2 the performance of OECD countries for the number of documents required and for the time taken for goods to cross borders is considerably better than for any other region. The OECD countries also perform better for the direct costs of importing or exporting, but here the difference is much less marked. Among the developing and transitional regions, the overall performance of Latin America and the Caribbean is not far behind that of East Asia and the Pacific, and ahead of the other regions, but with slightly higher direct costs than the Middle East and North Africa.

The Doing Business indicators for selected EU countries and Mercosur countries are given in Table 3, along with each country's position in the global ranking order.

¹⁵ OECD (2003a)

¹⁶ OECD (2005a)

¹⁷ OECD (2003a, 2005d)

¹⁸ World Bank, 2008

Table 3. Indicators of constraints to trade across borders: selected EU countries and Mercosur countries

	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)	World rank
Mercosur							
Argentina	9	16	1,325	7	20	1,825	107
Brazil	8	18	1,090	7	22	1,240	93
Paraguay	9	35	720	10	33	900	123
Uruguay	10	24	925	10	23	1,180	125
EU							
Denmark	4	5	540	3	5	540	2
Germany	4	7	740	5	7	765	10
Greece	5	20	998	6	25	1,245	65
Italy	5	20	1,291	5	18	1,291	62
Slovakia	6	25	1,015	8	25	1,050	90
Spain	6	9	1,000	8	10	1,000	47
United Kingdom	4	13	940	4	13	1,267	27

The indicators for EU countries vary widely, with Denmark second only to Singapore in the global ranking, and Slovakia only slightly ahead of Brazil. All the Mercosur countries require significantly more export documents than any of the EU countries, but Argentina and Brazil both need fewer import documents than either Slovakia or Spain. The direct costs of importing into Greece, Italy and the UK are higher than in any of the Mercosur countries except Argentina. The overall performance of the EU as a whole as measured by these indicators is significantly better than for the Mercosur countries, but with wide variations for individual countries.

A more comprehensive set of indicators developed by the World Bank provides a Logistics Performance Index which measures the quality of particular sub-components of the supply chain. It uses seven indicators of performance¹⁹:

- customs: efficiency of the clearance process by customs and other border agencies;
- infrastructure: quality of transport and information technology infrastructure for logistics;
- shipment: ease and affordability of arranging international shipments;
- competence: of the local logistics industry;
- tracking: ability to track and trace international shipments;
- costs: domestic logistics costs;
- timeliness: of shipments in reaching destination.

Table 4 shows the scores for each of these indicators for EU and Mercosur countries, along with their rank in order of performance from a total of 150 countries. The first two columns of the table show each country's overall performance as measured by the aggregate Logistics Performance Index.

¹⁹ Arvis et al, 2007

Table 4. Indicators of trade logistics performance in EU and Mercosur countries

	LPI		Customs		Infrastructure		Shipment		Competence		Tracking		Cost		Timeliness		
	Rank	Score	R	S	R	S	R	S	R	S	R	S	R	S	R	S	
EU																	
Netherlands	2	4.2	1	4.0	1	4.3	1	4.1	1	4.3	4	4.1	120	2.7	5	4.4	
Germany	3	4.1	4	3.9	3	4.2	4	3.9	3	4.2	5	4.1	135	2.3	8	4.3	
Sweden	4	4.1	5	3.9	5	4.1	5	3.9	6	4.1	3	4.2	129	2.4	4	4.4	
Austria	5	4.1	8	3.8	9	4.1	3	4.0	4	4.1	12	4.0	141	2.2	3	4.4	
UK	9	4.0	13	3.7	10	4.1	6	3.9	7	4.0	6	4.1	143	2.2	11	4.3	
Ireland	11	3.9	10	3.8	19	3.7	11	3.8	11	3.9	15	4.0	121	2.7	9	4.3	
Belgium	12	3.9	16	3.6	11	4.0	16	3.7	10	4.0	14	4.0	122	2.6	10	4.3	
Denmark	13	3.9	2	4.0	14	3.8	15	3.7	15	3.8	17	3.8	128	2.5	18	4.1	
Finland	15	3.8	14	3.7	17	3.8	30	3.3	14	3.9	2	4.2	142	2.2	15	4.2	
France	18	3.8	21	3.5	16	3.8	18	3.6	19	3.8	16	3.9	136	2.3	23	4.0	
Italy	22	3.6	29	3.2	23	3.5	21	3.6	21	3.6	21	3.7	132	2.4	27	3.9	
Luxembourg	23	3.5	15	3.7	13	3.9	45	3.0	33	3.2	26	3.6	85	2.9	25	4.0	
Spain	26	3.5	30	3.2	24	3.5	23	3.5	24	3.6	22	3.6	107	2.8	29	3.9	
Portugal	28	3.4	26	3.2	31	3.2	33	3.2	34	3.2	30	3.4	102	2.8	21	4.1	
Greece	29	3.4	31	3.1	35	3.1	37	3.1	28	3.3	27	3.5	88	2.9	16	4.1	
Hungary	35	3.2	34	3.0	33	3.1	41	3.1	37	3.1	44	3.0	57	3.0	34	3.7	
Slovenia	37	3.1	40	2.8	29	3.2	36	3.1	36	3.1	52	2.9	32	3.2	33	3.7	
Czech Rep	38	3.1	36	3.0	36	3.0	43	3.1	42	3.0	35	3.3	10	3.4	42	3.6	
Poland	40	3.0	38	2.9	51	2.7	52	2.9	38	3.0	40	3.1	23	3.2	40	3.6	
Latvia	42	3.0	58	2.5	58	2.6	29	3.3	48	2.9	41	3.1	73	2.9	35	3.7	
Estonia	47	3.0	42	2.8	41	2.9	56	2.9	45	3.0	58	2.8	18	3.3	53	3.4	
Slovakia	50	2.9	55	2.6	52	2.7	38	3.1	40	3.0	55	2.9	44	3.1	60	3.3	
Romania	51	2.9	56	2.6	50	2.7	35	3.2	52	2.9	56	2.9	123	2.6	66	3.2	
Bulgaria	55	2.9	66	2.5	63	2.5	59	2.8	53	2.9	39	3.1	80	2.9	43	3.6	
Mercosur																	
Argentina	45	3.0	51	2.7	47	2.8	49	3.0	44	3.0	46	3.0	93	2.8	46	3.5	
Brazil	61	2.8	74	2.4	49	2.8	74	2.6	49	2.9	65	2.8	126	2.6	72	3.1	
Paraguay	71	2.6	100	2.2	64	2.5	113	2.3	73	2.6	68	2.7	38	3.1	63	3.2	
Uruguay	79	2.5	86	2.3	70	2.4	100	2.4	84	2.5	77	2.6	103	2.8	82	3.0	

The results are broadly similar to those for the Doing Business indicators. The worst performing Mercosur country, Uruguay, ranks 79 out of the 150 countries studied. The best performing, Argentina, scores higher in overall performance than several of the New Member States of the EU.

Domestic logistics costs are particularly high in the old EU Member States, and in several of them the costs are higher than in any of the Mercosur countries. As with the Doing Business indicators, the overall performance of the EU is assessed to be significantly better than for Mercosur, but with wide variations between countries.

3.3. Progress in implementing the Mercosur Customs Union

The above analysis of trade facilitation for Argentina, Brazil, Uruguay and Paraguay does not take into account problems related to integration of each Mercosur member into a single trade entity. The treaty of Asuncion of 1991 envisaged a creation of a custom union with a Common External Tariff (CET) and Common Customs Code. Progress on these has so far been limited. Many exceptions to the CET were accepted, and at present the four countries still apply different external tariffs to some goods²⁰.

Exporters to Mercosur often pay double tariffs: once on entry into Mercosur and again at the border with the destination country within Mercosur. Indeed, Mercosur can be characterised as an imperfect custom union where four different custom territories coexist instead of a single one. This situation creates significant additional costs on exporters to and within

²⁰ INTAL, 2006

Mercosur. Also, the Common External Tariff has several hundred exceptions, when the four countries are jointly considered. Paraguay leads in this respect, followed by Uruguay. Argentina and Brazil have lists of exceptions to the CET that have been successively reduced in number during the last eight years.

Due to both internal and external pressure, the core issues concerning Mercosur's customs union and facilitation of trade within Mercosur have recently become an important topic in the Mercosur internal agenda. However, progress on these issues has to date been limited.

Aware of the need to fine tune the Mercosur Common Tariff Policy the Common Market Council has highlighted 3 tasks in the framework of the 2004-2006 Work Program: (1) Defining a proposal to remove double levying of the CET that should bring a solution to the problem of custom revenue distribution between member countries; (2) Identifying priority sectors for establishing special common import regimes including Capital Goods and information technology and telecommunication goods (ITTG); (3) analyzing further the dispersion and consistencies of the CET.

These policy priorities sparked Decision 54/04 of December 2004 of the Mercosur Ministerial Council, on the free circulation of goods and the elimination of double collection of the Common External Tariff on imported goods. The subsequent decision 37/05, which ruled the first stage of elimination of double levying of the CET, only applies to two categories of goods: (1) those whose CET was zero in all States Parties; and (2) those for which the four Mercosur members had granted a 100% tariff preference to the advantage of the third country. Excluded were tariff items under (1), included in national CET exception lists, and also excluded were such products under conditions (1) and (2) to which some trade protection measure such as antidumping, countervailing duties or safeguard measures were applied in one of the state parties²¹.

For 2006-07, studies were planned to define how to implement the second stage envisaged in Decision 54/04 regarding the removal of double levying of the CET for other goods. Three requirements were established for compliance with this stage: the entry into force of the Common Customs Code, the online interconnection of the computer system of the four partners' customs administration, and the adoption of a customs revenue distribution mechanism²².

Some of the phases of implementing Decision 54/04 have already been completed:

- Digital interconnection among Mercosur custom houses
- Free circulation of goods with an External Common Tariff of zero
- Free circulation of goods from third countries with trade agreements with Mercosur that give 100 percent tariff preference, if this preference has been granted at the same level of rebate by each of four countries within the trade block.

The key remaining stages on which Mercosur countries are currently working are:

- Customs revenue distribution among the four countries
- Common customs code for the Mercosur Block

²¹ INTAL, 2007

²² Intal, 2008

In terms of the Customs Code, although a text had been approved in 1994 it was never incorporated in the members' countries legislation. In July 2006, an Ad Hoc Group was set up to submit proposals on the issue. Some progress has been made but no consensus has yet been reached over several articles²³.

Another problem related to facilitation of trade between Mercosur members is the customs revenue distribution mechanism which is a prerequisite of full harmonisation of the CET. The main difficulty rests with the position of Paraguay. Paraguay is concerned with the need to guarantee a minimum customs revenue, since import duties represent approximately 18% of Paraguay's total tax revenue²⁴. This share is much lower in other Mercosur members as import duties represent approximately 2% of tax revenue in Brazil, 3% in Argentina and 5% in Uruguay.

With regards to interconnection of customs houses this work is now completed. The Trade Commission has created a single web page for each State Party to access the other partners' foreign trade operations²⁵. Finally, a special group reporting to the CCM was formed to carry out technical analysis in this area. By mid 2007, the group reached consensus over national houses being responsible for carrying out collection, distribution and the destination of funds²⁶. By early 2008 the text of a Mercosur Code had been agreed among members to a very large extent. The present goal aims at implementation by late 2008. An issue that will require negotiating and legal ingenuity is that of Argentina's taxes on exports. If an answer to this issue can be negotiated, the target may actually be reached.

As highlighted by Mercosur Report no. 12²⁷, despite increased focus on harmonization of the CET, it seems unlikely that Mercosur will attain free circulation of a sample of goods by 2008, given both the existing technical difficulties in implementation, and the legal changes it would require in each of the Mercosur members (possibly even including constitutional amendments for some countries). In this respect it should be borne in mind that for Argentina the Mercosur Treaty has constitutional status, whereas in Brazil the highest level of Mercosur legislation cannot oppose the Brazilian Constitution if the ruling is to be applied within the country.

Further issues related to trade facilitation arise with technical barriers to trade, which are not fully harmonised between the four Mercosur countries, such that multiple certification may be required. From the Mercosur perspective many EU standards (such as for the chemicals industry) impose heavy compliance costs on Mercosur exporters, which may be interpreted as technical barriers to trade.

3.4. Negotiation issues

Most developing countries, including the Mercosur countries, recognise that reducing trade transaction costs and other trade facilitation measures would be in their own economic interest. Several have made positive contributions to the WTO trade facilitation negotiations under the Doha agenda, although concerns remain over the details of the commitments under negotiation²⁸. Many have introduced such measures of their own accord, often with

²³ INTAL, 2008

²⁴ INTAL, 2006

²⁵ INTAL, 2007

²⁶ INTAL, 2008

²⁷ INTAL, 2008

²⁸ Zedillo et al, 2005

development assistance from international financial institutions and donor agencies. Progress varies between countries, often related to resource constraints and institutional barriers.

Progress at the multilateral level through the WTO or the World Customs Organisation (WCO) is inevitably slow, primarily because of the large disparities in the level of development among all the different countries. Stronger joint action is more practicable at the regional level because fewer countries are involved, and also offers extra benefits in terms of the economic competitiveness of the region as a whole. The EU itself is a prime example, having gone beyond a customs union to create a single borderless market. Trade between Member States need not be facilitated, since, in principle at least, it is totally free²⁹.

The creation of the Mercosur customs union has much the same aim as the EU, to increase the economic competitiveness of the region as a whole. As discussed in the previous section many issues have yet to be resolved before this aim can be achieved in full. Additional difficulties arise with the inclusion of trade facilitation measures in inter-regional agreements, such as that between Mercosur and the EU. A Regional Trade Agreement (RTA) between two distinct economic groups is of its nature less ambitious than the creation of a customs union or a single common market. The common external tariff of a customs union makes it possible to simplify internal border formalities considerably, which will have benefits for third country trade, but may still leave complex external controls in place. Simplification and harmonisation can be even deeper in a single market with a single external trade policy, but RTAs such as that between the EU and Mercosur do not have that goal³⁰.

Harmonisation of standards and conformity assessment procedures can be particularly problematic in RTAs. Successful regional initiatives are scarce, and have been undertaken primarily between high income countries engaged in a deep integration process, such as the EU. Nonetheless, the World Bank presents a strong case that inter-regional interventions on these issues can be useful if developed in a transparent way, particularly when targeted at a small number of key sectors and toward improving the quality of conformity assessment³¹.

The trade facilitation provisions under negotiation in the WTO are relatively limited, mainly covering transparency of applicable requirements, harmonisation of procedures and formalities, simplification of procedures and the avoidance of unnecessary restrictiveness. Regional Trade Agreements tend to be more ambitious, and typically cover³²:

- rules on transparency and due process;
- harmonisation of procedures and formalities (restricted mainly to convergence of modes of operation);
- simplification and avoidance of unnecessary restrictiveness;
- modernisation and the use of new technology.

Most of the trade facilitation measures included in RTAs have limited preferential effect, and benefit all traders operating in the region. Exceptions include preferential agreements on the level of customs fees, origin marking requirements, and certification of conformity assessment. Even here care has to be taken to avoid breaching WTO rules.

While generally being more ambitious than the WTO negotiations, the trade facilitation provisions of many RTAs go little further than a framework for customs cooperation, often

²⁹ OECD (2002)

³⁰ OECD (2002)

³¹ World Bank (2005)

³² OECD (2002)

accompanied by detailed protocols dealing with the provision of mutual assistance between the respective administrative authorities³³.

Some of the more recent RTAs have gone further by adopting common approaches for the use of risk management techniques in customs clearance (which aim for minimal or no documentary verification and physical inspection, while minimising the risks of piracy, smuggling, or fraud in valuation, origin, sanitary and other requirements). Agreements have for example provided for the availability of common data sets and have elaborated simplified procedures for express shipments. Recently developed RTAs have also addressed the use of information and communication technologies and electronic data interchange³⁴.

The EU's more recent RTAs include those with Mexico and Chile, which contain considerable detail in their trade facilitation measures. Two issues stand out in the EU-Mexico provisions³⁵:

- requirements for coordination between customs and other control agencies;
- a requirement for import or export data to be submitted to a single agency, which should also carry out official controls on importation or exportation.

The EU-Chile RTA includes provisions for:

- the computerisation of customs procedures and the possible establishment of common standards;
- the application of modern customs techniques, including risk assessment, simplified procedures for entry and release of goods, post-release controls, and company audit methods;
- the establishment of common positions in international organisations such as the WTO, WCO and UNCTAD.

Similar measures are under negotiation between the EU and Mercosur, along with others related to the issues discussed above. These include:

- simplified procedures for express shipments;
- the removal of double imposition of duties in Mercosur;
- harmonisation of customs procedures within Mercosur;
- mutual intra-Mercosur recognition of product legislation and conformity certification;
- intra-Mercosur harmonisation of legislation, standards and procedures for key sectors;
- intra-Mercosur administrative co-operation;
- ensuring adequate levels of administrative capacity;
- preferential treatment for EU goods by Mercosur and for Mercosur goods by the EU, subject to WTO rules.

Many of these measures form part of Mercosur's own objectives for full implementation of the customs union, and parallel similar initiatives being taken within the EU to reduce its own trade transaction costs. The potential benefits and risks of incorporating these internal objectives and associated actions into a formal agreement between the two parties are key factors in the negotiations.

³³ Fasan O (2004)

³⁴ OECD (2002)

³⁵ Fasan O (2004)

4. PRELIMINARY IMPACT ASSESSMENT

4.1. Economic modelling results

Many modelling studies have been undertaken to estimate the economic benefits of trade facilitation measures, and show significant gains³⁶. However, large uncertainties arise from the assumptions and simplifications that have to be made. Most modelling studies interpret trade facilitation largely in terms of trade transaction costs related to procedural measures that reduce bureaucracy, delays at customs, excessive paper-work or lack of harmonised standards. This is modelled in some case directly through an estimated level of savings, as a percentage of the total value of trade³⁷. In other cases trade facilitation is modelled indirectly through an assumed increase in trade elasticities³⁸. Other modelling studies make similar estimates of the influence of infrastructural and regulatory issues³⁹. There are large uncertainties associated with all these models⁴⁰. Available estimates of the trading costs have been described as ‘very rough at best’⁴¹, giving quantitative information that is often ‘patchy, imprecise and unconvincing’⁴².

Nonetheless, economic models can provide a broad indication of the potential magnitude of the economic effects. The CETM model used in Phase 1 of the SIA did not attempt to model any particular trade facilitation measures, but, on the basis of the literature discussed above, took the view that a reasonable package of measures would reduce trade costs by at least 1%. The model was then used to estimate the influence this would have on economic welfare. For Mercosur, the effect of a 1% reduction in trade costs accounted for approximately 30% of the aggregate welfare gains from full EU-Mercosur trade liberalisation. For the EU25, the effect accounted for approximately half the total welfare gain.

While these results suggest that trade facilitation measures can contribute a large proportion of the welfare gain available from trade liberalisation, the model results indicate that the magnitude of that gain is relatively small. The projections from the CETM model are summarised in Table 5.

Table 5. Changes in economic welfare from EU-Mercosur trade liberalisation

	Argentina	Brazil	Paraguay	Uruguay	EU15	EU10
Total change (goods, services and trade facilitation)	0.50%	1.50%	10.00%	2.10%	0.10%	0.10%
Trade facilitation	0.28%	0.42%	2.01%	0.43%	0.05%	0.07%

The static welfare gain projected for trade facilitation is less than half a percent in all the Mercosur countries except Paraguay, and less than a tenth of a percent in Europe. These results are consistent with those from a similar modelling exercise carried out by the OECD⁴³, which indicated that a 1% reduction in trade costs would yield welfare gains in the Latin America and Caribbean region of between 0.12% and 0.36%, varying according to the assumed degree of diversity of costs between countries and economic sectors.

³⁶ Engman (2005)

³⁷ Francois et al (2005)

³⁸ Anderson et al (2006)

³⁹ Wilson et al, (2004), Hertel and Keeney, (2006)

⁴⁰ Hertel and Keeney (2006) Ackerman (2005)

⁴¹ Francois et al, (2005: 361)

⁴² Kleitz, (2002)

⁴³ OECD (2003)

In Paraguay the welfare benefit projected by the CETM model is considerably higher than in the other countries. Even here, however, as a one-off gain resulting from over ten years of negotiation, plus the time for implementation, its significance is relatively minor compared with the country's expected rate of economic growth of around 3% each year⁴⁴. In both the EU and Mercosur countries, the main economic benefits of trade facilitation come from other effects.

4.2. Effects on Small and Medium Sized Enterprises

The effect of trade facilitation measures on Small and Medium Sized Enterprises (SMEs) is of particular interest in view of the high burdens that trade transaction costs may place on them, along with the importance of their contribution to overall economic performance, in both the Mercosur countries and the EU.

Many SMEs will not be directly affected by trade facilitation measures. Many operate only in the domestic market, while others are part of the supply chains of large corporations, or use materials that are imported most efficiently in high volume by larger companies. Nonetheless, significant numbers of SMEs use or produce specialist products that may be traded directly.

The OECD has conducted a study to examine the issues⁴⁵. This confirmed that trade transaction costs can indeed vary according to characteristics of the trader, including the size of the firm. Small firms which engage infrequently in cross-border transactions have several disadvantages:

- they tend to have fewer specialised personnel, so may need to devote relatively more resources towards developing the necessary expertise and administering import/export procedures;
- they may have limited capital, so that border delays can affect their liquidity and force them to seek expensive interim financing;
- they have little track record with customs authorities, so may be classified in a higher risk category and be subjected more frequently to costly checks.

Despite these disadvantages, an analysis of about 650 survey responses concluded that it is not firm size as such that determines the level of trade transaction costs, but the size of a firm's international trade activities⁴⁶. Hence, small firms which specialise in international markets are often able to achieve economies of scale in border procedures. Furthermore, small firms can often outsource customs-related activities, and thereby avoid the disadvantages they might otherwise face.

Nevertheless, an earlier study in Europe⁴⁷ found that firms with fewer than 250 employees incurred trade transaction costs 30-45 per cent higher per consignment than those paid by bigger firms. One of the main reasons given was that, due to infrequent transactions, SMEs were often unable to participate in simplified procedures that reduce the trader's costs.

Hence it may be concluded that although many small importing or exporting firms have proved capable of surmounting the difficulties, the introduction of simplified procedures that

⁴⁴ World Bank (2007)

⁴⁵ OECD (2003)

⁴⁶ Verwaal and Donkers (2001)

⁴⁷ Ernst & Whinney (1987)

are fully accessible to those SMEs that import or export directly is likely to be a significant factor in maximising their contribution to economic performance in both the EU and Mercosur.

4.3. Economic benefits and costs of typical trade facilitation measures

There is a broad consensus that trade facilitation does have the potential to contribute significantly to smoother and intensified trade between countries, particularly in terms of eliminating burdensome trade procedures, increasing transparency, improving business opportunities and security, and generally enhancing competitiveness and economic development to the benefit of both the government and the private sector⁴⁸. Landlocked countries in particular (such as Paraguay) can expect to benefit from reduced border delays and transit costs.

There are often other benefits accruing from trade facilitation reforms. The direct savings in trade transaction costs, both for governments and for importers and exporters, can often outweigh the cost of implementing the reforms. In some developing countries an immediate gain may come from increased government revenue, through more efficient and reliable tax collection and reduced corruption⁴⁹. Larger long term gains may occur by increasing the ability of developing countries to attract foreign direct investment and integrate into global supply chains, and hence accelerate their rate of growth⁵⁰. Investing companies typically require cheap, quick, transparent and predictable customs services⁵¹.

Analysis of the implementation costs of trade facilitation is important, not only for comparison with the expected benefits, but also in designing implementation and assistance programmes. Priority should be given to the most cost-effective elements of trade facilitation. The OECD has conducted a series of country surveys to address the issue. Data on the implementation costs of eleven trade facilitation measures proposed in the WTO negotiations were collected in fourteen developing countries⁵². While the OECD cost study does not include any conclusive quantitative cost estimates for the measures examined, it provides useful information on the relative complexity of the various measures, and on some of the major issues associated with their implementation.

The study focused specifically on implementation costs for governments, and considered the following four cost components specifically and directly related to a given TF measure:

- Regulatory costs;
- Institutional costs;
- Training costs;
- Equipment/Infrastructure costs.

The study notes that overall implementation costs of specific measures will be affected by the current level of infrastructure development in each country, which may need to be improved before a particular measure may be effectively implemented. While the study did not attempt to compare the costs of the various measures examined, it identified risk assessment, audit-based controls, and special procedures for authorised persons as the most complex and costly measures, followed by advance lodgement and processing of data. In contrast, advance

⁴⁸ Hellqvist (2003), UNECE (2004), Ivanow and Kirkpatrick (2006)

⁴⁹ Engman (2005)

⁵⁰ OECD (2005a)

⁵¹ Engman (2005)

⁵² OECD, 2004; OECD, 2005c

rulings and security for duties and taxes were reported to have minimal implementation costs. Similarly, Finger and Wilson point out that there are a number of administrative reform measures that would probably not require large-scale investments or new infrastructure projects⁵³. These include, for example, more explicit rules on publication of fees for imports and exports, and more rapid response mechanisms to adjudicate customs disputes.

Other measures are more costly. The Finger and Wilson study cites estimates, based on an analysis of World Bank projects, that each of the 16 areas of a customs valuation agreement would typically cost more than \$US 2.5 million to implement. In projects funded by development assistance programmes automation is often a major component, in some cases amounting to over two-thirds of the total cost of a customs-related lending project. An OECD study of the costs and benefits of customs automation reports a very wide range of costs, from \$US 15000 to develop a website in Senegal, up to \$US 190 million for Russia's Customs Development Project, of which \$US 133 million was for customs automation⁵⁴. Off-the-shelf automation systems such as the ASYCUDA system developed by UNCTAD can be significantly cheaper than custom-designed systems, but the costs of operation and maintenance can be similar. The OECD study concludes that the costs for implementing, maintaining and operating automated customs systems are substantial, but that past experiences have shown that the financial benefits in many cases have exceeded the costs over time. It also stresses that many of the most cost-effective reforms can be implemented without automation. Other OECD studies⁵⁵ report a similar range of costs for various types of trade facilitation measure, with and without automation.

Duval⁵⁶ has examined a wide range of other costs, many of which are not readily quantified. These are categorised as:

- Regulatory/Legislative Costs: Extent to which new legislation will be needed, requiring expertise and time.
- Institutional Costs: Extent to which new institutions will be needed, additional units in existing institutions, or restructuring with existing institutions
- Human Resources (HR) Training Costs: Extent to which government officials will need to be trained for efficient implementation of the trade facilitation measure
- Equipment/Infrastructure Costs: Extent to which new/additional equipment will be needed for implementation of the measure, as well as to ensure its effectiveness (e.g., if docs are published online but SMEs do not have internet access because of lack of a decent national ICT infrastructure...)
- Political Costs: Extent to which such measures will be resisted by staffs within relevant institutions; or by policy makers because of fears of losing political support they need
- Recurring/Operating Costs: Costs associated with maintaining the new/additional systems associated with the trade facilitation measure (e.g., replacement of computers and software, salary/wages of dedicated additional staffs or experts etc.)

Duval suggests that the political costs can often be the biggest impediment, since implementation of TF measures generally involves various degrees of change that can be perceived negatively by those affected. Governments may therefore need time and flexibility for implementing the measures, along with appropriate technical assistance with training and

⁵³ Finger and Wilson (2006)

⁵⁴ OECD (2005d)

⁵⁵ OECD (2003a, 2005c)

⁵⁶ Duval (2006)

infrastructural investments. Nonetheless, the potential for significant long-term benefits is widely accepted.

Other OECD studies⁵⁷ stress the importance of initial analysis and diagnosis of trade facilitation issues. One of the most common causes of failed reform is inadequate or insufficient understanding of the problem areas that need to be addressed. High trade transaction costs generally have several interrelated causes, which need to be tackled comprehensively in order to ensure the success of a reform programme. Consultation with stakeholders in analysing the problems and devising solutions is a key success factor. The OECD reports that many reforming countries have established permanent structures for consulting stakeholders, and that the use of outside consultants has been successful only when the customs administration has had a clear understanding of what it wanted them to do.

These considerations suggest that a well designed trade facilitation programme can achieve significant economic benefits, although they cannot be quantified with any certainty. Many developing countries have recognised this, and have embarked on customs modernisation unilaterally as part of a broader programme of reforms. The potential benefits and possible risks associated with committing to such reforms within a trade agreement are less clear.

On the basis of this analysis some broad estimates may be made of the likely costs and benefits of some of the measures discussed in the project Inception Report.

Full implementation of the Common External Tariff

Fully implementing the Common External Tariff would entail eliminating the double imposition of import duties and the development of a mechanism agreed by all the Mercosur countries for the distribution of customs revenue.

- regulatory/legislative costs: medium
- institutional costs: low
- training costs: medium
- equipment/infrastructure costs: low
- political costs: high
- recurring/operating costs: low

The financial and economic costs involved are likely to be low in comparison with the potential gains. The barriers to more rapid progress arise primarily from the political difficulties of developing an agreed revenue distribution mechanism.

Full implementation of the Common Customs Code

Full implementation of the Common Customs Code requires harmonisation and simplification of customs procedures and clearance procedures among the Mercosur countries.

- regulatory/legislative costs: medium
- institutional costs: medium
- training costs: medium
- equipment/infrastructure costs: low
- political costs: low
- recurring/operating costs: low

⁵⁷ OECD (2003, 2003a)

The benefits of implementing the Common Customs Code are already recognised in Mercosur and progress to date has been good.

Mutual recognition within Mercosur of product standards and conformity certificates and harmonisation of SPS legislation and procedures

Mutual recognition of product standards between the Mercosur countries necessitates a review of the objectives of each standard affected, and agreement on minimum standards that are acceptable to all the countries. Mutual recognition of conformity certificates is dependent on agreement on standards. Harmonisation of SPS requires a similar review and agreement, and amendment of the relevant legislation.

- regulatory/legislative costs: high
- institutional costs: high
- training costs: high
- equipment/infrastructure costs: medium
- political costs: medium
- recurring/operating costs: low

The scope for mutual recognition and harmonisation is high, with high potential benefits. The principal barrier to more rapid progress is the high institutional cost of reviewing the standards.

Action to improve efficiency and transparency

A wide variety of actions can be taken to improve efficiency and transparency, some involving automation while other require only institutional reform.

- regulatory/legislative costs: low
- institutional costs: high
- training costs: high
- equipment/infrastructure costs: variable
- political costs: medium
- recurring/operating costs: variable

Many potential measures are likely to deliver benefits that exceed the financial costs, but may require significant investment in institutional reform. For some types of measure political difficulties may arise either with policy makers or with staff.

Development of appropriate administrative capacity

Most of the measures discussed above will require capacity development for the staff involved.

- regulatory/legislative costs: low
- institutional costs: medium
- training costs: high
- equipment/infrastructure costs: low
- political costs: low
- recurring/operating costs: medium

Training costs may be a significant component of the implementation costs of many trade facilitation measures, with ongoing needs for enhanced training of new staff. For well designed measures these costs are likely to be recovered fairly rapidly.

4.4. Impacts of a potential trade agreement

While the economic benefits of trade facilitation itself are fairly well understood (subject to the acceptability of implementation costs that cannot all be quantified), the impact of including these measures within the trade agreement is less apparent. In the Mercosur customs union itself, as in the common market of the EU, there are evident benefits from making joint commitments on such measures, since all member states benefit from common action. In the case of the EU-Mercosur trade agreement the common interest of the parties is less readily identifiable. Although trade transaction costs in the EU are still higher than may be desirable, the principal needs for further reform are in Mercosur. Most of the necessary actions on trade facilitation will be in Mercosur, for the Mercosur countries' own economic benefit. The additional impact of making formal commitments within the trade agreement will depend strongly on the details of the agreement.

The EU-Mexico and EU-Chile agreements give an indication of possible aspects of an agreement between the EU and Mercosur. The main provisions of these agreements are:

- mechanisms for cooperation and coordination between EU and Mercosur authorities
- requirements for coordination between customs and other control agencies;
- a requirement for import or export data to be submitted to a single agency;
- the computerisation of customs procedures and the possible establishment of common standards;
- the application of modern customs techniques, including risk assessment, simplified procedures for entry and release of goods, post-release controls, and company audit methods;
- the establishment of common positions in international organisations;
- the provision of technical assistance in implementation.

Provisions for customs cooperation would build on an EU-Mercosur project that was completed in 2007. The project aimed to contribute to the consolidation of customs integration and the establishment of the single market, including work on harmonising legislation, increasing transparency and speed of customs operations, administrative cooperation and implementing a communication policy.

This and other provisions for cooperation and coordination will have relatively low cost with minimal adverse impact if the expected benefits fail to materialise. Most of the other provisions have already been implemented in the EU, and are consistent with the Mercosur countries' own objectives for improving the efficiency and effectiveness of their procedures. The provision of technical assistance from the EU will help to facilitate more rapid action than would otherwise be possible.

The principal benefit of an agreement of this nature would therefore come from EU technical assistance to Mercosur countries in implementing trade facilitation reforms. The benefits to both parties are likely to exceed the cost of the assistance, while contributing to the larger potential gains of a full trade facilitation programme.

4.5. Impacts on core sustainable development indicators

Economic indicators

Real Income

The direct financial and revenue benefits of a well designed trade facilitation programme can often outweigh the costs, with potentially large indirect economic benefits in the longer term. The static efficiency effects on economic welfare are fairly small, but the longer term dynamic effects are potentially much larger. These gains are available primarily in the Mercosur countries, which have made less progress than the EU in implementing efficient border procedures. The EU will also benefit economically, but the gain will be less than in Mercosur since EU-Mercosur trade is a smaller proportion of its total trade. Similarly, the actions needed to deliver the benefits apply primarily to Mercosur. These benefits and the actions needed to deliver them are those which would apply to unilateral action by Mercosur. The additional benefits that would accrue from including trade facilitation measures within the trade agreement are related primarily to the magnitude and effectiveness of the technical assistance provided.

Fixed Capital Formation

Trade facilitation can contribute to fixed capital formation through increased foreign direct investment, since investing companies require cheap, quick, transparent and predictable customs services. However, many other factors also contribute to the investment climate, so that trade facilitation on its own may not yield a significant benefit in this respect. Nonetheless, trade facilitation measures can be expected to make other contributions to long term economic growth, which would facilitate a sustained increase in both domestic and foreign investment.

This impact is as would apply for unilateral action by the Mercosur countries. As discussed above, the additional benefit from including these measures in the trade agreement is directly related to the level of technical assistance provided.

Employment

Similarly, it is reasonable to anticipate beneficial employment effects from trade facilitation measures, but the specific contribution from including such measures in the trade agreement is likely to be small.

Social indicators

It is reasonable to assume that the trade facilitation component of the trade agreement will be economically beneficial to both parties. The social impacts will be directly related to the economic impacts, in terms of both those which are stimulated specifically by the trade agreement, and those resulting from unilateral action by Mercosur.

It will be in the interest of both parties to ensure that the beneficial social impacts of trade facilitation measures are maximised, and that any adverse effects are minimised, irrespective of whether the reforms are undertaken unilaterally or as part of the agreement. Any appropriate mitigation or enhancement measures undertaken cooperatively within the agreement should therefore apply to the full trade facilitation package, rather than only to any specific measures subject to negotiated commitments. The impacts as assessed below are

therefore those of a full trade facilitation programme, primarily as is expected to be undertaken in Mercosur, and also as relevant in the EU.

Poverty

There will be some direct employment effects associated with border controls, but these are not expected to be significant compared with the wider costs and benefits. The principal impact on poverty is expected to come in the longer term in Mercosur, from accelerated economic growth, and is likely to be significantly beneficial.

No significant poverty impacts are expected in the EU.

Health and Education

The long term impact in Mercosur will also come indirectly from the influence on growth, and is expected to be significantly beneficial. A similar but smaller effect is also expected in the EU.

In the shorter term the Mercosur countries are expected to gain a significant increase in tax revenues, enabling increased expenditure on health and education.

Equity

Accelerated growth can have distributional effects, which are potentially significant. Although the net effect on economic welfare estimated by the CETM model is fairly small, the influence on trade flows is much larger. The modelling study did not disaggregate the effects, but the relative contributions of tariff reductions and trade facilitation measures are likely to be similar to those for welfare. On this basis we estimate that the changes in trade flows due to trade facilitation measures will be approximately equal in both nature and magnitude to those from tariff reductions.

The main distributional impacts come from increased agricultural exports from Mercosur to the EU, associated with increased mechanisation and potential conflicts over land. The Preliminary Overview SIA⁵⁸ assessed the distributional impacts as mixed, and potentially adverse for women. Those arising from trade facilitation are expected to be similar.

Environmental indicators

As with the social impacts, environmental impacts are assessed for a full trade facilitation programme rather than for any specific measures subject to negotiated commitments.

Biodiversity

The main biodiversity impacts of changed trade flows come from increased agricultural exports from Mercosur to the EU. The Preliminary Overview SIA⁵⁹ assessed these impacts as of major adverse significance, in both the short term and the long term. Those arising from trade facilitation are expected to be similar.

Environmental quality

The main impacts on environmental quality of the changes in trade flows also come from increased agricultural exports from Mercosur. The Preliminary Overview SIA assessed these as of minor adverse significance in the short term, with mixed beneficial and adverse impacts

⁵⁸ IARC (2007)

⁵⁹ IARC (2007)

of minor significance in the long term. The impacts of trade facilitation are expected to be similar.

Natural resource stocks

The impacts on natural resource stocks are closely related to those on biodiversity. On the basis of the Preliminary Overview SIA findings they are assessed as being of major adverse significance in both the short term and the long term.

Process indicators

Consistency with sustainable development principles

The effects of trade facilitation measures are assessed as being neutral, except in so far as they influence long term economic growth. Growth is in principle highly consistent with goals of socio-economic transformation and poverty reduction, while at the same time intensifying the need for change in unsustainable patterns of consumption and production.

Institutional capacity for effective sustainable development strategies

The effects of trade facilitation measures on sustainable development strategies are assessed as being neutral, in that they neither add to nor detract from Mercosur countries' capacity to implement effective strategies. The impact in the EU is also assessed as neutral.

4.6. Summary of principal impacts on sustainable development

The impacts discussed above are summarised in Table 6.

Table 6. Sustainable development impacts of trade facilitation measures

Impact	Countries / sectors affected	Causal factors	Factors affecting significance	Potential significance	
				short term	long term
Economic					
Real income	All	details of negotiated agreement	details of negotiated agreement	?	?
Fixed capital formation	All	details of negotiated agreement	details of negotiated agreement	?	?
Employment	All	details of negotiated agreement	details of negotiated agreement	?	?
Social					
Poverty	Mercosur	Economic growth	Parallel policy measures	-	↑
Health and education	Mercosur, smaller in EU	Tax revenues, economic growth	Parallel policy measures	↑	↑
Equity	Mixed effects, potentially adverse for women	Land conflicts, mechanisation	Employment in other sectors, redistributive policies	↑↓	-
Environmental					
Biodiversity	Greatest in Brazil, Amazon and Cerrado	Deforestation and monocultures for increased production	Regulatory regimes, ethanol certification	↓	↓
Environmental quality	All	Increased production, agrochemicals; Intensification,	Production methods, regulatory framework	↓	↑↓

Impact	Countries / sectors affected	Causal factors	Factors affecting significance	Potential significance	
				short term	long term
		Deforestation and monocultures for increased production			
Natural resources	Greatest in Brazil and Paraguay for land. Argentina for water	Increased agricultural production	Regulatory regimes, ethanol certification	↓	↓
Process					
SD principles	Positive for socio-economic change and poverty reduction, adverse for consumption and production, otherwise neutral.	Economic growth	Parallel policy measures, environmental regulation.	-	↓
SD strategies	Neutral impact			-	-

Legend: ↑ positive greater significant impact, ↓ negative greater significant impact, ⤴ positive lesser significant impact, ⤵ negative lesser significant impact, ⤴⤵ positive and negative impacts likely to be experienced according to context (may be lesser or greater as above), ? or ? uncertain positive or negative impacts of greater or lesser significance, - non-significant impact compared with the base situation.

5. CASE STUDIES

In the light of the above findings and after a review of existing studies of the issues and of the availability of data, the following case studies are being undertaken to give greater insight into some of the key potential impacts of trade facilitation measures in the EU and Mercosur and associated mitigation and enhancement measures:

1. A stakeholder analysis of the potential impacts of EU Mercosur trade facilitation reform in Mercosur

The case study consists of a stakeholder survey of trade facilitation issues faced by Mercosur exporters to the EU, covering both the import side (into the EU) and the export side (from Mercosur countries). It will be approached on a country by country basis in consultation with key institutions such as Chambers of Exporters, Chambers of Importers and Customs Administrations.

The following indicates some of the issues for which information will be sought. The study will not necessarily address them all, but will review the situation for those that are considered to be important.

General issues:

- customs: efficiency of the clearance process by customs and other border agencies
- preparation and movement of documentation
- transparency and professionalism of customs and regulatory environments
- logistics of moving goods through ports
- competence of the logistics industry
- logistics costs
- ease and affordability of arranging international shipments
- ability to track and trace international shipments
- timeliness of shipments in reaching destination.
- quality of transport and information technology infrastructure
- technical barriers to trade
- harmonisation of standards

Specific issues:

- implementation of the Common External Tariff
- current trade facilitation programmes
- past, current and planned international assistance with TF programmes
- key economic sectors that would benefit from TF measures
- particular difficulties faced by SMEs
- views of different stakeholder groups
- similarities/differences between the Mercosur countries

Efforts will be made to gather information relevant to the likely costs of implementing particular TF measures. Such costs may include:

- Regulatory/Legislative Costs: new/revised legislation
- Institutional Costs: new institutions, additional departments, restructuring
- Staff Costs: salaries/wages
- Training costs
- Equipment/Infrastructure costs.

- Recurring/Operating Costs:
- Political Costs: resistance by staff or policy makers

2. An assessment of the potential impacts of EU Mercosur trade facilitation reform in Paraguay

The case study should examine trade transaction costs and other trade facilitation issues for exporting from Paraguay to the EU, importing from the EU to Paraguay, and transit through other Mercosur countries. Barriers in both Paraguay and the EU will be addressed.

The following indicates some of the issues for which information will be sought on the situation in Paraguay. The study will not necessarily address them all, but will review the situation for those that are considered to be important.

General issues:

- customs: efficiency of the clearance process by customs and other border agencies
- preparation and movement of documentation
- transparency and professionalism of customs and regulatory environments
- logistics of moving goods through ports
- competence of the logistics industry
- logistics costs
- ease and affordability of arranging international shipments
- ability to track and trace international shipments
- timeliness of shipments in reaching destination.
- quality of transport and information technology infrastructure
- technical barriers to trade
- harmonisation of standards

Specific issues:

- implementation of the Common External Tariff
- current trade facilitation programmes
- past, current and planned international assistance with TF programmes
- key economic sectors that would benefit from TF measures
- particular difficulties faced by SMEs
- views of different stakeholder groups
- similarities/differences between the Mercosur countries

Efforts will be made to gather information relevant to the likely costs of implementing particular TF measures. Such costs may include:

- Regulatory/Legislative Costs: new/revised legislation
- Institutional Costs: new institutions, additional departments, restructuring
- Staff Costs: salaries/wages
- Training costs
- Equipment/Infrastructure costs.
- Recurring/Operating Costs:
- Political Costs: resistance by staff or policy makers

3. An assessment of potential impacts of EU Mercosur trade facilitation reform on the animal products sub-sector in the EU

The case study will outline trade and customs procedures as applicable to trade between Mercosur and the EU, with a primary focus on EU trade and customs procedures and relevant scope for trade facilitation. Products of Animal Origin (e.g. Poultry or Beef) will be used as a particularly illustrative case for highlighting trade facilitation issues.

The purpose of the case study is to highlight trade facilitation related issues that can be made relevant in an EU-Mercosur trade facilitation agreement. As such, the case study will provide an informed document that can be used to:

1. support the EU in preparing its negotiation position;
2. help set the agenda and scope for trade facilitation in EU-Mercosur trade negotiations; and
3. support the dialogue between policy-makers and civil society in the EU and Mercosur.

It is envisaged that the case study will be published as an Annex to the SIA document. It is important that the case study is self-contained and written in such a way that it can be read independently from the full SIA document.

The case study will contain the following elements:

- An overview of supply chain operations in the trade of poultry and/or beef between Mercosur and EU countries
- A high level overview of relevant EU stakeholder groups in the public and private sector (e.g. Customs, Port Health, Veterinary Services, Shipping Lines, Stevedores, Port Operators, etc.)
- An overview of applicable regulatory procedures and requirements (e.g. customs declarations and procedures, veterinary documents, documentary checks, physical inspections, product testing, labelling)
- Illustrative anecdotes collated from telephone interviews, practitioner experience and published material.
- A list of issues and scope for trade facilitation measures
- A list of trade facilitation recommendations for consideration in EU-Mercosur trade negotiations

6. FURTHER WORK TO COMPLETE THE STUDY

Further work:

The final stage of the study will:

- implement the three proposed case studies;
- refine the assessment presented at this mid-term stage;
- incorporate the case study findings into the analysis;
- assess alternative measures for mitigation and enhancement;
- prepare conclusions and recommendations.

Final report:

The final report will include the following elements:

- The methodology used for the Trade SIA
- The outcomes and results of the assessment
- Proposals of flanking measures and policy recommendations
- Communication actions and networking
- Conclusions
- References and key sources

The provisional timetable for the Final Report is:

- Draft Final Report: October 2008
- Revised Final Report: November 2008

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