

Facilitating trade facilitation

Blog post by Partner Stephen Adams, 24 February 2017

This week marked something of a milestone for the 21-year old World Trade Organisation (WTO). After being agreed at the December 2015 Nairobi Ministerial meeting, the Trade Facilitation Agreement (TFA) has now been ratified by more than two third of the WTO membership and has thus entered into force. This makes it the first successful multilateral agreement reached under the auspices of the WTO. It is important in its own right, and has a couple of important lessons for the future of EU-UK trade.

The TFA started its life as a chapter in the much larger multilateral Doha Round, that was essentially abandoned in 2008 when negotiations on its core market access and tariff reduction chapters stalled. The TFA covers agreements on aligning customs protocols, reducing customs bureaucracy and upgrading customs practice. The benefits of such reforms have typically been skewed towards developing countries (which have the most to gain from greater efficiency and reduced costs, corruption and bureaucracy) and in fact represented some of the biggest economic gains from a potential Doha package. The [WTO secretariat has estimated](#) that the value of the TFA if fully implemented in easing trade is probably greater than the savings from eliminating all remaining tariffs in the global economy. Even if this is an overstatement, it reinforces the extent to which ‘free’ trade is as much about the practicalities of moving goods across borders as paying tariffs.

Given this value and the relatively uncontentious underlying issues, it is notable that it was only very late in the Doha process that it was agreed to carve out the trade facilitation content from the stalled wider process and formalise it in a standalone agreement. The last phases of its agreement were tortuous because they involved agreeing timeframes on which developing countries would deliver commitments and support from developed countries to pay for upgrades.

Estimated reduction in trade processing costs with full TFA implementation



Source: WTO Secretariat

But a lot of the content of the reforms themselves was actually agreed relatively early in the Doha process before 2008.

As ever with trade questions, there is a Brexit angle here. One of the big challenges for both the UK and the EU in separating the two markets will be switching from a system in which large volumes of goods trade between them is treated as domestic to one in which it is treated as international, and thus subject to processing and customs formalities. This applies to around half of UK total goods trade and about a tenth of the EU27's, for whom the UK is a major trading partner.

These are big new burdens on existing processing systems. Of course, unlike many developing country customs systems, the port and customs infrastructure of the UK, Ireland, France and the Netherlands (which absorb the bulk of this surface trade) are advanced and already relatively efficient. But they will still need to absorb large new volumes, and they will still be imposing frictional processing costs on trade that is currently free of them, which adds an extra element of disruption. While post-Brexit tariffs between the EU and the UK are potentially a problem only for some of the current trade flows between the UK and the EU, this is an issue for all of it.

Nevertheless, there is quite a lot the two sides can do to mitigate this impact. This might include upgrading computer systems, such as the UK CHIEF system, and recognising each other's custom's protocols or potentially agreeing a single frontier for the purpose of trade processing. This is a level of sophistication and cooperation far beyond the baseline disciplines of the TFA (to which, incidentally, the UK will want to accede).

But one of the lessons of the TFA is that these trade facilitation questions for the EU and the UK should not be dealt with as part of a wider trade and cooperation agreement where they can in principle and practice be held hostage by other issues that are more contentious and less obviously in the mutual interest of both sides. Rather, trade facilitation needs to be carved out and addressed up front and in a standalone way, before the day the UK leaves and customs frontier comes back down.