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##### **Controls of Goods, 1982**

##### **Issues in the application of the Convention**

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#### **Note by the secretariat**

The secretariat prepared this Informal document for comments or additional input by the Working Party. As the Informal document is in Word-format, delegates are invited to insert their comments/additions directly into the text and submit their amended version to the secretariat ([roel.janssens@un.org](mailto:roel.janssens@un.org)).

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# Informal Document for WP.30

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# Cross-Border Facilitation Guidelines

**A practical guide to cross-border facilitation**

## Chapter 3

Prepared by Dr Andrew Grainger for the  
Organization for Security and Co-operation in  
Europe (OSCE) and the United Nations Economic  
Commission for Europe (UNECE)

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# Getting to Grips with Cross-Border Trade and Transport Costs

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## 1 Chapter overview

The case for cross-border facilitation and its themes (Chapter 2) is usually very compelling. Supporting drivers come from two directions, the bottom-up and the top-down (Grainger 2011). From the bottom-up, policy conversations tend to be informed by experienced costs that undermine business competitiveness and frustrate cross-border trade activity. The impact of such costs is reduced trade related economic gains. Policy makers may also be concerned about: whether public spending on the control of cross-border trade and transport movements is value for money; whether performance improvements and efficiency savings can be made; and whether – within the spirit of cross-border facilitation – there are better, more cost-effective ways to safeguard control without disrupting cross-border trade and transport flows.

From the top-down costs are a concern, too – for example, because policy makers respond to reform demands from the bottom-up that require top-down steer, co-ordination, and investment. Such top-down thrust can be particularly forceful if sponsored by political patronage. The top-down may also be driven by commitments to trade partners that require changes to regulatory and operational practices at home. Such commitments often result from international and regional trade and partnership agreements that have a cross-border facilitation theme. In the case of least developed and developing economies, donors may lend hand from the top-down, too. This is usually in the form of technical assistance and funding for trade capacity building measures – e.g., those specified in the WTO Trade Facilitation Agreement (see Chapter 4).

Top-down drive for facilitation can also be born from the regulator's need to create space for new regulatory control requirements by reducing regulatory burdens elsewhere. To give one example, the 2012 edition of the OSCE and UNECE "Handbook of Best Practices at Border Crossings" (OSCE and UNECE 2012) cited new supply chain security regulations as a particularly important subject that necessitated changes to regulatory practices that combine facilitation with tighter control (e.g., WCO 2021b). Efforts towards tighter supply chain security are still ongoing in many countries (WCO 2022a), but the principle of offering preferential treatment to business operators that have invested in improving their supply chain security performance is well established. Now, international supply chain control demands are now unfolding into multiple new policy areas – such as: modern slavery, child labour, and other human rights related issues (e.g., BMAS 2023; European Commission 2022b). Considerable policy developments are also evolving around "green" issues that include climate change levies, and Carbon Border Adjustment Mechanisms (CBAMs) (e.g., European Commission 2021; 2022a).

From a cross-border facilitation perspective, it is important to ensure that the administrative arrangements for such regulatory regimes do not unnecessarily add to the cost of trading. This can be achieved by removing regulatory requirements elsewhere, combining compliance steps with other procedures, or by

making significant cost saving enhancements to transport and trade infrastructure. A robust understanding of cost factors in cross-border trade is essential for exploring cross-border facilitation policy options and actions. This chapter discusses the experienced cost factors that undermine cross-border trade operations with focus on the private and public sector. Furthermore, attention is also drawn to the levels at which cost mitigating actions can be taken. Depending on the context, mitigating actions can be at the internal level, the transactional level, the partnership level, and the environmental level. It is emphasised that dialogue and consultation between public and private sector is essential in shaping a trade environment that has cross-border facilitation at its heart.

## 2 Cross-border trade and transport costs

A robust understanding of trade and transport costs and their nature has many uses. It is essential for identifying reform priorities. A good grip on costs also provides a baseline against which the success of implemented reform measures and adjustments be assessed. Capturing experienced costs sheds light on how costs are incurred and subsequently absorbed or passed on. Important to recognise is that some types of costs are compounded. For example, the cost of delays at border crossings or gateway facilities is compounded where business operators need to rebook connecting transport services and reschedule delivery slots. By recognising this, it is possible to identify measure that may not necessarily eliminate an experienced cost, but ensures that the incurred cost does not needlessly escalate. For example, where delays are unavoidable, one facilitation measure would be to put systems in place that notify operators about anticipated delays as early as possible. This enables operators to take mitigating actions – e.g., by rescheduling transport and notifying end customers at the earliest opportunity to avoid contractual penalties<sup>1</sup>.

Knowledge of experienced costs has other operational and policy specific benefits, too. Cost data is useful for working out the impact of Non-Tariff Measures. It is also instrumental for cost-benefit type analysis, especially if financial resources need to be secured to ensure that the implementation of cross-border facilitation measures is appropriately funded. Cost data is usually also crucial for informed decision making, especially by businesses who wish to assess the viability of specific trades. Cost data can potentially also be used for benchmarking purpose. And businesses can use their experienced cost data to hold government agencies accountable about their performance and impact on cross-border trade flows (Box 3-1). Inevitably, costs will be experienced differently between private and public sector organisations involved in cross-border trade and transport related activities. Some types of costs will also have a significant social and cultural component.

### **Box 3-1: Reason for wanting to understand the cost associated with the efficient flow of goods across borders; public and private sector**

Cross-border facilitation policies:

- Better understand the administrative impact of trade and customs procedures upon the business community at home and abroad;

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<sup>1</sup> Which can arise if drivers fail to show-up for the allocated delivery time slot.

- Hold other countries accountable to their trade facilitation related performance; e.g., within the framework of the WTO Trade Facilitation Agreement;
- Hold own country accountable to its cross-border facilitation related performance;
- Enable the setting of cost related performance targets.

Performance management:

- Inform trade policy making about the cost of inefficient procedures;
- Establish whether the price paid for outsourced services is fair;
- Enable cost focused benchmarking;
- Support better definition of Key Performance Indicators (KPIs).

Cost-benefit analysis:

- Enable informed investment decisions;
- Identify which trade facilitation measures need to be prioritised;
- Help companies justify investment into trade compliance capabilities (e.g., AEO).

Research:

- Test macroeconomic models from a microeconomic perspective;
- Better understand the relevance of trade and customs related costs for logistics and supply chain management.

Cost Management:

- Be able to clearly describe costs, and better understand the circumstances in which they arise;
- Set fair, transparent fees for public services;
- Inform conversations about how costs can be reduced;
- Measure the success of any reform measures.

Source: Adapted from Grainger et al. (2018)

### 3 Costs experienced by businesses

There is an extensive economic literature that seeks to describe business trade costs that include those specific to international transport amongst many other factors (e.g., Anderson and van Wincoop 2004). But the subject is still viewed as a puzzle (Obstfeld and Rogoff 2000); and further research is encouraged (Mann 2012) – inquired, for example, through insights from case studies (e.g., Grainger 2013; Grainger et al. 2021; UNNExT 2016). At present, policy makers rely extensively on cost insights gleaned from standard evaluation tools. Such tools include:

- The World Bank’s “Trade and Transport Facilitation Assessment: A Practical Toolkit for Country Implementation” (World Bank 2010)
- The UN ESCAP’s “Business Process Analysis Guide to Simplify Trade Procedures” (UN ESCAP 2012)
- The GAfTF’s “Total Transport and Logistics Cost Methodology” (GAfTF 2020)
- The WCO’s Time Release Study’s methodology (WCO 2018)

Policy makers also rely on anecdotal evidence, and informal consultation approaches (see p. 25). Macro-level studies, in contrast, help lend perspective about trends and broad level comparisons between cost categories, sectors, and groups. The WTO’s Economic Research and Statistics Division (ERSD), for example, argues that between 2000 and 2018, trade costs have declined by 15 percent and that, amongst other findings, transport and travel costs together with information and transaction costs make up the largest

share of trade costs between high-income economies (WTO 2023). But many types of costs are invisible to key stakeholders. For example, managers in the private sector may have a good idea about the trade and transport costs specific to their own organisation (at the micro level), but not of the costs incurred by their intermediaries. And where such costs are passed on to them (e.g., in the form of fees and charges), they are in a poor position to make judgment about whether the fees are proportionate or fair. Likewise, senior officers at border crossings and gateway facilities may have a good idea about the costs and performance of their own specific operations, but not necessarily how those costs impact their service users.

Good analysis of experienced trade costs usually requires some untangling. For internationally trading businesses that use standard trading terms – i.e., the Incoterms<sup>®</sup> 2020 (ICC 2019) – three core trade cost components present themselves. They are the cost for transport, insurance, and making payment. Included in these costs are also the many costs associated with the applicable procedural and regulatory requirements – which are a core focal point within contemporary trade and transport policy (UNECE 2023; WTO 2015). Finance and payment costs can be significant, too.

#### 4 Transport costs

Transport costs are incurred by moving goods from one location to another. The cost of transport operations is, to a large part, dependent on: the type of vehicle and mode (land, sea, air); route; distribution and logistics models (e.g., warehousing, cross-docking, hub and spoke, just-in-time); handling requirements, especially at terminal and gateway facilities (e.g., ports, airports); the volume and frequency of goods shipped; and any special handling characteristics (e.g., temperature control, time sensitive, dangerous goods). A dominant cost factor usually is the price for fuel. Financing costs for the vehicle and supporting infrastructure along with labour costs can play a significant factor in the cost for transport, too.

Cargo shippers incur transport costs in the form of freight rates for transport services provided by transport operators. If unregulated, freight rates are ordinarily subject to market forces. Freight charges may be inclusive of border clearance services. Often, border related compliance and handling activities are itemised separately<sup>2</sup>. In addition to the freight rate, shippers are also exposed to transaction costs. These relate to the costs and efforts relating to the selection and appointment of a transport service provider, and then making the necessary arrangements with that provider (e.g., communicating shipping instructions and checking that the service has been performed in line with expectations). In many cases, exporters sell their goods inclusive of transport (e.g., if sold on a CIF or CIP<sup>3</sup> basis) – thus obscuring what the specific price for the goods and the transport services might have been to end customers. Although transport costs are to a large part dependent on market dynamics and negotiation, calls for facilitation measures that shape infrastructure (hard and soft) and reduce the impact of regulatory procedures can – as discussed in Chapter 2 – be very loud. In markets where price competition is regulated, set by state monopolies, or benefit from cartel protection, shippers may also call for lower freight tariffs and transport deregulation.

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<sup>2</sup> If itemised separately the invoiced costs does not necessarily represent the operator's actual costs. It is likely that the operator has added a profit margin to the invoiced amount.

<sup>3</sup> Cost Insurance Freight (CIF), Carriage and Insurance Paid To (CIP); Incoterms<sup>®</sup> 2020

## 5 Insurance costs

Things can go wrong during transport, although shippers are usually able to claim limited damages from their transport service provider. The amount for limited liabilities differs by mode of transport and is set by applicable international transport conventions (Table 3-1). The regulatory rationale for allowing transport operators to limit their liability is to protect them from the risk of excessive financial losses and safeguard their service. Consequently, shippers in need of further protection must take out insurance. This adds to the cost of trade.

**Table 3-1: Limited Liabilities by Mode of Transport and Governing International Conventions**

Mode of Transport	International Conventions Conveying Limited Liability Protection
Road	<ul style="list-style-type: none"> <li>• UNECE Convention on the Contract for the International Carriage of Goods by Road; “CMR Convention” (1978); 8.33 SDR per kilogram.</li> </ul>
Rail	<ul style="list-style-type: none"> <li>• The Convention concerning International Carriage by Rail (COTIF), (1980) – Annex B: Uniform Rules concerning the Contract of International Carriage of Goods by Rail (CIM) (2016); 17 SDR per kilogram<sup>4</sup>.</li> </ul>
Air	<ul style="list-style-type: none"> <li>• Revised Warsaw Convention (1955; signed in Hague); 17 SDR per kilogram for checked luggage and cargo;</li> <li>• Montreal Agreement (1999); 17 SDR per kilogram.</li> </ul>
Maritime	<ul style="list-style-type: none"> <li>• Hague-Visby Rules (1979): the greater of SDR 666.67 per package or unit<sup>5</sup>, or SDR 2<sup>6</sup> per kilogram;</li> <li>• Hamburg-Rules (1978): SDR 835 per package or unit, or SDR 2.5 per kilogram;</li> <li>• Rotterdam-Rules (2009)<sup>7</sup>: SDR 835 per package or unit, or SDR 3 per kilogram.</li> </ul>

Insurance related expenses are, to a large part, dependent on the value of the goods and their transport specific risks. Like transport costs, they are dependent on the route and vehicle used. Issues like crime, security, and safety can have a significant impact on insurance costs, as do operating procedures – for example, whether vehicles and goods are kept in secure facilities. Adherence to voluntary standards, such as those of the Transport Asset Protection Association – which set facility security requirements (FSR), trucking security requirements (TSR), and parking security requirements (PSR) – can help reduce transport related risks and insurance costs (TAPA 2023).

<sup>4</sup> <https://www.cit-rail.org/en/rail-transport-law/cotif/#none>

<sup>5</sup> e.g., one container

<sup>6</sup> On the 3<sup>rd</sup> January 2023 the EURO exchange rate for one Standard Drawing Right (SDR) was 1.261040; up-to-date SDR exchange rates can be found on the IMF website, see: [https://www.imf.org/external/np/fin/data/rms\\_five.aspx](https://www.imf.org/external/np/fin/data/rms_five.aspx)

<sup>7</sup> Although the UN Convention on Contracts for the International Carriage of Goods Wholly or Partly by Sea, known as the Rotterdam Rules, was adopted by the UN General Assembly on 1 December 2008, only 5 parties have adopted the convention by January 2023. 25 signatories are needed for it to enter into force.

There are also commercial risks that are in part dependent on what specifically has been agreed between the seller and buyer – i.e., the Incoterms<sup>®</sup> 2020 – and the agreed commercial damages (e.g., fines or penalties) for service failures (e.g., if goods are delayed or damaged). Commercial risks, especially those resulting from political risks and non-payment, can be very damaging for the exporter. Government agencies in exporting nations may thus lend an active hand in finding or providing cover from trade risks in the form of export guarantees<sup>8</sup> – especially for more risky export markets.

Like most commercial transactions, insurance products are subject to transaction costs, too. These relate to the procurement of the cover, subsequent administrative requirements, the frequency of adjustments, and claims against the cover. Resulting efforts depend, to a large part, on whether insurance cover is: “open” and of indefinite duration with monthly or quarterly reporting requirements to the underwriter; “annual”, requiring a declaration to the underwriter for each shipment; “single voyage” and agreed for each shipment; or made available under the umbrella of wider freight forwarding services. From a facilitation perspective it is important to ensure that the insurance market, like that for transport and finance, is effective. Transport operators thus often call for initiatives that protect them from transport risks. This includes demands for the construction of secure truck parking facilities (see also TAPA 2023), and activities that help fight organised crime – for example, by making it easier to report crimes and share intelligence about transport and trade related crime in a safe way.

## 6 Finance and payment costs

Finance costs are often incurred where the exporter requires funding to make the sale. This might be because the buyer insists on payment terms with credit (e.g., within 30, 60, or 90 days after receipt of goods). Most global banks and insurance companies offer commercial services that provide the required cash-flow and finance. Financial costs are also incurred where payment models are based on setting-up credit facilities – such as the Letter of Credit. Likewise, financial costs are also incurred where financial securities must be put in place, as is often a requirement for transit operations (see also Box 2-3). Most financial services incur a significant expense that is dependent on the prevailing lending rates, non-payment risks, and required profit margins. Specialist government agencies in some exporting nations may actively support their businesses with access to competitive export credits, especially for larger scale or high value export sales<sup>9</sup>. Extended delays at border crossing facilities, e.g., because of missing or wrong documents, add to the cost of financial services.

Payment fees are usually transactional in nature and are incurred when making payments. Often, additional fees such as for the exchange of currency apply, too. There are also transaction costs that relate to the time and effort in making and receiving payment, the time it takes for funds to clear, and any efforts associated with the need to verify that payment has indeed been made. The latter can be a significant impediment where border related services are dependent on the confirmed receipt of payment and cannot be provided against credit, or facilitated through advance payment. Attention to payment procedures and their

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<sup>8</sup> The OECD is one international organisation that helps co-ordinate policies in this area; see: <https://www.oecd.org/trade/topics/export-credits/>

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operational practicalities is particularly important in countries where international trade is subject to strict foreign currency controls. These compound trade related commercial risks and subsequent trade costs.

**7 Regulatory compliance costs**

Trade and customs compliance costs are a focal point in contemporary trade policy (WTO 2015). But similar costs can also be experienced within the context of transport procedures and the many procedures that relate to the enforcement of Non-tariff Measures. Often, a distinction is made between direct and indirect costs (OECD 2003, 2009). As briefly touched upon in Chapter 1, direct costs can be attributed to border formalities and the expense of complying with applicable regulatory procedures. These include the cost of: employing third parties such as customs brokers, agents, and freight forwarders; appointing or developing in-house staff; initial set-up; and the costs incurred within the context of the applicable interactions with regulatory agencies. Cost for each of these areas can be broken down into further subcategories, which are listed with examples in Table 3-2.

**Table 3-2: Direct trade compliance costs by cost category with examples**

<b>1<sup>st</sup> Level Cost Category</b>	<b>2<sup>nd</sup> Level Cost Category</b>	<b>Cost examples</b>
The employ of third parties such as customs brokers, agents, and freight forwarders	Initial contract set-up costs (often tied into wider transport/logistics services)	Tenders and negotiation costs; contract award, and implementation costs; due diligence checks;
		Learning costs that arise at the beginning of a service contract, especially with bedding-in contractual arrangements and subsequent operating procedures.
	Communication of instructions	Costs associated with the use of traditional systems (paper, phone, fax, email);
		Development and implementation costs associated with integrating IT systems between the contracting parties.
	Performance monitoring	Costs associated with setting, agreeing, and monitoring performance management measures (e.g., KPIs).
	Barriers to exiting contract	Legal costs and contractual penalties for terminating contractual agreements early;
		Any sunk costs in shared infrastructure and systems that cannot be recovered once the contract is ended;
		Opportunity costs that result from being tied to a specific service provider, and unable to use the services of cheaper or more efficient competitors.
Firefighting	When goods, for whatever reason, are stuck at the border and additional actions need be taken (e.g., finding missing documents, correcting wrong information).	
Cost of losing visibility and control	Increased non-compliance risks and the risk of losing access to special customs procedures;	

		Risk of losing managerial control in cross-border logistics operations and knowing what the “fair price” for services supplied by intermediaries might be.
The employ of staff	Employment, supervision, and support	Costs linked to the recruitment and management of professionals and experts with all the related administrative overheads (office space, health provisions, pensions, etc).
	Training	Specialist training for staff, including the costs associated with professional qualifications that are mandated by law.
	Travel to the ports and borders	Vehicles, taxis, public transport
Initial set-up	Registration and authorisation costs	Research costs to establish relevant requirements to become registered/authorised;
		Application for permission to trade, take advantage of special trade and customs procedures (e.g., AEO, customs, warehousing, etc);
		The expense of registering and interfacing with relevant systems (e.g., port community systems, customs systems, veterinary systems, import VAT, excise control, import licensing applications, etc);
		The cost of so-called “economic tests” that justify the expense of the administration to give the operator special treatment;
		Support services from experts and consultants;
		The cost of meeting relevant authorisation conditions – e.g., IT systems, staff, and infrastructure;
		The cost of financial securities/bonds needed to take advantage of certain types of customs procedures (e.g., transit, bonded warehousing, duty deferment);
		Inspection and audit costs where authorities seek to periodically verify that authorisation conditions are still met.
Planning costs	To work out the impact of customs duties and other trade taxes upon supply chain location and procurement decisions.	
Cost benefit analysis (to establish whether it is worth applying for relevant authorisation)	Cost of researchers and consultants; cost of collating relevant information.	
The interaction with the applicable regulatory agencies	Submitting documents and information to relevant parties as and when required	Interface costs with the required regulatory agencies, including: electronic systems, software solutions, third party service fees, postage/fax/phone, etc.;
		Correcting and updating declared information;
		Monitoring document and decision status.

	Receiving information and instructions	Acting on information and instructions: corrections, appeals, making payments (e.g., import duties, fees).
	Inspection	Inspection related stevedoring and handling;
		Inspection related terminal handling, demurrage, or storage charges;
		Laboratory and testing fees, including costs to send samples to the laboratory (if necessary).
	Post-clearance costs	Port/terminal collection arrangements for unaccompanied goods (e.g., booking a collection slot for a truck to pick-up a container);
Document storage costs.		

Source: Adapted from Grainger et al. (2018)

Indirect costs are usually less tangible, but they include the costs resulting from delays at the border, missed business opportunities, and undermined business competitiveness. These, too, can be elaborated and are associated with: cascading costs that follow on, or result from delay at cross-border and gateway facilities; loss of business competitiveness; personal, individualised costs; opportunity costs; and commencement costs which occur when procedures are changed or where new procedures are introduced. A summary list with examples is provided in Table 3-3 below.

**Table 3-3: Indirect trade compliance costs by cost category with examples**

1 <sup>st</sup> Level Cost Category	2 <sup>nd</sup> Level Cost Category	Examples
Cascading costs that follow on or result from delay at cross-border and gateway facilities	Additional handling and transport costs	Where pre-booked transport connections are missed and more expensive onward transport options need to be taken;
		Demurrage costs arising from prolonged delay at the ports and borders;
		Additional handling fees charged by the port or transport operator in the event of a prolonged delay;
		Additional container rental costs if exceeding the booked period;
		Additional handling costs to safeguard the integrity of the cargo while delayed (e.g., refrigeration for temperature-controlled goods, feeding and watering for live animals, security for high value goods).
	Additional staff activities	Rearrangement of delivery slots at the customer’s premises (e.g., where access is scheduled, as is the case at large distribution centres);
		Additional communication costs with all parties up and down the supply chain.
	Fines and penalties	Disposal costs (e.g., through reselling) where customers have rejected goods because of a missed delivery deadline;
		Contractual penalties where delivery deadlines have not been met.

	Appeals and other legal expenses	Legal costs; staff costs and time resulting from any appeals and legal challenges against administrations; the perceived risks (including repercussions) associated with confronting government agencies.
	Correction costs	The time and expense associated with making corrections to the documents and declarations that gave rise to the delay; and the time and cost related to any requests from the authorities for additional information (e.g., sight of supporting commercial documents).
Loss of business competitiveness	Economic	Where inefficient procedures undermine profit (and shareholder expectations);
		Where customer performance expectations are not met; loss of repeat business.
	Impact on customer obligations	Contract cancellations
		Contractual fines and penalties
Loss of reputation	Repercussions from shareholders, business partners, and end customers – e.g., where the risk of non-compliance is high or where the direct costs are deemed excessive.	
Rerouting	The cost of making arrangements to ship cargo via border crossings and gateway facilities that are more favourable in the administration of trade and customs procedures, but less optimal in terms of transport costs.	
Personal, individualised costs	For employed staff	Stress, reluctance, fears, and anxieties amongst key staff (especially where the law makes them personally liable for compliance breaches or where organised crime has undermined the integrity of officials and operators).
	For employers	Risk of key staff leaving; risk of increased exposure to organised crime in the absence of robust staff support systems; undermined organisational productivity.
Opportunity costs	Economic	Where red tape ties up money that could be put to better economic use (e.g., investment into new business ventures);
		Where businesses choose to forgo international business opportunities because compliance costs are too prohibitive, too complex, or where trade and customs procedures are viewed as a risk not worth taking.
	Infrastructure	Where scarce land (e.g., at ports) is not optimally utilised; for example, because space has to be made for government buildings and facilities, or because space is blocked by goods that are held longer than need be.

	People	Where staff are tied-up in non-profit bearing activities.
Commencement costs	Infrastructure	Build, change, or reconfigure trade compliance supporting IT systems;
		Reconfiguration of supporting physical infrastructure (e.g., inspection facilities, storage facilities, port facilities, new buildings) to accommodate the physical aspects of any changes to trade and customs procedures.
	Staff	Training and/or recruitment
	Business risk	Increased exposure to non-compliance risks while staff (and the administrations) become familiar with the new or changed requirements.

Source: Adapted from Grainger et al. (2018)

Often, studies focus on specific cost variables such as time (Hummels and Schaur 2013; WCO 2018). The Global Alliance for Trade Facilitation (GAFTF) goes one step further, by offering a methodology for surveying the Total Transport and Logistics Cost (TTL). Direct costs here, relate to “the costs incurred by an importer or exporter to complete an import or export process through a given point of entry or exit”. Indirect costs are estimated as a function of time and its variables. Table 3-4 offers a summary of the variables considered in the GAFTF framework<sup>10</sup> (GAFTF 2020).

**Table 3-4: GAFTF - Total Transport and Logistics Cost (TTL); Summary list: Direct and indirect cost variables**

Direct costs	Indirect costs
1. Documentation costs; e.g., preparation and submission	11. Demurrage costs
2. Ship inward process costs incurred in the period between the “notice of arrival” and berthing (e.g., pilotage and mooring costs)	12. Detention costs
3. Discharge/loading costs	13. Storage costs
4. Border clearance costs; e.g., time to complete procedures and inspections	14. Inventory costs
5. Truck turnaround times; e.g., picking up cargo from container terminal	15. Penalties for late delivery
6. Inland transport specific processes; e.g., port exit procedures	16. Lost orders costs
7. Container stripping / unloading costs	17. Lost production costs
8. Return costs for empty containers	18. Damage and spoilage costs
9. Container stuffing / loading costs	19. Theft of cargo costs
10. Costs associated with empty container retrieving processes	20. Idle trucking costs
	21. Shut-out charges
	22. The cost of wasted work hours

Source: GAFTF (2020)

<sup>10</sup> Many of these are specific to trade and transport operations involving international container shipping

Microeconomic gravity models are often used to help inform assumptions about the benefits of compliance cost reducing measures, but seldom consider specific cost details. One of the early studies within this model is the work by Peter Walkenhorst and Tadashi Yasui at the OECD (2003). Their model suggests that a 1% reduction in trade related transaction costs equates to an estimated worldwide aggregate welfare gain of USD 40 billion. J. S. Wilson et al. (2004), building on their earlier work (J. Wilson et al. 2003), apply their model to a representative mix of 75 countries, and calculate that the total gain in trade flow in manufacturing could be worth USD 377 billion. And awareness of such potential macroeconomic gains was a strong driver for the WTO Trade Facilitation Agreement. Forecasts made in 2015, for example, suggested that the expected WTO members' trade costs could be slashed by an average of 14.3 per cent, with developing countries having the most to gain upon implementation (WTO 2015). In 2017, when the Agreement was adopted, it was argued by the WTO's Director-General Roberto Azevêdo that it "would boost global trade by up to 1 trillion dollars each year, with the biggest gains being felt in the poorest countries" (Azevêdo 2017).

There is another way of looking at how border related costs impact on an economy. The UK's Office of Budget Responsibility (OBR)<sup>11</sup>, in commenting on the new trading relationship between the UK and the EU that came into effect on 1<sup>st</sup> January 2021, argued in May 2022 that in their view the UK's exit from the EU will reduce the UK's **long-run productivity** by 4 per cent relative to remaining in the EU. This figure largely reflects on the OBR's views about how non-tariff barriers impede the UK's ability to exploit comparative advantages (OBR 2022). Where before there was no border and goods and vehicles could move freely, the new border has an economic cost.

But macroeconomic studies, such as those mentioned here, hide that the devil is in the detail. The scale and amount of experienced costs can differ significantly from one business to the next. Reporting such costs usually requires detailed, sector and trade route specific analysis. Detailed insights tend to be gleaned from detailed diagnostic studies and business analysis – using, for example, the already mentioned methods recommended by the World Bank (World Bank 2010) or UN ESCAP (UN ESCAP 2012) – or from illustrative academic case studies (Grainger 2013) and country level surveys (e.g., ITC 2018). Study findings help inform what the current situation might be, and what specific aspects of regulatory compliance deserve the most urgent attention.

**Something to think about:**

For most business operators a significant share of the direct compliance costs is fixed in nature – especially the costs related to staff employment, agreeing service contracts, and the company's initial set-up. This means that much of the trade compliance costs remain the same, irrespective of the volume of goods shipped. Thus operators of scale, who are able to spread fixed costs over large shipping volumes, are likely to perceive compliance costs differently to those that only make periodic or occasional shipments (e.g. Verwaal and Donkers 2003).

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<sup>11</sup> The Office for Budget Responsibility (OBR) is the UK's independent fiscal watchdog. It is tasked with providing independent and authoritative analysis of the UK's public finances, including official Budget forecasts.

Operational scale and the ability to spread fixed costs also plays a significant factor in cross-border facilitation conversations. Large operators who have already made big investments in their capabilities to reduce compliance related expenses may, for example, be more hesitant to embrace new measures that undermine the return on those investments. Such operators of scale may also need to be convinced that the benefits derived from facilitation measures give them cost benefits that are greater than the ones they already enjoy. That said, it often makes sense for border agencies to focus much of their attention on the largest operators, since these are usually responsible for the bulk of cross-border movements. If these large companies manage to keep their house in order and thus able to safeguard compliance, the public administrative burden of having to control cross-border trade and transport operations is significantly reduced.

## 8 Costs experienced by border agencies

Border agencies experience costs specific to cross-border related commerce, too, and relate to enforcing the applicable controls and administering relevant trade, transport, and customs procedures. Much of their costs are direct and arise from the interaction with business operators moving goods across borders. It also includes the costs associated with the development and operation of applicable electronic systems, physical inspection facilities, and inspection related costs, amongst others – see Table 3-5 for further examples. Often, border agencies can pass their costs on to the business community in the form of fees and charges. They may also pass on some of their infrastructure cost to the private sector by making the development of such infrastructure subject to official authorisation. Customs may, for example, specify that buildings and inspection facilities must be built by port and terminal operators before granting their approval for the operation of such gateway facilities (see also: Partnerships for infrastructure development, p. 22).

A common dispute between business operators and border agencies relates to whether the fees charged by border agencies are proportionate to their costs, and whether costs that provide the basis for fees could have been better managed. Often, private sector operators also demand improved service performance. They may even indicate willingness for paying higher fees and charges if guarantees for improved levels of service are made. Usually, a condition for such conversations is that fees and charges are made transparent (e.g., as specified in Article 1, WTO 2014) and that their underlying costs are clearly understood.

But, untangling conversations about costs and performance expectations can be tricky; especially where directly incurred costs have an indirect cost component that relates to wider societal costs – for example, those that result when controls fail to meet public expectations (see Table 3-5 for examples). Senior officers are likely to be particularly mindful of such indirect costs, especially those that relate to failing public control expectations, or not using public financial resources responsibly. Active performance management is thus usually deemed to be essential (Cantens et al. 2012). Thus, many border agencies apply performance management tools – e.g., score cards and performance management dashboards (Kaplan and Norton 1992) – that are reliant on set key performance indicators (KPIs). Such indicators might be at the organisational level, the operational level, or governance level. Inspiration for KPIs and performance management practice can also be taken from colleagues in other countries (WCO 2022b). Indicators are often location or team specific. Often, KPIs are also used to measure the performance of staff, resources,

and control outcomes. Usually, public expenditure is also subject to annual review, reporting, and budgeting considerations (e.g., OECD 2023). Inevitably, reporting on KPIs and public spending should help assist conversations about operational improvements that also yield cross-border facilitating benefits.

**Table 3-5: Direct and indirect costs of trade and customs procedures for government agencies; illustrative examples**

Cost experience	Cost category	Examples
Direct Costs	Administrative	<ul style="list-style-type: none"> <li>Cost of building and maintaining administrative systems (legal, technology, staff).</li> </ul>
	Processing	<ul style="list-style-type: none"> <li>Time and cost specific to the analysis and processing of declarations (paper and/or electronic).</li> </ul>
	Communication	<ul style="list-style-type: none"> <li>Costs and expenses relating to the communication of information and decisions with declarants and other government agencies (paper, fax, electronic, phone, in person).</li> </ul>
	Inspection	<ul style="list-style-type: none"> <li>Staff deployment costs (e.g., if travel is necessary);</li> <li>Inspection specific costs (e.g., sampling, testing);</li> <li>Criminal prosecution related costs.</li> </ul>
	Infrastructure	<ul style="list-style-type: none"> <li>The cost for buildings and inspection facilities (if not provided by the private sector).</li> </ul>
Indirect costs	Misallocation of resources	<ul style="list-style-type: none"> <li>Taxes are not spent in the most efficient way.</li> </ul>
	Inefficiency	<ul style="list-style-type: none"> <li>Added costs to the administration (and businesses) resulting from falls-positives – e.g., where certain types of shipments have been consistently selected for inspection and there is nothing wrong;</li> <li>Increased scope for organised crime and corruption and other adverse impacts upon society.</li> </ul>
	Loss of tax revenue	<ul style="list-style-type: none"> <li>Increased smuggling if smuggling is an easier way for clearing goods across the border;</li> <li>Deliberate miss-declarations by less reputable businesses.</li> </ul>
	Undermined national competitiveness	<ul style="list-style-type: none"> <li>Loss of FDI; reduced tax base; less employment; less economic development.</li> </ul>
	Societal costs	<ul style="list-style-type: none"> <li>Border related crimes can quickly have adverse impacts on society at large (e.g., resulting from smuggling of weapons, drugs, money);</li> <li>Counterfeit and non-safe goods may harm consumers; the authority of government is undermined.</li> </ul>

Source: Adapted from Grainger et al. (2018)



## 9 Social and cultural capital costs

It is often stated that international trade and commerce is dependent on ready access to enabling social and cultural capital. Sometimes, this is equated with language skills (e.g., Anderson and van Wincoop 2004) but also requires a good understanding of market requirements and supporting business networks. The absence of ready access to social and cultural capital in the form of staff and business networks is likely to raise calls for the development of business support services – for example, by the Chambers of Commerce, but also from private sector companies like e-commerce platform providers that seek to bring buyers and sellers more closely together. Often, demands are also made for public funded education from which businesses can recruit suitable talent. Demands may also extend to visa waivers and simplified immigration procedures that enable businesses to employ talent from their target markets or post talent to those markets.

Regulatory agencies also incur social and cultural capital costs. These arise where co-operation with colleagues on the other side of the border is necessary. Often, the creation of social and cultural capital is from the ground-up on the back of:

- Trust building visits and exchanges
- Working together in joint operations (e.g., at one-stop and juxtaposed border posts).
- Staff secondments
- Shared training
- Participation in working groups at international organisations
- Regular joint meetings (e.g., within the framework of co-operation agreements)
- The formal work of liaison officers

Social and cultural costs also arise where organisational cultures must change. A common complaint in many parts of the world is that border officials are trained to assume the worst and may not understand why the quality-of-service matters. They may state that their principal purpose is to protect and not facilitate, perhaps not aware that both objectives can be aligned by adopting cross-border facilitation principles (see Chapter 2). The transformation of an organisational culture that is perceived to be “red-tape” to one that offers a “red carpet” for its “most trusted” customers (e.g., Coelho 2019) can take time, and does require commitment. Activities here, to give a few examples, may include:

- The appointment of business liaison officers
- Active engagement with private sector interest associations, including trade procedures committees (UN CEFAC 2015) and national trade facilitation committees (WTO 2014)
- Training about business needs and business competitiveness
- Visits to private sector companies to observe the operations and business requirements.
- The appointment of staff with private sector backgrounds
- Regulatory models that favour co-operation and partnerships with business operators

Financial resources for all the above activities need to be found; they have a cost. But failing to invest here and develop appropriate social and cultural capital is likely to have significant negative impacts on the organisation’s performance. Economists may describe failures to develop cost saving social and cultural

capital as an opportunity cost. In this context, it is also worth noting that some border agencies have active programmes that seek to enhance their integrity. This can be a sensitive topic that often necessitates cultural changes which can also be closely aligned with trade facilitation (see Box 3-2).

**Box 3-2: A sometimes very sensitive but powerful policy driver: anti-corruption and integrity**

Although it is illegal in most countries to pay bribes, the practice is still prevalent at some border crossings. This is detrimental to public control outcomes. It also undermines the authority of the state and its regulators. Plagued by unnecessary risks and unfair competition, the business environment becomes less attractive.

There is extensive guidance about how to weed out corrupt practices at border crossings. The World Customs Organization's "Integrity Development Guide" (WCO 2021a) is one such example. And where corrupt practices are known, efforts to reduce them should be taken. Government policies with integrity aspirations can be very powerful drivers for cross-border facilitation, too, especially where integrity programmes go hand in hand with trade facilitation.

For example:

- It is significantly more difficult for corrupt practices to keep a hold if border agencies use modern, trade facilitating electronic systems that keep a log of every declaration made and decision taken;
- Reform efforts that seek to weed out complexity, and make trade simpler, also reduce the opportunity for soliciting bribes in exchange for short-cuts and workarounds;
- Transparency measures that ensure that business operators can easily check and verify what the regulatory requirements are, and what agents may have declared in their name, enable more informed decision making. Importantly, it empowers businesses to robustly challenge any request for unspecified fees (whether from officials or by their appointed agents).

Important to note is that the offer, promise, or payment of a bribe to foreign officials (including border staff) has been criminalised in many countries by reference to "The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (the Anti-Bribery Convention)" (OECD 1997). Implemented national laws apply to entities and responsible persons<sup>12</sup>. Managers at multinational firms with international compliance responsibilities for trade and customs procedures are thus keen to put systems in place that make sure their foreign subsidiaries and agents do not pay bribes (see Grainger 2016).

In 2018, the Anti-Bribery Convention had 42 signatory countries, including the following OSCE participating States or UNECE members: Bulgaria, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Russian Federation, Slovakia, Slovenia, Spain, Sweden, Switzerland, Türkiye, the United Kingdom of Great Britain and Northern Ireland, and the United States of America<sup>13</sup>.

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<sup>12</sup> i.e., legal and natural persons

<sup>13</sup> <https://www.oecd.org/daf/anti-bribery/WGBRatificationStatus.pdf>

## 10 Levels for mitigating actions

For most businesses, the motivation for managing and addressing trade and transport costs is strong – their competitiveness depends on it. Likewise, public administration will be mindful of public (or donor) expectations and must make sure that available resources are put to best use. Experienced cost may drive activities at:

- The organisational level, **internally**, within the business or border agency
- The **transactional** level<sup>14</sup>, between organisations in their daily cross-border operations
- The **partnership** level, where organisations choose to collaborate towards common goals – such as those shared amongst supply chain partners, or between business operators and border agencies under formal or informal trusted partnership arrangements;
- The **environmental** level, where improvements are dependent on the regulator to take actions at the national, regional, or international policy level.

## 11 At the internal, organisational level

Depending on the organisation and type of costs experienced, there are many opportunities for taking immediate action. Border agencies can often make quick performance improvements through better internal co-ordination. For example, performance gains can often be made on the back of robust forecasting models that enable staff to work ahead of peak periods and complete much of their activities before goods and vehicles arrive. Training, learning, and staff development activities can foster skills and practices that also improve service levels. Often, border work involves pilots, trials, and experiments with new equipment or operating procedures. This, too, gives scope for operational modifications, innovations, and subsequent performance enhancements.

A common step for exporters and importers, in their attempts to manage trade costs, is to review their respective terms of trade (ICC 2019). Purchases made using terms that oblige the exporter to arrange for international transport (e.g., CIF, CPT) make the importer vulnerable to fees and charges that have been inflated (gold-plated) by the transport operator for their import related clearance activities. Subsequent actions by the buyer might thus be to press the seller to change their transport service provider, or switch to trading terms where the importer appoints the transport operator. However, for such conversations to take place, it is necessary that public authorities publish their border and gateway related fees (as far as competition and anti-trust laws permit) so that shippers and buyers can make an informed decision about freight rates and border clearance related fees and charges.

Costs can often be reduced significantly where border agencies allow for digital communications, and where businesses take advantage of electronic trade compliance software (Appeals and Struye de

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<sup>14</sup> Public-private interfaces at the Transactional, Partnership, and Environmental level are explored in research by Andrew Grainger and Cristiano Morini, 'Disentangling Cross-Border Interactions', *The international journal of logistics management*, 30/4 (2019), 958-73.

Swielande 1998) and trade management systems (e.g. Hausman et al. 2010). For businesses new to trade, necessary capabilities need to be developed while internal processes and procedures need to be modified. Resulting trade costs can be reduced significantly by developing or accessing economies of scale that off-set fixed trade and transport cost components. Often, shippers choose to procure the series of specialist service providers, such as freight forwarders, customs brokers, and international transport companies. But, it is important that shippers monitor the performance of their appointed intermediaries – not just to keep an eye on costs, but also to check that what they declare to the regulatory authorities is indeed correct. It is thus essential that shippers have access to the data that intermediaries submit to the border agencies on their behalf.

Another common step for shippers is to review their distribution models. A significant cost for transport is fuel. Savings can be achieved if vehicles are fully utilised. In the absence of operational scale, it may necessitate distribution models that allow for cargo to be consolidated with other shippers (e.g., groupage). However, in the context of cross-border operations, this exposes shippers to an increased risk of border related delay – shippers cannot be sure whether co-shippers have prepared all the necessary documentation correctly. However, regulatory measures (by border staff or trusted operators) that allow for cargo to be processed and inspected before the vehicle is loaded<sup>15</sup> can reduce the impact of border related import risks and make such cost saving distribution models more viable.

## 12 At the transactional level

Transaction costs between contracting businesses are a core concern in business operations, and has an extensive literature (e.g., Coase 1937; Williamson 1981). Much of contemporary supply chain management practice is about reducing the transaction costs between contracting business partners. This can be achieved, to give one practical example, by drawing on model contracts such as the “ICC Model International Sale Contract - Manufactured Goods” (2020), using the standardised Incoterms<sup>®</sup> 2020 (ICC 2019), or contract of carriage – like the CMR Note for carriage of goods by road (UN 1956). Just-in-time, lean, agile, and similar production models strive to weed out costs between business partners and improve supply chain competitiveness (see Chapter 1).

But, transaction costs with regulatory agencies can be compounded if supply chain relationships are not managed well. There are many examples. Picking up or delivering the wrong goods is an easy mistake to make if administrative checks are not robust. The cargo is loaded into the wrong container, purchase orders are inadvertently swapped, or containers are shipped to the wrong customer. Regulatory compliance quickly goes astray if the commercial documents and shipped goods no longer match. Lengthy delays and fines for customs compliance breaches are likely. Good trade management practices and robust business systems (especially in accounting, finance, and procurement) are essential for mitigating such costly risks.

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<sup>15</sup> e.g., under transit arrangements that allow for shipment by road between two inland customs facilities without physical inspections at border facilities

A core facilitation theme (see also Chapter 2) is that commercial and regulatory procedures should go hand in hand. Modern electronic systems and regulatory controls that rely on standard commercial documents (e.g., the commercial invoice and CMR note) are often recommended. Such systems might be specific to:

- A gateway facility, such as port community systems (Long 2009; UNECE 2019)
- Interaction with a specific government agency, such as an electronic customs system (e.g., ASYCUDA 2023)
- All interactions with government agencies and between government agencies via a so-called “single window” (UNECE 2020).

Depending on the country and organisations involved, it is likely that there are many more cost issues that merit action at the transaction level between organisations, and especially between the public and private sector. Illustrative examples are listed in Table 3-6, below. Inevitably, actions are usually spurred from collective business demands for reform (see also p.25).

**Table 3-6: Illustrative examples and actions at the transaction level that can reduce trade costs**

Issue	Possible way to reduce transaction costs
Inconsistent levels of government services	<ul style="list-style-type: none"> <li>• Explore and implement measures that ensure that staff and facilities can deliver consistent high levels of service.</li> </ul>
Poor business compliance capabilities	<ul style="list-style-type: none"> <li>• Initiate measures that coerce businesses to improve their compliance capabilities – for example, through: training; measures that force business operators to invest in good bookkeeping and administrative systems; risk management systems that reward compliant businesses; campaigns that target businesses with compliance difficulties; measures that make compliance easier;</li> <li>• Give proactive guidance (e.g., targeted letters, workshops, information campaigns); ensure that operators can correct genuine mistakes.</li> </ul>
Congestion at border facilities	<ul style="list-style-type: none"> <li>• Explore measures that allow controls to take place at alternative locations (e.g., inland before shipment; or in the case of road and foot border-crossings, further down the line and not just at the checkpoint);</li> <li>• Implement queue management systems (e.g., with pre-bookable slots); fast-track low risk shipments.</li> </ul>
Fear of vindictive behaviour, business operators are mindful about raising poor public service concerns	<ul style="list-style-type: none"> <li>• Implement measures that encourage regulatory authorities to solicit direct feedback from business operators, or indirect feedback through trade associations and independent research;</li> <li>• Design performance management systems that rely on inputs and feedback from private sector stakeholders.</li> </ul>
Procedures that have not been trialled or tested and fail to work because of technical issues	<ul style="list-style-type: none"> <li>• Ensure that new procedures are developed with the ease of compliance in mind;</li> <li>• Give sufficient advance notice about new compliance requirements; test and consult; make sure there are fall-back measures if things go wrong.</li> </ul>

<p>Authorities in export markets set documentary requirements that are difficult to comply with</p>	<ul style="list-style-type: none"> <li>• Information campaigns and capacity building activities that help exporters become more effective in managing complex export market compliance requirements (e.g., through hands on support services, workshops, and mentoring);</li> <li>• Place diplomatic pressure on export markets to harmonise or simplify their compliance requirements.</li> </ul>
<p>Reliance on paper documents</p>	<ul style="list-style-type: none"> <li>• Implement policies and systems that enable declarations to be made electronically in line with international standards and best practices.</li> </ul>

Source: informed by the case studies in the work of Grainger and Morini (2019)

### 13 At the partnership level

Much activity in cross-border facilitation is taken in collaboration with others. This holds true for international transport infrastructure development, and between companies and regulatory authorities where operations and practices are aligned to their respective benefits. Scope for partnership is broad.

### 14 Partnerships for infrastructure development

Cross-border trade enabling transport policies should be developed in co-ordination between countries to maximise connectivity (see also Chapter 2). But subsequent implementation also requires shared ownership, including a framework of partnership agreements between implementation agencies and their contractors. This can be a complex subject which is, to a large part, dependent on good planning, governance, and aligned incentives – including clearly specified objectives and performance standards. Within the cross-border context, the OECD’s International Transport Forum (ITF 2021) also recommends the establishment of a specific-purpose body with all parties represented. By working in partnership, it is usually possible to achieve greater efficiencies of scale and scope with the subsequent ability to deliver infrastructure services more quickly. But the International Transport Forum also emphasises that the success of regional, including transcontinental, infrastructure projects is very much dependent on the strength of the enabling institutional architecture and clarity in policy objectives as well as responsibilities (ITF 2021).

As touched upon in Chapter 2, many transport infrastructure projects also depend on financial partnership arrangements. While the facilitation theme might be to explore how an environment that favours investments can be achieved (ICC 2005), the call to action is more practical and concerns safeguards for investors. It also concerns the transaction costs between public and private sector partners, especially with regard to managing project specific financial risks, hazards, and renegotiation expenses (e.g., ITF 2017). A useful resource in this regard is UN CEFAC Recommendation 41 (UNECE 2017), which offers detailed guidance about Public-Private Partnership models for financing and implementing public projects with trade facilitation benefits – such as an electronic infrastructure like a “Single Window” (UNECE 2020) and the construction of transport and logistics infrastructure.

## 15 Regulatory defined supply chain partnerships

A key prerequisite for trade competitiveness (as discussed in Chapter 1) is that supply chain partners work together to weed out costs. Between contracting businesses, much of the effort is on reducing the transaction costs between commercial partners and to take frictions out of the systems (see above). But, there are also dependencies that oblige supply chain partners and foreign subsidiaries to work together – in partnership – to meet regulatory obligations<sup>16</sup>. Phrased differently, compliance activities are not just focused on the organisation itself, but also on the activities of contracting parties up and down the supply chain. They are thus forced to address, in partnership, the requirements of those regulatory regimes. The regulatory burden for supply chain partners is, to a large part, dependent on their specific supply chain arrangements, systems, and practices. Regulatory regimes that extend across the supply include, for example:

- Product safety, where goods must comply with the specifications set in export markets (usually by reference to applicable consumer legislation);
- SPS controls that require products to be produced in line with the requirements of the export market;
- End-use restriction, especially where goods are subject to export controls and sanctions that prohibit goods from being supplied (knowingly or unknowingly) to named individuals or destinations.
- Dangerous goods handling
- Money laundering controls
- Integrity and anti-corruption obligations, including legislations that prohibit the bribery of foreign officials (OECD 1997).
- Safeguard measures against child labour and modern slavery
- Correct labelling (especially within the context of food labelling)

There is another regulatory partnership model. This is one where the regulator and the business operator work together in pursuit of public control objectives. Much of this can be informal, though Memoranda of Understandings (MoUs) can lend substance to any operational arrangements. Examples include:

- Sharing of information (e.g., intelligence and risk data) that enables regulatory agencies to conduct more targeted inspections;
- Initiatives where the relevant government agencies assist business operators with implementing crime preventative measures (“partners against crime”);
- Active measures by transport operators to mitigate delays at the border; for example, by: risk assessing customers before deciding to accept their cargo; actively helping shippers with their compliance requirements; offering hands-on training; and giving shippers access to tools and information about how to be compliant.

<sup>16</sup> This approach may also be taken in pursuit of voluntary control regimes, such as those specific to organic production and “fair trade”, or in the reporting of performance against UN sustainability goals – as is increasingly routine in the annual reports of major listed companies like: Microsoft, Deutsch Post DHL, AP Møller Maersk A/S, amongst many others.

But there are also formal programmes, especially within the context of supply chain security. These are discussed extensively in the OSCE and UNECE (2012)'s "Handbook of Best Practices at Border Crossings" and have taken on considerable momentum since (WCO 2020). Within the narrow context of aviation security, voluntary "known consignor" programmes permit authorised Known Consignors to ship cargo from source, such as their own premises, onto the airport's secure premises (ICAO 2022). That cargo can then be shipped by air without the need for any further security measures at the airport. Known consignor status is subject to accreditation and compliance with government regulated security conditions that extend to the business' operating procedures, the security of premises, and vetting of staff. Moreover, cargo must be inspected (e.g., using in-house x-ray equipment) and sealed before shipment.

Within the wider customs context, WCO SAFE Framework of standards (WCO 2021b) provides "Authorised Economic Operator" (AEO) programmes that lend a structured framework for partnership arrangements between the customs authority and business operator. AEO membership conditions are usually clearly specified and subject to audit by customs. They often overlap with conditions specified in aviation (ICAO 2022) or maritime security programmes (IMO 1974, 2002) and relate to:

- Collating, storing, processing, and sharing of commercial records;
- The building and subsequent operations of security measures, including specifications perimeter fences, inspection facilities, and access controls.

Noteworthy too, is that the guiding WCO SAFE framework of standards (WCO 2021b) also emphasises – in addition to the partnership with AEOs – extensive co-operation measures between customs agencies, and between the customs administration and non-customs agencies. One outcome of good co-operation between customs administration is that AEO programmes may be mutually recognised, thus offering a framework for extending business benefits across borders. The ability to extend regulatory controls beyond national borders and for business operators to benefit from preferential treatment, can be a powerful driver. Table 3-7, to share two prominent examples, summarises the criteria and benefits of the partnership programmes for the USA and EU.

**Table 3-7: Customs-business partnership programmes: the example of the European Union and the USA**

<b>European Union – Authorised Economic Operator (AEO)</b>
<b>Criteria:</b> There are two types of AEO status. Authorisation criteria differ depending on whether authorisation is sought for "Security and Safety" purposes or "Customs Simplifications". Applicants can apply for both. Conditions for AEO authorisation depend on the type of authorisation desired and relate to proof of: establishment in the EU Customs Territory; compliance with customs legislation and taxation rules; the absence of criminal offences related to the economic activity; appropriate record-keeping; financial solvency; practical standards of competence or professional qualifications; and appropriate security & safety provisions.
<b>Benefits</b> (depending on the type of AEO status): Easier admittance to customs simplifications; fewer physical and document-based controls; prior notification in the case of selection for controls; priority treatment if selected for controls; possibility to request a specific location for controls; and mutual recognition with third countries.
<b>United States of America – Customs and Trade Partnership against Terrorism (CTPAT)</b>



**Criteria:** Satisfactory completion of a self-assessment security profile; validation visit by Customs and Border Protection (CBP) officers to check that appropriate security measures are in place; commitment to updating the security profile on an annual basis; and seek revalidation every four years or sooner where deemed necessary by CBP (subject to risk assessment).

**Benefits:** Reduced examination rates; eligibility to participate in other US Government Programs, e.g., Free and Secure Trade (FAST); possible exemption from particularly burdensome examination practices (so-called stratified exams); front of the line processing; business resumption priority after a major event (e.g., natural disaster or act of terrorism); shorter waiting times at the border; access to CBP security specialists; mitigated penalties; and mutual recognition with third countries.

Source: extracted and adapted from WCO (2020)

## 16 At the environmental level

The focus here is on how public and private sector stakeholders interact and shape the cross-border environment to affect best possible cross-border facilitation outcomes. Such outcomes often necessitate an active regulatory hand that can respond effectively to the needs and issues of individual businesses and representing business interest associations. By reference to cross-border facilitation themes and principles (Box 3-3) the regulator may, to give a few examples, be asked to provide:

- Public funding, e.g., for the construction of physical transport infrastructure or electronic trade and customs systems
- Improvements to the management and performance of border agencies
- Changes to existing legislation or the adoption of new legislation
- The adoption of common standards (e.g., for electronic documents) and harmonised procedures;
- The adoption and implementation of international, regional, or bilateral instruments (e.g., conventions, treaties, recommendations)
- Extensive co-ordination with officials and regulators in targeted export markets and regions
- Recognition of certifications and authorisations obtained elsewhere

The hand of the regulator is usually strengthened when there is an active business community that amplifies reform needs. Effective business interest associations often co-ordinate advocacy for cross-border facilitation at the appropriate policy levels – whether local, national, bilateral and regional, or internationally. And at the national level, it can often be very useful if relevant policy makers and business interest associations align their advocacy activities first, before engaging the institutions of trade partners and international organisations.

### Box 3-3: Summary of cross-border facilitation themes; see Chapter 2 for details

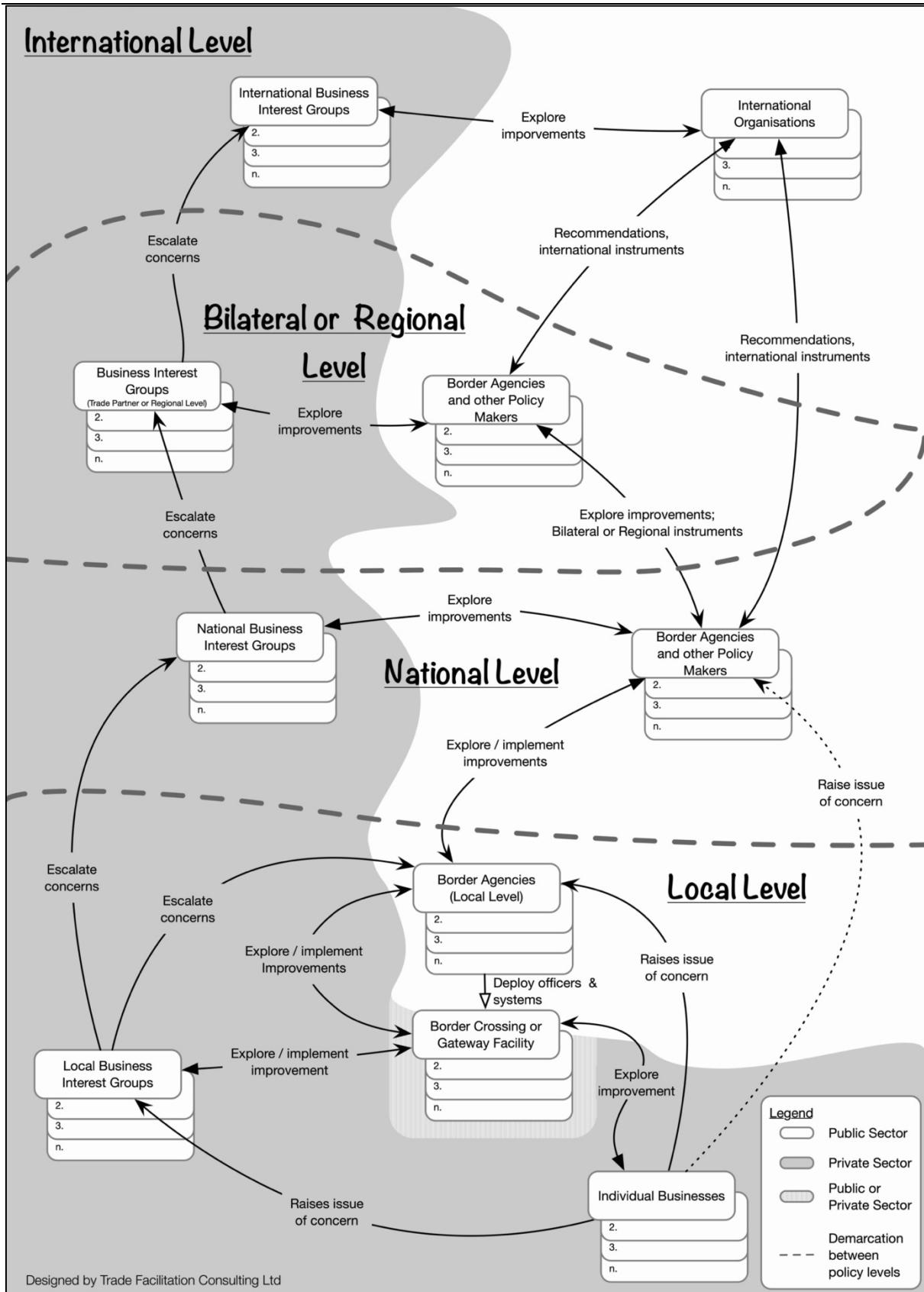
- Transport facilitation, including issues relating to infrastructure, transport procedures, and transit shipments
- Border and border crossing management
- Customs facilitations
- Non-tariff measures and regulatory alignment
- The facilitation of trade and customs procedures
- Trade finance and payment services

- Education and training

Figure 3-1 illustrates how issues may escalate from the bottom-up for action by border agencies and other relevant policy makers at the local, national, bi-lateral or regional, and international level. For example, an individual business may have a reform need relating to the performance of a specific border crossing point. This could, for argument's sake, relate to the staffing levels of border officers at a particular point in the day. Perhaps a solution – e.g., through staff recruitment, changes to shift patterns, or overtime payment policies – can be found by raising that concern at the local level. Perhaps the intervention requires wider national co-ordination. Perhaps the issue is mirrored on the other side of the border, and would need to be addressed there, too. Public and private sector parties advocating reform can of course refer to international, regional, or bilateral conventions and treaties that require operating hours to be co-ordinated. The International Convention on the Harmonization of Frontier Controls of Goods (UNECE 1982) is one such instrument (see Chapter 4).

Figure 3-1 can also be read differently. Often, barriers to reform are sticky and difficult to overcome (Grainger 2008). This might be because there are conflicting interests and key decision makers are opposed to the proposed facilitation measures. Perhaps because they have been trained to suspect the worst; the necessary social and cultural capital that favours co-operation has not yet been developed. Perhaps institutions lack capacity, and funding and resources need to be mobilised first. Subsequently, business interest associations and individual border agencies may struggle to drive reform at home. However, by engaging with cross-border facilitation themes and principles (Chapter 2), they may seek to co-ordinate proposals that address their reform needs at a regional or international level. Subsequent success, for example in the form of an international recommendation, can then be used to give additional thrust to reform efforts at home.

**Figure 3-1: Escalating, co-ordinating, and implementing cross-border facilitation efforts; the public-private sector interplay between policy level**



For such public-private interplay to be effective, robust methods for supporting dialogue and consultation need to be in place (Grainger 2010). It is also one of the key cross-border facilitation principals discussed in Chapter 2 and lends force, especially if co-ordinated, to driving reform. Vehicles and mechanisms in support of such efforts include:

**1. Collaborative consultation vehicles**

These exist in various forms and formats. Within the context of cross-border facilitation, the main examples are the National Trade Facilitation Committees recommended in UN CEFAC Recommendation 4 (UNECE 1974) and the National Trade Facilitation Committees tasked with safeguarding the implementation of the WTO Trade Facilitation Agreement (WTO 2014). Given the overlap in purpose between the two, it can make good sense to task one dedicated national trade facilitation body for all cross-border facilitation related issues;

**2. Border agency specific consultation vehicles**

These are dedicated consultation vehicles established by a regulatory authority to engage with its stakeholders. Customs administrations often rely on these for their engagement activities with the business community which do not require wider efforts with other border agencies. Issues that they may address include: customs legislation, electronic customs systems, user experiences, performance management, and customs reform, amongst others. Transport agencies often host similar consultation vehicles to explore physical and soft infrastructure requirements and their development, or the implementation of transport specific regulatory procedures;

**3. Local consultation vehicles**

These are specific to an individual border crossing point or gateway facility. They provide an opportunity for users to lend feedback about performance, trial or test new systems and operating procedures, or express views and requirements for future development. Often, when well-managed, such local consultation vehicles can be invaluable for operational forecasting and planning. Short collaborative planning meetings might be conducted on a weekly basis but should also be conducted with longer time horizons in mind, especially if local infrastructure needs to be adapted to changes in predicted cross-border trade flows;

**4. Arm's length consultation approaches**

These are less face-to-face and more reliant on "arm's length" engagement exercises. These include, for example: public consultations where interested parties are invited to share views in writing; and surveys, where invited parties are asked to answered set questions. Such approaches are usually on the record, requiring respondents to share their contact details so that they can be invited to lend further comment. Depending on the type of consultation, findings may be published. Parties organising the

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consultation must be explicit about whether the names and details of respondents are published, too, or whether this will be anonymised;

#### **5. Assessment and research driven consultation approaches**

This is where policy makers, perhaps together with relevant business interest associations and National Transport and Trade Facilitation Bodies, commission third parties to conduct detailed research. The intention for that research is to inform on cross-border facilitation activities and decision making. There are many formats for this, and include the use of experts and consultants to conduct studies using standardised methodologies – such as the World Bank’s “Trade and Transport Facilitation Assessment: A Practical Toolkit for Country Implementation” (World Bank 2010), the UN ESCAP’s “Business Process Analysis Guide to Simplify Trade Procedures” (UN ESCAP 2012), the GAFTF’s “Total Transport and Logistics Cost Methodology” (GAFTF 2020), or the WCO’s Time Release Study’s methodology (WCO 2018).

The assessment and research driven consultation approach can also include detailed studies by specialists under bespoke terms of reference. It can also include research conducted by individual staff members within an administration or business interest association. It can also be research conducted by specialist institutes and Universities. Good practice usually is to commission independent research to assess the impacts and outcomes of implemented cross-border facilitation measures, and draw conclusion about any lessons learnt (e.g., Grainger et al. 2021);

#### **6. Informal consultation**

Often, knowledge and insights about issues can be gleaned tacitly, on the job. Senior policy makers, officers, and managers may regularly make the rounds to solicit informal views about issues that they have been tasked with. Where multiple perspectives are needed, it can make good sense to meet regularly to exchange thoughts and views. This might be over lunch or coffee. In larger numbers, it might be within the format of an informal round table event. Chatham House rules<sup>17</sup> can be applied to encourage people to share ideas freely;

#### **7. Community, expert, and working group type consultation approaches**

This is where relevant parties get together to discuss specific cross-border facilitation issues in detail. Usually there is a deliverable in mind, such as a draft text for a recommendation or treaty, or specifications for a specific solution. Sometimes it is about horizon scanning and identifying future directions for cross-border facilitation policy to take. Events may, depending on the deliverables, be hosted independently by think-tanks or Universities, business interest associations, government agencies, or international organisations. Often, events have an agenda, wherein participants may prepare positions and background papers. Sometimes, trainers or facilitators are appointed to help stimulate insights and new ideas.

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<sup>17</sup> “When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed”; see: <https://www.chathamhouse.org/about-us/chatham-house-rule>

The above examples are not exhaustive. A useful resource is UN CEFAC Recommendation 40 about best consultation approaches and practices (UNECE 2015), as is the World Bank's handbook chapter about the role of the private sector in border management reform by Grainger (2010). Important to note is that one approach to dialogue and exchange of views does not exclude another. Good practice is to draw on insights from one methodology or approach, and then apply those insights in an iterative manner to subsequent dialogue and consultation activities.

## 17 Summary analysis

This chapter has covered a lot of ground, arguing that much of the drive for cross-border facilitation stems from the need to manage and address trade and transport costs. For businesses, this is important because they define their competitiveness (see also Chapter 1). For government agencies, it is also important to consider costs, especially with respect to their performance and the level of service to their stakeholders. Moreover, within the context of trade, transport, and customs procedures, inefficiencies can quickly translate into trade impediments that diminish trade driven economic growth. Inevitably, experienced trade costs will differ significantly from one organisation to the next, and is often dependent on the commercial arrangements between business operators. Components include, amongst others, the costs relating to international transport, insurance, finance and payment, as well as regulatory compliance. The latter, as touched upon in Chapter 1, includes many trade and border specific formalities, such as compliance with transport, customs, and non-tariff measures. Costs are always experienced directly, for example, in the form of paying for transport services, or by preparing and submitting relevant regulatory declarations. But costs can also be experienced indirectly, for example, in the form of missed business opportunities and wasted resources – and for border agencies, also in the form of poor regulatory control outcomes. Cost associated with developing and failing to develop suitable social and cultural capital to enable cross-border trade flows need to be considered, too.

A good understanding of trade and transport costs is important. It enables relevant actors to take informed decisions about how to reduce them. Actions might be taken internally within the organisation, for example, by reviewing operational practices and perusing steps that reduce experienced costs. Actions can also be aimed at reducing the transaction costs between supply chain partners, including those with regulatory agencies. Cross-border facilitation principles, such as those discussed in Chapter 2, apply. Modern information and communication technology can be particularly effective in reducing or illuminating many of the experienced transaction costs.

Costs can also be addressed through partnership. These might be between countries in their efforts to develop, build, and maintain cross-border transport infrastructure and systems. Partnership is also a prominent theme in the control and administration of supply chain focused trade and customs procedures – such as those concerning transport security and the safety of goods, amongst many others. Action, in the pursuit of cross-border facilitation themes (Box 3-2; Chapter 2) can also be taken at the environmental level, where relevant stakeholders make each other aware – for example, through active consultation or work in National Trade and Transport Facilitation Committees – of their specific reform needs, and then

explore appropriate solutions. Such solutions, as will be touched upon in the next chapter, Chapter 4, can include adherence to shared international instruments.

Before moving on to the next chapter, readers may wish to reflect on their own trade cost specific experiences, and the appropriate level at which mitigating actions can be taken. In this context, it is also worth reflecting on why such mitigating actions have not yet been taken, and what obstacles (e.g., organisational, regulatory, lack of resource, lack of understanding) may need to be overcome to make reform happen. Good case-studies and robust cost data are often a good first step to help initiate and spur action from the bottom-up. The draft of diagrams and figures, such as Figures 1-6 and 1-7, can offer useful orientation about where costs are incurred (UN ESCAP 2012).

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