B20 AUSTRALIA 2014

B20 TRADE TASKFORCE POLICY SUMMARY

JULY 2014

Contents

Taskforce constitution and process

The Australian Prime Minister appointed more than thirty Australian CEOs to guide the work of the B20 Australia in 2014 under the leadership of Richard Goyder AO, CEO of Wesfarmers, and B20 Sherpa Robert Milliner. B20 Australia continued four of the seven priority areas pursued under the Russian presidency of 2013 to reflect the Australian G20 presidency's focus on boosting economic growth and creating jobs. Trade is one of those priority areas. The others are Infrastructure & Investment, Human Capital and Finance. An Anti-Corruption Working Group was also established to focus on corruption issues across the four taskforces.

Leadership

The Trade Taskforce was established under the leadership of coordinating chair Andrew Mackenzie, CEO of BHP Billiton, and co-chairs Harold W. McGraw III, Chairman of McGraw Hill Financial, Alexey Mordashov, CEO of Severstal, and Yu Ping, Vice Chairman of the China Council for the Promotion of International Trade.

Membership

Trade Taskforce Members are mostly senior executives from business, business associations and professional services firms. The Taskforce is also ably assisted by Supporters from those organisations and with in-depth project support from Bain & Company. Members and Supporters either continued as members of the preceding Taskforce under the Russian B20 presidency, or were invited to join in 2014 by the coordinating chair. The membership is broadly representative of the G20 countries.

Policy development

The policy development process began with a scoping exercise to develop themes for investigation. Each theme was then deeply researched and debated within the Taskforce to generate draft recommendations. The draft recommendations were refined in an iterative process and a series of actions developed to test the practicality of recommendations. The Taskforce met five times before the B20 Summit and exchanged ideas and material between meetings. See page 19 for details.

Summary of recommendations

Context

International trade is the world's growth engine. It is essential to securing global job creation and higher living standards. Trade will be critical to the G20's objective of raising global growth by at least 2 per cent above business-as-usual targets over the next five years. Therefore, it is concerning that trade growth is still well below pre-global financial crisis levels.

The international business community strongly urges G20 Leaders to stamp their authority on the global trading system by securing trade as a core feature of the G20 Agenda. **A targeted set of four** high impact **B20 recommendations**, if implemented, could generate up to $3.4 trillion in GDP growth and support more than 50 million jobs across the G20 economies. This would be akin to adding another Germany to the global economy. Business therefore encourages each G20 economy to incorporate an ambitious domestic reform agenda, which explicitly targets trade-enhancing measures, into their Country Growth Strategies. This will encourage countries and businesses to allocate their scarce resources to the industries and activities where they are most competitive, acknowledging that 'Made in the World' is the reality of modern global trade.

Recommendations

Immediate benefits will flow from making trade easier, faster and more efficient. By removing trade 'red tape', productivity gains will be unlocked, which is essential to higher living standards. The Bali Agreement on Trade Facilitation is a positive signal of intent. **Business now looks to each G20 economy to accelerate Bali implementation and ratification**, with developed economies supporting developing economies as appropriate. In addition to significant economic benefits, rapid implementation sends a strong message regarding the centrality of the multilateral trading system.

G20 economies have, for the most part, avoided tariff protectionism in the wake of the global financial crisis. Disappointingly, however, there has been a large increase in non-tariff barriers. Business is alert to this trend – one that undermines the goodwill of the G20 standstill agreement. **Business calls for the G20 nations to not only stop introducing new non-tariff barriers, but to reverse those already in place, including localisation requirements**. Left unaddressed, non-tariff measures will siphon off gains made through the Bali Agreement and inhibit future progress on trade liberalisation.

With the emergence of global supply chains businesses can more efficiently reach global markets, driving growth, encouraging innovation and creating jobs. Supply chain barriers, however, result in significant inefficiency and waste. For example, it is estimated that 30% of globally traded food is lost in transit due to inadequate customs procedures or infrastructure, including refrigeration. These barriers have a disproportionately high impact on global supply chains and create additional burdens for the SME sector. **Business calls on G20 Leaders to remove supply chain barriers through targeted infrastructure investment, streamlined border administration (including reduction of corruption in customs clearance), and domestic regulatory reforms**. These reforms should also make a priority of facilitating open channels for the exchange of knowledge, skills and ideas. Such services are essential to efficient global supply chains. That said, the services sector remains highly protected, even allowing for regulations with legitimate health, social or environmental purposes. Further liberalisation will lead to greater economic growth and accordingly the need for a seamless international trade in services underpins all of the Taskforce's recommendations.

The recent proliferation of preferential trade agreements (PTAs), in the absence of multilateral progress, reflects the widespread recognition that significant benefits flow from open borders. Trade liberalisation resulting from these agreements is welcomed. But **business also urges G20 Leaders to ensure that PTAs produce value to business commensurate with the effort required to achieve them**. This requires PTAs to be developed with close business consultation, to be comprehensive, and WTO compliant. They should also address emerging trade areas such as competition policy, services, regulatory cooperation, and non-tariff barriers, and they should include anti-corruption principles. The WTO can support this effort by identifying guiding principles for successful trade agreements, including an "open architecture" to enable accession.

Trade flows offer great potential for increasing the productivity of the global economy. A strong but flexible multilateral trading system – supported by the WTO and carefully attuned to the dynamics of global supply chains – will energise inclusive global growth driven by private sector innovation.

Rapidly implement and ratify the Bali Agreement on Trade Facilitation

Summary

Recommendation	Rapidly implement and ratify the Bali Agreement on Trade Facilitation
Reference	TR1
Owner	G20 countries
Timing	End of 2015
Value	GDP: $820 billion uplift across G20 Trade: $800 billion uplift across G20 Jobs: 16 million supported
KPI	Implementation of the Agreement on Trade Facilitation across all G20 countries
Current (Target)	Partial (100% by end of 2015)

Context

With the ongoing fragmentation of production into global supply chains, imports have become essential components in exports. Trade facilitation is now more important than ever, as it allows the smooth operation of supply chains that cross international borders multiple times[1]. At the Ninth Ministerial Conference of the WTO in Bali, 159 WTO members signed an Agreement to cut trade red tape by improving the efficiency of customs procedures[2]. As well as reducing the costs and delays of border crossings, the Agreement provides for automation and transparency of customs procedures, which are key measures for reducing corruption and irregular payments. This Agreement was a particularly momentous signal of intent, reinvigorating multilateral trade negotiations, which had stalled since 2001.

In order for the Agreement on Trade Facilitation to become legally binding, it must be ratified by two-thirds of WTO members. To date, the Trade Facilitation Agreement has not been ratified by any country. As the legal process of ratification is distinct in each country, in some cases this could take up to two years. Although ratification is necessary for the Agreement to become legally binding, governments can implement immediately to maximise benefits.

Case Study: Border administration in Bangladesh[3]

In many developing countries, a lack of resources and poorly defined rules at border crossings create uncertainty and raise costs for importing and exporting businesses. In a survey in Bangladesh, one business operator stated:

> *"In Bangladesh, clearance of a consignment usually takes 2-5 days in Customs. If a dispute arises with regard to classification, valuation or importability, it may [even take] up to months. In that case, we suffer from great uncertainty because no one can tell the actual delivery time. Layers in decision making, the tendency of physical inspection and the manual system contribute to the delay."*

1 See, for example, recent OECD research on global value chains: Organisation for Economic Cooperation and Development 2013, *Interconnected Economies: Benefitting from Global Value Chains*
2 World Trade Organization 2013, *Ministerial Declaration and Decisions, Ministerial Conference Ninth Session*
3 Almas Uzzaman, M and Abu Yusuf, M 2011, 'The role of Customs and other agencies in trade facilitation in Bangladesh: hindrances and ways forward', *World Customs Journal*, vol. 5, no. 1, pp. 29 - 42

Value

The Peterson Institute of International Economics (PIIE) estimated that improvements in trade facilitation could increase global exports by over $1 trillion, with global GDP uplift estimated at $960 billion.[4] The corresponding benefit for G20 countries is approximately $820 billion in GDP.[5]

According to the OECD's latest estimates, the agreement signed in Bali would reduce total trade costs by 14.1 per cent for low-income countries, 15.1 per cent for lower middle income countries and 12.9 per cent for upper middle income countries.[6]

Actions

Ref	Action
TR1A	Include rapid implementation of the Agreement on Trade Facilitation in Country Growth Strategies (with ratification not a prerequisite)
TR1B	Ratify the Agreement by 31st July 2015
TR1C	Provide capacity-building assistance and financial support to developing-world trade partners

G20 countries can demonstrate leadership by including rapid implementation of the Agreement on Trade Facilitation in their Country Growth Strategies, without including ratification as a prerequisite (**TR1A**). The G20 should begin implementation immediately, and complete implementation by the end of 2015, with particular priority on transparency of fees, charges, procedures, timeframes, regulations, and one-stop and automated customs procedures. In doing so, G20 countries will accelerate the delivery of benefits and send a strong and positive signal to other WTO members of the importance of the multilateral trading system.

The G20 should simultaneously advance towards a legally binding agreement, and commit to ratification by 31st July 2015 (**TR1B**). While the Trade Facilitation component is the most significant part of the Agreement for most G20 nations, ratification will result in additional benefits arising from the provisions addressing agriculture and cotton, and preferential access to markets for least-developed countries (LDCs).

The Agreement also acknowledges that developing countries and least-developed countries will face challenges in improving customs procedures. In order to expedite implementation globally, as undertaken in the Agreement, the G20 group should extend capacity-building assistance and financial support to developing-world trade partners (**TR1C**).

4 Peterson Institute for International Economics 2013, 'Payoff from the World Trade Agenda 2013', *Report to the ICC Research Foundation*
5 See Appendix: Value calculation methodology
6 Organisation for Economic Co-operation and Development 2014, Trade and Agriculture Directorate, 'The WTO Trade Facilitation Agreement – Potential Impact on Trade Costs'

Reinforce the standstill on protectionism and wind back barriers introduced since the implementation of the standstill, especially non-tariff barriers

Summary

Recommendation	Reinforce the standstill on protectionism and wind back barriers introduced since the implementation of the standstill, especially non-tariff barriers
Reference	TR2
Owner	G20 countries
Timing	Ongoing (standstill in place until 2016)
Value	GDP: $360 billion uplift across G20 Trade: $350 billion uplift across G20 Jobs: 7 million supported
KPI	Reduction in number of tariff and non-tariff barriers
Current (Target)	(Annual reduction)

Context

The multilateral trading system has made extraordinary progress in growing trade through tariff reductions. In fact, 90 per cent of tariffs have been removed altogether since the tariff peak in 1932 and the average value of tariffs has plummeted from 22 per cent to around 3 per cent today.[7]

At the first Summit in November 2008, the G20 declared:

> *We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports.*[8]

This commitment has been renewed four times since, and remains valid until the end of 2016. In the past, periods of economic downturn have seen countries adopt protectionist measures. Encouragingly, to date, the standstill has been mostly effective in avoiding tariff increases, in spite of the most recent financial crisis.

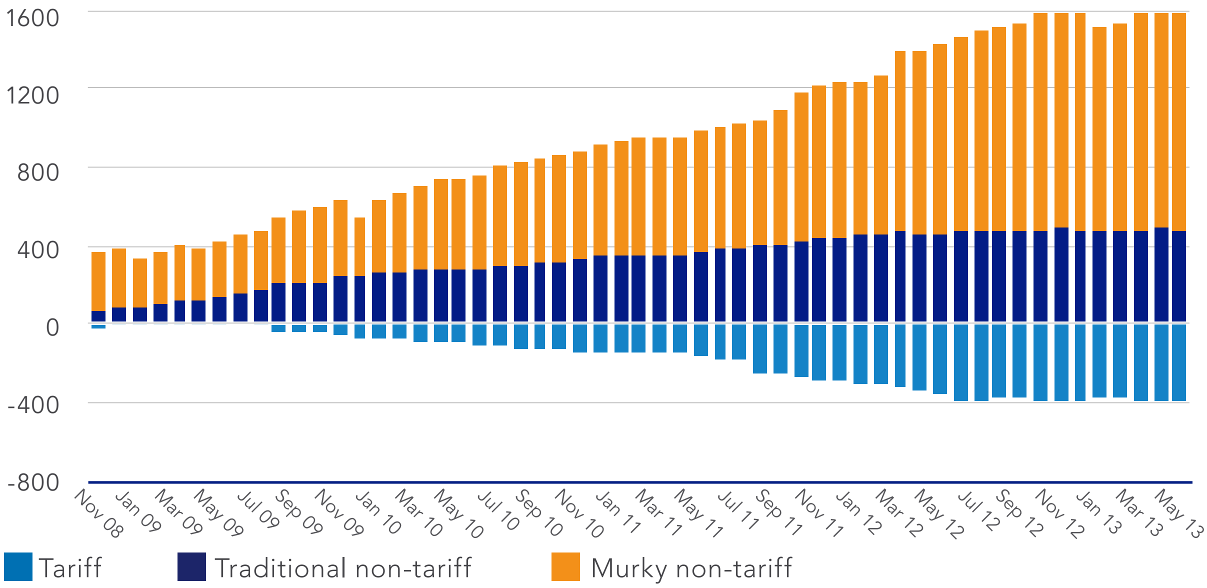
However, the spirit of the standstill has not been honoured with respect to non-tariff barriers. Based on the WTO monitoring database, G20 countries have introduced at least 600 new trade restrictions since November 2008.[9] If "murky" barriers such as IP and data protection measures are included, the net accumulation of non-tariff measures numbers more than 1500.[10]

Non-tariff measures can have a much greater detrimental impact on GDP growth than tariffs.[11] Moreover, the impact of non-tariff barriers varies widely between countries and sectors, having

7 World Bank, 2014, 'Tariff rate, applied, weighted mean, all products', in *World Development Indicators*, World Bank, Washington, DC; Nenci. S 2011, 'Tariff Liberalisation and the Growth of World Trade: A Comparative Analysis of the Multilateral Trading System', *The World Economy,* vol. 34, no. 10, pp. 1809 – 1835
8 G20 2008, 'Statement from G-20 Summit', G20, Washington, DC
9 WTO 2013, 'Report on G20 Trade Measures (Mid-May 2013 to Mid-November 2013)'
10 Global Trade Alert 2014; Bain & Company analysis
11 Cadot, O Maliszewska, M and Saez, S 2010, 'Non-tariff measures: impact, regulation, and trade facilitation', in Modernizing Border Management, World Bank, Washington, DC

greater distortionary effects than tariffs. Unlike tariffs, many non-tariff measures are applied to both services as well as merchandise trade, and therefore have much greater detrimental impact on the domestic economy.

Cumulative net restrictions introduced by G20 member countries, including tariff and non-tariff measures.



Source: World Trade Organisation; Global Trade Alert

Of particular concern to the business community are non-tariff barriers related to localisation measures, state-owned enterprises (SOEs) and public procurement.[12]

- **Localisation measures**: In recent years, governments have dramatically increased the use of localisation policies that seek to protect local industries and national champions by discriminating against foreign competition. These include requirements for technology transfer, local ownership and local hiring and restrictions on imports or the cross-border flow of data, amongst others.
- **State-owned enterprises**: Unfair allocation of quotas, special assistance, export subsidies or other measures that depart from the principle of national treatment are prohibited by WTO rules in the case of SOEs, as they are with private enterprise. These advantages distort global competition and undercut efforts by other companies to build global supply chains.
- **Public procurement**: Especially at the sub-national level, public procurement can be subject to protectionist measures and has historically been difficult to monitor. It is also an area of particular interest to global anti-corruption efforts.

12 For an elaboration on the benefits of trade liberalisation and the negative economic impacts of protectionist measures such as localisation, see OECD, ILO, WORLD BANK, WTO 2010, *Seizing the Benefits of Trade for Employment and Growth*

Case Study: Local content requirements in cabotage[13]

Local content requirements in cabotage attempt to protect local shipping industries by requiring that all goods transported between domestic ports be transported by locally-flagged vessels. These laws create significant inefficiencies in transport procurement decisions resulting in increased costs.

In the United States, the ***Merchant Marine Act of 1920*** requires that all goods transported by water between US ports be carried on US-flagged ships that have been constructed in the US, are owned by US citizens, and are crewed by US citizens or permanent residents. This means, for example, that a ship travelling from the Asian continent cannot unload cargo in Hawaii before continuing to the US mainland. Chinese-made goods bound for Hawaii are routinely unloaded on the US west coast, and loaded back onto a US ship to return 4000 kilometres back across the Pacific.

In Australia, the ***Coastal Trading (Revitalising Australian Shipping) Act 2012*** introduced protections for domestically-flagged and manned Australian ships. According to a report by the Business Council of Australia, this has led to an increase in the costs of coastal shipping which has distorted freight decisions by pushing more of Australia's freight burden toward rail and road. The report notes that after the Act was introduced in 2012, a 63 per cent increase was observed in the tonnage rate between Tasmania and Queensland compared to 2011.[14] Increased shipping costs are also passed on to businesses relying on shipping, thus making their own products less competitive. Moreover, implementation of the regulation requires a complex licensing system that imposes a significant red tape burden on users.

Value

The benefit of reversing all barriers introduced since 2008 is estimated to be at least a $350 billion increase in G20 exports, equivalent to 2 per cent of current G20 exports.[15] This will result in a $360 billion increase in G20 GDP and 7 million jobs supported in G20 countries. This excludes the significant additional benefit of withholding the introduction of any new trade barriers.

Actions

Ref	Action
TR2A	Reaffirm commitment to standstill agreement, advocate broad opposition to non-tariff barriers
TR2B	Request the WTO to compile a summary of relevant policies introduced by G20 members since the standstill and determine which are restrictive to trade
TR2C	Commit to a timeframe to cease and/or reverse trade restrictive policies
TR2D	Request the WTO to expand its monitoring to include all non-tariff measures
TR2E	Establish a peer review mechanism within the G20 to identify and address trade barriers, and commit to reporting a broad set of trade-affecting policies to the WTO
TR2F	Commit to working with non-G20 governments on alternatives to non-tariff barriers

The B20 calls on the G20 to demonstrate global leadership by reaffirming the commitment to the standstill agreement, and advocating broad opposition to non-tariff barriers (**TR2A**). The B20 would ultimately like to see the elimination of all protectionist non-tariff measures. However recognising the scale of this task, the B20 recommends focusing initially on those trade restrictive measures introduced since the standstill agreement was signed and those with the largest trade restrictive impact.

13 Philips, M 2013, 'U.S. Law Restricting Foreign Ships Leads to Higher Gas Prices', *Bloomberg Businessweek*, December 12, 2013; Business Council of Australia, *Submission to the Department of Infrastructure and Regional Development on the Approaches to Regulating Coastal Shipping in Australia Options Paper*, June 2014; Institute of Public Affairs 2013, *Coastal Shipping Reform: Industry Saviour or Regulatory Nightmare?*

14 Business Council of Australia, *Submission to the Department of Infrastructure and Regional Development on the Approaches to Regulating Coastal Shipping in Australia Options Paper*, June 2014

15 See Appendix: Value calculation methodology

As a first step, the G20 should request that the WTO compile a summary of relevant policies introduced by G20 members since the standstill agreement, and determine which are restrictive to trade (**TR2B**). Each G20 member should then commit to a timeframe to cease and/or reverse trade restrictive policies (**TR2C**) identified by the WTO, to be held accountable by the G20 collective. Specifically, the B20 will consider each G20 country successful if it reduces the number of barriers each year.

To improve ongoing adherence to the spirit of the standstill, the B20 recommends enhancing monitoring and compliance mechanisms. Firstly, the WTO should expand its monitoring to include all non-tariff measures (**TR2D**). We recommend that monitoring of the G20 standstill agreement be expanded to include, at a minimum, all non-tariff measures currently included in WTO Trade Policy Reviews.[16] To ensure an effective trade monitoring system, G20 members should commit to reporting a broad set of trade-affecting policies to the WTO (**TR2E**).

The G20 should then establish a peer review mechanism to identify and address trade barriers (**TR2E**). Under this system, the G20 body will call member nations to account for measures that have been implemented in their countries and identified as trade-restrictive by the WTO.

Finally, as the challenge of addressing trade barriers is a global one, G20 members should commit to working with non-G20 countries on alternatives to trade-restrictive policies (**TR2F**). The B20 believes that policy objectives can almost always be achieved without resorting to trade-restrictive measures.

16 The B20 notes that policies in these categories are often introduced to protect consumers, correct market failures or respond to another nation's trade-distorting actions and are often enacted for legitimate reasons. Measures introduced by governments with legitimate and valid policy objectives are not the target of this recommendation. It is for this reason that the WTO should review all measures in order to identify those that are unreasonably trade-restrictive and enacted for protectionist purposes.

Develop country-specific supply chain strategies

Summary

Recommendation	Develop country-specific supply chain strategies
Reference	TR3
Owner	G20 countries
Timing	Ongoing
Value	GDP: $2.2 trillion uplift across G20 Trade: $1.2 trillion uplift across G20 Jobs: 43 million supported
KPI	Enabling Trade Index (ETI) for individual countries
Current (Target)	(Ongoing improvement)

Context

Supply chain barriers, ranging from border administration to infrastructure and to the regulatory environment, cause significant inefficiencies and resource wastage. They drive up costs and reduce the profitability of both imports and exports, often excluding whole industries from engaging in international trade. Modelling undertaken by the World Economic Forum and Bain & Company found that improving border administration and infrastructure halfway to best practice could increase global GDP by nearly 5 per cent and trade by 15 per cent.[17] This represents an increase in global GDP six times greater than removing all remaining tariffs.

Resource wastage has real impacts on the livelihood of the average citizen – for example, through food security. Up to 30 per cent of food produced for human consumption is lost or wasted between farm and fork – during handling, storage, processing, packaging, distribution and at market – at an economic cost of $750 billion.[18] Addressing supply chain barriers would not only increase the availability of food, but also improve access by increasing incomes for participants along the supply chain and bringing down the cost of food for the end consumer.

The effects of reducing supply chain barriers are not gradual; changes only occur when 'tipping points' are reached. This occurs because companies tend to be binary when analysing profitable geographies for production and sale of goods: either they enter a market or they do not.

This is particularly true for the SME sector, as they have less capacity to overcome trade costs. In this sector, a massive opportunity for trade is being unlocked through technological innovation. Many technology-enabled SMEs have had extraordinary success entering international markets due to a private sector-led reduction in supply chain barriers. Enabling technologies, such as the internet, have allowed small businesses that would have otherwise sold only to local markets to become "micro-multinationals" – less than 1 per cent of US businesses export, but over 97 per cent of US commercial sellers on eBay export.[19]

Supply chain barriers are not only infrastructural. Of supply chain barriers, regulatory barriers such as localisation and foreign ownership requirements have the greatest impact on the services

17 World Economic Forum in collaboration with Bain & Company and the World Bank, 2013, *Enabling Trade: Valuing Growth Opportunities,* World Economic Forum, Geneva, Switzerland.
18 World Economic Forum in collaboration with Bain & Company, 2014, *Enabling Trade: From Valuation to Action*, World Economic Forum, Geneva, Switzerland.
19 eBay inc 2013, *Micro-Multinationals, Global Consumers, and the WTO: Towards a 21st Century Trade Regime*, blog.eBay.com, December 5, 2013.

sector and tend to be the simplest to address. Harmonisation of regulations in particular would support trade in services. Additionally, regulations that unduly restrict trade finance can have a severe negative impact – a shock of one standard deviation to a country's supply of trade finance decreases exports, on average, by 2 percentage points.[20]

Case Study: Indian Port Capacity[21]

India imports 35 million tonnes of coking coal annually. The majority of this is imported from Australia and passes through one of several coal-handling ports in India before being transported by rail.

Large ships require deeper ports and, despite ongoing investment, many major ports in India are not deep enough to berth 'Capesize ships' – those with a capacity 150,000+ tonnes and which are commonly used to transport coking coal. Because of this, smaller 'Panamax' ships must be used which increases freight costs. Sourcing smaller ships is also becoming difficult, as Capesize ships have become standard and the smaller ships do not meet safety requirements in Australia due to their age.

It is estimated that an additional $20 billion investment will be required by 2020 to increase India's port capacity to meet demand. Furthermore, rail utilisation in India is already near capacity. Without concurrent investment in rail infrastructure, port upgrades will only shift the bottleneck upstream to the rail and road network.

Case Study: Nigerian cassava exports[22]

High-quality cassava flour (HQCF) is a processed product of cassava root that can supplement wheat flour in bread, pasta and confectionary, and is one of six target crops identified by the Nigerian Ministry of Agriculture for special consideration.

Currently Nigerian HQCF cannot compete profitably with wheat flour due to a number of supply chain barriers. Transport by road along the country's main transport artery takes 130 per cent more time per kilometre and costs 25 per cent more than a similar regional corridor. In addition, trucks are charged extra fees at local and state borders, adding 6 per cent to the cost of transporting cassava, and are required to carry 50 individual permits. Corruption and fraud drive up the cost of agricultural imports: counterfeit fertilizer limits yield, "informal" border fees drive up the cost of importing farm and processing equipment, and truck drivers accept unofficial side jobs or participate in scams. Unpredictable government policies have caused dramatic fluctuations in cassava prices and production volumes, while poor port logistics prevent the export of cassava chips as a way to smooth price volatility.

Addressing any one of these supply chain barriers would make HQCF more competitive, while benefiting business as a whole.

Value

Addressing supply chain barriers benefits society broadly – by increasing mobility, reducing the cost of goods and transport and minimising food wastage. In collaboration with Bain & Company and the World Bank, the World Economic Forum analysed the trade benefits of reducing supply chain barriers. If all countries improved their performance on the border administration and infrastructure components of the Enabling Trade Index (ETI) halfway to global best practice, G20 exports would be boosted by $1.2 trillion, or 7 per cent of current exports. G20 GDP would rise by $2.2 trillion, supporting 43 million jobs.[23]

The impact on trade and GDP would be even greater if regulatory barriers to trade were included in this analysis. However due to the difficulties of accurate measurement, this has been excluded from the current estimate. These benefits are therefore a conservative estimate of the full potential of this recommendation.

20 Niepmann, F and Schmidt-Eisenlohr, T 2013, *No Guarantees, No Trade: How Banks Affect Export Patterns*, Federal Reserve Bank of New York, Staff Report No. 659.
21 Expert Interviews; Ministry of Shipping 2013, *Basic Port Statistics of India*, 2011 – 2012, Government of India, New Delhi, India.
22 World Economic Forum in collaboration with Bain & Company, op. cit.
23 World Economic Forum in collaboration with Bain & Company and the World Bank, op. cit.

Actions

Ref	Action
TR3A	At a country level, identify globally competitive industries and develop plans to address priority supply chain barriers through domestic regulatory reform and infrastructure investment (Prepare, Diagnose, Plan, Mobilise)
TR3B	Provide capacity-building assistance and financial support to developing-world trade partners to address supply chain barriers

Countries should aspire to eliminate all supply chain barriers across all industries. However, given typical budget constraints, it is important that countries, relying on market signals, prioritise globally competitive industries. In so doing, they should develop plans to address these priority supply chain barriers through domestic reform and infrastructure investment (**TR3A**), aimed at both goods and services trade. The business case associated with creating "tipping points" is typically net positive, enabling countries to act unilaterally in their national interest while advancing the greater good.

We propose that countries approach the removal of supply chain barriers strategically, by adopting a four-step process.[24]

1. Prepare: establish governance structures and sources of funding; identify priority corridors and value chains
2. Diagnose: map supply chains; gather public-and private-sector input; measure and benchmark performance
3. Plan: create a list of initiatives; conduct cost-benefit analyses
4. Mobilise: convert roadmap into an actionable plan and implement

Progress towards reducing supply chain barriers can be measured using the Enabling Trade Index (ETI). An ETI that improves on the most recent score would be considered a success.

Developing countries face particular challenges in addressing barriers, as theirs tend to be greater, requiring considerable investment. The G20 should show leadership in global trade facilitation by extending capacity-building assistance and financial support, to developing countries to address supply chain barriers (**TR3B**). For example, the G20 could facilitate G20 Anti-Corruption Working Group anti-corruption best practice training for public officials.

24 World Economic Forum in collaboration with Bain & Company, op. cit.

Ensure preferential trade agreements realise better business outcomes

Summary

Recommendation	Ensure preferential trade agreements realise better business outcomes
Reference	TR4
Owner	G20 countries
Timing	Ongoing
Value	Not quantified
KPI	Business assessment of impact of new PTAs (survey)
Current (Target)	N/A (Favourable assessment)

Context

At the 2013 Summit in Russia, G20 members reaffirmed the primacy of the WTO-based multilateral trading system, emphasising the importance of transparency.[25] At the same time, members acknowledged the importance of regional trade agreements to ongoing liberalisation efforts, and committed to ensuring that preferential trade agreements (PTAs) support the multilateral system rather than hinder it.[26]

The rules determined by the WTO membership are at the heart of the international trading system. As membership of the WTO has grown, there has been a corresponding increase in the difficulty of achieving agreement among members. Countries have increasingly turned to PTAs as a substitute for the stalled multilateral process. The rate at which these agreements are being signed has accelerated dramatically – 10 PTAs were signed in the period 1980 to 1989, 80 agreements were signed between 1990 and 1999, and 140 agreements between 2000 and 2009.[27]

The B20 appreciates the G20's efforts to find new and innovative avenues towards trade liberalisation. Although many PTAs have contributed to trade growth, poorly structured PTAs may not be used by businesses (especially SMEs) due to their complexity.[28] Business surveys in many countries have indicated that poor implementation of PTAs has reduced the anticipated benefits for business. There is also concern regarding the effects of trade diversion and regulatory fragmentation.

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25 G20 2013, *G20 Leaders' Declaration*, G20, September, 2013.

26 A preferential trade agreement is any trade agreement that departs from the Most Favoured Nation (MFN) principle. In other words, any agreement that offers one trading partner access to a market under more favourable conditions than are unconditionally afforded every other WTO member. This includes agreements variously labelled 'bilateral', 'regional', 'mega-regional' or 'free-trade agreements', as well as agreements labelled 'plurilateral' when they depart from the MFN principle.

27 World Trade Organisation 2014, *Regional Trade Agreements Information System*, World Trade Organisation, online database accessed February 10, 2014.

28 Productivity Commission 2010, *Bilateral and regional trade agreements*, Research Report, Canberra; Hirastuka, D, Sato H and Isono, I 2009, *A Study on the Impact of Free Trade Agreements on Business Activity in Asia: the Case of Japan*, Asian Development Bank Institute Working Paper 143, Tokyo; Cheong, I and Cho, J 2009, *The Impact of Free Trade Agreements (FTAs) on Business in the Republic of Korea*, Asian Development Bank Institute Working Paper 156, Tokyo; Wignaraja et al. 2010, *How Do FTAs Affect Exporting Firms in Thailand?*, Asian Development Bank Institute Working Paper 190; Zhang, Y 2010, *The Impact of Free Trade Agreements on Business Activity: A survey of Firms in the People's Republic of China*, Asian Development Bank Institute Working Paper 251, Tokyo; Wijayasiri, J 2007, *Utilization of Preferential Trade Arrangements: Sri Lanka's Experience with the EU and US GSP Schemes*, Asia-Pacific Research and Training Network on Trade, Working Paper Series, no. 29, January 2007; Federation of Indian Chambers of Commerce and Industry 2013, *Business beyond barriers*, Federation of Indian Chambers of Commerce and Industry, New Delhi, India; The Australian Industry Group 2010, *Submission to Productivity Commission study into the effectiveness of free trade agreements*, submission by The Australian Industry Group, February 2010; U.S.-Vietnam Trade Council Education Forum 2004, *The U.S.-Vietnam Bilateral Trade Agreement: a survey of U.S. companies on implementation issues*, U.S.- Vietnam Trade Council Education Forum, Washington, DC.

Reasons for non-utilisation of available PTAs identified in business surveys by region[29]

	Rules of Origin - admin. costs	Rules of Origin - change of sourcing	Other admin. costs	Lack of information	Low margin of preference	NTBs and BTB[30] measures
Asia	✓		✓	✓	✓	✓
Australia	✓	✓	✓	✓		✓
China			✓	✓	✓	✓
India	✓		✓			✓
Japan	✓	✓	✓	✓	✓	
Korea	✓		✓	✓	✓	
Sri Lanka	✓	✓	✓	✓		✓
Thailand	✓					✓
USA			✓	✓		✓

Value

The economic benefit of improving PTAs is difficult to quantify. The impact of this recommendation will depend not only on the number and comprehensiveness of future trade agreements, but also on the extent to which G20 governments engage with their business communities, and the degree to which business consultations inform negotiations.

Considering that current utilisation of many bilateral free trade agreements is around 50 per cent,[31] the B20 believes that there is significant scope for further reductions in trade costs, especially for SMEs. As trade agreements have traditionally focused on tariff and traditional non-tariff barriers, new agreements addressing non-traditional issues, such as regulatory convergence, have the potential for even greater economic impact. When trade agreements are built on open architectures that encourage additional countries to participate, these benefits could be multiplied in time.

Actions

Ref	Action
TR4A	At a country level, survey domestic exporting and importing businesses to identify drivers of PTA utilisation and impact; make results publicly available
TR4B	Request the WTO to identify and share good practices based on business input
TR4C	Commit to establish new PTAs in a transparent manner consistent with WTO rules, and in compliance with the WTO Transparency Mechanism
TR4D	Support the inclusion of anti-corruption clauses in all new trade agreements and implement mechanisms for monitoring and enforcement

Business seeks significant efforts to improve PTAs so that they maximise benefits. The B20 recommends G20 countries focus on four areas for improvement: extent of business consultation; inclusion of emerging areas such as competition policy, services and regulatory co-operation; transparency and anti-corruption; and consistency with WTO rules to enable accession.

Firstly, G20 countries should survey domestic exporting and importing businesses to identify drivers of PTA utilisation and impact. The results of these surveys should be made publicly available via the WTO (**TR4A**). The WTO can support this effort by also identifying and sharing guiding principles

29 Ibid.
30 Non-Tariff Barriers and Behind the Border measures.
31 Ibid.

for successful trade agreements based on business input (**TR4B**). Business seeks PTAs that are ambitious in both scope and degree, addressing areas of trade beyond those that are already on the WTO agenda, such as regulatory cooperation. Regulatory cooperation should seek to ease regulatory burdens for the benefit of consumers and businesses, without lowering health, social or environmental standards.

Given the nature of services trade, where barriers are sector-specific, governments should seek business input about the priority areas where trade can be liberalised and ensure that this is reflected in trade agreement negotiations.

The B20 notes that public understanding of the benefits of free trade would be improved by more open conduct of trade negotiations. As a first step to improving transparency, G20 nations should recommit to establishing new PTAs in a transparent manner consistent with WTO rules, and in compliance with the WTO Transparency Mechanism (**TR4C**). However, beyond this commitment, PTA negotiations should be conducted in the best interests of both consumers and businesses.

Trade negotiations for PTAs provide an opportunity to support the implementation of meaningful anti-corruption measures. The B20 supports the inclusion of anti-corruption clauses in all new trade agreements. Such clauses may include requiring signatories to uphold international standards such as the UN Convention against Corruption and OECD Anti-Bribery Convention and to implement appropriate mechanisms for monitoring and enforcement (**TR4D**).

Case Study: European Commission Market Access Database[32]

The Market Access Database, created as part of the EU Market Access Strategy launched in 2006, is an online database that serves as a central location for information regarding market access conditions, including tariff, traditional non-tariff and ‘behind the border’ barriers.

The online database is free to access, and allows SMEs to easily determine the conditions that they will face in a foreign market. By entering product codes into an online form, an exporter can find all necessary information in a single location, including all forms required to comply with each of the European Union’s 33 PTAs. This significantly eases the burden of complexity on SMEs – a burden that would otherwise limit their utilisation of these agreements. The database also allows feedback from European exporters to be collected and used by the European Commission to track barriers raised by trade partners.

32 European Union 2012. *Do you want to export worldwide? EU Market Access Strategy*, European Union Publications Office, Luxembourg; European Commission Market Access Database, http://madb.europa.eu, accessed 30/5/2014.

Value calculation methodology

The estimated benefits outlined in this report have been scaled according to the share of G20 economies in the global economy, to more accurately reflect the impact of the recommendations. The gains to global GDP are therefore greater even if these measures are not adopted by non-G20 countries, and greater still if they are. Benefits have been converted between trade, GDP and jobs supported. The methods used are explained below.

General methodology

The link between GDP and Trade

Where the cited reports do not explicitly calculate the GDP impact of a change in global trade, we follow the methodology used by the Peterson Institute for International Economics.[33] Economists at the Peterson Institute reviewed a large number of recent studies using Computable General Equilibrium models to investigate both trade and GDP. The average ratio between GDP and two-way trade (the sum of global exports and imports) was then measured, and found to be 0.46.

Note that the ratio determined by the Peterson Institute is the ratio between a change in two-way trade (imports + exports) and change in GDP. The trade figures given in this report are exports only, and so these values are doubled before multiplying by the dollar ratio to obtain GDP, in accordance with the methodology used by the Peterson Institute for International Economics review,

> *Since "dollar ratios" are based on two-way trade gains, we double the calculated exports, under the assumption that additional imports will equal additional exports for the world as a whole and roughly for each region.*[34]

Jobs supported

To estimate the number of jobs supported by a recommendation, we again follow the methodology of the Peterson Institute for International Economics. Economists at the Institute estimate the number of employees per billion dollars of exports for developed and developing countries by region. The jobs coefficients "are derived from employees per billion US dollars of GDP in the tradable sectors of the economy (based on value added data for industry)." The export impact of the recommendation is then multiplied by the jobs coefficient to obtain a "jobs supported" figure.

Although called the "export ratio", the measurement of this ratio actually depends on GDP. Hence, when determining jobs figures for our recommendations, we keep the jobs to GDP ratio consistent with the Peterson Institute report, rather than the jobs to exports ratio.

Hufbauer and Schott, authors of the Peterson Institute report, note that,

> *The concept of "jobs supported" through larger exports of goods and services is not equivalent to "jobs added," since two-way trade expansion generally affects the composition of a nation's employment rather than its absolute level, shifting the labor force from less to more productive sectors of the economy. That said, increased trade means more jobs in the export sector and export jobs are generally better paid than jobs in other sectors of the economy.*[35]

The inclusion of these figures is a useful heuristic to convey the value of our recommendations.

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33 Peterson Institute for International Economics 2013, 'Payoff from the World Trade Agenda 2013', *Report to the ICC Research Foundation.*
34 Ibid. p. 13.
35 Ibid. p. 55.

Application to G20 nations

The estimates of global trade benefits to G20 nations have been scaled based on their share of total world exports,[36] and share of global GDP benefits based on G20 share of global GDP.[37]

Currency

All GDP and Trade values are stated in United States Dollars (USD). Recommendation 1 is likely to be in 2012 USD, recommendation 2 is in 2012 USD, and recommendation 3 is likely to be in 2010 USD. The precise USD year value for recommendations 1 and 3 is not given explicitly in the source data.

Valuation of the growth in trade resulting from Recommendation TR2

Cadot, Maliszewska and Saez[38] estimate the ad-valorem equivalent (AVE) of non-tariff measures in place in 2010 to be 5-10 per cent. Using data from the World Trade Organisation International Trade Intelligence Portal on the number of in-force anti-dumping, countervailing, safeguard, sanitary, phytosanitary, and technical barriers to trade, and assuming all barriers have an equal AVE, we estimate the AVE of all non-tariff barriers currently in force by multiplying Cadot et al.'s estimate by the ratio of the number of barriers in force on 1/5/2014 to those in force on 1/7/2010. This yields an AVE of 8–16 per cent. We then multiply by the fraction of those barriers introduced since the standstill to obtain a final AVE of 5–9 per cent. To be conservative we have taken the lower value of 5 per cent.

To estimate the impact of these barriers on trade we must consider trade elasticity. Hoeckman and Nicita[39] estimate the elasticity of trade-to-trade costs to be 0.50 for imports and 0.48 for exports – meaning a 1 per cent reduction in costs will increase exports by 0.5 per cent.

Together these values indicate that removing all non-tariff barriers introduced since the standstill agreement would boost global trade by 2.5 per cent.

Valuation of the growth in trade and GDP resulting from Recommendation TR3

The value presented here was determined by the World Economic Forum, in the report "Enabling Trade: Valuing Growth Opportunities" (2012). This value includes only the impact of supply chain initiatives targeting infrastructure and customs administration, it does not include regulatory reform. As such, we consider this to be a conservative estimate.

Total impact of recommendations

The values determined for recommendations TR1 and TR3 are not independent. Some elements of the Trade Facilitation Agreement are included in the WEF's valuation of addressing supply chain barriers to trade. Since the WEF valuation is based on a correlation with proxy variables, it is difficult to assess the degree of overlap. When summing recommendations to determine total impact on trade, GDP or jobs we calculate a range which acknowledges that the overlap between recommendations 1 and 3 is somewhere between 0 and 100 per cent.

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36 World Trade Organisation, Trade Statistics Database, accessed 28/5/2014 (2013 data).
37 World Bank 2013, World Development Indicators (2012 data).
38 Cadot, Maliszewska and Saez, op. cit.
39 Hoekman, B and Nicita, A 2008, *Trade policy, trade costs and developing country trade*, Policy Research Working Paper 4797, The World Bank, Development Research Group, Trade Team.

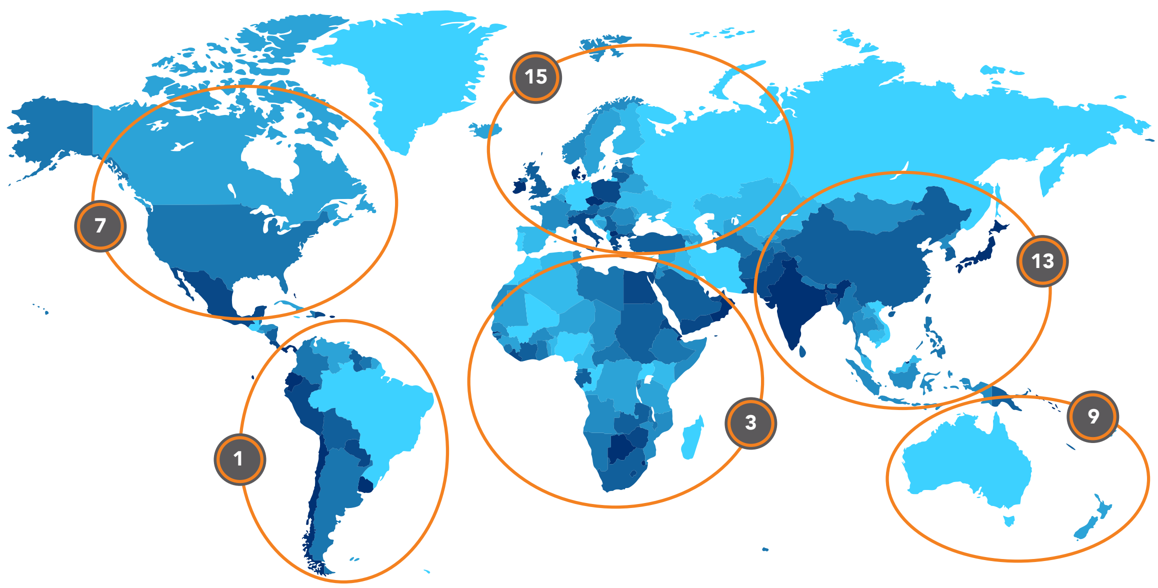
Taskforce schedule and distribution of members

Schedule of meetings

#	Date	Location	Theme
1	5 Feb 2014	Teleconference	Preliminary scoping of trade issues
2	5 Mar 2014	Washington	Recommendation development
3	4 Apr 2014	Sydney	Refinement of recommendations and actions
4	5 May 2014	Paris / Melbourne	Prioritisation
5	5 Jun 2014	Beijing	Finalisation of document
6	17 - 18 Jul 2014	Sydney	B20 SUMMIT

Distribution of members

Country	#	Country	#	Country	#
Argentina	1	India	2	Saudi Arabia	3
Australia	9	Indonesia	1	South Africa	-
Brazil	-	Italy	2	Turkey	2
Canada	1	Japan	1	United Kingdom	1
China	4	Korea	1	United States	6
France	3	Mexico	-	European Union	1
Germany	2	Russia	2	Other	3



Taskforce members

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Mr	Erik	Belfrage	Chairman	Consilio
Mr	Osman	Boyner	CEO	Boyner Sanayi A.S.
Mr	Paul	Bulcke	Chief Executive Officer	Nestlé S.A.
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Mr	Ralph	Carter	Managing Director, Legal, Trade & International Affairs	FedEx Express
Mr	Ricardo	Cortes-Monroy	General Counsel Legal Affairs Department	Nestlé S.A.
Dr	Andrew	Crane	CEO	CBH Group
Mr	John W.H.	Denton	Partner & CEO	Corrs Chambers Westgarth
Mr	James	Emmett	Global Head of Trade and Receivables Finance	HSBC Bank plc
Mr	Marco	Felisati	Deputy Director International Affairs	Confindustria
Mr	Thomas	Gorman	CEO	Brambles
Mr	Sassoon	Grigorian	Director of Public Policy, Asia Pacific	Ebay Inc
Mr	Ulrich	Grillo	President	Federation of German Industries
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Mr	Jeffrey	Hardy	Director	ICC G20 CEO Advisory Group
Mr	M.Rifat	Hisarciklioglu	President	Union of Chambers and Commodity Exchanges of Turkey
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Mr	Yafei	Jiang	Senior Vice President (Global External Affairs)	Huawei Technologies Co., Ltd
Ms	Shinta Widjaja	Kamdani	CEO	Sintesa Group
Mr	Pranav	Kumar	Head-International Policy & Trade	Confederation of Indian Industry
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Mr	Fernando	Landa	Director , International Affairs	Tenaris / Techint Group
Dr	Andrey	Laptev	Head of Corporate Strategy	Severstal
Mr	Gary	Litman	Vice President, International Strategic Initiatives	United States Chamber of Commerce
Mr	Andrew	Liveris	Chairman & CEO	The Dow Chemical Company
Mr	Patrick	Low	Vice President for Research	Fung Global Institute
Mr	Andrew	Mackenzie	CEO	BHP Billiton
Mr	Jamal	Malaikah	President	National Petrochemical Industrial Co (NATPET)
Mrs	Emma	Marcegaglia	Chairman	Eni spa
Mr	Rizanur	Meral	President	Confederation of Businessmen and Industrialists of Turkey, TUSKON
Mr	Robert	Milliner	B20 Australia 2014	Australia B20 Sherpa
Mr	Alexey	Mordashov	Chief Executive Officer	Severstal
Mr	Robert	Mulligan	Senior Vice President for Policy and Government Affairs	United States Council for International Business
Mrs	Denise	Rennmann	Head Public and Governmental Affairs	Bayer AG
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Mr	Andrew	Smith	Country Chair of Shell in Australia	Shell Australia Limited
Mr	Peter	Sykes	President, Dow Asia Pacific	The Dow Chemical Company
Mr	Youjun	Tong	Chairman	China International Trade Institute
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Mr	Ping	Yu	Vice Chairman	China Council for the Promotion of International Trade

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