

IATA ECONOMIC BRIEFING

MARCH 2014

IMPACT ASSESSMENT OF WTO BALI DEAL ON AIR FREIGHT

KEY POINTS:

The Bali trade facilitation agreement has the potential to alleviate some of the downward pressure of world trade growth and air freight demand by setting out a series of measures to improve customs operations, thereby reducing the costs of trade.

Recent trends show that world trade is growing at the same rate as industrial production, not at 2 times the pace as it had done before the recession, largely because of an increase in on-shoring and protectionist measures.

If these trends continue, growth in world trade, and therefore also air freight demand, could be lower than at rates typically seen during a global economic upturn.

The full implementation of the Bali trade facilitation agreement is estimated to increase air freight carried by 1.4 – 4.4 % or an increase in value in air freighted goods of about USD 100-300 billion.

What is the Bali Agreement?

- The 'Bali Agreement' is the Trade Facilitation Agreement that emerged from the World Trade Organisation (WTO) Ministerial Conference in December 2013, in Bali. The Agreement contains significant trade facilitation obligations and recommendations for its signatories with regard to customs operations. Provisions of the Bali Agreement will become legally enforceable through the dispute resolution mechanism of the WTO.
- The measures within the Bali Agreement are intended to lead, in time, to important reductions in the cost of trade, mostly through harmonisation of procedures, and greater transparency and predictability. The Bali Agreement contains provisions for faster and more efficient customs procedures through effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It also contains provisions for technical assistance and capacity building in this area.¹

The Bali agreement comes at a critical time: to reverse the tide of protectionist measures

- International trade has exhibited tremendous growth over the past several decades, with the value of goods traded increasing 27 fold between 1950 and 2005.² Over more recent years, however, growth in trade has slowed and since the recession, expansion in world trade has been no greater than growth in industrial production.
- More recently, the trend in world trade growth has shown improvement, but the pace of growth has remained in line with industrial production, not at multiples of 2 times the global growth seen prior to the recession. The contraction in global trade and subsequent stagnant recovery is in part explained due to government using trade policy instruments, especially non-tariff measures, to protect their domestic producers.

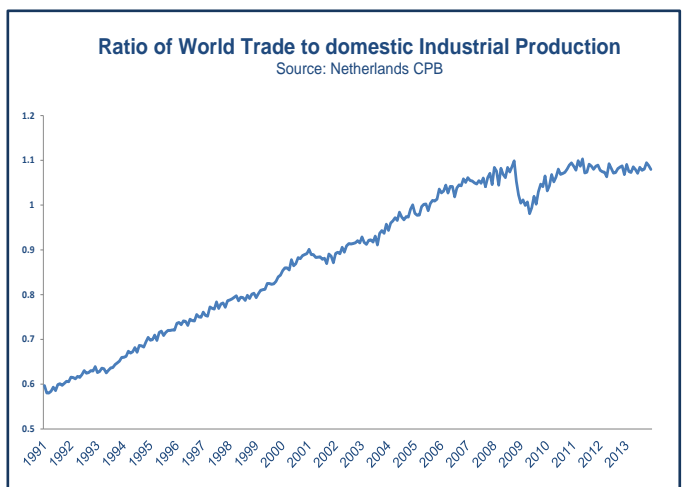


Chart 1: Ratio of World Trade to Industrial Production. Source: CPB

¹ Trade Facilitation. (n.d.) World Trade Organization. Retrieved from http://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm

² WTO World Trade Report 2007 Six decades of multilateral trade cooperation December 2007.

- The rise of protectionist measures have resulted in higher barriers to trade. In 2012, almost 500 measures were estimated to have been introduced. Non-tariff barriers, often manifested at the border, were the third most commonly used form of trade barrier (after trade defence measures and state aid).³

Efficient borders are increasingly important given rise in trade of intermediate goods

- Global trade is no longer driven by trade in finished products. An increasing share of global trade is in intermediate goods – threefold growth was observed over the ten year period up to 2011. When looking at trade flows based on stage of processing, intermediate goods now make up about half of the global trade by value. The emergence of global value chains, as evidenced by the rise in trade of intermediate goods, has led to fractionalized and dispersed production that spans across national boundaries and even cross-regional geographies.⁴
- Inefficiencies at the border can create direct and indirect costs for trade. Improving efficiency with which goods flow through borders plays an increasingly important role for enabling countries to integrate into global value chains.

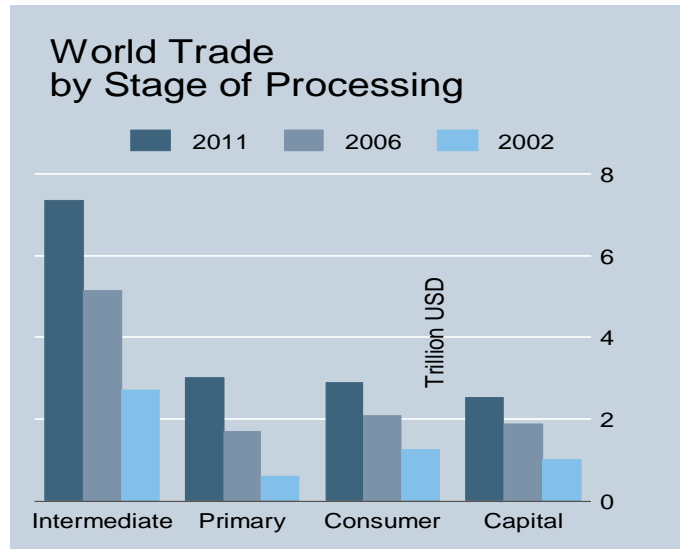


Chart 2: World Trade - Stage of Processing. Source: UNCTAD

Impact of Bali likely to boost air freight volume by 1.4 – 4.4 % equivalent of USD 100-300 billion

- As summarized in chart 3, OECD estimates that under full implementation of the Bali agreement trade costs will be reduced by 14.1% for low income countries, 15.1% for lower-middle income countries, 12.9% for upper middle income countries.⁵ OECD also estimates that trade facilitation measures will reduce trade costs by about 10% for OECD member states.⁶ For analysis in this briefing, trade cost reductions from Bali implementation are estimated at 11% across all income countries based on weighting cost reductions by trade value.
- The relative reduction in trade costs (direct and indirect) will represent a different proportion of the value of the traded good depending on the trading environment and the good being traded. A relative improvement in a country with efficient customs handling and other characteristics that result in low trading costs will result in a smaller absolute improvement compared to an inefficient country. The relative reduction in trade transaction costs will vary not only by trading environment but also by the type of good traded. A study by the Australian Department of Foreign Affairs and Trade in 2001 investigated the potential trade transaction cost reduction from a paperless customs administration system (a sub-category of trade facilitation measures). The saving estimates ranged significantly from 1.5% for bulk sea shipments of coal to 15% for air shipments of fresh asparagus.⁷

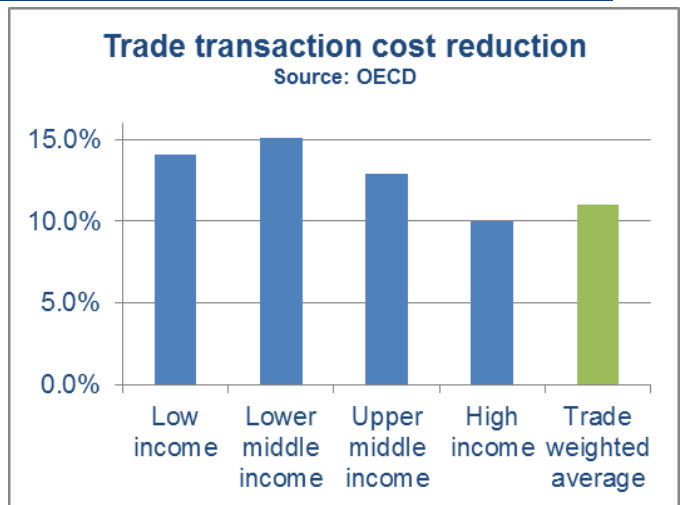


Chart 3: Trade transaction cost reduction. Source: OECD

³ Global Alert, What Restraint? Five years of G20 pledges on Trade, 2013.

⁴ <http://www.oecd.org/trade/G20-Global-Value-Chains-2013.pdf>

⁵ OECD, The WTO Trade Facilitation Agreement – Potential Impact on Trade Costs, February, 2014.

⁶ OECD, Trade Facilitation Indicators, Working Paper 118, 2011.

⁷ Paperless Trading Benefit to APEC, the Potential of the APEC Paperless Trading Initiative, Department of Foreign Affairs and Trade of Australia, 2011.

- Similarly, goods with different characteristics (extent to which they are perishable and their value) will have different trade transaction costs. Research studies have found that trade transaction costs range between 1 and 15% of trade transaction value. The large range is partially explained due to the difference in levels of efficiency among countries. Since most of the estimates occur in the low to middle range⁸, this analysis assumes that trade transaction costs are between 5 and 10% of the transaction value.
- Estimates of trade elasticities differ country by country and are driven by several factors including the product mix of traded goods. Estimates for trade elasticities vary significantly and fall within a wide range.⁹ This analysis applies a low (-2.5) and high (-4) trade elasticity to assess a range of potential impacts from the Bali agreement.
- Table 1 summarizes the potential impacts. The full implementation of the Bali trade facilitation agreement is estimated to increase air freight carried by 1.4 – 4.4 % or an increase in value in air freighted goods of USD 89-284 billion.

<i>Impact on trade cost, %</i>	11.0%	
<i>Total value of global trade by air, USD trn</i>	6.44	
	Low	High
<i>Trade cost as a share of transaction value, %</i>	5.0%	10.0%
<i>Trade elasticity</i>	-2.5	-4
<i>Increase in value of goods carried by air, %</i>	1.4%	4.4%
<i>Increase in value of goods carried by air, USD billion</i>	89	284

Table 1. Source: OECD (trade cost reduction), IATA (total value of global trade by air), World Bank, NBER working papers (trade elasticity range)

- In order to capitalize on the above mentioned benefits it is critical for WTO member countries to recognize the importance of the Bali agreement for global trade and move swiftly to full ratification and implementation.

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⁸ The Economic Impact of Trade Facilitation. October 2005. OECD Trade Policy Working Paper No. 21

⁹ Kee, Nicita and Olarreaga of the World Bank estimate for a sample of 88 countries the average import demand elasticity of -3.12, with wide variation across countries and products (Import Demand Elasticities and Trade Distortions). Similarly, Simonovska and Waugh in their 2011 working paper for the National Bureau of Economic Research calculate a benchmark estimate for elasticity of trade of -4.14, with several ranges presented and based on an analysis spanning 123 countries that account for 98% of world GDP (The Elasticity of Trade Estimates and Evidence). Several other studies reviewed confirm the wide range of trade elasticity estimates and include elasticity estimates outside the range used in this analysis. This analysis uses a range of trade elasticity estimates that are based on a broad set of sample countries.