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**DESIGN AND IMPLEMENTATION OF TRANSIT TRANSPORT
ARRANGEMENTS ¹**

Note by the UNCTAD secretariat

Executive Summary

Countries that depend on transit trade, i.e. notably the landlocked countries, are confronted with a variety of practical constraints that increase the logistics costs of their international trade. For example, it is estimated that landlocked developing countries have to bear, on average, 50 per cent higher international transport costs than their neighbouring transit/coastal countries. The specific constraints are related to Customs and border procedures and also to the fact that cargo and transport services have to adapt to different sets of administrative, legal, commercial and other conditions when passing through a third country. Transit arrangements that aim at diminishing these constraints need to take new developments into account, notably concerning trade facilitation, new technologies, multimodal transport, and transport security. In order to develop and implement specific transit arrangements, the public and private sectors of the transit country and of the landlocked country need to cooperate within each country, as well as between the two countries, through appropriate national and regional coordination mechanisms. In many cases, corridor-specific arrangements can be found that lead to win-win situations, where both countries can benefit from synergies and economies of scale in investments and transport operations.

¹ This document was submitted on the date indicated above as a result of technical delays.

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A. Introduction and background

Transit trade, transport costs and economic development

1. “Transit trade” is a country’s foreign trade that passes through a third country’s territory prior to reaching its final destination. For overseas trade, it usually also implies the use of a foreign country’s airport or seaport. Transit trade crosses borders. On one side of a border between two countries, cargo and supporting transport services are subject to a set of conditions, including laws and regulations, administrative requirements, commercial practices and technical standards applicable to cargo, transport services, vehicles and infrastructure. On the other side, they are likely to be subject to a different set of conditions. Put differently, once the import or export cargo goes beyond the national territory’s boundaries, the trade and transport conditions change, and adapting to different sets of conditions implies additional costs and time.
2. The landlocked developing countries (LLDCs) depend on transit trade for their integration into the world economy. Many landlocked countries are also least developed countries (LDCs), and the average per capita income of landlocked developing countries is less than a third of that of coastal developing countries.²
3. Apart from dependency on transit trade, many LLDCs also share other characteristics, such as a high reliance on commodity exports, adverse climates and low population densities. However, even if these other aspects are taken into account, there exists clear empirical evidence to show that being landlocked on its own significantly explains low levels of income, growth and foreign direct investment.³
4. Dependence on transit trade should not be confused with remoteness or distance from the sea. Many large countries have regions or cities that are further away from the sea than most capitals of landlocked countries. Of course, distance, too, has a measurable impact on transport costs, yet this is not related to the specific problems associated with transit transport. Several recent studies have attempted to quantify the specific impact of being a landlocked country, and they clearly conclude that it does lead to additional monetary transport costs, just as it leads to higher delivery times, which further inhibit foreign trade.
5. In 2001, the total freight costs of African landlocked countries as a proportion of import value were 20.7%, which is four times as high as the average for developed market economies countries (5.1%) and almost twice the average of African developing countries

² John Luke Gallup and Jeffrey Sachs: “Geography and Development”, December 2000.

<http://www.cid.harvard.edu/caer2/htm/content/papers/bns/dp39bn.htm>

³ See, for example:

- Anwarul K. Chowdhury, United Nations Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States: “Transport constraints on global competitiveness of developing countries: special problems of landlocked developing countries and the United Nations measures”, presented to World Bank Transport Forum, Washington, 2003.

http://www.worldbank.org/transport/forum2003/presentations/pdf_presentations/chowdhury.pdf

- World Bank: “Transport services: Reducing barriers to trade”, in *Global Economic Prospects*, Chapter 4, Washington, 2002. <http://www.worldbank.org/prospects/gep2002/chapt4.pdf>

- Ximena Clark, David Dollar and Alejandro Micco: “Port efficiency, maritime transport costs and bilateral trade”, Washington, 2004. <http://www.nber.org/books/IASE11-03/clark-et-al2-28-04.pdf>

- John Luke Gallup and Jeffrey Sachs with Andrew D. Mellinger: “Geography and economic growth”, World Bank, April 1998. <http://www.worldbank.org/html/rad/abcde/sachs.pdf>

(12.7%). A study on United States exports to selected worldwide destinations found that an extra 1,000 km by sea raises costs by only 4 per cent, while the same distance by land raises costs by 30 per cent of a median shipment. If a country is landlocked, transport costs rise by almost 50 per cent. Accordingly, the higher transport cost of transit trade cannot be explained by the higher overland distance that must be overcome to reach the sea. “There are several possible reasons for this, arising from border delays or transport coordination problems, uncertainty and delays creating higher insurance costs, and direct charges that may be made by the transit country.”⁴ Section B of the present note analyses these “possible reasons” in more detail.

The need to overcome practical obstacles to transit trade

6. In 1921, the Convention and Statute on Freedom of Transit (Barcelona), and in 1958, the Convention on the High Seas (Geneva), were adopted with a view to ensuring that landlocked countries have access to seaports and overseas markets. In June 1964, UNCTAD I “having regard to the various aspects of the problem of transit trade of landlocked States, [considered] that, for the promotion of the economic development of the landlocked States, it is essential to provide facilities to enable them to overcome the effects of their landlocked position on their trade”.⁵ It adopted eight principles concerning the transit trade of landlocked countries, which were subsequently reconfirmed by the Convention on Transit Trade of Landlocked States (New York, 1965).

7. In spite of these principles and conventions, practical difficulties regarding transit trade continue to persist. In order to encourage collaboration among the major players concerning possible improvements in transit trade, the United Nations General Assembly convened, in August 2003, the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation in Kazakhstan.⁶ The Conference agreed upon the Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation between Landlocked and Transit Developing Countries.⁷

8. In an issues note prepared for an UNCTAD parallel event during the Conference, it was pointed out that in order to “facilitate trade and transport along transit corridors, landlocked and transit developing countries need to use internationally agreed rules, regulations and recommendations. This is the only way to avoid a proliferation of uncoordinated and often contradictory regulatory frameworks, with all the difficulties this would pose at the

⁴ Nuno Limão and Anthony J. Venables: *Infrastructure, Geographical Disadvantage, Transport Costs and Trade*, London and New York, 2000. <http://econ.lse.ac.uk/staff/ajv/nltv.pdf>. The authors note that “although the final city destination for landlocked countries is on average four times further from the sea than the final city destination of coastal countries in this sample the landlocked dummy remains significant after land distance is controlled for.” (page 5).

⁵ Final Act of UNCTAD I, adopted by the Conference at its thirty-fifth plenary meeting held on 15 June 1964 in Geneva.

⁶ The programme and proceedings can be found under <http://www.un.org/special-rep/ohrlls/imc/default.htm>

⁷ See <http://www.un.org/special-rep/ohrlls/imc/A-58-388-final.pdf>. The plan of action consists of five priority areas, dealing with 1) transit policy issues, 2) infrastructure, 3) trade facilitation, 4) international support, and 5) implementation and review.

operational level.”⁸ Section D of the present document, will cover steps that need to be taken so as to adopt transit arrangements that avoid such uncoordinated frameworks and the resulting difficulties.

9. The remainder of this document consists of four parts: In part B, practical constraints faced by transit trade are introduced. Part C deals with new developments in international transport and logistics that have a major impact on transit trade. Part D reviews steps towards designing and implementing transit transport arrangements. Finally, Part E contains conclusions and suggestions for a way forward.

B. Main constraints facing transit trade

10. In spite of a variety of conventions and adopted principles, countries that depend on transit trade continue to face practical difficulties with their integration into the world economy. The specific reasons for higher transport costs and longer delivery times for imports and exports vary from place to place. They result from costs and procedures incurred at the border, and also from discrepancies in the trade and transport environment of the landlocked and transit countries. The most common critical areas are related to standards and specifications, infrastructures and technologies, operational systems and practices, documentation and procedures, and transit charges.

11. **Different safety, environmental and other standards and regulations:** National transport operations are affected by a broad set of regulations, standards and commercial practices, which may differ between the transit and the landlocked country. Trucks may, for example, be subject to different axle load limits, vehicles may have to comply with different environmental norms, and drivers' licences and other certification documents may not be mutually recognized. Non-compliance may lead to restrictions on or even the prohibition of local operation of foreign trucks or to fines and other charges on trucks operating outside these standards.

12. **Inadequate transport infrastructure:** The transport infrastructure of a country is often planned and built to accommodate the needs of the country's own traffic. Some links in the local transport networks may be insufficient to cater for the trade flows of third countries. There may also exist incompatible systems, such as different rail gauges.

13. **Insufficient use of ICTs:** Information and communication technology (ICT) systems for transport operations require that compatible technologies be used along the entire transport chain. The workability of a system as a whole tends to be defined by the workability of its weakest link. A cargo tracking system, for example, would be of only limited use to the shipper or its transport service provider if it could not cover the complete transport chain.

14. **Visa and other requirements for drivers or crews:** Freight transport operations often also require the movement of people, such as truck drivers, or vessel crews.⁹ Restrictions or administrative hurdles on the movement of people may thus equally lead to obstacles for the movement of goods.

⁸ “Strategies for landlocked and transit developing countries to plan and implement sustainable trade and transport facilitation initiatives”, issues note by the Secretary-General of UNCTAD, Geneva, 2003, http://www.unctad.org/en/docs/sdtetlb2003d2_en.pdf

⁹ See also the ongoing negotiations about the temporary movement of people to supply services (“mode 4”) at the World Trade Organization in the framework of the General Agreement on Trade in Services (GATS).

15. **Protection of national operators:** Protective practices, not just by Governments, but also by the freight industry itself, often restrict cross-border operations through a cumbersome system of permits. The result is sub-optimal utilization of a region's transport capacity. Often, national road transport associations lobby Governments to maintain this control so as to preserve their market share. Such policies may imply the need to tranship cargo between trucks of different nationalities at the border. Even if a foreign truck is allowed until its final destination, it may still be prohibited from taking backhaul cargo, obliging it to return empty. Such restrictions in practice lead to significant increases in transport costs, just as they augment the transit time and increase the risk of damage and pilferage.

16. **Risks and insurance:** Insurance of cargo or means of transport may not be available, or may be more expensive, if goods or vehicles have to pass through a transit country. Especially in countries where risks are perceived to be high, the difficulty of obtaining insurance will lead to reluctance to allow vehicles or containers to move beyond national borders. Often, this leads to a situation where containerized import cargo has to be unstuffed inside the port. In other cases, transit countries may require that insurance be taken with national insurance companies, a situation that tends to further increase the overall transit costs. Furthermore, the non-availability of liability and/or third-party insurance covering transport operations across borders also hinders door-to-door transport services.

17. **Security checkpoints:** Lack of security along certain transit corridors may impose limitations on operating hours, restrictions on the flexibility of truck operations, and sometimes convoy systems. In some countries, crossing local administrative borders involves checkpoints under the auspices of the local administration. Numerous checkpoints along routes generate unforeseen expenditures. The numerous individual fees may be small but they delay the vehicles, provide the opportunity for informal payments and introduce uncertainty.

18. **Lack of coordination:** Coordination between transport operators in landlocked and transit countries and between shippers and customs officials is often poor. This may be due to poor basic communications, limited professional cooperation among trade services providers, and also a lack of institutional mechanisms between the trading communities and the local authorities.

19. **Transport documentation:** The use of a suitable transport document can reduce costs and delays in the delivery of goods and thus promote trade efficiency. While negotiable transport documents, such as bills of lading, enable the sale of goods in transit and provide documentary security to parties involved in international trade, their use is also associated with a number of problems. The time and expense involved in processing and in the late arrival of a bill of lading at the port of discharge, and the costs and liabilities arising from delivery of goods without production of the original bill of lading are some examples. Thus, there is general agreement that negotiable transport documents should only be used in cases where a document of title is needed. At present, negotiable documents are used extensively, particularly in trade with developing countries as well as landlocked countries, even in cases where they are not needed.¹⁰

20. **Inadequate legal framework:** The majority of landlocked and transit developing countries do not have an appropriate and supporting legal framework governing international trade and transport, including Customs issues. Their existing laws and regulations are often fragmented

¹⁰ For information concerning the role of transport documents in international trade and possibilities of their replacement with electronic alternatives, see UNCTAD reports UNCTAD/SDTE/TLB/2003/3 and TD/B/COM.3/EM.12/2.

and outdated and do not cater for modern trading conditions and practices. There is a need to take serious steps towards harmonization and modernization of domestic laws and regulations, on the basis of internationally agreed rules, conventions and standards, in order to facilitate their international trade and transport.

21. Inexistence of a national Customs transit system: Some countries do not have a functioning internal Customs transit system allowing uncleared vehicles and cargo to move from an entry border to an exit border. Such systems rely usually on functioning formal banking and insurance sectors to provide bonds or guarantees to cover the customs duties on uncleared goods in transit. Without access to a bond/guarantee system, Customs control on transit cargo requires some form of duty deposits or Customs-supervised convoy system that is both costly and inefficient. Assembling sufficient vehicles for convoys may delay trucks for days, while high duty deposits and long reimbursement times may effectively eliminate participation. In the case of road transport, conventions such as TIR and TRIE aim at facilitating the movement of goods under Customs seals.¹¹

22. Border crossing formalities and delays: Transit trade often faces costs and delays at border crossings. Even if all paperwork is in order and all requirements are fulfilled, transit traffic may still be affected by long waiting times at the border. These may be due to inadequate manning or poor use of ICTs at Customs border posts, short border post operating hours, or a lack of coordination between the two countries' Customs practices. In addition, there still exists a widespread practice of unofficial payments that need to be made during the border crossing to avoid lengthy physical inspections or administrative hurdles. The negative effect of such delays and payments goes beyond the average time or money spent at the border, because they increase the uncertainty for service providers and shippers. Extra time and financing need to be allowed for simply to cover the unpredictability of expenditures and delays at the border.

23. Transit fees: Countries may charge transit fees in one form or another. The transit fees may operate in combination with a quota permit system, with fees charged only when the annual quota of permits has been exceeded. Furthermore, there may be differences in the fees levied on vehicles exceeding normal weights and dimensions, or in the amount of fees levied on vehicles operating beyond the quotas. Some fees may be considered discriminatory, and additional fees may be levied by various state bodies.

24. Unilateral actions: From one side of a border to the other, the requirements are often different in terms of documentation, customs inspections, security checks, and transit and other charges. More critically, requirements may change from time to time without operators being given adequate notification of the changes. This leads to additional uncertainty and thus costs for shippers and transport operators, who have to prepare for unforeseeable delays.

25. Many of the above points are linked to each other. For example, the introduction and use of adequate ICTs may help to improve the predictability of border-crossing procedures; better infrastructure or common safety standards may reduce insurance costs; and steps towards a common transport services market may reduce the likelihood of being confronted with the

¹¹ TIR stands for "transports internationaux routiers" (international road transport). The text of the Convention is available under <http://www.unece.org/trans/bcf/tir/tirconv/conv75.htm>. See <http://www.iru.org/TIR/TirSystem.E.htm> for further details about its administration by the International Road Transport Union (IRU). TRIE stands for "transport routier inter etat" (inter-State road transport). The Convention is applied in Western Africa.

need to make “unofficial payments” during a border crossing. Transit transport arrangements need to take these diverse interrelations into account.

C. Recent developments in transport and logistics with a particular impact on transit transport operations

Transit and trade facilitation

26. On 31 July 2004, the World Trade Organization (WTO) agreed on a framework to complete the Doha negotiations.¹² As regards trade facilitation, this framework includes a specific reference to transit: “Negotiations shall aim to clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994 with a view to further expediting the movement, release and clearance of goods, including goods in transit.”¹³ The framework further states that: “Negotiations shall also aim at enhancing technical assistance and support for capacity building in this area. The negotiations shall further aim at provisions for effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues.”

27. It continues: “Least-developed country Members will only be required to undertake commitments to the extent consistent with their individual development, financial and trade needs or their administrative and institutional capabilities”, and “the extent and the timing of entering into commitments shall be related to the implementation capacities of developing and least-developed Members.”¹⁴ It is further “recognized that the provision of technical assistance and support for capacity building is vital for developing and least-developed countries to enable them to fully participate in and benefit from the negotiations.”¹⁵

28. In order to make technical assistance and capacity building more effective and operational and to ensure better coherence, WTO members agreed to invite relevant international organizations, including the IMF, OECD, UNCTAD, WCO and the World Bank to undertake a collaborative effort in this regard.

Technological developments

29. The use of containers in transit traffic can significantly reduce costs and risks. Globally, containerization is continuing to increase for maritime cargo. This has helped to create global liner shipping networks, which connect practically every port in the world. For inland destinations to benefit from these networks, it is important that containers also be used for door-to-door transport operations, especially for transit cargo. Containerized cargo requires less but better qualified personnel in ports, where reforms are still pending in many developing transit countries. It further requires port, rail and road infrastructure, adequate transport equipment, and corresponding regulations and labour regimes. In many developing countries, including transit and landlocked countries, inland links are incomplete and poorly maintained.

30. Like containerization, information and communication technology (ICT) is today radically changing the way in which international trade and transport are conducted.

¹² See WTO at http://www.wto.org/english/tratop_e/dda_e/dda_package_july04_e.htm

¹³ See WTO at http://www.wto.org/english/tratop_e/dda_e/draft_text_gc_dg_31july04_e.htm Article V of GATT deals with transit issues, Article VIII with trade fees and formalities, and Article X with transparent information about trade regulations.

¹⁴ See WTO at http://www.wto.org/english/tratop_e/dda_e/dda_package_july04_e.htm

¹⁵ See WTO at http://www.wto.org/english/tratop_e/dda_e/dda_package_july04_e.htm

Electronic means of communication are used to exchange information, enter into contracts and trace goods during transit. Transport users and providers are using them internally, and also to exchange information among themselves. Technologies used in one part of a global network cannot be different from those used in another. The choice of technology has to take into account the total system's costs. Transport service providers, Customs, and other players with a role in transit transport need to adapt to the prevailing standards and technologies.

31. An important example of technological developments concerns automated customs information systems, such as ASYCUDA.¹⁶ Most such systems nowadays have special modules that deal with transit traffic and also help with risk management for transit traffic. The latter is particularly important in the context of today's more stringent security requirements (see also below under "Supply chain security"). Another specific technological development of importance for transit transport is the increased use of cargo tracking systems.¹⁷ Nowadays, most shippers as well as owners of transport equipment expect to be able to follow their shipments on-line throughout the entire transport chain. Cargo tracking systems of freight forwarders, carriers, ports, and transport providers need to be interlinked.

Multimodal transport

32. As a result of containerization, multimodal transport has been growing exponentially, and it continues to do so. Imports to landlocked developing countries, whether by means of container or otherwise, tend to involve at least two modes of transportation, such as sea and land transport (road/rail). Due to the high risks associated with the land leg of transportation and the absence of appropriate legal frameworks in relation to such transportation, international carriers do not, in many cases, offer one contract to cover the entire transport operation from origin to destination, with one party taking responsibility throughout.

33. Thus, international transport of goods from a developed country to a landlocked developing country using two or more modes of transport tends to involve numerous contracts and documents, with several different parties – not always easy to identify – being responsible for the parts of the transport carried out by them. In particular in relation to containerized goods, it may be difficult or impossible to establish where loss or damage occurred and, consequently, which carrier may be liable and under which terms. Even where loss or damage can be localized, a cargo claimant may go empty-handed, as carriers tend to operate on the basis of standard term contracts under which their liability may be excluded or very limited. Although some international unimodal conventions exist to ensure minimum standards of carrier liability, these conventions have often not been ratified or implemented by landlocked developing countries. Ratification and effective implementation of existing transport conventions need to be considered as a priority for action.

34. Various factors affect the decision of the service provider in offering multimodal transport contracts to landlocked developing countries, including the risks involving the land transportation, safety and security in ports, availability of insurance and the existence of appropriate legal frameworks governing transportation. Landlocked developing countries, particularly, would benefit from the existence of a predictable and internationally uniform legal regime for multimodal transport. At present, no international convention on multimodal transport is in force, as the UN Convention on the International Multimodal Transport of Goods 1980 has not received the required number of ratifications, and the international legal

¹⁶ www.asycuda.org

¹⁷ See, for example, the Advance Cargo Information System, ACIS, www.railtracker.com

framework is complex and fragmented.¹⁸ Against this background, work that recently commenced within an UNCITRAL Working Group on Transport Law aimed at the preparation of a new international instrument is of major importance.¹⁹

Transport/supply chain security

35. Transport security has received significant attention in the aftermath of 11 September 2001, and particular attention has been given to maritime transport. It is, however, recognized that security measures need to cover the entire supply chain in order to be effective. Thus, various national, regional and international initiatives to enhance maritime and supply chain security have emerged, with significant impact on international transport.²⁰

36. In the United States, several programmes and legislative measures have been initiated during the last few years including, the Customs-Trade Partnership Against Terrorism (C-TPAT), the Container Security Initiative (CSI), Operation Safe Commerce (OSC), the 24-Hour Rule, the Trade Act of 2002 and the Maritime Transportation Act of 2002. The overall objective of these initiatives is to enhance security along the supply chain by requiring detailed information and cooperation among all actors involved in the trade and transport industry.²¹

37. At the European Union level, concerted efforts have been made towards ensuring a comprehensive security regime for the entire maritime logistics chain. They include the recent EU Regulation on Enhancing Ship and Port Facility Security²², as well as a draft Directive on Enhancing Port Security.²³

38. At the international level, the International Maritime Organization (IMO), in December 2002, adopted a number of amendments to the 1974 Safety of Life at Sea Convention (SOLAS), including the new International Ship and Port Facility Security (ISPS) Code. The Code applies to all cargo ships of 500 gross tonnage or above, passenger vessels, mobile offshore drilling units and port facilities serving such ships engaged on international voyages. It came into force on 1 July 2004, and its implementation is mandatory for all 148 States parties to the SOLAS Convention.

39. The World Customs Organization (WCO) is investigating ways to improve transport security and adopted, in June 2004, a Resolution on Global Security and Facilitation Measures Concerning the International Trade Supply Chain.²⁴ The work of the WCO includes the preparation of a number of instruments and guidelines, including the

¹⁸ For an overview of the current legal framework, see “Implementation of multimodal transport rules”, UNCTAD/SDTE/TLB/2 and Add.1. See also *Multimodal Transport: The Feasibility of an International Legal Instrument*, UNCTAD/SDTE/TLB/2003/1.

¹⁹ For further information, see the working documents before the UNCITRAL Working Group available on the UNCITRAL website (www.uncitral.org). The *Draft Instrument on Transport Law* is contained in document A/CN.9/WG.III/WP.21. The revised version of the Draft is contained in document A/CN.9/WG.III/WP.32. For detailed comments by the UNCTAD secretariat, see UNCTAD/SDTE/TLB/4.

²⁰ For information on various security measures, see “Container security: Major initiatives and related international developments. Report, by the UNCTAD secretariat”, UNCTAD/SDTE/TLB/2004/1.

²¹ For detailed information on the US security measures, see www.cbp.gov.

²² Regulation (EC) No 725/2004 of the European Parliament and of the Council of 31 March 2004 on Enhancing Ship and Port Facility Security.

²³ Draft directive of the European Parliament and of the Council on Enhancing Port Security, adopted by the Commission on 10 February 2004, document 2004/0031 (COD).

²⁴ For further work of WCO, see www.wcoomd.org and document UNCTAD/SDTE/TLB/2004/1, paras.72-76.

International Convention on Mutual Administrative Assistance in Customs Matters (June 2003), the Revised Kyoto Convention on Simplification and Harmonization of Customs Procedures, the Customs Data Model for Electronic Transfer, and the Advance Cargo Information Guidelines, now called Guidelines on Integrated Supply Chain Management (ISCM Guidelines).

40. Against this background, compliance with security requirements is becoming increasingly important for the whole supply chain. This chain is as weak as its weakest link, and if ports or logistics operators in a transit country are non-compliant, this also affects the efficiency and thus competitiveness of landlocked countries' trade. Non compliance with applicable security requirements relating to maritime transport may thus bring negative economic consequences, not only for coastal transit countries but also for landlocked developing countries that rely on port facilities of these transit countries or that are served by non-compliant shipping lines.²⁵

D. Cooperation towards transit transport arrangements

41. As has been shown above (section B), transit trade may face a wide range of different obstacles and constraints. At the same time, transport and logistics services have recently experienced various developments that also have an impact on transit trade (section C). All these issues need to be considered in the design and implementation of transit transport arrangements. Section D will now deal with the question of how transit countries and those countries that depend on transit trade should jointly approach transit transport arrangements. The main thrust of the approach is that ultimately both countries will benefit from such arrangements, as they should make use of synergies, identify win/win situations, and in the end allow for economies of scale in transport operations.

The reform of national trade and transport systems

42. As explained above, transit trade not only implies the crossing of a border, but above all it means that cargo and supporting transport services are subject to different sets of national conditions, including laws and regulations, administrative requirements, commercial practices and technical standards applicable to cargo, transport services, vehicles and infrastructure. These conditions may be different in the transit country and in the country that depends on this transit trade. Apart from reducing direct transit costs and border procedures, a transit arrangement will thus primarily have to reduce the differences between these sets of national conditions.

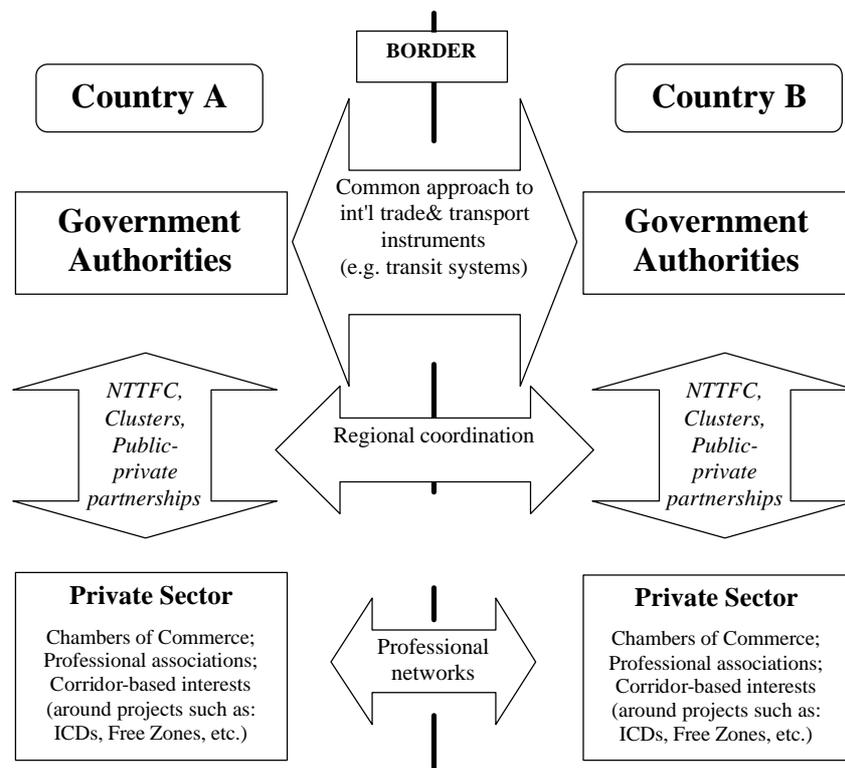
43. The reform of a national trade and transport system requires cooperation between the public and the private sectors. Such cooperation needs to involve different levels of government, as well as industry associations, chambers of commerce and similar entities, as illustrated under "Country A" in figure 1. Jointly, these players need to develop properly functioning domestic markets and transport networks and provide the conditions for the best use of available transport and communications technologies.

44. It is essential to give proper consideration to the interlinked roles of the two main players closely involved in making trade and transport more efficient in a given country: (1) the public sector (government and different national, regional or local authorities), which

²⁵ For a general estimate of security costs, see OECD report on *Security in Maritime Transport: Risk Factors and Economic Impact*, July 2003, www.oecd.org.

designs, builds and maintains trade-related infrastructure, and prepares and implements national laws and regulations affecting trade and transport; and (2) the private sector. The latter includes service providers (carriers and freight forwarders, as well as banks, insurance companies and others), as well as shippers, i.e. the users of trade and transport support services.

Figure 1: Communication and cooperation towards transit transport arrangements



Source: UNCTAD. Note: NTTFC stands for National Trade and Transport Facilitation Committee. ICD stands for Inland Clearance Depots.

45. Concerning the public sector, in many countries Governments have no specific entity dealing with international transport and transit issues. Different departments of ministries or even different ministries deal with specific but fragmented aspects (sea, air, road, rail) of such issues. International transport and transit constitute a kind of “no-man's land” where coordinated decisions are rendered difficult. As a result, there is very little awareness within public offices of the importance of national transport in the context of international trade. This situation limits the possibility of promoting new forms of transport (e.g. multimodal transport) that Governments could use to stimulate national demand and supply for modern transport services.

46. Concerning the private sector, trade and industry associations often lack capacity and resources to articulate policy options effectively and to engage in effective dialogue with Governments. This is because they lack resources (both finance and expertise) to enable them to organize and improve networking and information sharing amongst them. Consequently, they tend to be reactive rather than proactive in their interactions with Governments and in contributing to the shaping of national and regional policies.

47. Coordination and cooperation between the public and the private sectors tend to be weak, too. Working relations between public offices, on the one hand, and private enterprises, on the other, may be marked by mistrust, if the services try to defend the public interest, or by complicity, when they yield to entreaties. The public sector is completely national, whereas the private sector tends to be partly foreign. Any strategy for improved coordination will usually have to involve a profound change in the mindset of both parties.²⁶

International coordination and cooperation to develop transit arrangements

48. Designing and implementing transit transport arrangements requires not only cooperation between the public and the private sectors at the national level, but above all cooperation between the government authorities of the countries involved, as well as between the shippers and carriers of the transit country and the country that depends on the transit trade (figure 1).

49. Proper consultation mechanisms must be set up. These mechanisms can serve as national or local fora, constituted formally or informally, to propose, discuss, consult and seek consensus between commercial parties and governmental authorities on facilitation measures to improve international trade and transport, including transit matters. As a result of joint public and private initiatives, these fora would aim at providing a coordinated, coherent and harmonious environment to enhance the competitiveness and quality standards of a nation's trade and transportation system.

50. In particular, consensus building along transit transport corridors implies the organization of adequate training for the concerned governmental officials and private sector staff, the creation of institutional mechanisms to support the awareness and ownership of the required changes, and the establishment of proper information at societal level in all the countries concerned by the arrangement.

The implementation of transit transport arrangements

51. In many regions, the basic policy and institutional framework for transit transport cooperation exists in the form of bilateral and multilateral agreements. Nevertheless, transit traffic constraints are still prevalent not because of a lack of agreements, but because of poor implementation of the resultant provisions. Implementation may require the establishment of national working groups/structures to elaborate practical solutions and secure their subsequent implementation. Such structures may take the form of "formal" facilitation bodies (e.g. "National Trade and Transport Facilitation Committees" (NTTFCs) or "PRO-organizations") or less formal "clusters".

52. The effective implementation of a transit arrangement is the natural outcome of well-designed solutions to alleviate discrepancies. The search for such solutions calls for consensus building, not only at national level among the concerned stakeholders, but also at the bilateral level among the national administrations and service providers involved in cross-border operations along the transit corridors.

53. Implementation may also require the establishment of bilateral or multilateral coordinating structures to cope with fragmented national efforts and resources, and to secure the coherent implementation of the national initiatives within a cross-border transit transport corridor perspective. These structures would involve donors, regional institutions, transport service providers, Governments and others as appropriate. They would warrant an integrated

²⁶ See "Review of progress in the development of transit transport systems in Eastern and Southern Africa" UNCTAD/LDC/115, July 2001. <http://www.unctad.org/en/docs/poldcd115.en.pdf>

and coordinated approach to addressing transit transport issues and, in particular, to setting priorities and ensuring optimal resource utilization. The role of such structures includes, *inter alia*, the regular review and possible revision of the arrangement, as well as the organization of effective monitoring and compliance mechanisms. This may require considerable financial resources and technical capacity, as well as political commitment on the part of Governments. This approach has been developed in Eastern and Southern Africa corridor agreements and is included in the recent ASEAN Transit Framework Agreement.

54. When an agreement already exists, efforts should be made by all parties to the agreement to identify the reasons why it does not fulfil its purpose and to design the conditions to make it operational. Based on this review, more effective and operational measures could be elaborated, including institutional measures and administrative support (e.g. establishment of a subregional trade and transport committee); infrastructure-supporting developments (e.g. funding of communications equipment); the use of information technologies for customs transit control purposes, etc.; practical measures (e.g. printing of manuals and documents for transport users and providers in both countries); and the establishment of adequate training programmes covering the agreement and the new procedures it implies, designed for government officials and private sector interests.

Specific steps towards transit transport arrangements

55. As shown above, improving transit trade is of major concern for the development of landlocked developing countries. The negative impact of constraints on transit transport is very significant. Yet no simple solutions to these challenges exist. Specific steps towards transit transport arrangements require cooperation and consensus building among public and private sectors, in transit and landlocked countries.

56. Any process of designing a new transit arrangement, or re-engineering an existing one, should begin with an analysis of the specific constraints encountered on a particular corridor (see also section B above). Taking into consideration recent developments in trade and logistics (see also section C above), the following points need to be targeted: (a) the political will of the transit and landlocked countries to establish an efficient transport transit corridor, and the readiness and ability of the administrations to create a favourable institutional environment; (b) the commercial interest of shippers and transport providers, from both the transit and the landlocked countries; (c) the management and administration of the traffic in transit; (d) the Customs tariffs in force in the countries along the transit transport corridor; and (e) the status and conditions of the transport and communications infrastructure in the countries along the transit transport corridor.

57. Along specific corridor routes, going through two countries, authorities may agree on specific applications or ad hoc exceptions to general regulations and administrative requirements. Such applications or exceptions are made under the understanding that a new situation can be established in which all parties benefit (win-win situation) on a given corridor-route. The design of the resulting transit transport agreement must reflect the different environments and strive toward some form of harmonization. Possible trade-offs must be identified to balance the interests of the neighbouring countries. For example, to increase the volume of transit cargo in a port of country A, non-standard trucks from country B could be allowed to operate along specific road corridors within country A. This can be possible as long as a spirit of cooperation can be created. This spirit of cooperation rests on the joint effort of public and private sectors in each country, plus strong will in these sectors to collaborate across borders.

58. Transit transport issues cannot be treated by national authorities alone, and neither should they be “crisis driven”. While some progress may have been made, dialogue on transit transport issues needs to be more visible and systematic and should be driven by the private sector through industry and trade associations.

59. In a number of regions, there is already close collaboration between enterprise networks. Chambers of commerce could come closer together to form regional associations, as has been done, for example, in Southern Africa.²⁷ Industry associations can potentially become strong advocates for transit transport efficiency improvement. However, for this to happen, there needs to be a deliberate effort to ensure that transit transport issues gain prominence among these bodies and that they are convinced of the benefits of improved transit transport. Such associations would also promote an open atmosphere and accountability by putting pressure on various government departments to be transparent in their operations.

60. A transit arrangement should, if possible, be constructed on the basis of a particular transit transport corridor in which national and commercial interests can clearly be established in each country concerned. The transit arrangement should therefore rather be bilateral instead of multilateral. As a consequence, a landlocked country could have different bilateral arrangements fitting the needs of its multiple and alternative transit corridors. When a landlocked country enjoys multiple transit corridors through different transit countries, multilateral transit arrangements could be sought to the extent that the various bilateral arrangements contain similarities.

61. The arrangement should strive to compensate for the present discrepancies between the two countries regarding laws, regulations, technical standards and commercial practices. It should lead to cooperative work towards harmonization on the basis of international instruments and best recognized practices. While such a harmonization is being sought, the arrangement may provide transitional solutions. Transit arrangements should therefore be considered as dynamic arrangements that should evolve over time.

62. Regarding the key area of Customs, the countries concerned along a transit transport corridor should work cooperatively towards the establishment of their respective internal transit system along the lines recommended by the WCO in the Revised Kyoto Customs Convention. Furthermore, due account should be taken of the fact that countries may have ratified international instruments such as the Kyoto Convention, the TIR Convention, or key international transport and trade conventions.

63. Regarding transport, the landlocked and transit countries should adopt common transport facilitation systems with a view to establishing fair conditions for the treatment of cargo in transit. These systems should aim at improving the free flow of goods and transport equipment between countries along the transit corridor. They call for the use of IT systems facilitating border crossings and cargo tracking. While such transport facilitation systems already exist in the context of some regional cooperation arrangements, their use should be generalized and their provisions and implementation details adapted to the specific local conditions.

²⁷ See "Review of progress in the development of transit transport systems in Eastern and Southern Africa" UNCTAD/LDC/115, July 2001. <http://www.unctad.org/en/docs/poldcd115.en.pdf>

E. The way forward

64. As discussed in this document, countries that depend on transit trade, especially landlocked developing countries, are confronted with significant constraints that affect global market access for their international trade. As a consequence, they tend to engage in less foreign trade, receive less foreign direct investment, and experience lower economic growth. The specific constraints faced by transit trade are not related only to Customs issues, as border crossings also entail having to comply with different “sets” of trade and transport conditions in the transit country and the landlocked country. These conditions are made of laws and regulations, market access and commercial practices, infrastructure, and technologies that affect transport services or cargo in transit.

65. Accordingly, policy makers in concerned countries and the international community need to be aware and keep in mind that the effect of being landlocked is different from the effect of remoteness or distance from the sea and therefore also requires different policy approaches and assistance.

66. Because transit operations are an indispensable element of regional integration, when adopting mechanisms to promote international trade, integration processes need to consider solutions tailored to establish common international environments for trade and transport along transit networks. Such environments would foster regional development along transit corridors and reduce the transit costs of developing landlocked countries.

67. These solutions for the design and implementation of transit transport arrangements can best be devised through cooperation between landlocked and transit countries. To be most effective, cooperation will have to be promoted in parallel at several levels: it should bring together private and public sectors within each country; it will have to cross national boundaries and involve all stakeholders along a given transit corridor; and it should be technically and financially supported by donors and the regional/international community.

68. The focus of the cooperative effort should be put primarily on transit transport corridor operations. Both landlocked and transit countries can benefit mutually from increased trade flows along transit transport corridors. In many cases, simple practical and corridor-specific arrangements can be found that lead to win-win situations, where both the transit and the landlocked country benefit from synergies and economies of scale in investments and transport operations. This would allow the establishment of fair and cooperative conditions leading to a reduction of transit costs.

69. Finally, several recent developments concerning information technologies, multimodal transport, transport security, and future trade facilitation-related negotiations at the WTO may all have a direct and considerable impact on the efficiency of transit operations. Their dynamic nature calls for close monitoring of these developments by transport providers, shippers and governmental institutions so as to keep transit corridor arrangements active and up to date.

70. In brief, cooperative efforts need to involve all private and public stakeholders in transit and landlocked countries, with the support of donor countries and multilateral institutions. Together, they need to focus on institutional, legal, administrative, commercial, technological and operational solutions to improve the operation of transit transport corridors as part of regional networks and in compliance with international standards and practices.