



The Commonwealth

Trade Express

Strategies for Success

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International Transit Scheme to Improve Trading Environment across the East African Community

Introduction

By reducing the time and costs of trading, integrated transit mechanisms are important for boosting trade and enhancing competitiveness in landlocked countries. The net impact of reductions in trade costs – including through transit facilitation – on households, firms and governments, can be positive depending on how complementary investments and regulations are at the national and regional levels. The adoption of the Transports Internationaux Routiers (TIR) system is one viable option to facilitate trade in the East African Community, particularly by increasing transparency in trade facilitation. Through the Export Promotion Council of Kenya (EPC) the Government of Kenya requested technical assistance from the Commonwealth Secretariat to develop a strategic action plan to institutionalise the Convention on International Transport of Goods Under Cover of TIR Carnets (TIR Convention), an international transit system.

Prevailing situation

Landlocked countries experience isolation, lack of territorial access to the sea, remoteness from world markets, and high transport and transit costs. These factors impose serious constraints on socio-economic development including trade competitiveness and the potential for productive integration in the global economy. Of the five countries in the East African Community (EAC), Burundi, Rwanda and Uganda are landlocked. In order to reduce the region's cargo transit costs and delays, Kenya has taken an initiative to institutionalise international transit regime, TIR. Kenya's standalone implementation of the TIR would have limited benefit and impact. To be effective, TIR should be rolled out within EAC. The TIR initiative in Kenya should be a trigger for neighbouring countries, particularly EAC Member States, to also consider ratification. It is anticipated that the EAC Secretariat will recognise

the advantages of the system for exports, through transit countries to African continental and global destinations. Intra-regional trade, which is of strategic importance to the East African region, is set to grow with the operationalisation of the Tripartite Free Trade Area (TFTA), the proposed African free trade agreement between the Common Market for Eastern and Southern Africa (COMESA), Southern African Development



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Community (SADC) and East African Community (EAC). The TIR can increase transparency in the freight forwarding and trucking sector but governments might have to support entry in the market (by supporting upgrades to domestic fleets) and enhance competition (by reducing non-tariff barriers to logistic services) to allow the system to substantially increase the efficiency of trade logistics. Importantly, the TIR has the potential to add value to existing road transport instruments.

What is TIR?

Transports Internationaux Routiers (TIR) is a robust international transit system governed by the TIR Convention. It is managed and administered by the United Nations Economic Commission for Europe (UNECE) and currently has about 70 signatories. The TIR Convention permits the international carriage of goods by road from a customs office of departure in one country to a customs office of destination in another country, through as many countries as required without any intermediate frontier checks unless customs authorities decide otherwise. The International Road Transport Union (IRU) manages the international guarantee system and is authorised to distribute the TIR Carnet, the international customs transit and guarantee document used to clear customs in 85 countries.

The TIR system is based on five key principles that concur with the efficiency and effectiveness of the TIR customs transit regime (Figure 1) as follows:

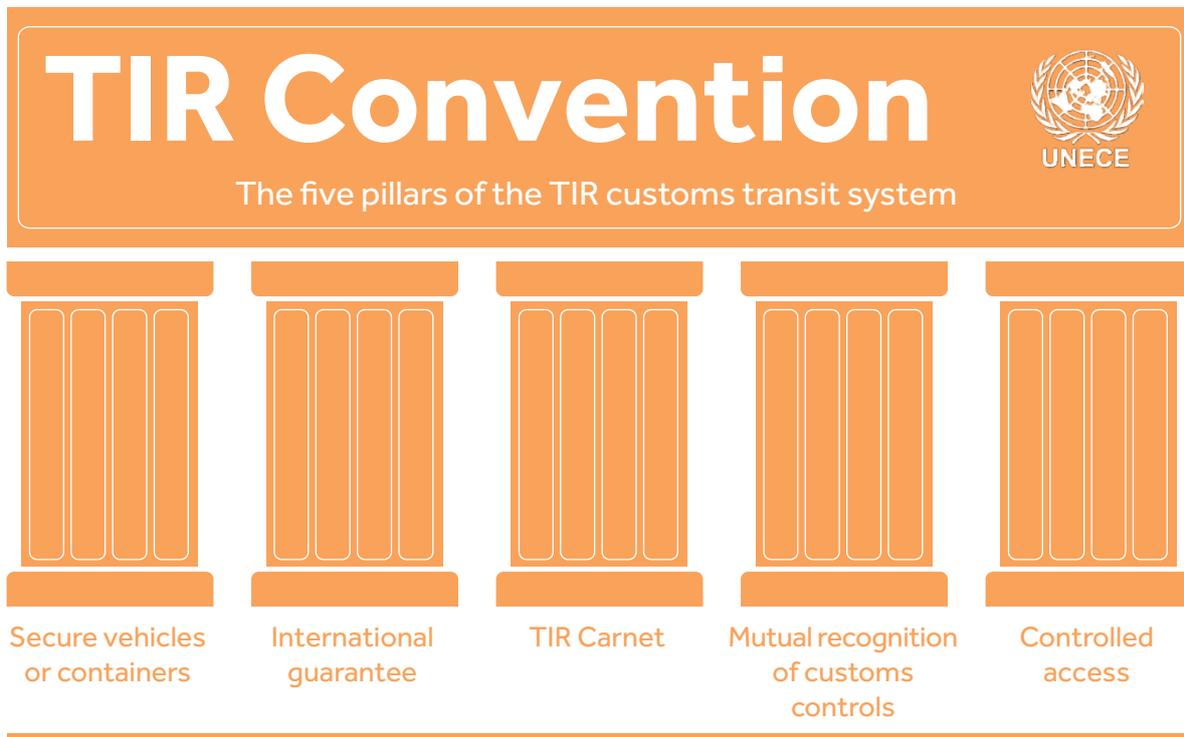
1. Vehicles and containers are to be securely sealed in compliance with standard customs regulations.
2. Duties and taxes at risk are covered by an internationally valid guarantee. This international chain of guarantee ensures that duties and taxes to the value of up to USD 50,000 or EUR 60,000 are paid to revenue authorities.
3. The TIR Carnet functions as both the transit declaration and the guarantee document throughout the journey.
4. Customs control measures and sealing at departure must be recognised by all countries of transit and destination.
5. The competent authorities must only grant access to the TIR procedure to national associations and transport companies that meet the strict criteria of reliability.

The TIR system replaces extensive and time-consuming border checks at intermediate borders. As already noted the system covers customs transit by road but it also allows for a combination of different modes of transport (for example rail, inland waterway and even maritime transport) as long as at least one part of the total transit is made by road.

Between 1975 and 2015 the respective competent national authorities sanctioned more than 40,000 international transport operators to access the TIR system using more than 3.2 million TIR carnets per year. The TIR is likely to remain the only truly global customs transit system in light of the expected increase in world trade, further enlargement of its geographical scope and the forthcoming introduction of an electronic format known as the 'eTIR-system'.

TIR landscape in East Africa

The geographical location of Kenya, combined with the status of Mombasa as a key transit port for neighbouring economies, particularly EAC Member States, as depicted in the map below, underlines the rationale for ratifying and implementing the TIR Convention. Both the Northern Corridor and the planned LAPSSET Corridor, fed by an enhanced Lamu Port, would derive significant benefit from a transit regime streamlined within a TIR environment. The planned improvements in Mombasa Port and the surrounding infrastructure should affirm the position of the facility as the principal transit port for East Africa, the implementation of TIR can only further support this desire. Additionally, planned multi-modal innovation, particularly involving railway modernisation and expansion, would benefit from the TIR environment. Multimodal operations are just as dependant on sound processes and procedures, of which TIR is one, for success as they are on infrastructure development. New transit regimes such as the Electronic Cargo Tracking System (ECTS), have proved to be important trade and transit facilitation innovations but much more needs to be done to reduce transit times and transport costs in the region. Transit delays are generally due to bureaucratic border formalities, lack of integrated border management and unreliable transport and/or haulage units. Leakage of transit cargoes into the EAC domestic economies is a concern for revenue authorities, which have introduced measures such as ECTS to mitigate this risk. As the only internationally

Figure 1: The five pillars of the TIR system

recognised transit facilitation protocol, TIR would clearly enhance regional transit via Kenyan ports. The international guarantee and supply chain security elements would combine to improve cross-border trading systems involving transit.

Findings of feasibility study to institutionalise TIR in Kenya

The Export Promotion Council of Kenya (EPC) worked with the Trade Competitiveness Section of the Trade Division in the Commonwealth Secretariat to develop a strategic plan of action to institutionalise the TIR Convention.

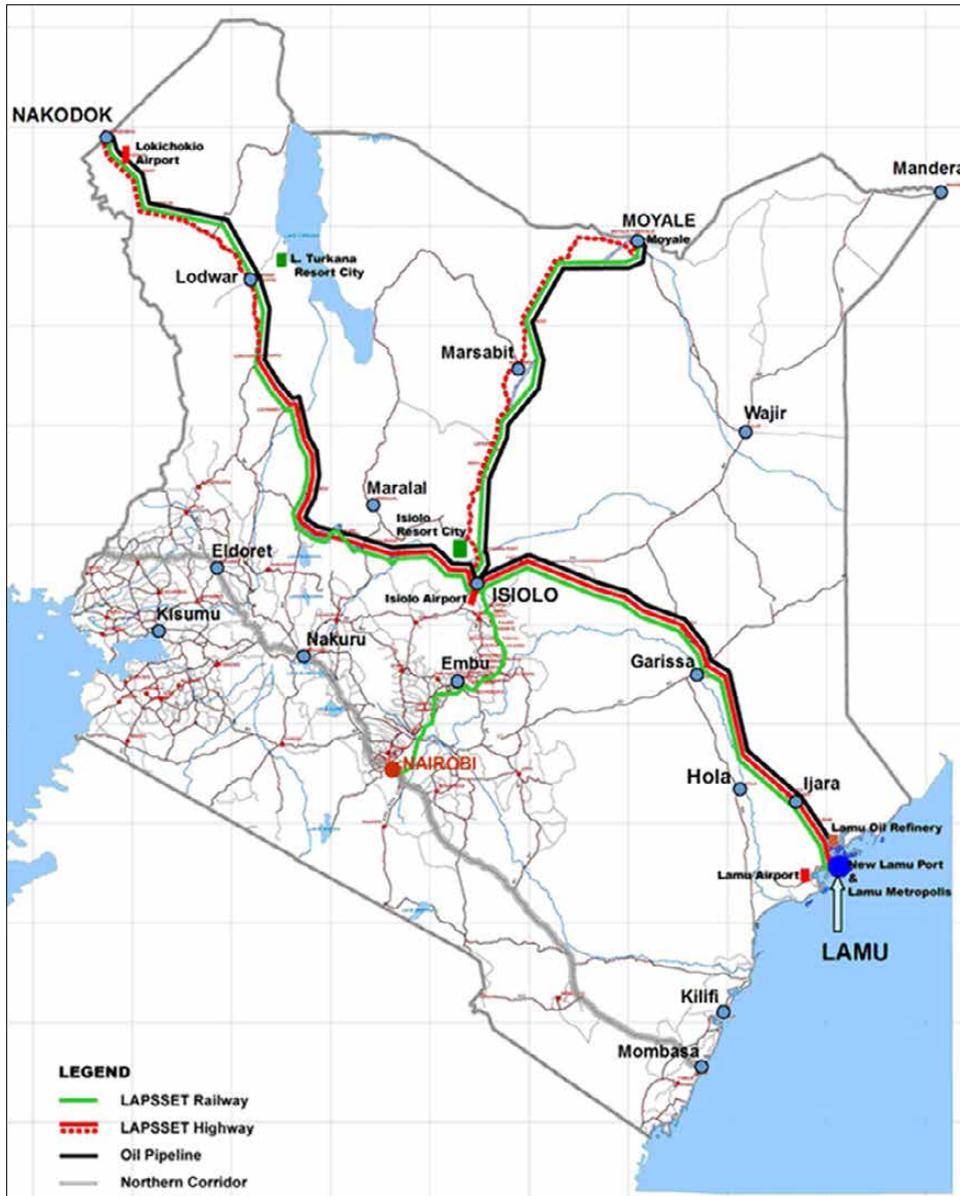
Prior to developing the strategic action plan in 2015 a feasibility study was conducted. Through comprehensive research, discussions and stakeholder interviews it was concluded that significant benefits would accrue from the introduction of TIR as an option for transit arrangements, both in Kenya and in the EAC Region.

Kenya was ranked 74 in the 2014 World Bank Logistics Performance Index rising from 122 in the 2012 survey, and it was placed second in the top 10 low-income performers. The Trading Across Borders section of the International Finance

Corporation's (IFC) Ease of Doing Business Report for 2015 ranks Kenya at 153 against a ranking of 152 in the 2014 report. This slight fall may seem insignificant but it suggests that trade facilitation implementation may be stalling or slowing down. However, the Logistics Performance Index result is encouraging. Taken together these results suggest that appropriate trade facilitation tools may be required to address any slowdown in trade facilitation benefits. In the context of new initiatives the results also indicate the logistics environment has reached a level of maturity that would make the implementation of TIR very feasible.

All key stakeholders were engaged at all stages of the study. Several multi-stakeholder sensitisation and dissemination workshops were held in Nairobi and Mombasa. The TIR concept was well received as stakeholders recognised the trade facilitation implications of the introduction of TIR. There was general consensus on achieving export growth both for Kenya and regionally by facilitating cross-border trade and reducing the cost of transportation to enhance overall competitiveness. The TIR system was recognised as being a potential element of this process.

Northern and LAPSSET Corridors



Source: Northern Corridor Secretariat

In order to meet TIR standards transport operators will have to be persuaded that increased investment in their fleets will benefit their businesses. The business case will need to be robustly articulated:

- TIR is seen as a quality guarantee and will attract increased business to the operator.
- Newer vehicles use less fuel resulting in considerable savings in variable costs.
- Newer vehicles will be more reliable, require less maintenance and give better value.
- Reduced border delays will provide for more efficient utilisation of vehicles.
- May be possible to link with Authorised Economic Operators (AEO) accreditation for transport operators.
- There would be sound economic and environmental benefits in encouraging procurement of new units focussing on funding mechanisms to procure TIR compliant vehicles and/or consider a possible leasing option.

Concerns were expressed that TIR could become an additional cost to trade rather than a facilitation initiative. Although this is not the case, it will be important to emphasise and quantify the benefits to trade of faster more efficient and secure transit

operations. The key will be to control any tendency for transport operators to pass on the cost of fleet enhancement to the trade, as most traders may be unwilling to pay higher inland haulage costs. Any increase in average inland haulage costs could also adversely impact on Kenya's rating in the IFC Ease of Doing Business report since it would run counter to the benefits of introducing TIR. Any cost-benefit analysis must be holistic and include savings as a result of elements such as improved supply chain security, reduced transit times, potential for lower insurance premiums and improved supply chain predictability for traders.

What are the advantages for Kenya?

The implementation of the TIR system will be an important catalyst for increased exports from Kenya. The feasibility study identified the following advantages:

- Reduced transit times and thus cost in relation to transit cargoes.
- Facilitation of exports and imports to and from trading partners in Europe, the Middle East and other regions where the TIR Carnet is in use.
- Mitigation of risk to transit cargo entering the domestic market and consequential loss of revenue.
- Adds value to multimodal operations, particularly as railway infrastructure comes on line.
- More competitive exports outside the EAC Region (and inside prior to full Single Custom Territory implementation.)
- Improved road haulage fleet, increased efficiency in road transport and environmental benefits.
- Incentive for regional harmonisation of practice for transit cargoes.
- Improved supply chain security with consequential benefit to Government of Kenya and trade.
- Improved supply chain security with consequential benefit to government and the trade sector.

- The TIR system is highly automated with applications that permit electronic pre-declarations to customs authorities, risk management and real time traceability of the Carnet. The eTIR system should be able to link with national customs systems such as AYSCUDA and Single Window.
- Kenya will become the 'thought leader' on TIR in the EAC region and a central player in its implementation.

From the Kenya Revenue Authority's (KRA) perspective initial indications are that TIR, as a trade facilitation measure will enhance risk management in relation to transit cargoes. The international guarantee system will cover leakages of transit cargoes when they do occur so that revenue due will be ultimately protected. Whilst the new system of duty pre-payment in Mombasa also mitigates risk of loss TIR could provide an efficient alternative or parallel system with added value benefits.

Due to the importance of Kenya's economy in the region and the significance of Mombasa Port, Kenya should be an obvious choice for the first country to ratify TIR in sub-Saharan Africa. Consequential benefits of TIR will be greatly expanded if neighbouring countries follow this lead and ratify the convention.

Government responsibilities

TIR implementation will entail several critical tasks and activities that are the responsibility of the Government, including the following:

1. Acceptance of the TIR Convention in accordance with national law (i.e. publication in the national public law journal).
2. Register accession at the UN Office of Legal Affairs in New York (depository).
3. Authorisation of one or more national guaranteeing organisations.
4. Authorisation of persons to utilise TIR Carnets.
5. Publication of a list of customs offices approved for accomplishing TIR operations.
6. Training of customs officials in the operation of TIR procedures.
7. Establishment or designation of an authority responsible for the approval of road vehicles and containers.

Significant Regional Benefits

Trading Across Borders indicators – 2014

	Documents to export (number)	Time to export (days)	Cost to export (USD per container)	Documents to import (number)	Time to import (days)	Cost to import (USD per container)
Sub-Saharan Africa	7.6	30.5	2,201	8.9	37.6	2,931
EAC Partner States	7.6	26	2,459	9.6	30.6	3,350
TIR countries (average)	6.1	20.5	1,479	7.2	23.1	1,757

Source: World Bank Doing Business indicators

The introduction of TIR as an option for transit arrangement would accrue significant benefits to both in Kenya and in the EAC Region. The Trading Across Borders indicators 2014 clearly evidence that, on average, countries employing the TIR system enjoy time and cost benefits over both Sub-Sahara African countries and EAC partner States. Although there are many other variables to be taken into account in these comparisons, it is clear that the system, tried and tested globally, provides a facilitated solution for transit operations.

Outcome of the Commonwealth Secretariat intervention

TIR appears to be feasible in Kenya and would also be beneficial to the region if implemented. Transit times and border procedures for exports out of the region via the coastal ports would be reduced thereby lowering costs and increasing export competitiveness.

Institutionalising the TIR initiative in Kenya will likely prompt neighbouring countries, particularly EAC and Northern Corridor Member States, to also consider ratification. It is anticipated that the EAC Secretariat will recognise the advantages of the system for exports through transit countries to African continental and global destinations.

Intra-regional trade, which is of strategic importance to the region, is set to grow with the operationalisation of the Tripartite. The TIR has the potential to add value to existing road transport and trade facilitation instruments.

Implementation of TIR for the region's imports, if the regional legal framework allows, could enable goods moving under TIR to be released from the

coastal ports very quickly. They would move under customs control with a secure guarantee, paying duties and undergoing final clearance at the final destination. TIR would therefore reduce border delays and help clear the ports. Importantly it would also solve the challenge around repayment of duties to another customs authority should goods disappear in the transit country after duties have already been paid in the destination country.

This intervention by the Commonwealth Secretariat has led the East African Community Secretariat to consider incorporating TIR in the EAC Transport Strategy and Regional Roads Sector Development Programme. The EAC Secretariat is also considering TIR as an option in its upcoming study of regional transit schemes, which is due to get underway in 2016. There is a move to propose the ratification of TIR to the EAC Council of Ministers as an option for trade facilitation, subject to any other required studies and stakeholder buy-in, including by the revenue authorities.

Trade Competitiveness Section: Work programme for 2015/16

The Commonwealth Secretariat's Trade Competitiveness Section (TCS) of the Trade Division provides technical assistance (TA) to help member countries improve their supply capacities in order to exploit opportunities offered by international trade. Recognising the limited size of the domestic market in many member countries, TCS has a strong focus on export development, with interventions targeted at the national level, and where requested, escalated to the regional and international level. Capacity-building and knowledge sharing is a cross-cutting feature of the activities in TCS.

TCS's specific activities include:

1. **Market access** – Interventions in this area of work aim to secure sustainable market access for priority exports and addressing selected supply side constraints through the development of strategic marketing plans.
2. **Export development strategies** – This project supports member countries to design and implement strategic plans for trade competitiveness and export development, underpinned by mechanisms for effective dialogue with government and non-state actors.
3. **Enhancing the development and exports of services** – The services sector is a major contributor to employment in many member countries, especially youth and female employment. Exports of services can provide opportunities to create employment, diversify exports, enhance productivity and empower low skill workers. This area of work allows member governments to benefit from the new opportunities created by globalisation and trade liberalisation. Through this initiative, member countries are supported to identify local sectors with potential for increased investment and export development, and to devise strategies to effectively exploit them.
4. **Trade facilitation** – Trade relies on the services of a large number of agencies and service providers. Trade facilitation encompasses the process of identifying and addressing bottlenecks imposed by the weakness in trade related logistics and regulatory regimes that prevent the timely, cost-effective movement of goods. To deliver this short-term outcome, interventions focus on assisting member countries to reduce the costs of doing business and, as signatories to the WTO, to meet their international obligations in this area. Interventions are made through the development of strategic action plans, benchmark studies and reports, and capacity-building in trade facilitation.

For 2015/16, TCS will be providing TA to 17 countries with 22 projects. These countries include Barbados, Belize, Grenada, India, Jamaica, Kenya, Mauritius, Nigeria, Pakistan, Sri Lanka, Botswana, Sierra Leone, and Mozambique. TA will be provided in the areas such as export diversification through 'new product and new market schemes'; value-addition to existing primary exports; economic and legal analyses of regional FTAs; economic implications of plurilateral trade agreements like Trade in Services Agreements (TiSA); designing national export development strategies; designing national strategy for Aid for Trade; development of services exports; linking into regional/global value chains; trade facilitation; and gender sensitisation of trade policy. Some of the requesting member countries have also offered to share financial costs of the projects. In some cases TCS is partnering with other organisations for sharing costs.

Trade Express will share information and lessons learned from recent Commonwealth Secretariat interventions. Articles will discuss design and implementation processes; in particular, practical solutions for the perennial problems surrounding appropriate trade policy design, advocacy and strategic trade interventions.

Forthcoming issues

Issue 4: India's Global Value Chains: Integrating LDCs

In order to raise the value captured by India in global value chains (GVCs) and support its 'Make in India' initiative, the intervention is designed to identify India's lead products where it can initiate its own GVCs and upgrade its small and medium sized firms. Integrating LDCs into these chains will enhance global cost competitiveness of India's product and diversify exports of LDCs.

Previous issues

Issue 2: Jamaica's National Export Strategy 2015-2019: A Market Driven Approach



In 2015 the Trade Division provided support to the National Export Strategy (NES) Secretariat to design Jamaica's second NES. The key goal of the strategy is to position the country for a 'market-driven approach to export development.' The new NES has a focus on market intelligence to identify new priority products and services, as well as identifying interventions to support improved standards, quality management, logistics and supply chain management. The NES is seen as critical for Jamaica to significantly expand and diversify its export base.

Issue 1: Revitalising the Services Sector in Barbados



The Trade Division provided support to the Government of Barbados to revitalise the services sector in the country through the development of a National Services Sector Development Plan (NSSD). The NSSD was a Government initiative co-ordinated by the Barbados Coalition of Services Industries (BCSI). It identified critical capacity gaps and made recommendations to valorise services, create a competitive environment and ensure the provision of the human resources required to deliver high value services.

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