

The impact of security measures adopted by the USA post-9/11 on international trade.

1 – Introduction

Trade liberalization has been one of the most permanent themes in the international agenda since the end of World War II. In spite of the security and ideological constraints of the Cold War, under the leadership of the United States (USA), the General Agreement on Trade and Tariffs (Gatt) has successfully strengthened commercial liberalization, especially among developed countries. In the nineties, after the end of the Cold War, Gatt was transformed into the World Trade Organization (WTO) and its agenda was broadened to encompass and reinforce other themes that affected international trade as well.

Concomitantly to the negotiations at WTO, regional agreements aiming at deeper commercial liberalization among smaller groups of countries were put in practice. The results ranged from complete economic integration, whose best example is the European process that led to the creation of the European Union (EU), to other rather superficial or incomplete initiatives. In all these cases, the idea

that freer trade among nations can be a source to generate wealth and accelerate the development of all societies has been a strong argument used to convince those who kept a skeptical view of the benefits of liberalizing measures.

Among the measures taken to liberalize trade, those related to curbing non-tariff barriers have been acquiring growing importance. In this context, Trade Facilitation measures has become a major issue in the expansion of global trade in the last years. The intention is to speed the flow of goods and services across international borders, making possible to companies to reduce costs through, among other measures, the implementation of just in time stock policies, the efficiency of cross-border operations and the establishment of precise logistics services. Predictability, simple customs clearance procedures, transparent administrative requirements are some prerequisites which will allow the system to work efficiently.

At the WTO, Trade Facilitation (TF) was introduced in the negotiation agenda during the 1996 Ministerial Meeting in Singapore when the Ministers agreed to launch work programs on the TF issue. Simplifying international trade procedures, cutting red-tape at the point where goods enter a country, reducing transport formalities and other bureaucratic requirements are some of the goals established by the WTO agenda on TF.

After the attacks of 9/11 the USA, by itself or through multilateral agencies such as the United Nations, established a new group of security measures which if, on the one hand, enhances the security apparatus, on the other, creates additional

red-tape that can invalidate advances on TF reached in the WTO, in the FTAA and in bilateral agreements. Among these measures one can point out the Bioterrorism Act, The Advance Electronic Information Manifest, the C-TPAT, the CSI, the MTSA and the ISPS code.

This paper will analyze how red tape and measures to facilitate commerce are being discussed at the WTO and at other fora and how the new US security measures affect these negotiations. My argument is that these security measures can to some extent be characterized as red tape and that their effects can nullify advances in the agenda to facilitate international trade.

2 – Current trade Liberalization Agenda

This section will review what was going on before 9/11 in the international trade liberalization agenda, particularly in the Trade Facilitation (TF) negotiations.

From the late 1940's, the Gatt rounds have effectively contributed to decrease customs tariffs, dynamizing and expanding international trade. The core of the policies implemented by the GATT rounds dealt with the reduction of tariffs, an aim successfully accomplished. Non tariffs-barriers, another subject negotiated under GATT and then under the WTO, can not claim the same success, in spite of the general assumption that these barriers have to be fully eliminated, or at least significantly reduced, if bona fide and efficient transactions are to be promoted.

The physical move of goods across borders has become a major issue in this context. Protection measures are indeed required and accepted to keep territories and people safe. Protectionism, however, is deemed detrimental to trade progress. In the current logistics and communication systems, the ability of countries to send and receive goods and services across borders on time at lowest costs is a key factor in the process of integrating their economies into the international market. Time and money consuming procedures related to trade can have a huge impact on the possibilities of a country to competitively enter into the world economy and keep a market share for its products. That is why border procedures related to trade have been acquiring growing importance in recent years.

Red tape, customs requirements and other bureaucratic formalities add costs to commercial transactions that some times are higher than those represented by tariffs. OECD reports estimate that border related costs range between 2.5 to 15 percent of the value of goods being traded. Hummels (2001) points out that cutting shipping time by one day – regardless if this day is spent in port queues or in customs procedures – could reduce costs by 0,8% ad-valorem for manufactured goods. Analysis by the World Bank in the *Global Economic Prospects 2004* points out that the implementation of Trade Facilitation in fields such as regulatory transparency, customs efficiency and administration of trade could increase world trade by US\$ 377 billion.

In this context, the international community has been seeking ways to simplify bureaucratic procedures and reduce the costs of moving goods across

international borders. This international effort is commonly called Trade Facilitation (TF), an ensemble of agreements that deals with various bureaucratic or legal issues that could represent hindrances to trade.

Trade Facilitation, according to WTO definitions, encompasses simplification, standardization, harmonization and elimination of procedures, data requirements and other bureaucratic prerequisites involved in an international trade transaction. The aim is to curb governmental actions that add unnecessary requirements, restrictions, red tape or bureaucratic costs to commercial activities. Legislation, licenses, guidelines, reporting, inspection and enforcement practices are examples of procedures that should be eliminated in order to facilitate everyday trade operations.

The expectation is that through the implementation of trade facilitation measures, international trade will be more predictable and transparent; time spent with the movement of goods across border will be reduced, increasing business opportunities. Security is also expected to be enhanced due to the simplification, transparency and efficiency of procedures. The results will be higher profit margins, growing revenues, new investment opportunities and improved security systems.

Trade Facilitation (TF) is not a brand new issue in the international trade agenda. Some provisions of the General Agreement on Tariffs and Trade (GATT) deal with TF concept. Articles V (freedom of transit), VIII (fees and formalities on international trade) and X (publicity (transparency) of trade regulations) constitute

examples of rudimentary measures thought of as a means to facilitate the movement of goods between different countries.

As a matter of fact, TF was formally introduced into the WTO agenda as an issue for further study and analysis during the WTO's Singapore Ministerial conference in 1996. The working groups were to focus their discussions on the three GATT articles (V, VIII and X), for they encompass themes such as transparency, predictability, non discrimination and restrictions on unnecessary trade procedures. In 2001, the Doha Ministerial Declaration defined a mandate for negotiations on TF to begin after the Fifth Ministerial meeting in Cancun. This latter meeting was inconclusive and the countries taking part in it did not agree to launch the negotiation.

Since Cancun there has been a growing consensus among negotiators that TF can be treated separately from the other Singapore issues (investment, competition and government procurement). Many countries have been submitting to WTO their proposals on TF. In general, they suggest amendments to the three GATT articles which, if implemented, could lead to simplification and standardization of customs procedures, requirements, fees and charges; reduction of duplication and improvement on transparency and predictability. This effort at the multilateral level will result useless if countries decide unilaterally to create and put in practice new procedures that simply replace those that are supposed to be eliminated by all of them at the WTO negotiations.

The environment established after the 9/11 attacks transformed trade, among other issues, into a possible source of threat to the security of the USA and its allies. In this context of trade “securityzation” how will TF evolve? How are countries expected to eliminate red tape multilaterally and accept that they can be reintroduced unilaterally due to security reasons? Is it possible to facilitate trade in a war situation? How can one ensure that security measures are not being used to protect domestic producers?

These questions have to be addressed before further advances can genuinely be achieved in the agenda of trade liberalization. Security requirements unilaterally imposed can not only cause damages to trade negotiations but also become ineffective due to lack of adhesion. In general terms, the international community has been sharing the U.S. concerns with security and accepting in good faith the measures taken by American authorities to deal with the terrorist threat. As the Doha agenda evolves however, security will probably show up as a intervenient variable that permeates many themes under discussion. The costs, the use of the measures adopted and their impacts in specific agendas, such as the TF negotiations, shall be take into consideration before negotiations are concluded. The effort at this point is to fully understand what these security measures are and how they can possibly affect trade operations. This is done with some of them in the next section.

3 – Security Measures post-9/11 Affecting International Trade

The current National Security Strategy of the USA, commonly referred to as the preemptive or Bush doctrine, establishes among its many goals the intention to identify and destroy threats before they reach American borders. The administration is to accomplish this objective with or without the support of the international community. In this context, besides broad measures, such as the waging of wars wherever supposed threats to the USA are arising, specific actions were put into practice with the same preemptive spirit. A group of them deals with all objects, human or nonhuman, crossing US borders. They are to be submitted to specific controls, depending on their nature, preferably even before arriving at the American territory. Part of these actions affects the movement of people. The other affects international trade. This section will examine some of the measures taken by the US government whose implementation directly affects international trade and the liberalization agenda.

Since the 9/11, security for the transport of goods across borders has become a major component of the protection systems developed by the United States to avoid terrorist attacks. These systems involve controls by both public authorities and private companies throughout the production, storage and transport chains. Facilities, plants, ports and conveyance are all objects of security measures implemented sequentially to guarantee the integrity of the supply chains. This multilayered system is designed to protect products exported to the USA and avoid a terrorist attack by cargo arriving at US borders. The Advance Electronic Information Manifest, the Bioterrorism Act, the Customs-Trade Partnership Against

Terrorism (C-TPAT), the Container Security Initiative (CSI), the International Ship and Port Facility Security (ISPS Code) and the Maritime Transportation Security Act (MTSA) are some of the measures that surveil trade activities in order to improve the protection of the United States.

These measures will not necessarily ensure higher levels of security for America. On the other hand, they will certainly negatively affect trade procedures and the negotiations on TF at the WTO and at other fora related to the facilitation of fair and legal trade. They add new costs to already onerous operations; set new bureaucratic demands and red tape to other complex procedures and, finally, they can be easily diverted from protection to protectionism.

3.1 - The Advance Electronic Information Manifest

These rules require advance transmission of electronic cargo information to US Customs and Border Protection (CBP) for both arriving and departing cargo and provide for various effective dates depending upon the mode of transportation (maritime, air, truck and rail). The purpose of the rule is to enable U.S. Customs to analyze container content information before it is loaded and thereby decide on its loading/no loading status in advance. In case of non-compliance with the rule, the most serious consequence would be the halting of loading or unloading and a consequent disruption of cargo flows and supply chains. Furthermore U.S.

Customs may impose fines or other penalties on the carriers and other parties responsible for the submission of cargo declarations to U.S. Customs. The rule became effective on 2 December 2002 and fully enforced as of 2 February 2003.

In order to comply with these rules transport companies have increased the number of staff members at their documentation sections and modified computer systems. Some companies have increased staff by 10% at their documentation sections for submission of cargo data through the AMS (Automated Manifest System). As a first result, major transport companies are requiring their customers to submit cargo data 72 hours prior to loading so that they can present cargo data to U.S. customs 24 hours prior to loading, in the case of maritime transport, up to 2 hours prior in the case of trucks arriving at US borders. In order to ensure that an agent submits cargo data to a transport company up to 72 hours prior to loading, considerable countermeasures are undertaken. These include inventory accumulation, outsourcing of documentation, changes in production schedule, and staff increases. These countermeasures have increased the costs of legitimate companies considerably. Additionally surcharges have been imposed by shipping companies on cargo calling at US ports due to the new bureaucratic procedures. An OECD (2003) report estimates the potential burden imposed on carriers by this rule to be approximately \$281.7 million per year.

3.2 – The Bioterrorism Act

After 9/11, many customs procedures related to food safety were shifted to food security in the United States. Trade departments became security departments. The Public Health Security and Bioterrorism Preparedness and Response Act (the bioterrorism act) is an example of the measures used to change the nature of the risks associated with the commerce of food for human and animal consumption. A new ensemble of procedures, registers and controls was established by this act which must be followed by any company that produces, processes, packs or handles food exported to the US market. The costs and difficulties to adapt to the bioterrorism act can prevent around 16% of the current exporters from continuing their business with the USA.

According to GEP 2004 the U.S. Food and Drug Administration (FDA) has proposed registration of an estimated 400,000 domestic and foreign food facilities to prevent a threat to the U.S. food supply as mandated by the Bioterrorism Act of 2002. Starting December 12, 2003, importers must file advance notice of food shipments with the FDA. Estimates by the FDA suggest that the U.S. food industry could lose as much as \$6.5 million in perishable imports if the rule for importers is adopted. Many agricultural commodities such as bananas and broccoli are still growing on the stalk, vine, or tree the day before loading, and in some cases as few as six hours before. Such cargo may spoil if shipments are held up because of documentation requirements. In the highly competitive market for agricultural commodities, this risk could prompt importers in other countries to move away from U.S. suppliers.

Governments, in accordance with article 20 of GATT, can adopt commercial measures to protect human, animal and plant life or health. These measures, however, shall not represent any kind of discrimination among determined countries or be used as disguised protectionism. The Sanitary and Phytosanitary Measures Agreement (SPS) establishes basic principles and rules that must be followed by the international community to protect their citizens. Although under article 20, countries are allowed to implement their own standards, including the establishment in case of well assessed risks of standards higher than those used internationally, they must do it based as far as possible on scientific evidence that the procedure is efficient and necessary to protect human and animal life. Besides, in order to avoid arbitrariness, the SPS agreement requires that, before adopting any protection measures, governments present convincing justification, alternative actions and transparency in the assessment of the risks involved. The aim is to prevent protection from being transformed into protectionism.

None of this has been observed in the case of the Bioterrorism Act whose basis are clearly the directions provided by the National Security Strategy. In this context, many questions have been raised by the international community regarding the effectiveness of the procedures established to prevent terrorist attacks. More cynical players are also questioning how transparent these measures are and if they can be used for protectionism purpose in an already highly protected market. Finally, to what extent the security agenda is being used to reintroduce red tape eliminated in the Trade Facilitation negotiations is also another growing concern among negotiators. Some questions such as How US

customs authorities and the FDA will react in case of cargo contaminated reaching US ports? Will them be treated as a sanitary problem or as a terrorist attack are not yet addressed. Surely these questions can not be promptly answered at this point in time, but the simple fact they present at the debates indicates that somehow some of the agents involved in the process are not fully convinced that security can not justify any kind of decision.

3.3 – C-TPAT and CSI

The Customs-Trade Partnership Against Terrorism (C-TPAT) and the Container Security Initiative (CSI) are voluntary programs between the government, foreign ports and industry designed to promote effective security processes throughout the global supply chain. These two programs also address security in trade relations but in different ways.

C-TPAT provides the basis for effective cooperation between customs and business actors in the trade chain such as importers, carriers, manufacturers and warehouse operators, among others. The company that accepts to take part in the C-TPAT is expected to develop and implement a security program that covers areas such physical security of facilities, personnel and conveyance. Additionally, C-TPAT members shall spread their securities procedures to other companies in

their supply chain in order to have all the operations and products used in their manufacture processes covered by C-TPAT guidelines.

The main benefit offered by the US Customs to companies taking part in this program is the possibility to have a reduced number of inspections at US borders. Saving time with customs procedures is, in fact, the real reason to adopt C-TPAT. This benefit is clear evidence that the new security procedures are time consuming and costly enough to make a businessman voluntarily implement cumbersome measures such as those required by C-TPAT certification to avoid customs inspections.

The CSI was thought of as a program to prevent containers destined to the US market from being contaminated and used as a weapon to attack the USA. The idea is that with the implementation of CSI, the zone of security is extended and security procedures are initiated even before the container is shipped to the USA. This improvement in security is guaranteed through the adoption of four elements described in the CSI Program. The first one is to use intelligence and automated information to identify and target containers that pose a risk of terrorism. The second element is to pre-screen those containers that pose a risk at the port of departure before they are sent to US ports. The third is to use detection technology to quickly pre-screen containers that pose a risk and, the last one, is to use smarter tamper-evident containers. These procedures are carried out by US officials deployed to work in foreign ports taking part in the CSI. Again, the main reason to countries accept this program is the promise that their exports will have their entry in the US territory facilitated if they are shipped in a CSI port.

The costs a country must incur to take part into the CSI depend on the technological and security level its ports operate. However, analysts tend to believe that they will not be very low. Sgut (2004) points out that the cost of one single scanner necessary to check the content of containers ranges from US\$ 1,000,000 to US\$ 12,000,000 depending on the performance (containers checked per hour) required plus 15% annual expenditure for maintenance. The acquisition of other equipment, the employment and training of security workers, the adaptation of information systems and the establishment of new procedures also generate considerable costs especially to developing countries. The simple task to scanner a container is estimated to cost around US\$ 60 per unit.

The CSI is particularly important for countries where trade with the US represents a substantial part of their international commerce. By not joining the CSI, countries could lose competitiveness in the global market—a risk not many nations are willing to take. Countries that do not implement the required procedures would have a competitive disadvantage because their shipments would undergo more complex examinations and thus be cleared more slowly. The bilateral agreements that underpin the CSI may discriminate against ports not covered by CSI and thus create competitive distortions among ports points out GEP 2004.

Presently 20 countries have committed to participation in CSI. There are 37 ports within those 20 countries that are in various stages of CSI implementation. China and Sri Lanka have signed Declarations of Principle (DOP)

with CBP but currently have no operational CSI ports. 26 CSI ports are currently operational.

3.2 – The ISPS Code and the MTSA

The United Nations Conference on Trade and Development (UNCTAD) estimates that 5.8 billion tons of goods were traded by sea in 2001. Around 46,000 vessels departing from and arriving at about 4,000 ports throughout the world are used to transport these merchandises in complex international logistics operations. The reduction of friction in maritime transport has been a major goal pursued by the business community, as this means of transport accounts for more than 80% of the world trade by volume. Technological advances in the maritime transport have redefined how production chains could be designed, leading to the creation of world nets of suppliers and customers that could be competitively established due to evolution in logistics.

The sophistication of logistics systems with the consolidation of just in time policies to manage inventory could only be developed due to the improvement and efficiency in all processes related to transport. However, the same efficiency that facilitated trade evolution can be appropriated by illegal individuals or organizations and be used to perpetrate new terrorist attacks. The ISPS code was thought of as a response to this security threat in the maritime transport.

The International Ship and Port Facility Security (ISPS Code) establishes a complex set of measures to be taken by ships and by port facilities to enhance their security and protect international shipping against the threat of terrorism. Ships are required to obtain an International Ship Security Certificate (ISSC), to have a Ship Security Officer, and comply with the requirements for identity and transparency designed to show where the vessel is coming from and what it is transporting. Ports must undertake risk assessments, secure the port facilities, prevent unauthorized access, control cargo flow, and satisfy the needs for identity (what cargoes are handled) and transparency (where does cargo come from and who the suppliers are).

In addition to the ISPS Code, the USA has adopted the Maritime Transportation Security Act (MTSA), another group of measures designed to reduce the risk of terrorist attacks through international maritime trade. These measures affect all ships calling at US ports and are similar to those defined in the ISPS code, but designed to be applied in the American jurisdiction.

The costs of these measures are yet to be thoroughly estimated. Early OECD research calculates the initial costs of compliance for ship operators at around US\$ 1,279 million to implement the measures preconized and US\$ 730 million per year thereafter. In relation to the costs involve to adapt port facilities to the new measures, analysts, so far, can only work with vague calculations due to the complexity of the matter. OECD (2003) estimates US\$ 2 billion for some of the costs involved in the initial phase. Other analysis come up with more robust

amounts. Okayama (2003) estimates the amount of almost US\$ 2,5 billion for 140 ports and harbors only for Japan comply with the ISPS code.

If these measures prove effective to avoid terrorist actions, researchers argue that the costs involved in more than compensate the losses resulting from a major attack. The Limberg attack in October 2002 caused damages estimated in 1% of the Yemen's GDP for 2001, including the firing of 3,000 people due to reduction of ships calling at Yemen's port. The losses caused by the eleven days strike in the US west coast ports in October 2002 are projected in US\$ in 19.4 billion, which could be many times higher in case of terrorists attacks involving material and life damages.

4 – Trade Liberalization and the Security Challenge: Costs and Benefits

The ensemble of measures put into practice by the US government to prevent new terrorists attacks requires not only additional border controls, but also a whole gamut of procedures that cover the entire production chain, from factories to ports to ships to the American customs.

The problem, then, is whether progress on TF can be achieved in such a preventive security environment that relies heavily on additional bureaucratic controls to be effective. To a great extent some of the measures taken by the American government create new red tape rather than simplify processes. The

efficiency of these measures to prevent terrorist attacks is debatable, but their negative effects on international trade are clearly perceived. This fact questions the legitimacy of these security measures and casts doubts on the limits of what is fair and acceptable to improve national defense against terrorism and of what is distortive and manipulative in relation to best commercial practices.

This thin borderline between legitimacy and manipulation adds new tensions to an already very competitive environment. On the one hand, players are expected to agree that some legal constraints are taken to fairly protect societies and keep a certain level of international order. Environmental agreements such as the Basel Convention on hazardous wastes, the Montreal Protocol on Ozone Depleting Substances, the Convention on International Trade in Endangered Species; minimum standards to guarantee food safety and treaties related to the combat of organized crime are a few examples of international measures that involve border controls to be effective, but which are not questioned because they are recognized as fair and necessary to combat international practices that can put people, countries and the environment at risk. On the other hand, players are very suspicious of manipulation attempts to benefit competitors. In the first case, TF should not prevent the implementation of all measures required to combat internationally accepted illegal practices. In the second case, TF can be a tool to prevent abuses and distortions from happening in trade relations.

In terms of costs involved in this process analysts tend to agree that they will not be low. A first impact, for instance, in the logistics systems arising from the new security environment is the shift in the level of inventory kept by companies. This

happens either because the sense that unpredictable and disruptive events can occur at any moment increased and because the measures taken to prevent them from happening are time consuming. Bowserbox and Closs (2002) estimated for these costs to the US alone in 2002 an amount between US\$ 50 billion to US\$ 80 billion.

Leonard (2001) estimated the new security-related costs at 1–3 percent of the value of traded goods. Security-driven frictional costs of transport, handling, insurance, and customs can affect trade even in the medium and long run. Walkenhorst and Dihe (2002) point out that even countries not directly involved in a terrorist event may expect their income to decline by \$75 billion per year as a result of a 1 percent ad valorem increase in frictional costs to trade.

Additionally many other countries are considering to establish their own security systems to prevent terrorist attacks and there is no evidence that they will follow the models proposed by the USA, which can lead to extra costs to the entire commercial system. If each country creates different security procedures, companies in the international sector will face growing costs to operate in different markets. Security systems harmonization may become necessary to prevent unnecessary costs.

Are there direct benefits from the implementation of the security measures? Depending on how these measures are introduced and linked with the current trade systems they can either represents new barriers to be overcome or they can be used to rationalize the current multilayered customs systems. In order to be effective and timely, the current bureaucratic and huge security systems operating

in most countries borders must be streamlined, which can lead to the simplification of customs procedures and to the development and implementation of computer based systems, paperless, globally accessed and serving both security and TF.

Some other side positive effects can arise from the security measures. Modern, computerized control system can not only to improve the quality of public services provided by customs officials, but they can also work as a very efficient means to curb corruption, due to the strengthening of transparency normally demanded by technologically advanced systems. Furthermore, the quest for products used by terrorists, the improvement of security procedures, the installation of surveillance equipment in strategic areas can also strengthen the combat to traditional crimes that use the same channels of terrorists. In this context, a decrease in smuggling and in the traffic of drugs is expected as positive results from the new securities measures.

New programs to combat terrorism and corruption clearly will involve investment in new technology and infrastructure—possibly raising the costs of trade in the short to medium term. At the same time, the prospect of reducing future threats through technology-intensive customs inspections can also be viewed as an investment in greater trade efficiency. Automated technology—such as bar codes, wireless communications, tamper-proof seals for containers with global positioning technology, and other electronic measures—could accelerate global trade while improving security (Reddy 2002). Sharing information among terminal operators, shippers, and customs brokers can help expedite the move of freight through terminals without any new physical investment. In addition,

simplification of customs procedures can increase the chances of detection of fraud and criminal activities (GEP 2004).

At this moment, security agenda has been preponderant in relation to economic arguments. New systems and procedures will be established regardless their costs and their effects. The extension of the damages they will cause to international trade can not be satisfactorily foreseen at this moment when many of them are not yet fully implemented. On the other side, security precautions in the past have led the world to work in a higher level of efficiency with positive effects on the overall economy. The world that emerged from the Cold War was to a considerable extent better than it was at the beginning of that conflict when security was a particularly relevant issue and played a role that permeated practically all of the aspects of the social, economic and political life. Will the same happens in this terror war? Will the world be better off at the end of it? Are the programs designed to protect countries useful to improve economic efficiency or are they just adding unnecessary frictions to an already secure and smooth system?

Some of these questions can not be properly answered at this point in time. Some of them can be discussed. This will be done in the manner of conclusion in the next section.

4 – Conclusion

Security has changed the trade agenda for the next future. The ensemble of measures to combat terrorism put into practice by the United States will shape and redefine the way commercial actions are operated. The security umbrella covers all operations since the production until the final destine. Factories, ports, warehouses and means of transport are now expected to comply with a considerable complex and extensive security program. Depending on how it is implemented, a whole gamut of bureaucratic procedures can be added leading to an annulment of advances accomplished in last decades in rationality and modernization of trade operations.

In this context, there is a clear clash between the security agenda and the ongoing negotiations on trade liberalization, especially those related to Trade Facilitation (TF). The majority of the new security measures established by the American Government are based on bureaucratic procedures that just replicate procedures that are supposed to be eliminated in the TF negotiations. Thus while frictions are reduced at the multilateral level, the US has been unilaterally reintroducing them under the argument of security needs. At this point, the international community has accepted the new US security measures but some countries, such as Canada the European Union and Japan, for instance, have not only been sharing the American concerns with security, but they have also been copying and implementing their own security systems. This remarkable contradiction between security and TF is not yet addressed and considering the trends it seems probable that security will prevail and new costs will be added to trade operations.

The majority of the costs created by the implementation of security measures present chain effects which can multiply direct costs several times. The negative impacts of these costs are especially clear and relevant for small and medium sized companies due, for instance, to the necessity to contract experts to deal with the security rules and to develop computerized systems to provide all the information required by the American authorities. Consultants involved with the issue estimate that 16% of the exporters currently trading with the USA will not be able to comply with the security rules and will be obliged to leave the American market. The bulk of these exporters are small and medium companies in developing countries.

Developing countries will also be more affected by the security rules than developed one. Firstly, because in some developing countries, small and medium size companies constitute an important group of their export sector. As they will not be able to comply with the new rules, the total income from exports tends to decrease, worsening the balance of payments, reducing employment opportunities and deteriorating social conditions. Secondly, new bureaucratic measures related to international trade reduce transparency and predictability, creating situations where corruption can easily flourish, especially in those states with weak capacity of supervision and enforcement. Thirdly, a substantial increase in administrative costs for both the state and the private sector, together with a reduction of efficiency in the export sector and losses of customs revenue due to corruption and decrease in the volume of exports, can cause considerable damages to developing countries. Finally, due to the new security procedures, time consuming operations

will be continuously carried out which will create storage problems, add risks to the quality of goods, increase the amount of penalty fees because of delayed deliveries among other direct and indirect effects, including financial ones related to the extra costs of capital locked in growing amount of inventory.

The benefits expected are rather marginal and there are no guarantees that they will be assured. They depend on the introduction of new technologies and procedures that substitute the current bureaucratic systems with more rational operations largely based on information sharing. They can either substitute them or just add new layers of controls. Collateral effects on piracy, smuggling and other crimes involving logistics are yet to be seen. So far, after the introduction of some of the new security measures, the level of all these crimes remain pretty much the same.

Counter-terrorist measures taken unilaterally can obstruct legitimate business and lead to counter-reactions in third markets. The replication of the US security measures by other countries can impose considerable extra costs to multinational companies. Thus cooperation in the definition of the new security systems seems to be the rational choice to combat terrorist but preserve the development of legitimate trade.

The combination of the information provided by the CSI plus the advance manifest and the provisions in the Bioterrorism Act increases significantly the discriminatory power of the authorities in the customs areas. Under the justification of security reasons cargoes can be apprehended or confiscated, ships can have

entry into US ports denied and no public explanation must be given to sustain any of these actions. In such a context abuses can easily occur damaging legitimate companies and distorting trade practices.

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