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# **Benefits of the Revised Kyoto Convention**

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## Abstract

This paper aims primarily to summarize the benefits of both acceding to and implementing the WCO Revised Kyoto Convention (RKC). It is widely recognized that there are considerable benefits to be derived from accession as well as implementation of the RKC. A significant advantage of RKC accession is the “*announcement effect*” that an RKC Contracting Party is certified as having international Customs standards in place. Other advantages of the accession relate to trade negotiations and capacity building activities. Moreover, the benefits of the simplified and harmonized Customs procedures embodied in the RKC have been well documented in the context of trade facilitation, in particular, in the ongoing WTO negotiations on trade facilitation.

Early RKC accession would be even more beneficial considering potential opportunity costs during the period of non-accession. More economies should consider that it is worthwhile to seek successful RKC accession in order to reap the full benefits of the RKC.

## Key words

Revised Kyoto Convention, trade facilitation, accession, implementation

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## 1. Introduction

The Revised Kyoto Convention (RKC)<sup>1</sup> is an international agreement that provides a set of comprehensive Customs procedures to facilitate legitimate international trade while effecting Customs controls including the protection of Customs revenue and society. It deals with key principles of simplified and harmonized Customs procedures, such as predictability, transparency, due process, maximum use of information technology, and modern Customs techniques (e.g. risk management, pre-arrival information, and post-clearance audit). The RKC was adopted in 1999 and entered into force in February 2006. As of February 2010, the RKC had a total of 66 Contracting Parties, and the WCO estimates that the RKC Contracting Parties cover at least 70 percent of the value of globally traded goods<sup>2</sup>.

The WCO has encouraged its Members to accede to the RKC, believing that more benefits would accrue as a result of early RKC implementation by more economies in a coordinated way (Swedish National Board of Trade, 2008). Therefore, it has been widely recognized that a paper should be developed on the benefits of the RKC as a means of facilitating the national accession processes of non-Contracting Parties.

The arguments on RKC benefits are referred to in many documents produced by the WCO and other organizations, including the WCO leaflet (WCO, 2002), the APEC Guidebook to the RKC (APEC, 2003), and a booklet on the RKC by Jordan Customs (Younis, 2006). In addition, the benefits of the simplified and harmonized Customs procedures embodied by the RKC have been well documented in the context of trade facilitation, in particular in the ongoing WTO negotiations on trade facilitation (Swedish National Board of Trade, 2008; OECD, 2005). Furthermore, many Customs reform and modernization programs have been designed to introduce modern Customs procedures in accordance with the RKC (IMF, 2003; World Bank, 2005). It has also been recognized on many occasions that there are considerable benefits to be derived from RKC accession as well as implementation.

Considering that background, this paper aims to summarize the benefits of both acceding to and implementing the RKC, based on existing literature and evidence. Following this first section, the second section summarizes the benefits related to RKC accession, while the third section focuses on the benefits related to RKC implementation. The fourth section provides the conclusion of this paper.

## 2. Benefits related to RKC accession

It has been widely recognized that RKC accession has considerable benefits. Therefore, it is worth seeking successful RKC accession in order for an economy to reap the full benefits of the RKC. In this connection, early RKC accession is more beneficial, considering potential opportunity costs during the period of non-Contracting Parties. This section summarizes the discussions on the benefits related to RKC accession, including the “*announcement effect*” of being certified as having

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<sup>1</sup> The revised Kyoto Convention (RKC) is formally named “The International Convention on the Simplification and Harmonization of Customs Procedures (as amended)”. The original Kyoto Convention was adopted in 1973 at the WCO Council Sessions in Kyoto, Japan, and entered into force in 1974. The Protocol of Amendment to the 1973 Convention was adopted at the WCO Council Sessions in 1999, and entered into force in February 2006. Further information is available at [www.wcoomd.org/home\\_wco\\_topics\\_pfoverviewboxes\\_tools\\_and\\_instruments\\_pfrevisedkyotoconv.htm](http://www.wcoomd.org/home_wco_topics_pfoverviewboxes_tools_and_instruments_pfrevisedkyotoconv.htm)

<sup>2</sup> In terms of 2007 trade statistics excluding intra-EU trade, as estimated by the WCO Secretariat based on WTO Trade Profile (WTO, 2009a) and International Trade Statistics (WTO, 2009b)

international Customs standards in place, benefits in future standard making, and advantages in trade negotiations and capacity building activities.

### ***Certification as having international Customs standards in place***

On many occasions it has been argued that RKC accession produces a positive “*announcement effect*” that an RKC Contracting Party is certified as having international Customs standards in place. A similar effect might apply to a certain extent to economies which are making an effort towards RKC accession. While it is important to implement international Customs standards, it is difficult for governments to prove this without acceding to the RKC. Due to the legally binding nature of the RKC<sup>3</sup>, being an RKC Contracting Party gives traders and other stakeholders inside and outside the country’s economy a firm message that the government promotes and maintains efficient and modern Customs procedures consistent with international standards, and ensures that legitimate trade is facilitated without compromising the Customs controls function. In addition, it assists an RKC Contracting Party to attract foreign direct investment (FDI).

The RKC is referred to in many documents as an indicator of best practices in Customs procedures in the 21<sup>st</sup> century. For example, recent WTO reports on the Trade Policy Review increasingly include a reference as to whether the economy in question is an RKC Contracting Party<sup>4</sup>. In this connection, the RKC has “*brand status*” in terms of Customs procedures. In order to uphold the brand reputation, it is essential to make continuous efforts to ensure that the RKC is implemented in a uniform way and updated to meet the expectations and challenges of the international trade community.

### ***Participation in future standard making***

Article 6 of the RKC established the Management Committee, which is comprised exclusively of RKC Contracting Parties. Non-Contracting Parties, international organizations, and business associations are entitled to attend as observers. One of the Committee’s tasks is to oversee implementation and consider any measures to secure uniformity in interpretation and application among the Contracting Parties. In this connection, the RKC Guidelines, which are of an informative and non-binding nature, were developed to ensure uniform interpretation of the RKC provisions, as well as to provide examples of national practices. Another Committee’s task is to consider possible RKC amendments to ensure that the RKC complies with up-to-date practices thereby ensuring a dynamic and living instrument.

Considering the Management Committee’s terms of reference, it is important to be an RKC Contracting Party in order to take a leading role in considering and recommending amendments to the RKC and its Guidelines within the Management Committee. This was an argument made in the US accession process in order to demonstrate the need to accede to the RKC, although all necessary measures for the accession had already been implemented in the US (US Senate Foreign Relations Committee, 2004).

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<sup>3</sup> The Contracting Parties are legally obliged to implement standards within thirty-six months of entry into force, and traditional standards within sixty months of entry into force.

<sup>4</sup> Available at [www.wto.org/english/tratop\\_e/tpr\\_e/tpr\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tpr_e.htm), accessed on 26 February 2010

### ***Advantages in trade negotiations***

The RKC is a reference tool within the WTO's trade facilitation negotiating group (TFNG), and it has been observed that RKC Contracting Parties have taken leading roles in the negotiations. Considering that the RKC provides international Customs standards and already encompasses a large portion of global trade, the RKC and TFNG proposals should be closely aligned. WTO outcomes that are consistent with the RKC would also strengthen the WCO's position in the international community. In this regard, the WCO and RKC Contracting Parties are encouraged to continue to draw attention to the importance of maintaining the compatibility of the WTO proposals vis-à-vis the RKC from a technical standpoint.

In addition, it is advantageous for RKC Contracting Parties to negotiate bilateral or regional trade agreements, namely Free Trade Agreements (FTAs) or Economic Partnership Agreements (EPAs). The fact of sharing common definitions and Customs procedures in accordance with the RKC could enable RKC Contracting Parties to save time in negotiating Customs-related provisions. Moreover, if appropriate, certain provisions which go beyond the RKC could be agreed upon between the negotiating parties on the basis of the RKC principles.

### ***Advantages in capacity building activities***

WCO Members that have expressed an intention to accede to the RKC have a greater likelihood of receiving capacity building related to the RKC measures, offered by the WCO, other international organizations, and donor countries. For example, the WCO has conducted many national and regional RKC seminars for candidate economies, and plans more capacity building activities in the coming years.

In addition, being an RKC Contracting Party is considered to be an important benchmark of successful achievement in capacity building programs. Many Customs reform and modernization programs are designed to introduce Customs procedures and techniques in accordance with the RKC, such as risk management and post-clearance audit systems. Because of the legally binding nature of the RKC, an RKC Contracting Party is able to announce that its Customs reform and modernization programs have been successfully implemented, and more importantly to emphasize that the reform and modernization process will not be backtracked. In addition to demonstrating its capability of implementing government reform and modernization programs by being a RKC Contracting Party, a recipient economy may attract other government reform and modernization programs.

## **3. Benefits related to RKC implementation**

This section focuses on the tangible benefits of implementing specific RKC measures, recognizing the difficulty of assessing overall benefits related to RKC implementation due to many external variables. Faster release of goods, lower trade costs, increased revenue, more FDI and economic competitiveness, various non-economic benefits, and a basis for implementing other Customs instruments and tools are among the benefits related to RKC implementation most frequently cited in existing literature, although they are closely linked.

### ***Faster release and lower trade costs***

Many RKC measures, including computerized or Electronic Data Interchange (EDI) Customs systems, Customs risk management systems, and pre-arrival

information, are expected to improve Customs release times. Faster release of goods at borders is beneficial directly and indirectly for both Customs administrations and businesses. For example, it enables Customs administrations to process more transactions without delay at borders, so that they can deploy their limited resources to high-risk cargoes. It also allows traders to enhance their competitiveness in domestic and international markets thereby to enhance business opportunities.

For instance, the New Zealand Customs Service made a commitment to itself that an application for both import and export permission is to be processed within 0.5 hour by EDI and within 24 hours by non-EDI (WTO, 2009c). Low-risk goods identified by Customs risk management systems are less likely to be subject to Customs physical examination at borders. Furthermore, a series of surveys by Japan Customs on the time required for the release of goods showed that release times have been reduced by the introduction and improvement of various Customs procedures and techniques. With pre-arrival information, for example, the survey in March 2009 indicated that the average release time for sea-cargoes was 1.7 hours, which was about 60 percent shorter than the 4.1 hour average in cases without pre-arrival information (Japan Customs, 2009a).

In addition, faster release of goods at borders is expected to reduce trade costs for businesses. Hummels (2001) estimated that a saving of one day in shipping manufactured goods would be equivalent to 0.8 percent of the value of goods. Other RKC measures which are expected to reduce trade costs may include fewer Customs formalities, reduced data requirements, and higher predictability in release times and the necessary Customs procedures. Assuming that trade costs were reduced by 1 percent on average world-wide, it is estimated that world income would increase by about USD 40 billion (OECD, 2003).

### ***Increased revenue***

Revenue collection remains a core role for many Customs administrations (WCO, 2009a). It is widely recognized that specific RKC measures potentially strengthen the capacity of Customs administrations to improve revenue collection. Firstly, revenue could increase as a result of a larger tax base (more imports) attracted by faster release of goods and lower trade costs as discussed above. Secondly, the OECD (2009) suggested that trade facilitation measures could reduce the incentives for “*informal*” cross-border trade, on which traders do not pay Customs duty and VAT<sup>5</sup>. Last but not least, a specific Customs technique such as post-clearance audit could enhance revenue collection.

Experience has often showed that Customs revenue increased significantly following Customs reform and modernization programs (World Bank, 2005). However, the outcomes were achieved not solely due to the programs, but also because of many other factors. It is hard to estimate how much the programs contributed to the revenue increase in quantitative terms. Nevertheless, there are several items of evidence which provide an idea of the effect of specific RKC measures in this field. With post-clearance audit operations, for example, Japan Customs has increased its Customs revenue annually by around 3 percent (Japan Customs, 2009b).

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<sup>5</sup> In Uganda, informal imports from, and exports to its five neighboring countries were estimated at USD 81 million and USD 232 million respectively in 2006, corresponding to around 19 percent and 86 percent of its official imports from, and exports to, those countries (OECD, 2009).

### ***More FDI and economic competitiveness***

Many RKC measures, such as Customs-Business Partnership, transparency and appeal procedures, are expected to enhance FDI and economic competitiveness. According to surveys conducted by the World Bank (2003), the private sector considered efficient and simplified border procedures to be one of the important factors in determining where to invest. Customs procedures which are in accordance with the RKC are of significant importance for the prevailing just-in-time systems in the vertical specification of production, where materials as well as intermediate and semi-finished products need to cross borders many times in order to produce a finished product.

In addition, the World Competitiveness Yearbook (IMD, 2009) describes as one of the criteria in evaluating national competitiveness: “*Customs authorities do facilitate the efficient transit of goods*”. Recognizing that international trade is an engine of economic growth, the WCO has emphasized the importance of not using Customs procedures as non-tariff barriers to trade. When goods are traded faster at lower cost, traders will obtain higher competitiveness in domestic and international markets, and may also discover the possibility of exporting perishable goods that were not exportable before. Without smooth and predictable Customs procedures in both the exporting and the importing countries, for example, the fresh flower trade from Africa to Europe would not have grown significantly.

### ***Non-economic benefits***

Besides the above-mentioned economic impacts, RKC implementation is expected to promote protection of security, society and human health. Customs risk management is a key element to implementing effective Customs controls while facilitating legitimate flows of trade. Standardized information technology helps in the detection of movements of illicit goods or people across borders by enabling a Customs administration to coordinate in a timely manner not only with other border agencies and the private sector but also with international partners. In addition, transparent and predictable Customs procedures effectively improve the integrity and professionalism of Customs administrations worldwide. Moreover, sound RKC implementation helps to facilitate inbound and outbound flows of goods and people in the event of natural disasters and other emergencies.

### ***A basis for implementing other Customs instruments and tools***

It has been argued that RKC implementation serves as a basis for implementing other Customs instruments and tools. It was found that all 10 building blocks in the WCO document titled “*Customs in the 21<sup>st</sup> century*” were consistent with the RKC (WCO, 2008). In addition, the WCO SAFE Framework of Standards (SAFE FoS)<sup>6</sup> was developed based on the RKC to secure the international supply chain while facilitating legitimate trade. For example, the Authorized Economic Operator (AEO) concept of the SAFE FoS has its origins in the RKC’s “*authorized persons*” concept. In fact, most RKC Contracting Parties have expressed an intention to implement the SAFE FoS.

The RKC is also regarded as a reference tool in the WTO negotiations on trade facilitation. The WCO (2009b) found that the RKC was wholly compatible with the current proposed Customs-related texts in the WTO negotiations on trade facilitation, although the wording of the texts was never similar to the RKC and sometimes went

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<sup>6</sup> Further information is available at [http://www.wcoomd.org/home\\_wco\\_topics\\_epoverviewboxes.htm](http://www.wcoomd.org/home_wco_topics_epoverviewboxes.htm), accessed on 26 February 2010

beyond it. Through RKC implementation, therefore, it can be said that Customs administrations are able to prepare for the future outcomes of the WTO negotiations on trade facilitation.

#### 4. Conclusions

This paper aims primarily to summarize the benefits of both acceding to and implementing the RKC in order to assist non-Contracting Parties in their national accession efforts. The RKC presents a blueprint for modern and efficient Customs procedures in the 21<sup>st</sup> century to facilitate legitimate trade while not compromising the Customs control function. It provides a comprehensive and basic set of international Customs standards, and already covers a large portion of global trade. The RKC also serves as a basis for other Customs instruments and tools including the WCO SAFE FoS, and constitutes a benchmark for successful capacity building activities. In this regard, the RKC is recognized as a “brand name” for best practices in Customs procedures.

It is widely recognized that there are considerable benefits which accrue from RKC accession. One of the biggest advantages of RKC accession is the “*announcement effect*” that an RKC Contracting Party is certified as having international Customs standards in place. It is useful for Governments to send a clear message that they intend to facilitate legitimate trade and secure the movement of international trade. Having the status of an RKC Contracting Party is also useful in attracting FDI. This is “*brand power*”, and this should be supported by continuous efforts by each Contracting Party as well as the Management Committee. Other advantages which have been identified relate to trade negotiations and capacity building activities.

Moreover, the benefits of the simplified and harmonized Customs procedures embodied in the RKC have been well documented in the context of trade facilitation. According to existing literature and evidence, substantial benefits are achievable when the RKC is implemented. These may include faster release of goods at borders and lower trade costs, increased revenue, and more FDI and economic competitiveness. In addition, RKC-implementing economies are expected to receive various non-economic benefits. RKC implementation could also serve as a basis for implementing other Customs instruments and tools including the WCO SAFE FoS, and for implementing the future outcomes of the WTO negotiations on trade facilitation.

Nevertheless, early RKC accession would be even more beneficial considering potential opportunity costs during the period of non-accession. More economies should consider that it is worthwhile to seek successful RKC accession in order to reap the full benefits of the RKC.



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