



ASSESSING COST-EFFECTIVENESS OF NON-TARIFF MEASURES – A TOOLKIT



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CONTENTS

Executive summary	v
1. Introduction	1
2. Motivation, Rationale and Objective	2
3. Deployment Framework and Procedure.....	4
3.1 Toolkit Step 1 – Intermediate Input Selection and NTM Mapping.....	6
3.2 Toolkit Step 2 – Stakeholder Identification	7
3.3 Toolkit Step 3 – Stakeholder Engagement.....	11
3.4 Toolkit Step 4 – Stakeholder Input Analysis.....	15
3.5 Toolkit Step 5 – Policy Options	17
4. Conclusion.....	19
References.....	20
Appendix.....	21

EXECUTIVE SUMMARY

Businesses have identified non-tariff measures such as non-automatic licensing, rules of origin, and regulatory measures as major elements affecting their ability to trade. Two broad categories of NTMs can be distinguished -

- **Technical measures**, including sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), which are product-specific requirements, mostly designed for public policy objectives to protect health, safety and the environment, such as packaging requirements, maximum residual limits of chemicals, and related inspections and certification; and
- **Non-technical measures** a wide array of trade-related policies such as quotas, non-automatic import licensing, rules of origin and price control measures.

Of these two types, the incidence of technical measures is rising. Businesses must increasingly comply with numerous procedures and requirements when exporting and importing. Even when not targeting trade related objectives, such NTMs can alter the volume, direction, and product composition of international trade. Thus, the need to streamline NTMs for facilitating trade and reducing business costs has gained importance in recent years. However, their complexity has been an impediment to reform. It is crucial to strike a careful balance between the costs of NTMs and their regulatory social and environmental benefits.

The **Non-Tariff Measures Cost-Effectiveness Toolkit** is designed to provide policy makers a framework to find this balance, including some tools and templates. The toolkit is designed on three pillars – *Design, Implementation and Compliance*.

- The *Design* pillar evaluates how suitable the NTM has been/can be for meeting the stated objectives;
- *Implementation* assesses the efficacy of procedures and costs of implementing the NTM; and
- *Compliance* measures how burdensome the NTM is on the private sector.

The toolkit relies on active engagement with the stakeholders who have to comply with the NTMs and oversee its day to day implementation. The goal at all points is to streamline NTMs in order to achieve public policy objectives at the lowest possible cost.

The toolkit is written for reviewing NTMs applicable to a single intermediate input for a value chain/ sector of national economic and political interest but can be extended to several sectors. The toolkit targets increasing competitiveness and value addition in the identified sector as well as creation of regional value chains (RVCs). A brief summary of the underlying objectives of the toolkit, its rationale and procedures is provided here.

What are NTMs?

Non-tariff measures (NTMs) are policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods by changing quantities traded, or prices or both (UNCTAD, 2019). Most NTMs are designed to achieve public policy objectives, such as food safety, consumer protection, or protection of the environment.

Why review NTMs?

NTMs can unduly increase the cost of doing business or simply fail to meet policy objectives. Poorly designed and inefficiently implemented NTMs create administrative and financial burden for the private sector and government agencies. This may negatively impact international trade and consumers in the form of higher product prices. It requires reviewing NTMs with the objective of minimizing compliance costs, improving design and making implementation processes more effective.

What is the rationale of the NTM cost-effectiveness toolkit?

The Toolkit provides a step by step implementation procedure and certain tools that can be used to review NTMs applicable to intermediate inputs within critical value chains. It is meant to enable users to review NTMs in terms of design implementation and compliance – the three main pillars of the toolkit. The end goal of the toolkit is to encourage good regulatory practices.

How does the toolkit approach NTM review?

The toolkit follows a **5-step approach** to reviewing NTMs. It begins with **value chain assessment** to identify imported intermediate inputs within a value chain of interest and mapping the applicable NTMs using the UNCTAD Trains Database. The next step is to **identify key stakeholders** i.e. government agencies responsible for designing and enforcing the NTMs under consideration; the regulated firms; as well as other relevant government agencies. This is followed by **engaging with the stakeholders** through surveys, focus group discussions, in-depth interviews and detailed compliance and implementation cost assessment. Interview and survey guidelines are provided to facilitate a comprehensive analysis of NTMs. The discussions with the stakeholders are then **synthesized and analyzed** to identify issues and challenges regarding compliance, design and implementation. Insights drawn may be substantive or procedural. The toolkit concludes with **generating policy options** to address the identified problems so as to drive an NTM reform agenda.

What “tools” does the toolkit provide?

In order to facilitate implementation, the toolkit provides tools to aid stakeholder engagement: a sample survey, in-depth interview guidelines, guidelines for focus group discussions, a detailed cost assessment spreadsheet, potential approaches for analyzing stakeholder input, and ways of generating suitable policy options. It also provides other resources for planning and delivering workshops and hiring the implementing staff.

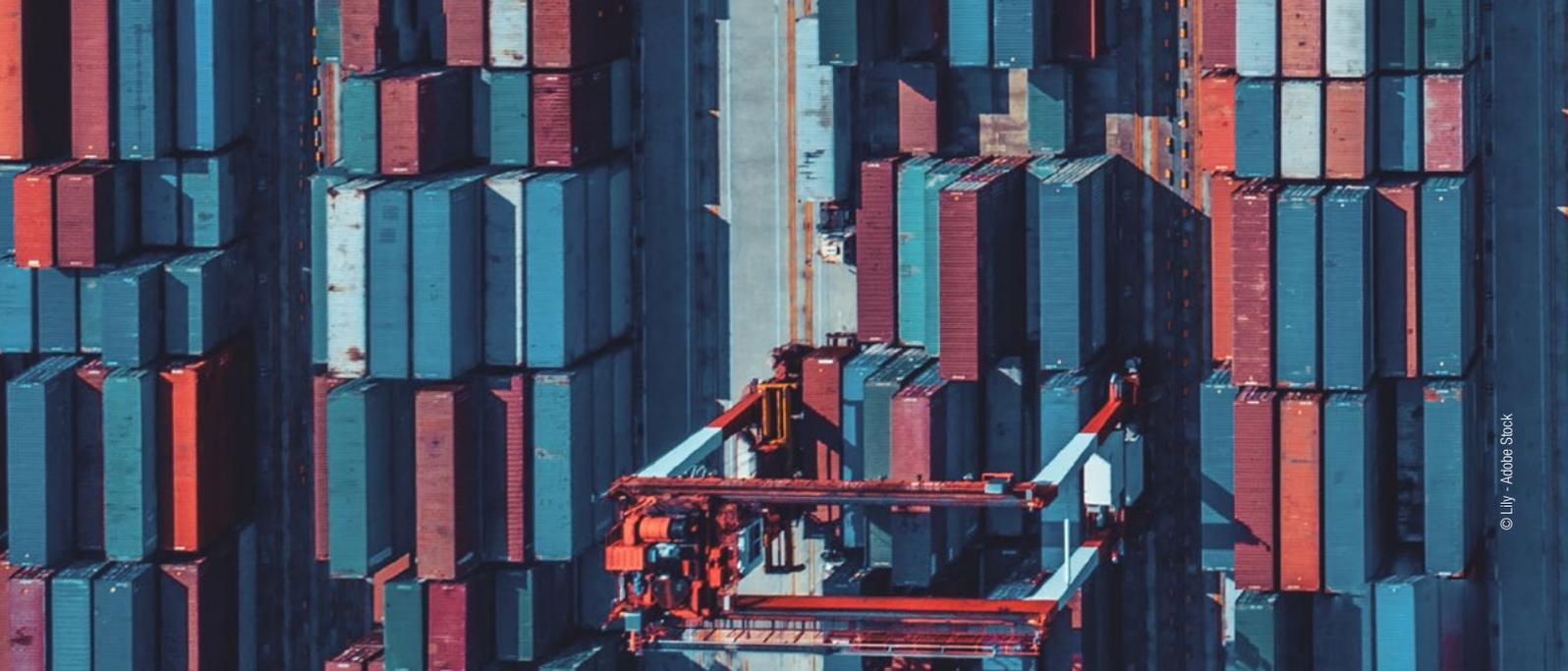
How long does it take to implement the toolkit?

The toolkit envisages an average implementation period of six to twelve months. This will also depend on the number of products, number of NTMs, and the number of firms/agencies to be interviewed.

What are the expected end results?

The findings from the toolkit should enable users to generate policy options towards implementing well-designed NTMs that meet economic and non-economic policy objectives. Implementation of reforms itself is beyond the scope of this toolkit, as it will depend upon the country’s political decision. However, activities can be designed to accompany and facilitate the process, as an extension of the implementation of the toolkit.

Overall, the design of the toolkit is flexible, and users are free to adapt the implementation based on their needs, available time and budget, and political interests. In a nutshell, the toolkit provides a systematic approach and easy to use tools to review NTMs from multiple angles in a way that can highlight the efficacy and costs of each NTM.



1. INTRODUCTION

Non-tariff measures (NTMs) are policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods by changing quantities traded, or prices or both. (UNCTAD, 2019)

While the use of tariffs as an instrument of trade policy has declined over the years, the role of NTMs has increasingly come into focus. NTMs can cover a broad range of measures including traditional trade policy instruments, such as quotas or price controls or technical regulatory measures such as sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT). In particular, the latter have become a critical determinant of market access in the last few decades. These may include requirements for traders to obtain a license or a permit; or testing, certification, and packaging requirements for imported or exported goods. The emergence of these measures can be attributed to non-trade, public policy objectives such as demand for high quality products or protection against hazards from food additives and contaminants, environmentally damaging products and fraudulent pharmaceuticals.

NTMs can affect trade, even when this is not their main objective. In practice, NTMs can increase price, thus impeding trade. This results in, often unintended, discrimination against foreign producers. Such NTMs, can hurt domestic producers, too, by making the import of intermediate inputs expensive, increasing business costs and reducing productivity, thus making a country uncompetitive in export markets. While all WTO member countries reserve the right to regulate trade, it is important for governments to be aware of the measures' implications on national growth and development. NTMs can prevent the creation of regional value chains (RVC), restricting an economy's ability to effectively make use of the region for boosting their competitiveness and producing/exporting higher value-added products (UNCTAD 2018). The increased cost of doing business arising from the need to comply with multiple import NTMs can restrict value addition and impair structural transformation of an economy. In a world where 70% of global trade involves global value chains (GVCs) and the emphasis on regional value chains (RVCs) is significant, particularly for the less developed and developing economies, addressing NTMs on intermediate imported inputs deserves much attention - not "as a *concession to trading partners, but as a domestic issue driven by a concern for enhanced competitiveness*" (World Bank, 2012).

While governments should not be looking to simply eliminate problematic NTMs, the need to strike a balance between the achievement of policy objectives and minimizing economic costs is critical. NTMs must be effective as well as efficient. This can be achieved by encouraging good regulatory practices in designing and implementing them, such that costs of compliance are minimized and desired policy goals are met.

This toolkit is designed to facilitate NTMs review based on a 5-step approach. This handbook provides a motivation and rationale for the toolkit; discusses the key pillars it focuses on for a holistic NTMs review and outlines a step-by-step implementation procedure for deployment. It also makes available to the user, certain "tools" to aid in the deployment process.

2. MOTIVATION, RATIONALE AND OBJECTIVE

It can be difficult to determine the overall impact of an NTM – positive or negative, as that would require a counterfactual on what would have happened if the NTM did not exist. Yet, it is possible to assess its effectiveness by understanding how the NTM was designed, is being implemented as well as challenges that private sector faces when complying with them.

A consideration of the following examples will throw light on the problem at hand:

- A national government imposed mandatory fumigation requirements on imported sugar to ensure that it was pest-free. While the objective was legitimate, this requirement was over and above those recommended by Codex Alimentarius, the international standard on food products. Further, the decision was not based on scientific assessment of the alternative procedures such as irradiation or other treatments which may have been more suitable, safer or environmentally friendly.
- An inspector responsible for physically inspecting imports lacks training on handling inspection samples and appropriate inspection methods. This results in long clearance time and the risk of sub-standard quality of cotton entering passing through the border may increase.
- A small-scale importer of fertilizers is unclear about the documentary requirements for import and has to spend considerable time and effort to liaise with the relevant government agencies.

The above are respectively cases where the NTM design is flawed, its implementation process is ineffective, and its compliance imposes cost and time burden on the private sector. An ill-designed and poorly implemented NTM will fail to meet the intended objective, creating a situation wherein costs could easily outweigh its benefits. NTM implementation itself can be an expensive process requiring significant investment in infrastructure, technology or even day to day administration. The costs incurred by government agencies in the NTM design and implementation process are ultimately passed on to the private sector in the form of import charges or certificate/license fees. This can make compliance with NTMs both financially and administratively burdensome for the private sector, increasing the overall cost of doing business, reducing competitiveness and negatively impacting the ability to participate in global or regional value chains. This holds particularly true for small and medium enterprises (SMEs).

In the face of this and the trade-off between policy objectives and trade effects that NTMs present, it is crucial that the NTMs in place be cost-effective. This toolkit proposes a process of thorough with the government agencies and the private sector to gauge the level of NTM effectiveness. The goal is to promote good regulatory practices. The resulting NTM reform or simplification in procedures can help strengthen regional value chains and boost export competitiveness.

More specifically, the key objectives of the toolkit can be broken down as follows:

- To assess the NTM **design** with a view of ascertaining if the NTM is required as well as to streamline the

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