

Non-Tariff Barriers in Agricultural Trade: Issues and Implications for Least Developed Countries

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Many developed and some developing countries have been offering special preferential market access schemes to least developed countries (LDCs). However, though these schemes have lowered tariff barriers for most of the agricultural products exported by LDCs, non-tariff barriers (NTBs) remain a major constraint to LDCs exports. For example, it has been calculated that Bangladesh and Cambodia, even though they have duty-free access to the EU market, faced NTBs equivalent to an average tariff of 5.65 per cent and 7.66 per cent, respectively in 2001 (Brenton, 2003).

This brief is based primarily on Deb. (2006), which documents various types of NTBs faced by agricultural exports from two LDCs (Bangladesh and Cambodia) to the markets of three developed countries (EU, USA and Japan) and two developing countries (India and Thailand). The brief puts forward implications of the findings for domestic policies and WTO negotiation strategy to be pursued by LDCs in general and Bangladesh and Cambodia in particular.

AN INTRODUCTION TO NON-TARIFF BARRIERS

Non-tariff barriers (NTBs) or measures (NTMs) generally refer to any measure other than tariff which restricts or distorts trade. While various classifications of NTBs exist (see UNCTAD, 1994), trade policy researchers often describe NTBs under five major categories:

(i) Quantitative restrictions and similar specific limitations, (ii) Customs procedures and administrative practices, (iii) Non-tariff charges and related policies affecting imports, (iv) Government participation in trade, restrictive practices and more general policies, and (v) Technical Barriers to Trade (see Box 1, for details).

There is no unique or first best method to appropriately quantify the size and impact of NTBs. A review of the existing literature on NTBs revealed that over a dozen methods and approaches have been used for studying NTBs, each with its own strengths and weaknesses (Deb, 2006). However, estimating the impact of NTBs remain a major challenge for trade analysts.

NTBs IMPOSED ON EXPORTS FROM BANGLADESH AND CAMBODIA

Various types of NTBs and product specific NTBs are practiced by EU, USA, Japan, India and Thailand. All five countries use tariff quotas for import of agricultural products. Licensing is required for import of several agricultural commodities in EU, USA and Thailand.

The EU provides domestic support on fish products, imposes import license on vegetables and rice, and provides export subsidy on tobacco related products, wheat, rice and vegetables. Under the

Box 1: Major Categories of NTBs	
(i) Quantitative restrictions and similar specific limitations	Quantitative restrictions (QRs) are implemented through various actions such as import quotas, export quotas, licensing requirements for imports and exports, voluntary export restraints, prohibitions, foreign exchange allocation restrictions, surrender requirements, import monitoring, temporary bans to balance trade, discriminatory bilateral agreements, counter trade, domestic content and mixing requirements, mandatory certification, and allocation process for quantitative restriction.
(ii) Customs procedures and administrative practices	Several customs procedures and administrative practices such as customs surcharges, decreed customs valuation minimum import prices, customs classification procedures, customs clearance procedures, minimum custom value, excises, and special customs formalities like stamping often create barriers to trade.
(iii) Non-tariff charges and related policies affecting imports	Imports may also be affected by various policies and non-tariff charges such as special sales taxes, variable levies, border tax adjustment, value added tax, antidumping and countervailing measures, cash margin requirements, and rules of origin.
(iv) Government participation in trade, restrictive practices and more general policies	Governments often provide subsidies and other aids, participate in state trading, and designate goods subject to specialized management by line ministries. In addition, state procurement policies, tax exemptions for critical imports, and single or limited number of channels for imports of food and agricultural products can act as non-tariff barriers.
(v) Technical Barriers to Trade	Governments, on various grounds, often set standards such as health and sanitary regulations and quality standards, safety and industrial standards and regulations, packaging and labeling regulations, advertising and media regulations. These technical requirements can also act as non-tariff barriers to trade.

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EU-Everything But Arms (EBA), exports from Bangladesh and Cambodia do not face import quotas but fish and tobacco related products (main export items) are affected by import licenses and subsidies.

Major non-tariff barriers on agricultural products in USA are import license, import quota, and export subsidy. USA imposes import licenses on fish, tobacco and vegetables, import quotas on sugar and tobacco, and provides export subsidies on vegetables, rice, maize and wheat.

NTBs in Japan are tariff quota, state trading, and state procurement which are imposed mainly on tobacco, raw sugar and cereal products. Thailand's major non-tariff barriers are related to import license, technical measures, and quantity control. Major barriers imposed by India are import monitoring, import quota, government procurement, and state trading. India monitors imports of rice, maize, tea and vegetables, procures wheat and rice and imposes import quotas on maize.

Incidence of Non-Tariff Measures

UNCTAD's Trade Analysis and Information System (TRAINS) reports NTM incidence at the product level (at the 6-digit classification in the Harmonized System) and covers "core" NTMs or relatively restrictive NTMs. Core NTMs include three major categories of non-tariff measures: (i) Quantity control measures, excluding tariff quotas and enterprise-specific restrictions; (ii) Finance measures, excluding regulations concerning terms of payment and transfer delays; and (iii) Price control measures (Bora et al., 2002).

An analysis of product specific incidence of non-tariff measures revealed that most of the major agricultural export items from Bangladesh and Cambodia face NTMs in all five countries. Coverage of NTMs is generally higher for agricultural products than average coverage applicable for primary products and for all products (Bora et al., 2002). Among the countries studied, NTM coverage for agricultural products is highest in India, followed by Japan, Thailand and USA.

Bacchetta and Bora (2001) reported frequency of non-tariff measures faced by LDCs for their agricultural exports (Table 1). Three important messages evident from the table are: (i) Frequency of NTMs is

generally higher for agricultural products than for manufactures, and minerals and fuels; (ii) in case of agricultural products, developed countries and Quad countries (Canada, Japan, EU and USA) have higher frequency of NTMs than that of other countries; (iii) Developed countries and Quad countries have higher frequency of NTMs for agricultural commodities of export interests to Bangladesh and Cambodia, such as crustaceans (live) and other fish, than for agricultural products for which they cannot compete (coffee and substitutes with coffee, oilseeds).

Bhattacharya and Mukhopadhyaya (2002) reported NTMs faced by exports from Bangladesh. In 1998, Bangladesh exported US\$ 2.3 billion to EU, US\$ 2.1 billion to USA and US\$ 0.1 billion to Japan (Table 2). Exports facing NTMs as per cent of total exports to the EU, USA and Japan were 91 per cent, 94 per cent and 68 per cent, respectively. Per cent share of exports facing multiple NTMs in EU, USA and Japan were 93 per cent, 91 per cent and 63 per cent, respectively. Non-traditional NTMs such as Sanitary and Phytosanitary measures (SPS), Technical Barriers to Trade (TBT) and related measures were most prevalent, amounting to about 96 per cent of NTMs in EU, 95 per cent in USA and 64 per cent in Japan.

Rules of Origin as a Barrier to Trade

Rules of Origin (RoO) can also act as non-tariff barriers. Brenton (2003) pointed out that more than 30 per cent of both Bangladesh and Cambodia total exports to the EU are eligible for preferences under the EBA and that utilization of preferences was relatively high. Actual utilization of preferences in 2001 was 36 per cent for Cambodia and 50 per cent for Bangladesh and about 50 per cent for all non-ACP LDCs. The implied amount transferred to Bangladesh exporters through the EBA, i.e. the value of exports granted duty-free access multiplied by the MFN tariff, was estimated in 2001 to be €1.9 billion for Bangladesh and €2.3 million for Cambodia. The study added that if the EBA had delivered duty-free access to all of the exports recorded as having come from Bangladesh and Cambodia then there would have been an additional transfer of €1.93 billion to Bangladesh and €3.7 million to Cambodia. For Bangladesh, the implementation of the EBA initiative resulted in a trade-weighted average tariff of 5.65 per cent being imposed on Bangladesh exports. Similarly taking into account that only a proportion of exports could have entered the EU duty free, Cambodia faced an even higher average tariffs (7.66 per cent) when exporting to the EU.

Table 1. Frequency of Non-tariff Measures Faced by LDCs for Export of Agricultural Commodities

Description	Developed countries	South Asia	Middle East and North Africa	Latin America and the Caribbean	Europe and Central Asia	East Asia and the Pacific	Sub-Saharan Africa	Quad
Agricultural and Fishery products	48.24	14.87	57.69	34.24	32.93	24.42	18.58	41.98
Crustaceans (live)	58.64	8.33	75.00	30.98	43.56	22.22	20.00	50.00
Other fish	64.49	14.07	75.16	30.96	43.85	22.87	20.28	55.43
Edible fruit and nuts	53.95	19.21	54.61	37.09	32.36	24.21	28.20	54.67
Coffee and substitutes with coffee	32.26	17.86	44.64	28.10	20.36	26.19	18.18	21.43
Oil seeds and miscellaneous grain, seeds and fruits	53.93	14.20	68.55	40.75	38.49	28.71	25.12	37.41
Other agricultural and fishery products	43.50	11.11	52.08	35.28	28.59	32.87	17.80	27.50
Minerals and Fuels	6.72	3.29	5.73	6.64	6.72	4.52	0.16	6.53
Manufactures	10.67	7.20	10.96	11.68	7.15	5.57	1.74	16.78

Source: Bacchetta and Bora (2001).

Table 2. Non-Tariff Measures Faced by Exports from Bangladesh, 1998

Indicators	EU	USA	Japan
Total exports (in Billion US\$)	2.30	2.10	0.10
Exports subject to NTMs (in Billion US\$)	2.06	1.93	0.08
Exports facing NTMs in total exports (%)	91.01	93.86	68.41
Exports subject to single NTM (in Billion US\$)	0.14	0.18	0.03
Exports subject to multiple NTMs (in Billion US\$)	1.92	1.76	0.05
Share (%) of exports facing single NTM	6.60	9.10	36.60
Share (%) of exports facing multiple NTMs	93.40	90.90	63.40
Distribution of NTMs Faced by Bangladesh			
<i>NTM Incidences (Number of Tariff Lines)</i>			
Tariff Quota			13.00
Antidumping Measures	10.00	10.00	
SPS, TBT and Related Measures	265.00	176.00	25.00
<i>Percentage Share</i>			
Tariff Quota			33.30
Antidumping Measures	5.40	3.60	2.60
SPS, TBT and Related Measures	96.40	94.60	64.10

Source: Bhattacharya and Mukhopadhyaya (2002), Tables A6 to A10; based on TRAINS-UNCTAD database.

Brenton and Manchin (2003) argue that the prime suspects for the lack of utilization of EU trade preferences are the RoO, both in terms of the nature of the rules defining specific processing requirements, with the constraints that this entails for international sourcing from the lowest cost locations, and the costs of providing the necessary documentation to prove conformity with the rules. UNCTAD (2003) also observed that the low utilization of preferences are mainly caused by the inability of eligible countries to fully exploit the available preferences when these are subject to strict origin requirements and related administrative requirements.

IMPACT OF NTBs ON EXPORTS FROM BANGLADESH AND CAMBODIA

SPS is the most crucial non-tariff barrier for agricultural exports from Bangladesh, Cambodia and other LDCs. Bhattacharya and Mukhopadhyaya (2002) reported that almost all exports from Bangladesh to the EU market are subject to SPS and TBT measures. Using TRAINS-UNCTAD data, they noted that out of 275 NTM incidences faced by Bangladesh in EU in 1998 about 96.3 per cent were on account of SPS-TBT measures. Ferrer (2006) observed that exporters to the EU are experiencing a steady rise in protectionism, due to SPS regulations set beyond genuine and scientifically based safety needs. He added that due to the tightening of standards, the number of rejections of imported goods to the EU increased from 230 cases in 1998 to 1,520 cases in 2003. Rejections were most frequent in fish and crustaceans, meat, fruits and vegetables.

Non-compliance with the SPS requirements can have devastating effects for the exporting country. Bangladesh has already suffered from an SPS related trade ban in 1997, when the EU banned the import of shrimps, as SPS requirements were not correctly fulfilled. The ban remained effective for five months, between August and December 1997. Cato and Santos (2000) conducted an in-depth study of the adverse impact of the ban and estimated that the cost of EU ban to Bangladesh was about US\$ 65.1 million. Some of the plants did succeed in diverting a large part of their intended shipments to the USA and Japan and, thereby were able to cut down the losses. In spite of such efforts, the estimated net loss was equivalent to about US\$ 14.7 million. These were evidently short-term losses. The

medium to long-term losses stemming from loss of the sector's momentum, market diversions and erosion in price offered to exporters were much higher. The Government of Bangladesh and the shrimp entrepreneurs made substantial investment to ensure Hazard Analysis and Critical Control Point (HACCP) compliance. The total cost of upgrading the facilities and equipment, and training the staff and workers for achieving acceptable standards, was about US\$ 18.0 million and the annual cost of maintaining the HACCP programme was estimated as US\$ 2.4 million (Cato and Santos, 2000).

Khatun (2006) recently reviewed the impacts of SPS and the trade ban on poverty and livelihood of farmers, transporters, processing factories, and male and female processing workers. The study found that even though the shrimp industry at an aggregate level was able to recover, many farmers did not. Transporters were asked to use plastic containers to prevent possible fungus infection from bamboo containers. After the transporters invested their capital to buy new containers, however, they were asked to use plastic barrels as the containers were found unsafe. These frequent changes in sanitary requirements put an heavy financial burden on the smaller transporters. Even though the Bangladesh government provided support to processing farms to become HACCP compliant – in the form of interest free loan recovered from export earnings – 78 of them did not survive the transition and many jobs and employment opportunities were lost. This was particularly true in rural area, since shrimp processing shifted from the rural depots to the urban factories.

IMPLICATIONS FOR POLICY AND WTO NEGOTIATION STRATEGY

LDCs, particularly Bangladesh and Cambodia, need to intervene both at the domestic policy level and engage more proactively in WTO negotiations.

Implications for Domestic Policy

At the domestic level, both Bangladesh and Cambodia need to pursue a broad based diversification of agricultural production and export strategy, strengthen capacity for issuance of required certificates and monitoring compliance level with RoO, design cost effective SPS

compliant certification systems and develop better infrastructure facilities. The public sector must provide market information to agro-producers and processors on a regular basis. Awareness building about opportunities and compliance requirements among the producers, processors and exporters would be helpful if it is accompanied by a complementary effort of market diversification.

Implications for WTO Negotiation Strategy

At the WTO level, LDCs, particularly Bangladesh and Cambodia, have to engage more proactively in the ongoing negotiations on agriculture to safeguard their interests. They have to materialize the decisions reached through Hong Kong Declaration (WTO, 2005). The WTO members agreed then that developed-country Members shall, and developing-country Members declaring themselves in a position to do so should, provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability. Members facing difficulties at this time to provide market access as set out above shall provide duty-free and quota-free market access for at least 97 per cent of products originating from LDCs, defined at the tariff line level, by 2008 or no later than the start of the implementation period. They also agreed to ensure that preferential RoO applicable to imports from LDCs are transparent and simple, and contribute to facilitating market access.

Since export of agro-products from LDCs are often constrained by various non-tariff barriers and standards, LDCs must demand WTO compliance and more transparent and effective control of non-tariff measures. They should also demand that standards in no way shall be set beyond the required scientific limit.

Under the Aid for Trade package, LDCs may also request technical assistance for improvement of their facilities and capacities for compliance with certification systems and related requirements.

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