Tackling Non-Tariff Barriers in Agriculture and Food Trade within APEC: 
A Business Perspective

Strengthening food security—the available supply of affordable, nutritious, and safe food—is an urgent problem. One billion people suffer from hunger, yet there is enough food produced in the world to feed each person 2,700 calories and 75 grams of protein per day. Clearly, the world’s food is not reaching those in need given the 1 billion people in the world who do not have enough food to lead a healthy and active lifestyle. With a 60% increase in food production required to meet global demand by 2050, the world must coordinate together to address the prevalence of hunger at a domestic, regional, and global level.

Trade enhances food security. It improves access to food, lowers costs, mitigates supply shocks, and strengthens economic and social prosperity. Over the past two decades, governments have introduced non-tariff measures (NTMs) at increasingly greater rates than ever seen. When used properly, NTMs enhance competition, increase product quality, and protect human and environmental wellbeing. When used improperly, they become non-tariff barriers (NTBs) and can create market distortions, which decreases food security, and makes consumers worse off.

The trade-to-GDP ratio has fallen to its lowest level in 15 years. The WTO acknowledges that the absence of trade liberalization and creeping protectionism are playing a role in this decline. Governments should be concerned with this trend. Not only is economic growth slowing, but research has shown that decreasing trade openness is correlated with an increasing prevalence of undernourishment.

APEC encourages openness to agriculture and food trade, but executives believe that APEC can and should do much more. Businesses are frustrated that food trade regulations across APEC are increasing in complexity and burdensomeness. The environment is particularly discouraging for MSMEs. In the context of globalization, eliminating NTBs becomes critically important to preserving not only trade flows and access to key commodities, but also diplomatic good will.

The pessimistic outlook from businesses, coupled with increasingly anti-free-trade rhetoric, speaks to the potential for NTBs to become truly debilitating for businesses. But, let us remember that ultimately, the consumer suffers. Businesses want a concerted effort to streamline NTMs and eliminate NTBs to that end. Liberalizing and facilitating trade and investment in food markets will promote inclusive economic growth, create jobs, improve prosperity, and enhance food security. Efficient food trade strengthens domestic and regional food security. This report aims to add the private sector’s perspective to the ongoing conversation on trade barriers, and to generate a sense of urgency around mitigating NTBs.

Food security is key to an inclusive, prosperous, and integrated regional economy. ABAC contends that businesses, in close partnership with governments, play a critical role in ensuring food security. Understanding the private sector’s perspective on how impediments raise costs, reduce competitiveness, and discourage trade and investment, is crucial to developing a comprehensive approach to thoughtfully managing NTMs and NTBs in food and agricultural trade. ABAC commissioned the USC Marshall School of Business to identify the most burdensome impediments encountered by business in agri-food trade, with a specific focus on identifying the most egregious NTBs.

RESEARCH INITIATIVE:
ABAC tasked the University of Southern California’s (USC) Marshall School of Business to research the challenges and opportunities presented by the increasing impact of NTBs in agriculture and food trade across the APEC region. The research focuses on capturing the “voice of business,” by interviewing a broad cross-section of APEC food business leaders, with specific attention to the impact of NTBs on food security. The research included:

- **Interviewing 421 stakeholders in APEC**, including business executives, trade association leaders, government officials, and others, along with 216 survey respondents.
- **Developing a comprehensive evaluation framework for trade barriers** to assess the burdensomeness of NTBs across five dimensions that captures both the private and public sector perspectives.
- **Analyzing data across multiple perspectives to understand the complexity of NTBs.**
• Capturing recommendations designed as practical solutions for improving the trade environment for agriculture and food by reducing the impact of NTBs.

KEY FINDINGS

NTMS are increasing in prominence and complexity in all APEC economies

All 400+ interviewees spoke of an increasingly difficult and burdensome agri-food trading environment. Businesses complain that NTMs are a key source of higher transaction costs, raising costs and food prices and lowering competitiveness. SPS and TBT requirements have increased substantially over the last ten years.

• Substituting NTMs for tariffs. While average tariff rates across APEC have continued to fall, NTMs in agri-food trade have increased. NZIER research estimates that NTMs cost APEC $790 billion each year and raise transaction costs three times higher than tariffs. The negative impact of NTMs is even higher in agri-food products.

• New challenges create more stringent NTMs. Initiatives within APEC economies to improve health and food safety standards have led to more complex and stringent NTMs. Measures such as SPS requirements are now more common than a decade ago.

• Disparate NTM approaches create complexity and increase transaction costs. Even if all measures are appropriate and expertly applied, the multiple disparate approaches adopted across 21 APEC economies is enough to create complexity for business and raise transaction costs.

• Declining tariffs are being replacing by “creative” protectionist NTBs. APEC businesses reported encountering NTMs that are being “creatively applied” for protectionist purposes.

Procedural obstacles frustrated... but TBTs and SPS are the most burdensome

The top three NTBs discussed in our 400+ interviews were: procedural obstacles (390 instances), SPS measures (322 instances), and TBT measures (111 instances). However, in terms of negative impact and burdensomeness, TBT measures were ranked first, followed closely by SPS measures, and then procedural obstacles.

• TBT measures: have the greatest negative impact in terms of time and cost.

• SPS measures: are the most frequently abused to block or impede trade through ambiguous, inconsistent, and discriminatory enforcement. 68% of businesses labelled SPS requirements as arbitrary, complex, and nationalist.

• Procedural obstacles: the most frequently encountered NTBs, stemming from inefficient and inadequate processes and procedures for compliance with NTMs.

NTMs are more than market access border barriers...they impact and compound along the entire supply chain

Challenges begin for business before-the-border, with the search of accessing clear, complete, and transparent export requirements, and extend to new product registration requirements, licensing and rules of origin requirements, pre-shipment testing, and labeling requirements. At-the-border business is challenged with inconsistently applied rules, discriminatory behavior, corruption, ad-hoc changes, burdensome administrative procedures, physical documentation requirements, lack of testing facilities, and inadequate customs capacity. Challenges continue behind(after)-the-border with compliance with industry and NGO-imposed private standards, and inadequate transportation and ICT infrastructure. All these challenges compound to raise transaction costs and distort trade.

Increasing compliance costs hurt...but uncertainty and time delays cripple agri-food trade

Operating in a slim-margin industry with long product cycles and perishable products, agri-food firms are extremely sensitive to even the smallest cost increases. However, time delays, inconsistencies in procedures, the lack of predictability, and uncertainty about future regulations raise business risks to levels which effectively block trade. Burdensome trade barriers drive the cost, time, and uncertainty of compliance for businesses beyond what is necessary to fulfill a legitimate objective, ultimately distorting and blocking trade flows. For business, NTMs become NTBs when compliance costs erode margins to the point that they are unprofitably, when uncertainty makes risk management impossible, or when the time required to develop a market opportunity is unrealistic.
Business identified five categories of egregious NTMs...that have to go
APEC businesses decried egregious applications of NTMs—those NTMs used by governments to manipulate trade. Used in these ways, NTMs transform into NTBs. Businesses categorized these uses into five forms:

- **as retaliatory “trade weapons.”** When governments change or impose new NTMs (frequently SPS measures) on agri-food products in trade disputes, businesses report suffering significant real losses.
- **as “on-off valves.”** Business labels NTBs as being egregious when agencies selectively apply NTMs to allow in, or prevent, imports to protect domestic producers and control prices. When domestic production can supply the domestic market, imports are rejected by the imposition of NTMs. When domestic production falls short of demand, imports are accepted.
- **as tools for discrimination by origin.** Business complains about intentional discrimination when agencies apply NTMs selectively against imports from certain economies, but not others.
- **as protectionist tools.** Business regards as unfair NTMs crafted to explicitly protect certain agri-food sectors from foreign competition.
- **unreasonable response times.** Business finds that unreasonably long time periods for risk assessments and response to business requests translate into barriers to compliance with NTMs.

Procedural obstacles are NTBs, too...and they unnecessarily raise transaction costs
For business, burdensomeness is not just the strictness or complexity. The efficiency of the processes and procedures for importing and exporting are of equal importance. Administrative burdens, organizational complexity, red tape, transparency of information, inadequate transportation infrastructure, ICT infrastructure, corruption, state of agriculture, time delays, and inconsistency and unpredictability, can all act as NTBs in the trading environment.

Interpreting food security as food self-sufficiency...and promotes protectionism
Our research found that economies tended to be more protectionist and imposed more NTBs when food security was interpreted as domestic food self-sufficiency, rather than engaging in trade. Though this philosophy is rooted in socio-economic welfare, food self-sufficiency was used to justify protecting inefficient agricultural sectors. Future global food supplies demand a more balanced approach to food trade if food production targets through 2050 are to be met.

NTBs disenfranchise MSMEs... but APEC must ensure their inclusion in GVCs
The dramatic increase in the number and complexity of agri-food NTBs negates APECs and ABACs efforts to engage MSMEs in global food value chains. Lack of scale, lack of technical capacity, high compliance costs, and a general inability to handle the risks of rejected shipments, effectively sideline MSMEs from being active trading partners. Our research found that many support programs fall short of their targets. With most APEC firms being MSMEs, the streamlining NTMs and removing trade-disabling NTBs is urgent and crucial.

Business and governments’ perceptions of progress differs...exposing a deeper divide
The APEC business community’s perceptions of changes in agri-food trade regulation is much more acute and more negative than those of APEC governments. While 80% of business executives responded that regulations were becoming more complex and opaque, only 31% of government officials agreed; 68% of businesses believed that SPS requirements were arbitrary, complex and economy-specific, compared with 70% of government officials, who believed their SPS requirements were transparent, science-based, and coherent with global standards. Businesses perceive that current agri-food trade policies tend to focus on controlling and restricting trade, rather than facilitating it. Businesses want to partner with government, but find the process of engagement difficult.

Private standards accelerate coherence... but create problems, too
Requirements imposed by supply chain partners and NGOs are, for agri-food businesses, de facto NTMs. They impose their own compliance and transaction costs. Industry players, especially global retailers and global MNCs, are pursuing their own coherent global standards outside the influence of governments. Our research found that they are making faster progress than the initiatives of governments and world and regional organizations. When these industry standards align with government and societal interests the outcome benefits all. However, when these interests are misaligned, global food security is at risk.
ACTION AGENDA

While many of these challenges, as well as their solutions, occur at the economy level, there is an opportunity to improve the Asia-Pacific trade environment through collective action. This report provides practical solutions to mitigate NTBs. APEC and ABAC have the opportunity to listen to the voice of business and open a dialogue among member economies to increase transparency and drive greater standard coherence. The foremost recommendation is simple: communication between stakeholders needs vast improvement. Differences in perspectives and interests inhibit a coherent foundation for future policies. To some extent, each of the following solutions aim to address communication deficiencies. Some provide more tangible impacts on the flow of goods. At the core of each solution is a commitment to reduce uncertainty, excessive or informal payments, and unreasonable timelines.

Use consensus building to drive public-private sector partnerships to reduce uncertainty

The first step toward meaningful progress in reducing NTBs is for all stakeholders to agree upon a coherent path forward. APEC should create specific forums to discuss the merits of mutual recognition, global standards, and national treatment to address NTBs. This also applies at the economy level, where intra-industry forums introduce the voice of business into policy-making, and facilitate sharing of information and best practices.

Expand the scope of the APEC Trade Repository to include all agriculture and food regulatory requirements

Across APEC, businesses believe that improving access to information and allowing ease of comparison across APEC economies would have a breakthrough impact in improving the trading environment.

Encourage economies to designate a single-point-of contact for traders in key product categories

By serving as the source of information, a single point of contact for trade within each economy would provide a unique opportunity to improve communication with business, as well as the reliability and timeliness of information, while having the power to eliminate confusion with overlapping agencies and bureaucracy.

Adopt an automated cross-border trading environment

Digitizing the trading process will decrease human error, improve communication between stakeholders along supply chains, reduce corruption, and decrease container processing times. It also supports risk management efforts through data analytics, providing a more resource-efficient approach to inspections.

Accredit third-party laboratories to ease capacity and human capital issues

Accrediting third party laboratories to handle testing procedures and conformity assessment will expand the testing capacity, reducing approval timelines for businesses. The independent analysis supports consistency and fairness in complying with regulatory requirements.

Garner full commitment from member economies to the Free Trade Area of the Asia-Pacific (FTAAP), or a similar binding agreement, as a forum to discuss NTBs

The existing political capital of FTAAP can be leveraged to revise the current charter. Upstanding commitment to binding agreements will instill business confidence. Inclusion of all members and stakeholders in a dialogue on NTBs, with collaboration between executives and technical experts, will drive practical regulations and implementation. The FTAAP, or similar agreement, can serve as a “living” agreement to address future challenges and help economies and business adapt to the complex global trading environment.