

Non-tariff measures affecting Australian agriculture

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Non-tariff measures

Over the past 25 years, non-tariff measures have become increasingly important to Australia's agricultural trade.

Overview

Since the Uruguay Round Agreement on Agriculture came into effect on 1 January 1995, countries around the world have progressively reduced import tariffs and global agricultural trade has grown. The use of non-tariff measures (NTMs) has also grown (Nicita & Gourdon 2013). NTMs are 'policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both' (UNCTAD 2012). This article provides an introduction to NTMs and explains their potential economic effects and prevalence in Australian agriculture.

Approximately half of all NTMs globally are applied to agricultural products. This is because governments prioritise a safe food supply for consumers, as well as biosecurity and environmental protection. Governments use a diverse range of NTMs to achieve this objective, and they cover a range of areas—from biosecurity to labelling requirements. These NTMs are designed to improve consumer confidence in imported products and maintenance of biosecurity, and can lead to greater benefits from trade despite additional compliance costs for exporters.

There are also measures which can introduce unnecessary inefficiencies in the trading system and others that are used for protectionist reasons to discourage trade. The latter are designed to be unnecessarily burdensome to exporters, and often adversely affect farmers in exporting countries and consumers in importing countries. Because of the increasing prevalence of NTMs, and the perception that many are purely protectionist and unjustifiably applied, they have become an increasing focus of trade liberalisation efforts.

NTMs are mostly imposed non-discriminately. This means that countries generally impose the same NTM on all imports regardless of country of origin, state of development or quality of its agricultural exports. NTMs can also be specific to a country of origin. These are called bilateral NTMs and comprise around 11% of NTMs applied to global agriculture.

Classification

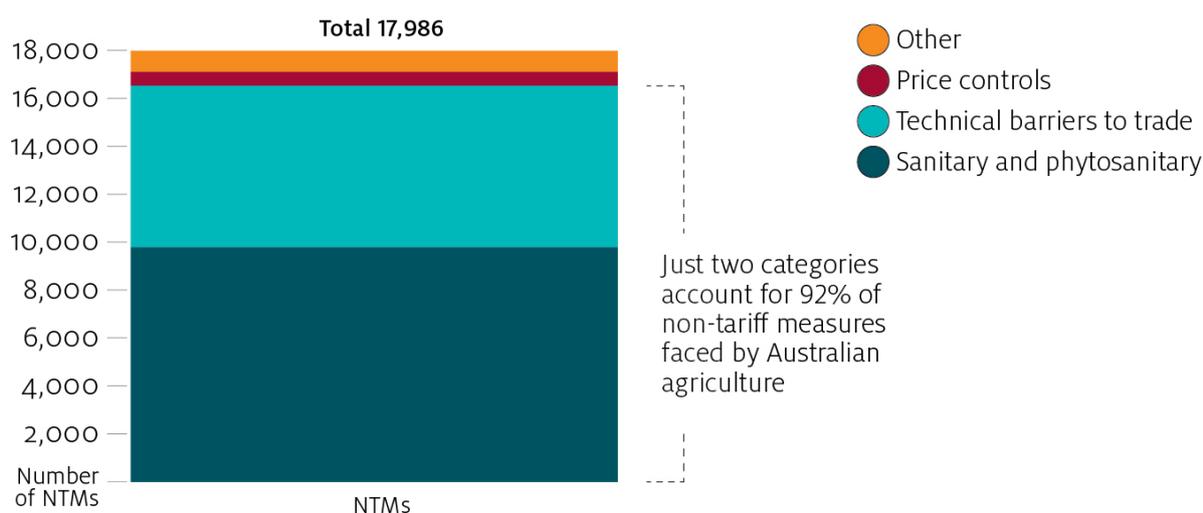
The United Nations Conference on Trade and Development (UNCTAD) Multi-Agency Support Team (MAST) established a classification system which places NTMs into one of 16 categories. Classifying NTMs is useful for analysis because of the large number and variety currently in use:

- Sanitary and phytosanitary measures (SPS)
- Technical barriers to trade (TBT)

- Pre-shipment inspection
- Contingent trade-protective measures
- Non-automatic licensing, quotas, prohibitions and quantity control measures other than for SPS or TBT reasons
- Price control measures, including additional taxes and charges
- Finance measures
- Measures affecting competition
- Trade-related investment measures
- Distribution restrictions
- Restrictions on post-sales services
- Subsidies (excluding export subsidies)
- Government procurement restrictions
- Intellectual property
- Rules of origin
- Export related measures

Sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT) account for the majority of NTMs affecting Australian agricultural exports (Figure 1). SPS measures impose biosecurity, health and food safety requirements on imports, such as limits on antibiotics in meat production or pesticide residues in grains (UNCTAD 2012). TBT measures for agricultural imports include requirements for labelling, traceability information and importer authorisation.

Figure 1 Non-tariff measures affecting Australian agriculture, January 2019



NTM Non-tariff measure.

Source: UNCTAD 2019

SPS measures account for 55% of the NTMs imposed on agricultural exports globally. Of the nearly 18,000 NTMs applied to Australian agriculture, 54% are SPS measures. The large number

of SPS measures imposed on agricultural commodities is a unique characteristic of the sector. SPS measures account for only 21% of NTMs affecting Australia's non-agricultural exports. TBT measures account for 37% of NTMs imposed on both Australian and global agricultural exports. In non-agricultural industries, 70% of NTMs are TBT measures.

NTMs are an inherent cost of doing business faced by Australian agricultural exporters. SPS and TBT measures can include food quality and safety regulations which are appropriately imposed on imports. These typically increase compliance costs for exporters but are regarded as a reasonable consequence of conducting international commerce which support ongoing trade relationships.

Inefficient or poorly designed regulations also increase costs but hinder trade. For this reason, minimising these complications is a large part of trade liberalisation efforts since inefficient NTMs can be employed deliberately to serve protectionist roles. These measures intentionally incorporate unnecessarily burdensome costs of compliance which have little to no scientific or regulatory basis. For example, governments can impose SPS and TBT measures that mandate unnecessary laboratory testing and complex labelling, using them to disguise protectionist intent and hinder trade.

The third-largest category of NTMs applied to Australian agriculture is price control measures. These are implemented to protect domestically produced products from lower-priced imports, improve price stability or raise tax revenue. For example, several countries in the Middle East raise tax revenue through applying customs inspection fees to grain imports.

Two other NTM categories are particularly important for Australian agriculture: pre-shipment inspections and other formalities, and quantity controls. The total number of NTMs in these categories is low, but they can impose significant costs to Australian agricultural exporters. This is because they are more heavily applied to Australian broadacre crops, wool, meat and live animals—together accounting for over 70% of total agricultural exports by value.

Importing countries mandate pre-shipment inspections to be carried out in the exporting country. For example, the Philippines mandates that documentation be provided on the weight, volume and value of grains before the shipment is cleared for import (UNCTAD 2019).

Quantity controls include quotas and bans other than for SPS or TBT reasons. For example, the European Union imposes a tariff-rate quota on imports of high quality beef from Australia, and Afghanistan bans imports of pigs and pig products.

Other obstacles to trade

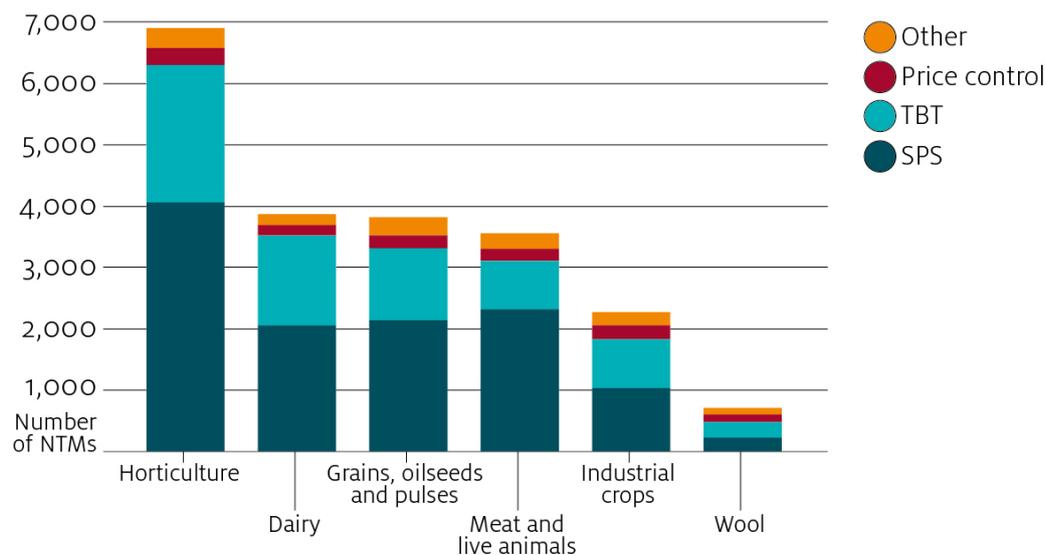
Trade can be impeded by other obstacles that are not policy measures. For example, the cost of doing business may increase as a result of uncertainty or a lack of clarity about future policy changes. Such obstacles are sometimes considered a natural part of international commerce. However, distinctions between NTMs and other trade obstacles can be unclear—hindering negotiations for improved market access.

NTM-related procedures required by importing countries to demonstrate compliance with an NTM can be trade obstacles. These are distinct from the NTM itself and can be more burdensome to exporters of agricultural products than the NTM (ITC 2015). Time delays and informal or unusually high payments are two common examples of such procedural obstacles.

Non-tariff measures applied to Australian agricultural exports

Australian agricultural exports are subject to nearly 18,000 NTMs worldwide as at 1 January 2019 (UNCTAD 2019), and these extend across all commodity types (Figure 2). Horticulture is affected by the greatest number of NTMs, followed by dairy, grains, oilseeds and pulses, and meat and livestock products. The high number of NTMs affecting these commodity groups does not necessarily reflect the potential trade cost. For example, the cost for Australian exporters of complying with one NTM imposed by one country can be higher than the total cost of complying with several NTMs imposed by several countries.

Figure 2 Non-tariff measures applied to Australian agricultural exports, by commodity, January 2019



NTM Non-tariff measure. **SPS** Sanitary and phytosanitary measures. **TBT** Technical barriers to trade.

Note: Many NTMs are applied across commodities, so the sum of individual commodity groups is greater than the total number of NTMs affecting all agricultural exports.

Source: UNCTAD 2019

Some exported commodities by their nature are more likely to be subject to NTMs. For example, horticultural exports (including fresh fruit and vegetables) are highly perishable and potential vectors for pests and diseases that could damage an importing country's agricultural sector. They are also often the object of food quality concerns. The diversity of products in the horticulture export category may also explain the higher number of NTMs. This distinction is important for industry and government when assessing implications of frequency across commodity groups.

SPS measures account for the dominant share of NTMs applied across each commodity group other than wool (Table 1). This reflects the importance of food safety and biosecurity in agriculture. TBT measures account for the largest share of NTMs for wool because health requirements are less significant for non-food items.

Table 1 Number of non-tariff measures applied to Australian agricultural commodities, 2019

Commodity	No.	Most common category
Dairy	3,870	SPS (53%)
Grains, oilseeds and pulses	3,820	SPS (56%)
Horticulture	6,901	SPS (59%)
Industrial crops	2,273	SPS (45%)
Meat and live animals	3,558	SPS (65%)
Wool	709	TBT (36%)

SPS Sanitary and phytosanitary measures. **TBT** Technical barriers to trade.

Note: Includes import-related non-tariff measures only, without regard to commercial significance.

Source: UNCTAD 2019

Effects on Australian agricultural exports

Because NTMs can increase the cost to export, there is often a perception that those applied to Australian agriculture reduce trade. However, it is often the case that the absence of such an NTM may actually destroy the possibility of any trade. An NTM that improves trade is referred to as trade-facilitating. For example, NTMs that ensure food meets health and safety requirements are common in agriculture and are used to provide quality assurance to agricultural products—increasing consumer demand and facilitating trade. Trade-reducing NTMs are those that increase the cost of compliance for exporters without a compensating improvement in demand.

Whether an NTM will have an overall trade-reducing or trade-facilitating effect is sometimes uncertain because often multiple NTMs apply to the same goods. Ascertaining the overall effect of an individual NTM in these circumstances is quantitatively challenging (Cadot, Gourdon & van Tongeren 2018; Piermartini & Yotov 2016).

Quantifying non-tariff measures

Researchers and international organisations like the OECD, UNCTAD and the World Bank have conducted extensive work on estimating the impact of NTMs on exports. How this work has been undertaken has varied because quantifying NTMs means different things to different people. Approaches for quantification include counting, cost modelling and holistic data-based approaches. Counting involves identifying NTMs and summing up the number of times they are applied while often also categorising them by their type. Cost modelling involves analysing the costs of compliance for a specific NTM and estimating how those costs affect exports.

The holistic data-based approach is the one most widely employed by researchers because it provides broad insights that summarise NTMs' effects across exporters and commodities by making use of globally available datasets. Different researchers in this field have different objectives and employ a variety of cutting-edge methodologies. The validity of the results depends on the objectives. Some researchers are interested in results at the sector level, such as agriculture, some at a commodity level, such as barley, and others at the tariff-line level, such as durum wheat seed.

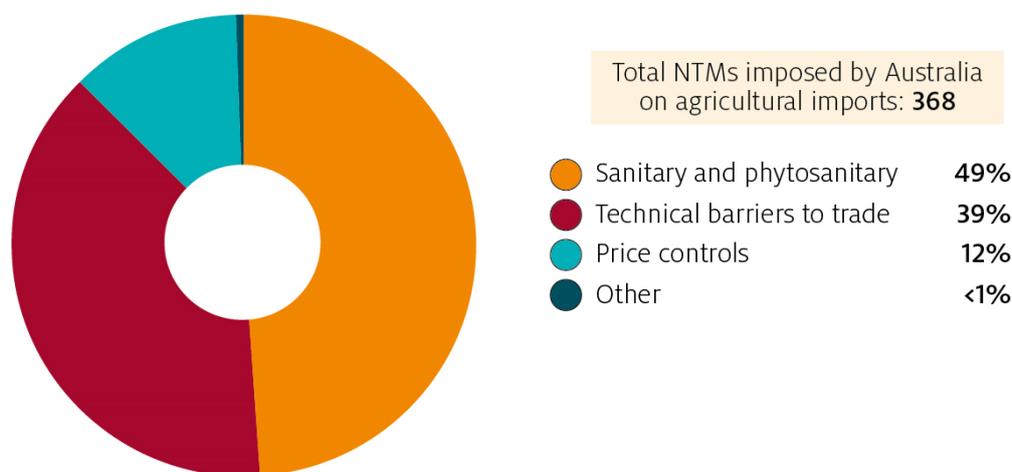
At this time there is no single, accepted methodology for the data-based approach. It is an ongoing area of research. As a result, the validity of published results from analysis undertaken on a country-by-country basis at the commodity or tariff-line level is currently questionable for

technical and statistical reasons. These relate to the fact that most NTMs are applied on a multilateral basis, so estimating their country-by-country effect is technically challenging. Leading quantification methods include those described by Anderson, Larch & Yotov (2015), Cadot, Gourdon & van Tongeren (2018) and Kee, Nicita & Olarreaga (2009).

Non-tariff measures imposed by Australia

Australia imposes a variety of NTMs on imported products, including around 368 on agricultural imports—nearly all of which are applied non-discriminately. SPS measures are the largest category of NTMs imposed by Australia on agricultural products (Figure 3). This is similar to the distribution of NTMs applied by importing countries in the rest of the world.

Figure 3 Australian non-tariff measures imposed on agricultural imports, January 2019



Note: NTMs reported as at January 2019.

Source: UNCTAD 2019

Conclusion

Over the past 25 years NTMs have become increasingly prevalent in international trade. NTMs can serve legitimate purposes such as safeguarding health and food safety, especially in agriculture. However, the increasing frequency of unjustified or inefficient trade-reducing NTMs has become a global concern. These NTMs impede consumers and farmers from fully realising the benefits of improved market access through free trade agreements. Governments and industry will need to continue to prioritise the removal or reform of inefficient and illegitimate NTMs to achieve meaningful outcomes from trade liberalisation negotiations.

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