APEC Market Access Group Workshop on
Non-Tariff Measures and Non-Tariff Barriers
Affecting Trade in Food and Agriculture Products
in the APEC Region

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The impact of non-tariff measures on an efficient supply chain for food and agricultural products

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Agenda

- NTMs in the context of supply chains
- Government interventions impacting supply chains
- Food hygiene and labeling
- Customs related measures
- Sanitary and phyto-sanitary measures
- National and regional preferences
- Biosecurity and biotechnology
- Other issues
- Impact on companies, consumers and competition
- Addressing national interests and looking ahead

NTM's and regulatory divergence

The definitions used in this presentation

- Non-Tariff Measures are defined as 'all non-price and non-quantity restrictions on trade in goods, services and investment, at federal and state level.'
  - This includes border measures (customs procedures, etc.) as well as behind-the border measures flowing from domestic laws, regulations and practices
- In other words, non-tariff measures and regulatory divergence are restrictions to trade in goods, services and investment at a country's national or regional level

NTM's in the context of food and agricultural supply chains

- The food & beverage sector is a challenging one due to the existence of strongly diverging NTMs and views on reducing the differences (e.g. GMO) and due to the fact there are many diverging legislations, especially coming from issues related to health, consumer safety and biosecurity, issues of regional food culture, quality and origin preferences and the increasing issue of food security, all impacting on the food and beverage supply and value chains

Government interventions impacting food and agricultural supply chains

- Direct and indirect government support by means of subsidies, protective legislation and tax assistance to farmers adds a 'virtual' cost to the exporter
- Container security initiatives, causing delays for all sea cargo, reducing product shelf life and increasing product loss (e.g. breaching cool chain integrity)
- Product standards which differ from internationally accepted standards (e.g. Codex)
- Customs surcharges
- Double certification due to the different requirements of the export and import countries
- High and different level of SPS measures
- Regulations that differ across national regions

Food hygiene and labelling

- An important and common regulatory divergence pertains to food hygiene and labeling legislation, which adds cost and complexity to the supply chain and is especially cumbersome for SMEs where access to R&D and ICT mitigations is more difficult compared to the large producers
- Although labeling procedures are always based on safety and health measures, they often follow different paradigms
  - in some jurisdictions food safety legislation is based on the information flow along the food value chain. The fundamental requirement is traceability in order to ensure the production of healthy food on all levels
  - other jurisdictions focus on testing the final product

Customs related measures

- Customs related measures affect the food & beverage sector widely
- The lack of harmonisation between country, regional and municipal regulations (which can be stricter than the national ones) creates extra supply chain costs
  - e.g. the US Grade A dairy safety Pasteurized Milk Ordinance (PMO) stipulates a number of rules and inspection requirements regarding various dairy products and the possibilities for registering to the National Conference on Interstate Milk Shipments (NCIMS) list of authorized operators which is nearly impossible for non US producers to comply with

Sanitary and phyto-sanitary measures

- Meat-based product processing facilities face expensive problems obtaining approval from the veterinary services or religious authorities of importing countries
  - Some countries ban the import of bovine animals and derived products due to the European outbreak of BSE in the 1990s. These bans are not in line with the international standards of the World Organisation for Animal Health (OIE).
- Marine mammal protection legislation establishes an effective import prohibition or expensive mitigation in the area of fisheries
- Horticultural exports blocked by PSP claims that may be inconsistent with WTO rulings

National and regional preferences

- The success of imported food and beverage in many markets is closely linked to product differentiation by region, style and quality labeling (provenance)
  - Protection of geographical indications (GIs) of wine and spirits is a cause for concern
  - e.g. 'Champagne' versus 'methode champenoise'
- Chocolate products with alcohol content face a restriction in some jurisdictions due to differing legislation on the control of the sale of alcohol-containing products
- Some countries use country of origin specific criteria to certify agricultural products as organic, while other countries use an internationally accepted standards based approach

Biosecurity

- Biosecurity legislation is an expensive measure for food and agricultural product exporters, as it typically requires extensive documentation and registration of all food facilities with the import authorities, and at times prior notice of all imported food shipments and detailed record-keeping by exporters, to allow imports to be traceable
  - e.g. the separate import into the USA of almost all sorts of plants and growing media (except soil) is permitted. However, when the plants are in growth media (i.e. authorised plants in authorised growing media), the import is not permitted, unless a special Pest Risk Assessment (PRA) has been performed by the USDA/APHIS

Biotechnology

- The lack of uniform approval processes for agricultural biotechnology products in combination with concerns about the traceability and labeling of biotechnology food
  - Differing limits on mycotoxins and other SPS for a variety of foodstuffs
  - Differing regulation on animal by-products, which sets different trade conditions on pet foods for example
  - Differing restrictions on microbial-treatments for meat products
  - Differing obstacles in the trade of vitamins and health food products. This issue also affects substances in beverages, e.g. which sweeteners can be used for 'light' or 'diet' products, or whether water enhanced with vitamins can be called 'enhanced water'.

A range of other issues

- Differences in certification and veterinary regulations
- Different requirements with respect to the up- or downstream composition of products
- Differing treatment of food additives
- Legislating against carbon miles
- Traceability schemes
- Private (retailer) standards
- Nutrition labeling policies
- General level health claims policies
- Nanotechnology policies
- GMO policies

Impact on companies and consumers

- The differentiation of the food and beverage sector by size of company is heterogeneous
  - The smallest companies are almost 'handicraft' establishments exporting small ranges of highly specialised product. These establishments play a significant role in many regional export economies and typically suffer most from NTM's
  - Bigger companies are involved in the industrialized production of food. They are often vertically integrated, combining production and distribution through the supply chain and have a greater capability to manage NTM's
- All food and agricultural product companies are working in a challenging environment with frequent change and with a regulatory framework that is becoming more and more complex
- The growing concentration in the retail trade (and private standards) puts significant pressure on food and beverage companies, which will only increase, especially on those that are not able to exploit economies-of-scale comparable to the large market leaders i.e. SME's versus corporations
- Consumers are becoming more demanding both on quality, price and consistency

Impact on companies and consumers

- Addressing some of the cost-increasing NTMs would be very beneficial for margins and profitability in the sector and ultimately support lower pricing for consumers
- The administrative costs that derive from labeling requirements, container security issues, mismatching product standards, specific certification of products etc., have a great impact on the operational costs of a company, hence the majority of NTMs in the sector induce rather large administrative costs on enterprises and higher prices on consumers
- Reducing NTM associated costs through the supply chain would lead to substantial gains for companies and consumers

Impact on competitiveness

- Cost competitiveness is most affected by productivity growth in the industry, as significant reductions in underlying commodity costs are unlikely
- Low costs, access to cheap agricultural products and the exploitation of economies of scale are important factors for productivity
- These elements are of outstanding importance for competitive success in mass markets dominated by big global players (producers and retailers)
- Reduction of NTMs in the sector are expected to increase producer and retailer competition through the value chain, to the benefit of consumers

Addressing national interests

- An important competition issue for many exporters has been the ability to produce and export differentiated food and beverage products, based on traditional and cultural characteristics and features
- Brand protection, standards for geographical indications (GIs) and labeling requirements have enhanced the exports of these products
- A reduction of these NTMs could lead to the loss of some specific advantage, but is not likely to happen
- On the other hand, further opening up of the producers' market to import competition can help drive productivity and innovation of local producers

Looking ahead

- Many sector-specific NTMs are likely to remain, notably those related to health and consumer safety, where consumer advocacy is increasingly strong
- NTMs related to sources of innovation in the sector (notably biotechnology and nanotechnology) could cause additional NTMs in the future
- Reductions of NTMs would contribute to the simplification and improvement of regional and global regulatory frameworks. However in order for these reductions to take place and to be effective, there is a need for co-regulation, communication and legal harmonisation
- New regulations should be based on common, possibly existing standards (reducing complexity) and not new, different ones (increasing complexity)

Thank you

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