

● TRADE ●
insight

GROWING MAZE OF
**NON-TARIFF
BARRIERS**



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REGIONAL ADVISORY BOARD**Bangladesh**

Dr Debapriya Bhattacharya

India

Dr Veena Jha

Nepal

Dr Posh Raj Pandey

Pakistan

Dr Abid Qaiyum Suleri

Sri Lanka

Dr Saman Kelegama

EDITOR-IN-CHIEF

Dr Ratnakar Adhikari

ASSOCIATE EDITOR

Puspa Sharma

EXECUTIVE EDITOR

Paras Kharel

STAFF CONTRIBUTOR

Niraj Shrestha

DESIGN

Bipendra Ghimire
Effect, +977-1-4433703

COVER & ILLUSTRATION

Abin Shrestha

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P.O. Box: 19366

Tukucha Marg

Baluwatar, Kathmandu, Nepal

Tel: +977-1-4424360/4444438

Fax: +977-1-4444570

E-mail: sawtee@sawtee.org

Web: www.sawtee.org

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Time to tackle NTBs in earnest

AS tariff barriers fall, the relative importance of non-tariff measures (NTMs) in restricting trade has increased the world over. While NTMs can be applied to address public policy concerns, they are also found to be employed for protectionist purpose, as witnessed, for example, in the dramatic rise in the use of NTMs in the wake of the global financial and economic crisis. From the perspective of exporters, NTMs are equivalent to non-tariff barriers (NTBs) to the extent they adversely affect exports, irrespective of the motive(s) behind their application.

In South Asia, NTBs are a concern for both intra-regional and extra-regional trade. In developed-country markets, the emergence of private and climate-related standards is adding to the challenges presented by traditional NTBs, particularly those related to health and safety. The urgency to tackle NTBs within the region has increased with recent positive developments on the tariff liberalization front, and the economic crisis in the West highlighting the importance of regional markets. Fear of policy substitution is not unwarranted, given the track record of non-transparency of NTMs and their arbitrary implementation hurting intra-regional trade. NTBs in the region mostly take the form of regulatory barriers related to health and safety, though poor trade facilitation—including in the areas of transit and transport—also acts effectively as NTBs. Besides the slow pace of tariff liberalization until recently, there was no progress in eliminating or reducing NTBs as envisaged by the Agreement on South Asian Free Trade Area (SAFTA). As the current institutional mechanism under SAFTA to deal with NTMs is weak, there is a need for a robust NTB and trade monitoring and surveillance mechanism, together with an independent and effective dispute settlement body.

Global experience indicates that negative effects on trade are mitigated by a reduction in policy divergence, whether through convergence to international standards, harmonization or mutual recognition. SAARC recently started making efforts in that direction. In the 17th SAARC Summit, the SAARC Agreement on Multilateral Arrangement on Recognition of Conformity Assessment, and the SAARC Agreement on Implementation of Regional Standards were signed. Just prior to the 17th Summit, the Agreement on the Establishment of South Asian Regional Standards Organization had been ratified by all member states and entered into force. Work on the harmonization of standards in 12 identified products has commenced. The actual impact on NTMs and their trade restrictiveness will depend on the pace of the implementation of the mutual recognition and harmonization arrangements and their product coverage. In addition, given the restrictions on trade from poor connectivity—which is policy-induced as well as due to infrastructure constraints—regional cooperation on transit and transport must be expedited.

Regional programmes and initiatives must be launched to help needy countries to upgrade their capabilities—infrastructural and human resource—to meet standards associated with NTMs, since in the context of weak domestic capacities and certain NTMs being non-negotiable, the only feasible and appropriate way to deal with such NTMs will be by easing the relevant domestic supply-side constraints in the exporting country. This equally holds true for quite a few of the standards-related barriers faced by South Asian countries in developed-country markets. The Aid for Trade initiative under the World Trade Organization ought to be leveraged to address such constraints under a regional programme. Likewise, the creation of an LDC Integration Fund under SAARC could be an option for investing in programmes and projects to help alleviate the supply-side constraints facing South Asian least-developed countries. While going for harmonization and mutual recognition of standards at the regional level, caution must be taken against the possibility of significant trade-diverting effects on outsiders and regulatory lock-in, as well as the implications for extra-regional exports that have to meet different standards. ■

Growing maze of non-tariff barriers



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Impending rise in food prices

WITH late and low monsoon in South Asia and droughts in major food-producing and food-exporting countries, there are worrying signs that food prices might escalate in the coming months. The Food and Agriculture Organization of the United Nations (FAO) Food Price Index averaged 213 points in July 2012, up 12 points from June. Though this is still less than the peak of 238 points reached in February 2011, overall food prices have started to increase again due to upward price pressures coming from grain, sugar and oil/fats prices. This has come amid disappointing news about monsoon rains, and floods and droughts in major grain-producing nations. South Asia will get particularly affected by this as festive season, when demand for food items gets higher than normal times, is approaching in several countries in the region.

In its August food price update, the FAO stated that the adverse maize and corn production prospects in the United States (US) due to droughts, and setbacks in wheat production in Russia, Kazakhstan and Ukraine (which accounts for nearly a quarter of global wheat export) amid a projected sharp rise in demand from the livestock sector, are driving prices upward. Furthermore, untimely rains in Brazil, the largest sugar exporter in the world, have raised concerns about sugarcane production and its prices in the coming months.

In South Asia, India, which is also the largest producer and exporter of food items, had 21 percent less rainfall than average. The Indian government is considering releasing grains stored in government warehouses around the country. In Nepal, agriculture produc-

tion is projected to be lower than last year's due to late and low monsoon and a shortage of fertilizers during the peak planting season. Other countries in the region are also affected by late monsoon, floods and droughts this year. Consequently, the prospects of high food prices are real and will impact food security in the region.

Keeping in mind the impending rise in food prices during and after the fes-

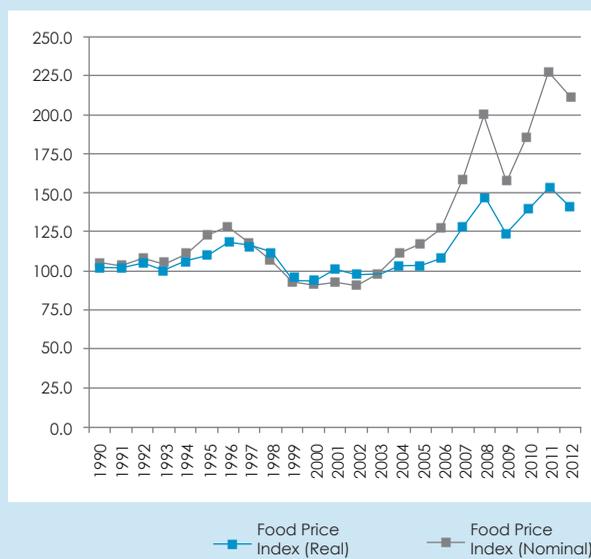
should refrain from export bans as the other countries in the region are net food importers. Fifth, building crucial agriculture infrastructure such as irrigation and roads for market access is also necessary as only about one fifth to two fifths of farmers are "significant participants" in agriculture markets.

Additionally, realizing the destabilizing impact of droughts on global grain production and their contribution to keeping prices high since 2007, the FAO, in a recent report, highlighted the "need for transforming the way water is used—and wasted—throughout the entire food chain". Conserving water by using it more "sustainably and intelligently"—such as through modernization of irrigation, better storage of rainwater at the farm level, recycling and re-using—and substituting and reducing food waste will not only help boost food production and stocks, but also be an important climate change adaptation strategy. As 75 percent of South Asia's poor people live in rural areas and depend on rain-fed agriculture, changing the way water is used in agriculture is crucial for supporting

livelihoods, sustainably boosting production and controlling food prices. Another important strategy to address food-price rise is to substantially reduce food waste since globally one third of food is either lost or wasted annually.

South Asian governments need to closely monitor the rapidly spiralling food prices and implement appropriate remedial measures. Else, food inflation will once again push hundreds of thousands of people below the poverty line, increase vulnerability and heighten food insecurity. ■

Figure
Food price index (2002–2004 = 100)



Source: Food and Agriculture Organization of the United Nations.

tive season, South Asian nations need to be prepared to take actions both at national and regional levels. First, emergency release from stocks should be the priority to stabilize prices. Second, market imperfections arising from rigging of prices by intermediaries or cartels should be monitored and remedied. Third, targeted food subsidies and social protection programmes should be designed and implemented well in advance.

Fourth, large grain-producing and grain-exporting nations like India

Distortion to world trade

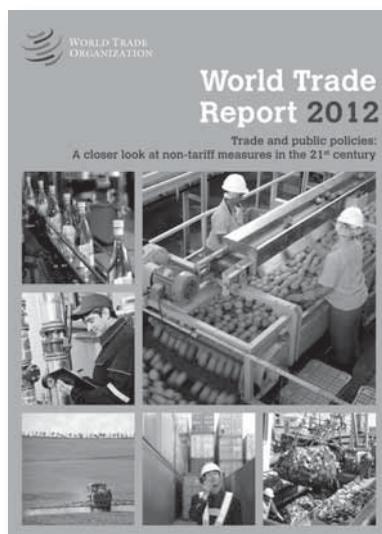
THE *World Trade Report 2012*, brought out by the World Trade Organization (WTO), undertakes a detailed examination of non-tariff measures (NTMs). Its theme is: "Trade and public policies: A closer look at non-tariff measures in the 21st century."

The Report argues that analysing the choice among alternative instruments in light of the domestic political and economic context can help identify the motivation behind policy interventions in the form of NTMs. According to the Report, as countries make commitments in trade agreements that constrain their ability to pursue certain trade policies, less effectively regulated measures may emerge as a secondary means of protecting or supporting domestic industries.

Despite the peculiarities of services trade, distinguishing when services measures pursue public policy objectives from instances in which they distort trade is fraught with the same fundamental difficulties as in the case of NTMs. Ensuring that services measures do not unduly distort trade has become of even greater significance in light of the unbundling of production processes.

The use of NTMs in the financial crisis, and policies addressing climate change and food safety measures are all examples of how challenges arise at the interface of public policy and trade policy. Transparency is a major issue with regard to both NTMs and services measures. Despite recent efforts aimed at filling the information gap in this area, data remain sparse.

Despite common perceptions about a rising trend in NTMs, the Report finds that evidence is inconclusive. NTMs appear to have risen in the mid-1990s, but between 2000 and 2008 activity remained relatively flat before picking up again following the financial crisis. However, WTO notifications suggest an upward trend in technical barriers to trade (TBT)



and sanitary and phytosanitary (SPS) measures. TBT and SPS measures are the most frequently encountered NTMs, according to data collected from official sources for the Report. TBT and SPS measures applied by developed countries are found to be an important source of concern. Evidence also suggests that procedural obstacles are the main source of difficulties for exporting firms from developing countries. The Report points out that the currently available sources of information on services measures are unsatisfactory.

Although NTMs are diverse and cannot easily be compared across countries and sectors, they significantly distort trade. The relative contribution of NTMs to the overall level of protection appears to increase with the level of gross domestic product per capita. The degree of restrictiveness of services measures is generally higher in developing countries than in developed countries. Yet there is no systematic relationship between the restrictiveness of services measures and income per capita.

The existing methods to estimate the degree of restrictiveness of NTMs

and services measures suffer from a number of limitations, the Report notes. These are aggravated in the presence of global supply chains. Estimates of the overall restrictiveness of services measures should take interactions between trade in services and trade in goods into account, but empirical analysis on this is still scarce.

A comparative analysis of the role that the various types of NTMs play in the overall level of NTM restrictiveness does not exist. However, the impact on trade is not necessarily restrictive for all measures. TBT and SPS measures and domestic regulation in services, in particular, do not unambiguously increase or decrease trade. They affect not only trade volume but also the number of trade partners of a country.

There is some evidence that conformity assessment is particularly burdensome. Negative effects on trade are mitigated by a reduction in policy divergence, whether through convergence to international standards, harmonization or mutual recognition. If harmonization and mutual recognition of standards occur at the regional level, there may be significant trade-diverting effects on outsiders and regulatory "lock-in". This appears to be the case especially for developing countries.

Shallow agreements contain provisions that focus on addressing the problem of tariffs being replaced by NTMs. The changing nature of international trade and the use of private standards may prompt the need for deeper forms of institutional integration. Moreover, the Report argues, the growing number of reasons why governments resort to NTMs, including for health, safety and environmental considerations, creates a need to develop rules to facilitate cooperation in the identification of efficient and legitimate uses of NTMs (*Based on World Trade Report 2012*). ■

WTO accession process for poorest countries streamlined

WORLD Trade Organization (WTO) members, on 6 July 2012, validated their decision taken in the Sub-Committee on Least Developed Countries to streamline and facilitate the accession process for the least-developed countries (LDCs). WTO Director-General Pascal Lamy said, "These improved guidelines provide a simpler framework for the entry of LDCs into the WTO family. It is another example of positive action in favour of the world's poorest countries."

WTO ministers requested that the Sub-Committee on LDCs develop recommendations to bolster

and make the Accession Guidelines more specific—a decision adopted in 2002 to facilitate accession negotiations with acceding LDCs. "LDC accessions have a special systemic value because they demonstrate the development dimension of the Organization...the WTO accession is not an easy process, especially given the limited capacity in many of the world's poorest countries. The agreement reached by WTO Members recognizes this careful balance..." said Lamy.

Among the 48 LDCs listed by the United Nations, 33 to date have become WTO members, including five LDCs which acceded after the

establishment of the WTO in 1995. Another 10 LDCs are in the process of acceding to the WTO.

The proposed decision will set benchmarks for acceding LDCs for market access negotiations. It also provides some concrete guidelines to operationalize the notion of "restraint" when seeking commitment from acceding LDCs. The decision contains five key elements: benchmarks on goods, benchmarks on services, transparency in accession negotiations, special and differential treatment and transition periods, and technical assistance (www.wto.org, 10.07.12). ■

EU rethinks biofuel policy



TOP European Union (EU) officials confirmed on 17 September that the 27-country bloc is rethinking its controversial policies on biofuels, in the

face of criticism from environmental and aid groups concerned with the impact on climate and the price of food. A proposed new legislation in the EU

would cap the share of food-based biofuels at 5 percent of transport fuels, said a joint statement from Connie Hedegaard, European Commissioner for Climate Action, and Günther Oettinger, her counterpart on energy. "It is wrong to believe that we are pushing food-based biofuels," the commissioners said, in a bid to rebut claims made in a recent report from the development agency Oxfam. "In our upcoming proposal for new legislation, we do exactly the contrary: we limit them to the current consumption level, that is five percent up to 2020."

As part of a broader push to scale up renewable energy in the EU, national governments must currently ensure that 10 percent of energy in the transport sector comes from renewable sources by 2020, according to mandatory targets set out in the Renewable Energy Directive three years ago (*Bridges Weekly Trade News Digest*, Vol.16, Issue 31, 19.09.12). ■

Sri Lanka to host auto SEZ



INDIAN companies in the business of auto components and engineering products will have a first of its kind special economic zone (SEZ) in Sri Lanka. The two countries are scouting for members of a joint working group to study a proposal to this effect made during a recent visit by India's Commerce and Industry Minister Anand Sharma to Colombo. The development assumes importance as Sri Lanka did not show a positive response to India's offer to expand the free trade agreement between the two countries to a comprehensive economic partnership agreement.

Officials said an exclusive Indian SEZ focusing on engineering products and automobile components would be

set up in the Trincomalee area in Sri Lanka. The proposed SEZ would also include an Industrial Training Institute to be set up with the involvement of Indian private sector companies. The two countries are also looking at the possibility of setting up a manufacturing hub for pharmaceuticals.

Sri Lanka is India's largest trading partner in South Asia. Bilateral trade in 2011 stood at US\$5.2 billion compared to US\$3.6 billion in 2010, with exports at US\$4.4 billion and imports at US\$0.7 billion. Leading Indian companies that have invested in Sri Lanka include the Tata group, Ceat, Nicholas Piramal, Ashok Leyland, ICICI Bank and Axis Bank (*www.business-standard.com*, 25.09.12). ■

100 Nepalese items to get duty-free access

BANGLADESH has agreed to provide unilateral duty-free access to 100 Nepalese agriculture products to its market. The agreement was signed by the commerce secretaries of the two countries in the two-day bilateral trade talks that took place in Kathmandu in July.

Nepal had previously sought such facility for 246 Nepalese products, including lentils, tomato, spinach and herbs, among others. According to officials involved in the meeting, the Bangladeshi delegates approved Nepal's request for duty-free access for local vegetables and fruit products to the Bangladeshi market.

However, it has not been finalized as to which products from the list will get the facility. The meeting decided to form a bilateral technical committee to submit a report by December, based on which the list will be finalized (*The Kathmandu Post*, 31.07.12). ■

SAARC struggles on tariff liberalization

COMMERCE secretaries of South Asian countries have agreed to speed up the process of tariff liberalization and integration of the region through harmonization of communication, transport, capital market and movement of people.

The 15th meeting of Committee on Economic Cooperation under South Asian Association for Regional Cooperation held in the

Maldives in July saw officials agreeing to harmonize customs operation that will lead to a smooth movement of goods and cargos in the region.

Officials from the least-developed countries (LDCs) of the region urged officials of non-LDCs to remove items that are export interest of LDCs from their sensitive list.

The meeting also reviewed the status of sensitive lists and agreed to

work to shorten them further in the near future.

The working group of the Agreement on South Asian Free Trade Area that met in Kathmandu in June to shorten the sensitive lists further had failed to make any headway after the countries remained divided over the modalities of shortening the lists (*Republica*, 18.07.12). ■

India, Pakistan sign more pacts

IN a continuity of the improving ties between India and Pakistan, a series of agreements was signed in September. The two countries, on 8 September, signed the much-awaited liberalized visa agreement, introducing for the first time group tourist and pilgrim visas, separate visa for businesspeople and visa on arrival for those over 65 years of age. It replaces a 38-year-old restrictive visa agreement and is expected to pave the way for time-bound visa approval and greater people-to-people contacts, and boost trade.

Following this, on 21 September, during the seventh round of talks between commerce secretaries held in Islamabad, they signed three agreements, including a trade grievances agreement, a mutual recognition agreement and a customs cooperation agreement, to bolster existing bilateral



2.bp.blogspot.com

trade mechanisms. The commerce secretaries “directed the customs and the port authorities to resolve all the issues through mutual cooperation, harmonization of customs procedures, provision of laboratory facilities, scanners, weigh bridges, cold houses, containerized services and automation

of the business processes,” the joint statement said. The meetings of the Customs Liaison Border Committee are to be held on a monthly basis. The Land Customs Station at the Wagah-Attari border is to operate seven days a week (*PTI, 08.09.12; ANI, 21.09.12*). ■

South Asia landslides “on the rise”



www.gq2.net

MOST South Asian countries are witnessing an increasing trend in landslides in recent years, and scientists say extreme rainfall patterns, seismicity, and uncontrolled human activities

are to blame. Authorities have said the number of people killed and displaced and properties destroyed by such disasters are also on an upward trend. Landslides are common in the region, particularly in the Hindu-Kush-Himalaya foothills, during monsoon that lasts for around four months until September. But

authorities say their frequency and intensity are on the rise.

According to the South Asian Association for Regional Cooperation’s Disaster Management Centre in New

Delhi, of the total landslides that happened across the globe in 2009, nearly 60 percent was in South Asia where around 280 people died. In 2010, the region’s share remained more or less the same.

This June, around 110 people died in the Chittagong region of Bangladesh because of landslides and floods. A few days earlier, more than 80 people had died in an earthquake-triggered landslide in northern Afghanistan. Although authorities in most South Asian countries in the Hindu-Kush-Himalaya region agree that they have experienced a rise in the cases of landslides in recent years, official figures are yet to be made available (*BBC News, 18.07.12*). ■

APEC agrees on environmental goods list

ASIA-PACIFIC Economic Cooperation (APEC) leaders' meeting in Vladivostok, Russia in September agreed on a list of 54 environmental goods for liberalization by 2015, following up on a commitment made in 2011.

In the 2012 Vladivostok Declaration, leaders finalized such a list that includes solar panels and wind turbines, where applied tariff rates would be cut to 5 percent or less by the end of 2015, "taking into account economies' economic circumstances and without prejudice to their positions in the World Trade Organization".

While the commitment is technically non-binding—APEC members face no penalties for non-compliance—country officials stressed openly that the list is key towards meeting the region's green growth goals. Trade sources noted privately that the Declaration's non-binding nature might actually have helped negotiators in being more adventurous in their liberalization.

The final result is said to reflect the interests of all APEC economies, with any good that was deemed sensitive by any of the 21 countries



renew-ne.org

being excluded from the final tally. Sources said that there is the potential for other items to be added to the list in the lead-up to 2015, noting that the list could eventually become a "living exercise."

While the APEC list is not tied to World Trade Organization discussions, observers note that the conclusion of such a list might send a

positive signal to the talks in Geneva. APEC leaders are next expected to address non-tariff measures, as notifications of these by the group's members have steadily increased in recent months. The regional grouping is also likely to work on building momentum towards liberalizing trade in services (*Bridges Trade BioRes*, Vol. 12, No. 15, 13.09.12). ■

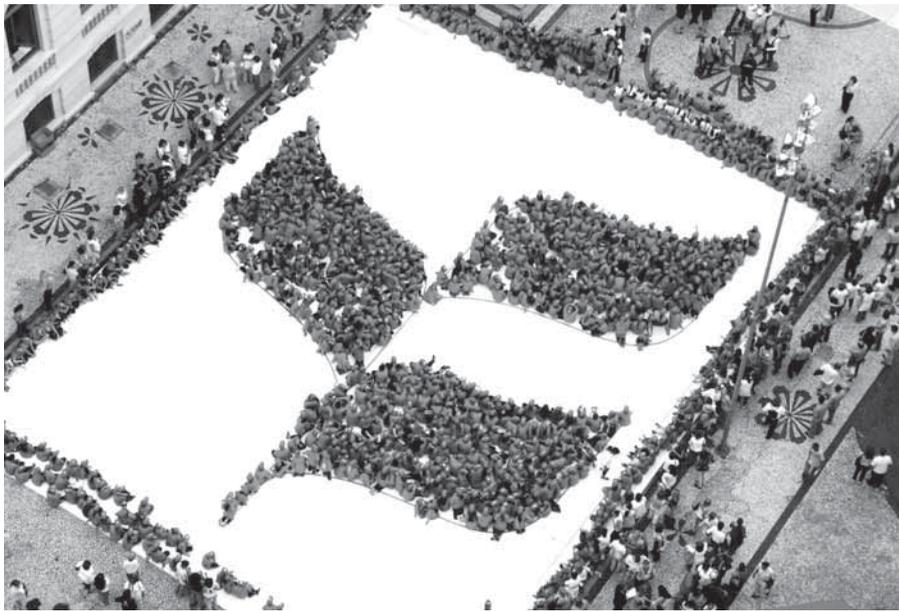
Washington and Beijing spar at WTO

TRADE tensions between Washington and Beijing flared up rapidly as the two sides lodged challenges against each other at the World Trade Organization (WTO) on 17 September just weeks ahead of the United States (US) presidential election. In what represents the latest in a long-running series of disputes between the two trading giants, Washington launched proceedings over Chinese automobile and auto parts export subsidies, as Beijing

filed its own complaint over US anti-dumping and countervailing measures on various Chinese exports.

Between 2002 and 2011, the US consistently remained China's largest export market for auto parts. As per US figures, the value of China's exports of autos and auto parts increased during this period from US\$7.4 billion to US\$69.1 billion. Washington argues that this rapid expansion was aided by a complex system of unlawful export subsidies. China called the challenge

politically motivated. Beijing, for its part, launched its own WTO case against Washington, challenging US anti-dumping and countervailing measures said to cover 24 types of products exported to the US market, worth US\$7.2 billion. The exports concerned include paper, steel, tyres, magnets, chemicals, kitchen appliances, wood flooring and wind towers (*Bridges Weekly Trade News Digest*, Vol.16, Issue 31, 19.09.12). ■



Propagation of agrobiodiversity is crucial in the fight against climate change.

South Asian agenda for CBD COP11 and beyond

Ujjwal Kumar

The eleventh Meeting of the Conference of the Parties (COP) to the Convention on Biological Diversity (CBD) is to go to be held from 8–19 October 2012 in Hyderabad, India. The COP, the highest decision-making body under the CBD, meets every two years to take stock of the implementation of the CBD and decide its future agenda. These high-level meetings are important for mega-diverse regions or biodiversity hot spots such as South Asia to steer global policies in a direction conducive to the conservation and sustainable use of their biodiversity,

taking into account their development priorities.

However, the enthusiasm and the political will of nation states that were observed during the early 1990s on environmental matters in general, and biodiversity in particular, seem lacking in the present time. Many tasks that were agreed upon by the international community for the betterment of global environment looked simpler and easier to implement then, but now the same tasks have become very complex. They merely tend to add to international bureaucracy than

bring positive changes in reality. It seems every measure needs a formula for quantification. The tacit or express primacy given by nation states to trade and commerce over important non-trade issues, such as environment and health, is the root cause of such deviation. To add to it, the ongoing global economic crisis would make things more difficult for any reversal of the current political thought process.

On the social front, increasing consumerism is perhaps the biggest hurdle to conservation and sustainable use of biodiversity. Moreover,

consumerism is getting inflated by a supportive politico-economic agenda, which keeps gross domestic product and its growth rate as the main (or only) indicator of success.

From a socio-economic perspective, since farmers are the biggest constituency in South Asia, issues related to agro-biodiversity are very important for the region. The present politico-economic environment, which is giving a boost to the dangerous trend of politics-business-bureaucracy nexus, is pushing policies that go against conservation of agro-biodiversity. For the farmers of the region, who are struggling to even recoup their cost of farming, it makes perfect business sense to strategically use the advantage that the nature has bestowed upon them in the form of rich agro-biodiversity. That is, because of this diversity, they are (or would be) able to distinguish their products in the global market and obtain remunerative prices. For instance, there are more than 30,000 varieties of rice in South Asia, each variety different from the other, which farmers can use in their commercial interest.

It is sad to note that most farmers now do not use agro-biodiversity for commercial gains because they have lost the ability to make such decisions for themselves. This is one of the side-effects of the Green Revolution, which was necessarily carried out at the time when the region was struggling to fight food insecurity. With appropriate policy changes and cautious efforts by farmers and scientists, it is not only possible to propagate agro-biodiversity, but also to meet the region's food security needs. Hence, the region should move forward with this as a political goal.

Furthermore, climate change, which is affecting agriculture more than anything else, is another issue where the real solution lies in the propagation of agro-biodiversity. On the contrary, the unholy trinity referred to above tends to push for proprietary technologies (such as genetically modified (GM) crops) as the solution to climate change. The nexus

does not want to understand that this approach would impact not just the environment and human health but, more seriously, the socio-economic fabric. While health and environment do feature in national and international legal oversight mechanisms (even though weak, as mere exceptions to trade rules), socio-economic matters lack such a status. At present, it is more of a policy issue than a legal one, and the policy direction is being determined by the said nexus.

One of the reasons for the success of the said nexus in recent times could be the over-reliance on "evidence" and neglect of "logic" and "common sense" in the contemporary policy-making process (both at the national and international levels). This has put those lobbies that have deep pockets to pay for costly evidence-gathering processes that are "scientific" and have control over the media to create hype and run a propaganda in order to influence policymaking, in an advantageous position. Unfortunately, most civil society groups are disadvantaged vis-à-vis the actors in the nexus.

It may be recalled that despite efforts by civil society groups of the South Asia and Africa regions during the first Conference of the Parties to the Biosafety Protocol of the CBD, the mandated socio-economic oversight under the Protocol was kept under the carpet. It is now time that "socio-economic" issues related to biodiversity loss, in general, and propagation of GM Crops, in particular, get their due share in legal oversight mechanisms. It is the role of the civil society groups of the region to create an environment making it easier for the official

It is necessary to have a holistic look at agro-biodiversity and biodiversity in general for sustainable development.

delegates to put forward this line of thought.

While it is understood that agro-biodiversity is covered more by the International Treaty on Plant Genetic Resources for Food and Agriculture under the Food and Agriculture Organization of the United Nations (FAO), it must also be understood that the transformation of the older regime under the FAO to this present regime is because of the CBD and its agreed principles. It is now being largely accepted that agriculture practices have strong linkages with the larger ecosystem, and both are complementary to each other.

Therefore, it is necessary to look at both—agro-biodiversity and biodiversity in general—in a holistic manner for sustainable development. As far as the CBD COP11 is concerned, the issues discussed above can be part of the agenda item "Biodiversity and Development", which, *inter alia*, calls for identification and promotion of conservation and development policies, activities, projects and mechanisms that empower women, indigenous and local communities and the poor, marginalized and vulnerable, who depend directly on biodiversity and ecosystem services for their livelihoods.

From an international law point of view, it is to be noted that while global trade rules are binding on nation states, those related to non-trade issues, including the CBD, lack global enforceability. Consequently, unilateral (or to some extent regional and plurilateral) actions apparently yield much better results on the ground than any multilateral solutions. Hence, the political capital first needs to be targeted at devising simpler policies and measures, and more importantly, effectively implementing them. Then countries can move towards similar and/or complementary regional/plurilateral actions. Expending political capital on multilateral solutions would be a futile exercise in the present-day global trade politics. ■

The author is Consultant, Consumer Unity and Trust Society (CUTS) International, Jaipur.

SAARCFINANCE

status and challenges

An important challenge to SAARCFINANCE is to play a role in achieving greater regional integration in South Asia.

Nephil Matangi Maskay

A stable financial environment is necessary to facilitate the process of greater regional integration, since this smoothens the progress of regional trade and investment flows. In the context of the South Asian Association for Regional Cooperation (SAARC), SAARCFINANCE, a regional network of SAARC Central Bank Governors and Finance Secretaries, was established on 9 September 1998 to support this process. This article provides a general background on SAARCFINANCE and the status to date, as well as some thoughts on future challenges.

Background

SAARCFINANCE was established in 1998 as a permanent body. However, it was only at the 11th SAARC Summit, held in Nepal on 4–6 January 2002, that it obtained formal recognition. This decision was based on the approval of the SAARCFINANCE Terms of Reference (TOR) by the 22nd session of SAARC Council of Ministers held on 2–3 January 2002. The TOR states: “Chairperson of SAARCFINANCE is invited to the sessions of the SAARC Council of Ministers to make a presentation on SAARCFINANCE activities. The SAARCFINANCE Chair moves in rotation with the change of the SAARC Chair. Its meetings of SAARC Central Bank

Governors and Finance Secretaries take place twice a year.” The basic objective of establishing SAARCFINANCE was to “share experiences on macroeconomic policy issues among member countries of the region”. However, the TOR is more specific and has put forth a dozen broad objectives, including to work towards a more efficient payment mechanism within the SAARC region and strive for higher monetary and exchange cooperation.¹

Current status

Since its establishment, there have been many activities of SAARCFINANCE such as: i) establishment of SAARCFINANCE cells in each of the member central banks; ii) regular SAARCFINANCE group meetings; iii) regular SAARCFINANCE coordinator meetings, which generally meet prior to the SAARCFINANCE group meetings whose one objective is to discuss the proposed agenda on the forthcoming group meetings; iv) information sharing; v) publication of SAARCFINANCE e-newsletter; vi) periodic staff exchange programme; and vii) seminars/workshops/special studies. These events are held on a regular basis.² A salient example is that SAARCFINANCE held a Governors’ Symposium in Pokhara, Nepal

on 16 May 2012 on the topic “Food inflation in SAARC region”, which was preceded by a SAARCFINANCE group meeting.

SAARCFINANCE has been holding the above-mentioned activities on a regular basis. It is thus safe to say that the organization is meeting its stated basic objective.

Some thoughts on future challenges

With increasing globalization and looking ahead to the future, there are numerous challenges facing SAARC. At the immediate level, there is the concern of how the crisis in Europe will affect regional stability and what necessary safeguards have to be put in place. Any financial instability will retard the possibility of higher levels of trade integration. Given the seriousness of this issue, the 2011 SAARCFINANCE Governors’ Symposium held in India was on the topic of financial stability.

Another challenge is based on the third broad objective of SAARCFINANCE: To work towards a more efficient payment mechanism within the SAARC region and strive for higher monetary and exchange cooperation. For addressing the first part of the objective, SAARCFINANCE has taken a step by agreeing to the proposal of

the Reserve Bank of India to set up a swap arrangement, initially of US\$2 billion fund. The swap arrangement is expected to facilitate trade and payments since it provides “a backstop for SAARC member countries to meet any balance of payments and liquidity crisis”.³

Another important challenge to SAARCFINANCE is to facilitate achieving greater regional integration. While SAARC has a clear blueprint for regional integration—the 1998 report of the SAARC Group of Eminent Persons suggests that the Agreement on South Asian Free Trade Area is simply a stepping stone to a South Asia customs union leading eventually to a South Asian Economic Union—there is no clear-cut blueprint for monetary integration, namely on how to sequence monetary cooperation to facilitate greater regional integration. Empirical studies⁴ in the early 2000s suggested that SAARC is not an optimal currency area. Given the absence of significant progress of trade integration, this is generalizable to the present. However, given that the situation is endogenous⁵, Maskay (2003)⁶ suggests, in the absence of a blueprint for monetary cooperation, that “the present process must be structured so as to be harmonized with the level of regional economic integration”. Nonetheless, it is felt that an implementable blueprint for greater monetary integration is necessary, and for that, a proactive approach is needed. In this regard, a future challenge for SAARCFINANCE is to initiate an exercise to draw a blueprint for higher levels of monetary cooperation, while minimizing the probability of financial instability with necessary institutional safeguards in place.⁷

Conclusion

Financial stability can contribute to greater regional integration. SAARCFINANCE was established to ensure a level of financial stability and hence to facilitate regional integration. The above discussion suggests that SAARCFINANCE has so far been successful in meeting its general objec-

tives. There are a number of future challenges, however, that face the network, with some of those in the process of being addressed.

Reality has failed to match the rhetoric of SAARC. This is attributed to many non-economic factors. As mentioned in Jayasuriya and Maskay (2010: 186), “Political tensions and frictions, most importantly between India and Pakistan, have constrained progress in economic integration on a regional scale.”⁸ In this regard, it is felt that political solidarity is the critical ingredient for deep economic integration, as seen most vividly in Europe.⁹ It is thus essential that any move by SAARCFINANCE should proceed as a cautious and gradual forward movement, keeping in mind the political context.

The political environment in South Asia is becoming more conducive to regional economic cooperation.

Of late, there has been a greater optimism for regional cooperation.¹⁰ This suggests that the political environment in South Asia is becoming more favourable for commencing exercises for regional economic cooperation. In this regard, SAARCFINANCE should follow the lead of SAARC and initiate exercises to facilitate movement “towards a more efficient payment mechanism within the SAARC Region and strive for higher monetary and exchange cooperation”¹¹. ■

The author is Director, Nepal Rastra Bank, Kathmandu. Views are personal. The author would like to thank Mr Bibhu Aryal, Mr Paras Kharel and Dr Bhuvanesh Pant for comments on earlier drafts.

Notes

- 1 SAARCFINANCE, www.saarcfinance.org.html
- 2 *ibid.*
- 3 Reserve Bank of India, 16.05.12, www.rbi.org.in
- 4 Empirical studies such as by Maskay (2005, 2001) which show asymmetric shocks that can be attributed to low levels of trade integration: Maskay, Nephil Matangi. 2005. “Common currency area: Prospects for South Asia.” In *Economic integration in South Asia*. Kathmandu: Nepal Rastra Bank, pp. 69–78; Maskay, Nephil Matangi. 2001. “South Asian monetary integration in light of the optimum currency area criteria of patterns of shocks.” *South Asia Economic Journal* 2(2): 203–219.
- 5 Frankel, J.A. and A.K. Rose. 1998. “The endogeneity of the optimum currency area criteria.” *The Economic Journal* 108: 1009–25.
- 6 Maskay, Nephil Matangi. 2003. “Patterns of shocks and regional monetary cooperation in South Asia.” IMF Working Paper WP/03/240.
- 7 A preliminary road map has been proposed in Dasgupta and Maskay (2003); Dasgupta, Amit and Nephil Matangi Maskay. 2003. “Financial policy cooperation in SAARC: A first step towards greater monetary integration in South Asia.” *South Asia Economic Journal* 4(1): 133–143. In some ways, the setting up of a swap arrangement is one step for enhancing the payment mechanism and may be a step for establishing a South Asia Monetary System (as discussed in Jayasuriya and Maskay 2010), which is based on the experience of the European Monetary System. Jayasuriya, Sisira and Nephil Matangi Maskay. 2010. “Enhancing economic integration in South Asia: Issues and prospects for closer monetary cooperation.” *The Singapore Economic Review (SER)*, 2010.
- 8 Jayasuriya and Maskay (2010). Note 7.
- 9 Cohen, Daniel and Charles Wyploz. 1989. “The European Monetary Union: An agnostic evaluation.” In Ralph C. Bryan *et al.* (eds.). *Macroeconomic policies in an interdependent world*. Washington, D. C.: International Monetary Fund, pp. 311–17.
- 10 See, for example, Kharel, Paras. 2012. “Advances in South Asian economic cooperation: Stay the course.” *Trade Insight* 8(2). Kathmandu: South Asia Watch on Trade, Economics and Environment (SAWTEE).
- 11 SAARCFINANCE. Note 1.

Overcoming non-tariff barriers for intra-SAARC trade

Any serious stab at NTBs in South Asia must include transparency, capacity building, standards harmonization, and tying of private sector initiatives to the official process.

Jodie Keane

All member countries of the South Asian Association for Regional Cooperation (SAARC), except Afghanistan and Bhutan, are members of the World Trade Organization (WTO). Among others, these countries have made certain commitments in the

WTO on non-tariff barriers (NTBs). In some of the regional trade agreements (RTAs) and bilateral trade agreements (BTAs) in operation within the region too, they have simply reaffirmed their WTO commitments on NTBs. However, in other cases, more stringent

definitions are used and commitments made in relation to non-tariff measures (NTMs) as well as NTBs. Most of these agreements have a wider and deeper coverage than the Agreement on South Asian Free Trade Area (SAFTA) and many will come into



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force before its full implementation. In that context, this article briefly presents the results of a feasibility study that was conducted to seek answers to the question of whether it is worth investing in surveillance, conformity and resolution mechanisms for NTBs in South Asia. The following sections present some of the key findings of the study. This includes the results from a scoping and diagnostics exercise, followed by discussion on potential models of trade surveillance and monitoring mechanisms.

RTAs, BTAs and NTBs in South Asia

South Asian countries have entered into a number of RTAs and BTAs. Table 1 summarizes some of the major ones, their definitions of NTMs and NTBs, and related commitments. Not all agreements explicitly define NTBs. They also do not provide for the institutional arrangements to assist members in the harmonization of NTMs and mutual recognition of standards. In some cases, as in SAFTA, the distinction between NTBs and NTMs is not clear. In others, as in the Association of Southeast Asian Nations (ASEAN)-India Free Trade Agreement, NTBs are not defined explicitly but a number of commitments are made to address them.

Ambiguity in some of the agreements should be a cause for concern because it obscures the fact that some NTMs may be used for legitimate public policy objectives. Making the distinction between the intent and impact of an NTM is crucial to determining the extent to which legitimate measures may serve as unnecessarily restrictive barriers to trade, that is, when an NTM serves as an NTB.

In some cases, e.g., Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, progress on the reduction and harmonization of tariff and non-tariff measures appears to have stalled. In other cases, deeper bilateral agreements have been signed with countries outside the SAARC region rather than within it, such as the India-Singapore Comprehensive Economic Cooperation Agreement, which specifies detailed procedural arrangements related to the mutual recognition of standards, and the designation of conformity assessors and apex chambers. There are no binding commitments on the removal of NTBs in SAFTA, and much remains to be done to harmonize NTMs in the region so as to ensure that legitimate measures are implemented in the least trade restrictive manner.

The review of the major trade agreements that South Asian countries

have entered into, particularly the definitions of NTBs and the institutional mechanisms put in place to address them, has served to highlight the fragmentation of the regional integration process in South Asia. That is mainly because SAARC member countries, particularly India, have entered into more liberal bilateral agreements with both intra- and extra-regional partners. These agreements typically include deeper commitments on tariff reductions, removal of NTBs and harmonization of NTMs.

Types of NTBs

The need to conform to mandatory standards on trade in goods, both agricultural as well as industrial, are reported as NTBs by many producers in South Asia.¹ There appear to be fewer reported difficulties within the region regarding adherence to private voluntary standards.² Mandatory standards seem to be particularly challenging because there are currently no mutual recognition agreements (MRAs) in operation within the region. Therefore, there is a need to do 100 percent testing at the borders. Testing facilities are not always located close to borders, which results in procedural delays. Table 2 (next page) summarizes some of the most restrictive NTBs and challenging NTMs in the region identified

Table 1

Definitions of and commitments on NTBs and NTMs in some RTAs and BTAs in South Asia

Agreement	Definitions	Commitments
Agreement on South Asian Free Trade Area (SAFTA)	NTMs include any measure, regulation or practice other than "tariffs" and "para-tariffs".	Elimination of tariffs, para tariffs and non-tariff restrictions on the movement of goods.
Pakistan-Sri Lanka FTA	NTM means any measure, regulation, or practice, other than "tariffs" and "para-tariffs", the effect of which is to restrict imports, or to significantly distort trade within the Contracting Parties.	Elimination of all NTBs, and any other equivalent measures, on the movement of goods and services, other than those imposed in accordance with Article IV of the Agreement from the date the Agreement would enter into force.
India-Sri Lanka Free Trade Agreement (ISFTA)	No specific reference to NTBs beyond general agreement to remove barriers that inhibit trade.	Removal of barriers to trade, and harmonious development and expansion of world trade.

Source: Author's compilation.

Table 2
Most restrictive NTBs and challenging NTMs in South Asia

Barrier	Type				Govt. control	Resolution	
	Regulatory	Administrative	Procedural	Capacity constraint		Short term	Long term
Mandatory sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) requirement	No MRAs in place	Checking at borders systematic and random	No testing facilities available at borders; hence procedural delays.	Yes	Yes	Invest in testing facilities at borders	Agree MRAs across products of interest
Lack of harmonization in customs classifications	No memorandum of understanding (MOUs) between customs authorities		Revaluation common at the border		Yes	Invest in updated harmonized and electronic systems	
Infrastructure				Lack of storage/loading facilities at borders	Yes	Invest in storage and loading facilities at borders	Invest in transportation corridors
Visa requirements	No agreement on free movement of labour	Obtaining visa takes a very long time	Detailed procedures to be followed by Pakistani nationals to enter into India and vice versa		Yes	Address procedural and administrative barriers	Reach agreement on trade in services
Ad hoc export and import restrictions	Yes		Yes		Yes	Improve notification systems	Enhance enforcement and dispute settlement mechanisms

Source: Author's compilation.

through key informant interviews undertaken in the region during 2011.

Poor customs procedures and other logistical constraints, such as lack of cold storage facilities at borders and limited space for loading bays, are formidable barriers to intra-regional trade. Since tariff harmonization is ongoing within the region, revaluation at borders is reported to be common. This suggests a need for better and more coordinated information systems across customs authorities. In addition

to regulatory barriers, such as those related to the lack of MRAs, there are other types of NTBs that are in widespread use and remain undisciplined at the regional level. These include the use of export restrictions to deal with seasonal shortages of goods such as onions, cotton and rice.

Potential models of trade surveillance and NTB monitoring

Currently, there is no dedicated technical working group within SAARC to

address NTBs. Nor is there an executive body which could be charged with overseeing reductions in reported barriers or a robust dispute settlement mechanism to enforce decisions. Therefore, there remain a number of outstanding questions as to who could undertake trade surveillance and NTB monitoring. Could it be, for example, the SAARC Secretariat or the SAARC Chamber of Commerce and Industry?

An approach to identifying specific sectors and products of interest, and

their related trade barriers has not yet been taken in South Asia. This is reflective of the relatively loose organizational structure of SAARC. Its existing commitments on goods are not enforced, which suggests that the potential for the further deepening of commitments may be limited. Members have so far found it more effective to seek bilateral channels and negotiations to achieve their objectives on enhanced market access, in addition to addressing NTBs. This means that the approach towards addressing NTBs and trade surveillance more generally remains rather uncoordinated.

What does this suggest in terms of the potentially replicable elements of other models of trade surveillance and NTB monitoring mechanisms for South Asia? If internal market development through the removal of NTBs and harmonization of other NTMs is desirable, particularly for the least-developed and landlocked members, there is a need for better information systems so as to identify priorities. The adoption of a working definition of NTBs, as in other regions such as ASEAN, and the formalization of an approach towards NTMs, as adopted in the European Union (EU), might help to get this process started.

The platforms and investments made by India to provide market access information could be further built on in terms of trade surveillance and NTB monitoring. But there remain

strong concerns within the region in relation to the need to de-politicise the process of NTB reduction and NTM harmonization in order to achieve buy-in from the private sector. National and regional chambers of commerce are already performing a role of NTB monitoring of sorts by responding to private sector concerns, as and when they arise. However, this process is not yet systematic and consistent in terms of disentangling between what has already been agreed at the regional level and not yet implemented, and what has not yet been agreed but which needs to be.

This suggests that a more systematic approach towards documenting the barriers reported by businesses at the national and regional levels could be adopted. Governments could undertake their own assessments as to where barriers that are not in line with regional commitments exist. That could provide the foundations for further dialogue at the regional level and help to design interventions to overcome these, as in the case of ASEAN.

India is already acting as the regional standard setter with regard to the harmonization of mandatory market access requirements, such as SPS. Moreover, it has invested in making information on its market access requirements publicly available. However, the links between these systems with others in neighbouring countries

have not yet been formalized in terms of being updated regularly. Knowledge of these systems by businesses generally seems to be limited.

Related technical assistance provided by India on standards seems to be focused on those products of its interest, and where its business community has voiced their concerns. It is not known to what extent the support provided actually matches the demands of, for example, the least-developed members of SAARC. A more objective approach towards identifying capacity constraints and targeting support may be necessary, which requires the current lack of information on real and perceived barriers to intra-regional trade, definitions of NTBs and NTMs, and understanding of and adherence to regional commitments.

Way forward

Regional integration always involves a sequence: legal initiatives leading to trade responses, identification of border or regulatory or standards problems as traders seek to exploit new opportunities, and initiatives to remove the identified barriers. The sequence then repeats itself. SAFTA members are just beginning this process, and are probably in the second stage in a first round. Therefore, they need to learn from other regions about the likely problems and possible ways to smoothen the process, and about the types of assistance that might be



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India's initiatives to provide market access information could be a base for trade surveillance and NTB monitoring.

available for them. What is clear, however, from both regional and multilateral experiences is that the sequence will continue to repeat as integration increases, so it is important to develop robust and sustained mechanisms, not one-off initiatives.

As other regions, notably the EU, have discovered, removing barriers within the region makes the region more competitive in all its markets. Below are some suggestions that would help SAARC in taking some steps forward to remove such barriers.

According to stakeholders, the most important NTB in South Asia relates to the lack of information about standards, about official procedures and requirements, and about the way in which SAFTA is implemented. Transparent regulations and consistent application of rules are essential requirements for efficient trade. Therefore, the most important need in the short run is to sensitize officials and policy makers regarding the need for such transparency, and the ways in which national policies and procedures are perceived in partner countries.

But there are also examples of the next stage of problems, in applying regional rules. There are concerns about the ways in which the application of national standards at the border obstructs even goods which meet the standards, through costly or burdensome testing procedures or inconsistent application of standards. Such problems may require not only sensitization but also assistance in building the capacity of testing and standard-setting bodies. A range of donors exist that can design capacity building for testing, standard setting, etc., and some are also able and willing to help identify needs, as well as respond to specific requests. Building institutional capacity to set standards can, and probably should, occur in parallel with deepening political commitment to regional integration because it is an essential technical support to integration.

At the official level, South Asian countries have shown concerns about

Removing barriers within the region makes the region more competitive in all its markets.

NTMs in a variety of regional and bilateral negotiations, but there is still no systematic approach to dealing with them in the context of SAFTA. Apparently, there is no consensus that an official response, rather than an industry-based one, is required.

There is certainly an important role for private sector initiatives. The possibility of more regular contacts and discussions among businesses within the region may provide a good alerting mechanism on new barriers. Different regional groupings provide various examples of how to use private sector actors to identify and report obstacles to trade. But only private reporting and discussions are not enough. Some of the barriers identified are official policies, e.g., licensing or limits on exports, and therefore, demand that governments play effective roles to address them. Moreover, strong private sector groups may be able to provide some information and that would be valuable. But that will not be enough. Simply compiling a list of problems which individual exporters have faced, but without further action, will not be complete or sustainable because exporters will have little incentive to participate.

Also, without clear distinction of which barriers are legitimate and which are not, any private sector initiative will have little focus. Hence, they must be tied to an official procedure. For this to be effective, the formal procedures must be reinforced by political commitment to regional integration, and thus to dealing with the barriers identified. Given a commitment to regional integration as a goal, an official monitoring system may lead to action on these, even if there is no legally enforceable mechanism.

It is probably, as suggested in the field work, too early for formal legal dispute mechanisms to have an important role in removing NTBs in South Asia, as there has been too little progress on setting standards and there is inadequate technical capacity in standard setting and enforcement. But the evidence from other regions is that putting the legal structures in place is both an essential sign of commitment and a practical necessity as regional integration increases the potential for conflict and it is easier to set up the procedures before they are needed than in response to a dispute.

If there is a political commitment to integration, the concerns of the private sector about lack of information should lead to a regulatory response, to strengthen the rules on information about border procedures and standards. This could be accompanied by requests for assistance in strengthening the customs and standards institutions and by setting up mechanisms for the private sector to monitor implementation of the rules. Once these are in place, private sector mechanisms could be extended to include suggestions about desirable changes in the rules, and there could be some test disputes on particular problems in recognition of standards, both of which could identify needs for new regulations. ■

The author is Research Fellow, Trade Programme, Overseas Development Institute, London. Views are personal. The article draws on a larger piece of commissioned work funded by the Asian Development Bank undertaken between February–June 2011.

Notes

- ¹ The Ministry of Commerce of India reportedly receives 4–5 complaints from traders every 6 months or so. Most of these relate to procedural or administrative difficulties. Others relate to testing procedures.
- ² In fact, mandatory market access requirements, such as plant quarantine certificates, were reported by some interviewees to be more difficult to obtain than those demanded by private retailers in European markets.

The linkage between trade and environment has been quite a contentious issue in the global trade policy debate that has divided developed and developing countries. While the global trade regime has skirted the issue except in the context of the Doha Round of trade negotiations under the World Trade Organization (WTO), albeit with a limited mandate, it entered the trade arena through unilateral actions. The Shrimp-Turtle case, in which the United States (US) imposed a ban on import of shrimps from some Asian countries arguing that they had not taken appropriate measures to avoid unnecessary killing

of turtles, got wide attention in this regard. In recent years, there have been calls for border tax adjustment, particularly in the developed world, so that industries there can maintain competitiveness against products coming from countries that do not impose carbon emissions efficiency requirements on their industries. Developing countries, for obvious reasons, have opposed such measures. For example, they have refused to comply with the recent European Union (EU) initiative in the aviation sector.

While affected countries protested such trade barriers or even launched cases at the WTO when these mea-

asures were taken by governments, private measures (see cover feature) that might have similar impacts often go unnoticed. Individual purchasers are free to make their buying decisions that may include sustainability criteria. There is at present no legally binding global law to stop imports on the basis of labour standards, yet exporters from developing countries often find it essential to get their products certified that they did not involve the use of child labour in their production process. In the US, product standards introduced by companies and non-government organizations (NGOs) are gaining importance.

Climate standards as emerging NTBs

Nitya Nanda



Knowledge about the environmental attributes of products has become increasingly important to consumers as has been demonstrated by certification of organic products and social labels like Fairtrade. According to Fairtrade Labelling Organizations International, global sales of Fairtrade mark products increased by 25 percent in 2010 to cross €4.3 billion. Governments and NGOs are supporting various eco-labelling programmes, which cover thousands of products in most of the advanced countries. Exports from developing to developed countries are considerably affected by the eco-labelling in the EU and the US. Eco-labelling tries to ensure that the exports from a country are harmless for the consumers and environment of the importing country, looking at the entire life cycle of the product and analysing production- and process-related criteria.

Proliferation of climate standards and labelling

The carbon footprint of a product is the carbon emissions across the supply chain for a unit of a particular product. According to Carbon Trust, the total carbon footprint of a product takes into account total carbon emissions, including the manufacturing processes with all the steps in the supply chain to produce, use and dispose of or recycle the product. The Carbon Trust introduced a carbon reduction label in partnership with several companies. Adoption of the carbon reduction label on products involves agreeing to undertake a comprehensive carbon audit of supply chains (including production and transport).

As of now, there is no internationally agreed methodology for calculating the carbon footprint of a product. However, carbon-labelling schemes have been introduced in several countries. In the United Kingdom, the Carbon Trust introduced a carbon reduction label in partnership with several companies. In France, voluntary carbon labels have been introduced in the supermarket chain Casino for several of its own products. It aims

The food miles concept indicates only a part of the carbon emitted in the life cycle of a product.

to label around 3,000 products. These schemes have been supported by the French Environment and Energy Agency, though they do not require audits by it. In Switzerland, the top supermarket chain Migros introduced the Climatop carbon label on several of its products. This label guarantees that the product is 20 percent more carbon efficient than its counterparts within the same product category.

In the US, Carbon Fund, an independent non-profit carbon offset provider, developed the Certified Carbon Free label, which indicates whether the carbon footprint of a product has been calculated, and if the carbon is being offset. It also monitors whether certain norms are being followed. So far, only a few products carry the label. Climate Conservancy, an offshoot of the Stanford University, developed the Climate Conscious label that provides carbon rating (gold, silver and bronze) based on the carbon intensity of a product. In Canada, CarbonCounted, a non-profit organization, developed an online application, Carbon Connect, which enables companies to calculate carbon footprints of products. Carbon-labelling schemes or carbon footprint methodologies are also being developed in Germany (Product Carbon Footprint pilot labelling scheme), Sweden (Climate Marking), and the EU (which commissioned a carbon footprint measurement toolkit). In Japan, 30 companies have participated in a pilot scheme supported and coordinated by the Ministry of Economy, Trade and Industry.

The "tunnel vision" of food miles

In the developed world, there are already some private initiatives to discourage consumption of goods that have been transported from a

distant place. Consumers are informed about the distance a particular item has covered to reach the store. Consumers are typically discouraged, through campaigns, to buy products that have come from far-off places. It may appear to be justified as it tries to reduce "avoidable transportation". However, the issue is not that simple. It is possible for a product to remain less carbon intensive even after it has been airlifted from Africa to a store in Europe compared to similar products grown in the neighbourhood if carbon intensities of the production processes are very different.

The concept originated in the UK in the early 1990s, but its popularity is not limited to the UK only. In the US, a San Francisco-based group that emerged in 2005, known as the "locavores", also got significant popularity. Locavores encourage people to eat food grown or harvested within a 100 mile radius of their home. Even in Australia, which is a major exporter of food items, the food miles concept has been popularized by some organizations like the Australian Conservation Foundation and the Sydney Food Fairness Alliance. Joining the bandwagon, two major UK retailers, Tesco, and Marks and Spencer, now place plane stickers on fresh produce that has been air-freighted from abroad.

Growing popularity of the concept of food miles, however, raises important concerns over not only its impact on food exporters and trade, but also its reliability in reducing the impact on climate change. The food miles concept indicates only a part of the carbon emitted in the life cycle of a product. While carbon emitted in the process of transportation is indicated, the carbon emitted in other phases in the life cycle of the product is ignored. Empirical evidence indicates that "food miles" is an unreliable and often misleading indicator of carbon emissions in the food supply chain. For example, a study conducted by Cranfield University found that cut roses grown in Kenya for the British market, based on a life-cycle analysis considering more than 500 inputs, are 5.8 times more carbon

efficient compared to Dutch greenhouse flowers even after accounting for emissions caused by air freight.

Food miles vs. carbon labelling

Some experts suggest that carbon labelling is a better alternative than promoting the concept of food miles to address the issue of carbon emissions in international trade. They hold that in the absence of carbon labelling, there is a risk that consumers will continue to be encouraged by some environmental, community and farmer groups to use food miles or air miles as indicators of the carbon footprint of food products. Worse, even governments might encourage this. For example, the EU is reportedly moving towards country-of-origin labelling on all food products. The issue of food miles and country-of-origin labelling is gaining ground in the US as well. But two concerns remain. First, carbon labelling will involve significant transactions costs along with issues of quality assurance. Second, there is no guarantee that the promotion of carbon labelling will automatically stop the promotion of food miles.

A matter of concern in carbon labelling is the administrative costs involved with the process. The costs of labelling are likely to vary according to the methodology or standards adopted. A complex methodology to measure carbon footprint would increase the cost of data collection and calculation of the carbon footprint, and the cost of the verification process. A simpler methodology means that it would be less reliable as the estimate of the carbon footprint will tend to be tentative.

For developing countries, the adoption of carbon labelling even on a voluntary basis is a matter of concern. Complying with carbon standards will require the estimation of carbon footprint of all suppliers. Many small producers may not have fixed suppliers. They might source their supplies from the market without any knowledge of the original suppliers. This would mean that complying with standards

or measuring carbon footprint will be extremely difficult.

Though standards, labelling and air miles are more prevalent in food items, they are likely to make inroads into non-food items as well in the near future. Much of the demand for carbon standard and labelling is fuelled by the fear that producers in developed countries will lose competitiveness and outsource their production to developing countries. It is very likely that most of the products coming from developing countries will have lower emissions. Thus, developing countries will be forced to share the burden of emissions reductions in developed countries through the trade route, even if they do not have any emissions reduction target as such or if developed countries do not adopt any border tax adjustment measure.

Climate standards and the WTO

Standard setting and labelling activities come under the Agreement on Technical Barriers to Trade (TBT) of the WTO irrespective of whether they are mandatory or voluntary, though the applicable provisions are different. The TBT Agreement covers standards promulgated by central government bodies, local government bodies and non-government bodies. There is, however, no consensus on whether standards or technical regulations on processes and production methods (PPMs) and private labelling schemes will fall within the purview of the agreement. If the PPM is detectable and embodied in the product itself, then it may come under the agreement. In the Shrimp-Turtle case, the import ban was examined under Articles XI and XX of the General Agreement on Tariffs and Trade and

Small producers will face difficulties in meeting carbon standards due to high compliance costs.

hence does not shed any light on its applicability of TBT.

Should activities of private organizations like Tesco, and Marks and Spencer be considered to be standardizing or simply marketing or strategic issues? Should private organizations dealing with labelling schemes be considered as non-governmental bodies? There are ambiguities. These private standards and labelling schemes are possibly taking advantage of some loopholes in the TBT Agreement and essentially defeating the very purpose of it. WTO members have already been discussing the issue of private standards and recognized the need to deal with them so that they do not unnecessarily restrict trade.

Conclusion

Carbon standards and labelling may emerge as significant trade concerns in the years to come. Much of the demand for carbon standard and labelling is fuelled by the fear that producers in developed countries will lose competitiveness and outsource their production to developing countries.

It is possible to argue that most exports from developing countries will have lower emissions as a significant part of the products are not energy-intensive products, particularly those produced by small producers. Yet developing countries will face difficulties as the costs of compliance would be very high, particularly for small producers. The growing number of private standards may also confuse consumers, thereby diminishing their intended effect. When the TBT Agreement was signed, member countries probably did not have an idea of the extent to which private standards may proliferate. Given the reality, countries may have to take a fresh look and attempt a way out of dealing with such standards. For affected countries, it is worthwhile to draw lessons from their experiences and dealings with the existing social and environmental trade barriers, and evolve strategies for the emerging climate standards. ■

The author is Fellow, The Energy and Resources Institute (TERI), New Delhi.

Growing maze of Non-Tariff Barriers

Effectively tackling the labyrinth of non-tariff barriers to trade, including emerging ones like climate-related barriers, calls for a broadened and deepened multilateral cooperation.

Peter Heller



While multilateral trade negotiations are stranded and countries feel the consequences of the global economic downturn, governments around the world seem tempted to restrict trade flows by using non-tariff measures (NTMs). Standards applied by private sector actors and measures taken to combat climate change also pose a threat to global trade.

What are NTMs?

NTMs refer to policy measures that are not tariffs and that have the potential to affect trade in goods. NTMs are also commonly called non-tariff barriers (NTBs), not least because they often distort trade. Common examples of NTMs are anti-dumping measures and countervailing duties which have the effect of tariffs once they are put in place by governments. A typical classification divides NTMs into three categories. First, measures that directly

limit foreign trade in order to protect national industries, which include licences, quotas, anti-dumping and countervailing duties, import deposits, voluntary export restraints, minimum import prices, etc. Second, measures not directly aimed at restricting foreign trade, but where the measures in fact have an impact on trade flows. The measures are often related to administrative bureaucracy and take the form of, for example, customs procedures, technical standards and norms, sanitary and veterinary standards, labelling, and packaging requirements. Third, measures that are not directly aimed at restricting trade or associated with bureaucracy, yet they do impact trade flows, for example, employment policies.

Development of NTBs

Under the General Agreement on Tariffs and Trade (GATT)/World Trade

Organization (WTO), traditional tariffs have, in general, been falling over the years. Correspondingly, there has increasingly been a tendency to apply alternative measures to regulate trade, and NTBs have thereby expanded.

Some data sources¹ indicate that the use of NTBs started to rise significantly in the mid-1990s, yet the number of measures applied over the period 2000–2008 does not show a significantly increasing trend. Most sources, however, agree that the use of NTBs picked up in the wake of the financial and economic crisis of 2008–2009.²

As seen in Table 1, the WTO has continuously kept track of the actual development of trade and trade-related measures and of whether they have been restrictive to or created trade flows. The data reveal that there was an explosion in the number of new restrictive measures taken at the

Table 1

Global development in trade and trade-related measures taken by governments in 2008–2011 (number of new measures by year and by category)

	2008 ^a		2009		2010		2011 ^b	
	Restrictive	Liberalizing	Restrictive	Liberalizing	Restrictive	Liberalizing	Restrictive	Liberalizing
Trade remedy	38	30	196	127	132	134	104	118
Anti-dumping	31	29	133	95	97	106	79	107
Countervailing	2	1	23	12	11	8	12	6
Safeguards	5	0	40	20	24	20	13	5
Border	10	12	117	68	98	145	154	127
Tariff	4	11	57	43	61	122	66	124
Tax	0	0	0	0	7	0	7	0
Non-tariff barrier ^c	6	1	60	25	30	23	81	13
Export	2	3	13	10	47	19	66	35
Duty	2	3	4	6	19	3	15	7
Quota	0	0	0	0	3	3	12	6
Ban	0	0	1	1	14	9	23	14
Other	0	0	8	3	11	4	16	8
Other	3	1	20	12	29	25	20	14
Total	53	46	346	217	306	323	344	304

Notes: a) Covers the period from October to December 2008, b) Up to mid-October 2011, c) Excluding SPS and TBT measures.

Source: WTO Secretariat Monitoring Reports (as compiled in World Trade Report 2012).

height of the crisis in 2009 compared to 2008, equalling an almost seven-fold increase. This high level of new measures was maintained in 2010 and 2011. However, at the same time, there has also been an increase in liberalizing measures, yet they do not match the strength of the bulk of the restrictions. The world has, therefore, seen net increases in restrictiveness (except for 2010), which add to the stock of already existing restrictions on trade.

NTMs (i.e., most of the listed measures, except for the tariff measure indicated under the group of border measures) account for a large part of total measures taken, though traditional tariff hikes have also been introduced. Anti-dumping has been the most common measure used, while the number of safeguards and other on-the-border NTMs³ has been significant too. Of particular interest is the surge in restrictive NTMs from 30 in 2010 to 81 in 2011.

During the period from mid-October 2011 to mid-May 2012, 124 new trade-restrictive measures were taken, indicating that there is no slowdown in establishing new trade restrictions. This is complemented by a slow removal of existing restrictions, and therefore the accumulation of trade restrictions is now officially recognized as “a matter of concern”.⁴

Other data sources⁵ indicate that technical barriers to trade (TBT)—such as regulations, standards, testing and certification procedures—and sanitary and phytosanitary (SPS) measures—such as food safety, and animal and plant health standards—have been the NTBs most frequently used. Even though NTBs are applied in most sectors, agriculture NTBs seem to dominate.

Developments show that the use of NTBs has picked up significantly and now constitutes a maze of different trade measures. Both the variety of NTBs applied and number of interventions support this chaotic situation.

Reasons for the rise in NTMs

NTMs can be split between interventions aimed at increasing national

welfare and interventions motivated by “political economy” goals.

Welfare-enhancing NTMs include: i) interventions to correct market failures (such as health and environment protection, pollution, and monopoly power), which have unintended consequences in the form of trade effects; and ii) interventions to exploit a country’s or a firm’s market power (such as influencing the terms of trade), which harms the trading partner countries (the trade effects of this intervention, often termed “beggar-thy-neighbour” policy). Political economy interventions are motivated by special interest groups (which are often producers, but can also be consumer groups, civil society and non-governmental organizations). Political economy interventions often result in policies that distort trade flows in favour of specific groups at the expense of other groups in the economy, thereby reducing national welfare.⁶

While the rapid development of NTMs since the mid-1990s into a plethora of different measures applied might have been motivated by a mix of these motives, the institutional development of the multilateral trading system has probably also been important. International trade agreements have been designed such that they can regulate and discipline certain NTMs (such as import and export quotas), while leaving out other NTMs (typically behind-the-border measures such as relaxation of technical standards in import-competing domestic industries). Governments have had an incentive to apply such undisciplined NTMs without risking retaliation or dispute.

The specific 2008 turning point for NTB use can be attributed to the financial crisis, but increased climate

change concerns and issues related to health, food safety and social responsibility are underlying reasons for the more frequent NTB use. While “beggar-thy-neighbour” motives appear to have been important, so are public policy motives to correct market failures. The particular increase in restrictive NTMs from 30 in 2010 to 81 in 2011 has been explained by stricter import controls and licensing requirements in some countries, as well as import prohibitions on specific goods from Japan after the March 2011 nuclear accident. Indonesia, India and Argentina were among the main countries imposing the new measures in 2011.⁷

The challenges of increased NTB use

Regardless of the motives behind the increased application of NTMs, these measures can have trade-distorting effects. Further, it is difficult to disentangle the motives. The challenge, therefore, arises at the interface of public policy and trade policy, and it becomes necessary for the multilateral trading system to ensure that these measures do not distort trade, while at the same time they can be used to achieve legitimate policy goals.

Another important dimension of the market access challenge is that it is often developing countries that are the most concerned about the pervasiveness of NTBs, particularly with TBT and SPS measures. As such, views are split between developed and developing countries in the discussion of how to cope with the problems of NTBs. Developed countries might wish to have more freedom to apply measures that they believe pursue public policy goals, while developing countries might see them as pure protectionist measures.

Besides the mixed motives, the lack of transparency around NTMs poses another challenge. Contrary to tariffs, their nature makes them very difficult to measure and quantify. Furthermore, governments do not always notify each other when they establish new restrictive measures. There is,

Regardless of the motivations behind their application, NTMs can have trade-distorting effects.



SPS measures such as food safety, and animal and plant health standards are among the NTMs most frequently used.

moreover, low accessibility of data on NTMs, since these are dispersed over different databases which individually do not provide comprehensive information on a given NTM.

The discussion above paints a gloomy picture of the maze of general NTMs in operation as of today and of the challenges they raise. However, the picture has to be complemented by two specific kinds of measures that have the potential to act as NTBs and, therefore, add to the gravity of the issue: private standards and climate change-related measures.

Private standards

A private standard can be seen as an NTB, which poses a challenge to international trade, and which potentially will do so even more in the future (see related article on pages 19–21).

Private standards are different from traditional measures put in place by governments to regulate the behaviour of private market actors, because they are designed and implemented

by the private sector itself, not by the government.⁸ While their individual scope might be sector-specific, they cover a broad selection of sectors within agriculture, industrial production, and services.

An example of a market dominated by private standards is the food retailing business. In some countries, food retailers have the market power to establish a market entry restriction for certain producers, especially from developing countries. Retailers act as standard-setters while producers take the role of standard-takers. Companies or retailer groups have established their own standards—for example, by the British supermarket chain Tesco where suppliers must comply with certain requirements in order to supply fruit and vegetables.⁹

The purpose of private standards is to cope with the different consumer concerns that companies are increasingly facing, both associated with the product itself or with its production process. Concerns are typically rooted

in environmental, social or food safety issues, for example, the environmental effect of the production of a particular good or the work place conditions for the workers producing the good.

Due to globalized production patterns and increased number of suppliers and sub-suppliers located in foreign markets, companies' supply chains are much more complex than before. At the same time, companies seek to accommodate new consumer concerns and, therefore, need to control their suppliers and sub-suppliers with respect to environmental, social and food safety issues. A tool to manage supply chains has been to establish private standards, and subsequently this has led to a maze of such standards across countries and sectors.

A major problem with the increased use of private standards in global trade is the issue regarding restricted market access. Private standards are formally voluntary, but they can force market actors to take specific action or exclude suppliers, thereby

splitting up markets and resulting in strong *de facto* effects on trade.

Often, standard leads to increased costs for some market actors, for example, due to certification fees to document compliance with the standard. This concern has been voiced particularly by developing countries, since suppliers are often located in developing markets whereas retailers requiring the standards are often based in developed market economies. Surveys¹⁰ have found that product certification and associated costs and time-consumption related to private standards are perceived as the biggest hurdle for exporters in select developing countries, especially hindering small-scale producers in trading. The *de facto* effects of market access limitation could be even stronger than the effects of government regulation.

In addition to the market access problem, a voluntary standard might be taken over by governments as a basis for developing mandatory regulation. This transformation poses another problem because the government norm could easily be influenced by interest groups with their own

agenda. Also, the speed with which new private standards emerge is also a challenge to some governments because this proliferation multiplies the negative effect that such standards might have on the economies.

Moreover, the responsibility of governments for the negative effect that private standards in their jurisdiction can have on foreign suppliers is difficult to define because private standards, by definition, are designed and applied by the private sector.

There is currently no consensus among countries about whether governments should take action to cope with the challenges of standards, and if action should be taken, how far governments should go. As some countries do not take action to ensure that private standards do not harm the condition of competition and trade flows, this is a source of conflict.

Climate-related measures

Another group of measures that—like private standards—will constitute an increasing challenge to international trade in the future includes the measures governments can use to deal

with climate change issues (see related article on pages 19–21).

Despite international attempts to reach a binding global agreement to reduce carbon dioxide emissions, there is currently no prospect for a global commitment. Some countries might, for political reasons, choose to go ahead with introducing stricter climate measures—for example, the European Union’s carbon trading system. If such countries, despite counter-pressure from domestic industry groups, manage to set up constrained emissions measures, the difference in requirement levels would lead to two challenges for countries with high reduction levels: carbon leakage combined with free-riding incentives for low-reduction countries; and loss of competitiveness for domestic producers vis-à-vis foreign companies.¹¹ High-reduction countries will probably use NTMs such as border tax adjustment measures, subsidies or regulatory measures to counteract these challenges.

By taking such climate-related measures, high-reduction countries will aim both at reaching the public



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Climate-related trade measures may be taken to achieve public policy goals as well as accommodate producer interests.

policy goal related to the environment and at accommodating the producer interest related to the competitiveness issue. It is thus difficult to disentangle the motives, as seen with the other NTMs and private standards. Also, the increased use of established climate standards might easily turn into significantly restrictive NTMs. For instance, standards have been introduced which seek to classify goods according to their associated carbon emissions (namely, carbon footprint standards). As such standards typically are set by developed countries, they would often exclude exports from developing countries, and thereby constitute climate-related NTBs.

As climate-related NTB use is expected to increase dramatically in the future and add to the maze of already-existing NTBs, the magnitude of the effects on global trade and welfare will increase significantly. Therefore, there is a need to find solutions to the problem.

Cooperation needs

The challenges posed by NTBs—as well as by private standards and specific NTBs used as climate-related measures—show that more international cooperation is needed. Economic gains of further coordinated action on these areas would be significant because of the maze made up by the broad variety of NTBs as well as the sheer number of individual measures taken.

Cooperation on NTMs already exists at a certain level within existing trade agreements, such as the SPS and TBT agreements of the WTO. The main goal of cooperation, however, has been to avoid policy substitution, so that countries do not replace tariffs by NTBs. Within their specific areas, the agreements make countries adopt common approaches to regulation, develop international standards as benchmark for measures and allow for certain notification procedures of new measures to cope with the lack of transparency. Yet, cooperation on NTMs has not been taken further

because countries fear that it would entail further sacrifice of sovereignty by giving up the ability to set domestic policies independently. Furthermore, differences in policy preferences (e.g., on food security) between countries on how far common provisions on a given NTM should be taken have acted as a brake on further cooperation.

There is now a general need to replace the current “shallow” integration with a broadened and deepened cooperation on NTMs, so that more kinds of NTMs are covered and more of the challenges associated with them are coped with. Different approaches to increased integration could be taken, from mutual recognition of domestic requirements to full harmonization of domestic measures.

Solutions to a number of concrete NTM issues need to be agreed upon. Transparency could be improved by stronger independent monitoring of new measures taken by governments, and higher compliance with notification of new measures should be ensured. More and better integrated economic analysis could also help governments see whether a specific NTM would fulfil legitimate public policy goals and when it would curtail domestic competition and distort trade. The question of the responsibility of governments vis-à-vis private standards should furthermore be dealt with by a common understanding of governments’ role and on the extent to which governments should regulate against the negative effects of such standards.

A specific area of enhanced future cooperation on NTMs should be dedicated to the issue of capacity building with respect to regulatory institutions in developing countries. Many of these countries already have problems meeting technical standards set and enforced mainly by developed countries. As a result, such measures tend to work in a trade-restrictive manner to the disadvantage of exporters in developing countries. Some attempts to overcome this capacity constraint have already been made within certain

international trade agreements,¹² as they give advice on how developing countries should set up standardizing institutions, and also oblige WTO members to provide advice and technical assistance to other WTO members in areas such as metrology, testing and certification. Capacity building—and not least its financing—should be given much more priority, and to this end, experience from existing capacity-building schemes (such as the Standards and Trade Development Facility¹³) could be useful as models for future technical assistance programmes. ■

The author is an economist currently based in Kathmandu.

Notes

- 1 Such as UNCTAD’s TRAINS and the WTO’s *World Trade Report 2012*.
- 2 WTO, Note 1; Global Trade Alert, “Ninth GTA report.”
- 3 This group is termed “non-tariff barriers” in the monitoring reports and excludes NTMs related to the WTO’s TBT and SPS agreements, so the NTM share of total restrictive measures is understated in the table.
- 4 UNCTAD/WTO/OECD. 2012. “Reports on G20 trade and investment measures—Mid-October 2011–Mid-May 2012.”
- 5 UNCTAD. “Non-tariff measures to trade: Economic and policy issues for developing countries.”
- 6 A fourth motivation sometimes referred to is national security issues and religious issues (WTO, Note 1).
- 7 UNCTAD/WTO/OECD, Note 4.
- 8 They can be developed by very different non-governmental agents: by companies themselves, by standardizing bodies at the national, regional and global levels, and by trade associations at national and sectoral levels.
- 9 WTO, Note 1.
- 10 International Trade Centre. 2011. “Sri Lanka: Company perspectives.”
- 11 WTO, Note 1.
- 12 Such as the WTO’s TBT Agreement.
- 13 STDF, a global partnership between five international organizations to facilitate investment in food safety and animal/plant health standards. It supports developing countries in building capacity to implement international SPS standards and their ability to access foreign markets (WTO, Note 1).

Non-tariff barriers facing South Asia

Case of Bangladesh

Selim Raihan

Non-tariff barriers (NTBs) refer to the wide and heterogeneous range of policy interventions other than border tariffs that affect and distort trade in goods, services and factors of production. The NTBs facing exports from Bangladesh mostly have to do with standards, testing and certification procedures in food processing, textiles and other such areas. Other major NTBs faced by Bangladeshi exporters include licensing, classification of goods, customs valuation and countervailing duties. Besides, lack of trade facilitation is also acting as an NTB.

There are allegations that in the guise of trade policy (e.g., the use of sanitary and phytosanitary (SPS) measures), developed countries tend to impose unreasonably high standards on imports of many items, knowing the lack of capacity of suppliers from poor developing countries to comply with those requirements and thereby providing protection to their own industries. It is important to note that the reductions in tariff barriers through negotiations at the World Trade Organization (WTO) or initiatives like providing duty-free and quota-free market access to the least-developed countries (LDCs) have been accompanied by increasingly complex non-tariff-based market access rules.

In the case of agriculture, increasingly stringent rules of origin (especially in the European Union (EU) market) and severe SPS requirements (in most of the developed countries) are threatening to diminish the benefits of trade liberalization and in some cases even to worsen the situation for developing countries.

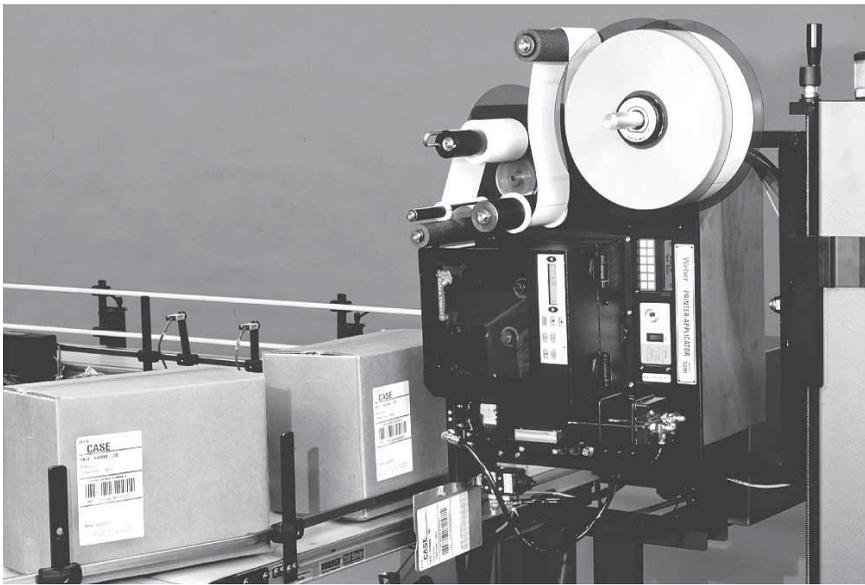
In recent times, there has been a growing tendency of using NTBs in the form of anti-dumping duties, countervailing duties, technical barriers, and compliance requirements with respect to SPS measures and the environment (such as eco-labelling). Indiscriminate use of these trade-restricting measures hinders market access. Bangladesh's exports of clothing items and shrimps have been subjected to various NTBs, both in the markets of developed countries such as the United States and the EU, and developing countries such as India.

A serious problem faced by Bangladesh, and which causes severe disruptions in agriculture trade, is the escalated food safety regulations by the EU. The safety regulation shifts the safety procedures further down the chain of production to the individual farmer. The traceability rules of the regulation clearly indicate that the responsibility for food safety is extended to the individual farmer. In a country

like Bangladesh, where more than 60 percent of the population is dependent on agriculture, largely semi-subsistence farming, it is difficult to conceive of a system of this kind.

Bangladeshi exporters also face a number of NTBs in South Asia, especially in the Indian market. Raihan (2011)¹ has shown that in the case of export of manufacturing goods such as cement, gelatin, condensed milk, electrical appliances, mineral water, steel products, leather products, X-ray equipments, dry cell battery and thermometers to India, prospective Bangladeshi exporters are required to obtain a licence for compliance with quality standards from the concerned agency, which is often highly time- and cost-consuming. In the case of export of agriculture products to India, there are bio-security and SPS requirements for obtaining import permit. Imports of nearly all live-stock, agriculture and food products require some kind of SPS certificate and import permit under the general supervision of the Indian Ministry of Agriculture.

While exporting processed foods to India, Bangladeshi exporters have to comply with the Indian Food Adulteration (Prevention) Act 1954, which requires shelf life to be not less than 60 percent of the original shelf life at the



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There is room for much improvement in the quality of products supplied by Bangladesh.

time of import. Determination of shelf life is often done arbitrarily and lacks transparency. In the case of export of textiles and textiles products to India, there is a requirement of pre-shipment inspection certificate from a textiles-testing laboratory accredited to the National Accreditation Agency of the country of origin. Non-availability of the certificate requires testing from the notified agencies in India for each and every consignment. In some cases, even certificates by EU-accredited labs on this account have been rejected by Indian customs and such consignments are subjected to repeat tests in India. In addition, Textile (Consumer Protection) Regulation of 1988 imposes some strict marking requirements for yarns, fibres and fabrics imported into India.

In the case of pharmaceutical products exported to India, there are stringent requirements of drug registration with the Central Drug Standard Control Organization, which involves an arduous and highly time-consuming procedure. Foreign manufacturers must register and subject their premises to inspection along the lines of rules prepared by the Bureau of Indian Standards. In the case of export of jute products to India, there is a requirement of a certificate from the exporting country regarding content

of non-homogenate hydrocarbon (jute batching oil), which should not exceed 3 percent by weight. In the case of jute bags/sacks, the Indian authority asks for special labelling requirements so that each jute bag/sack carries machine-stitched marking of country of origin. The exports of chemical fertilizer and lead acid batteries to India require environment-related certificate. For leather, leather goods and melamine products, the Indian authority asks for chemical testing, which is often extremely time-consuming. For poultry, dairy products and meat (frozen, chilled or fresh), there is a requirement of import permit from the Department of Animal Husbandry and Dairy of India.

Notwithstanding the protectionist intent behind the application of such NTBs, there is room for much improvement in the quality of products supplied by Bangladesh. In general, Bangladesh faces problems in ensuring the quality of products and services to consumers not only in the domestic market but also in international markets. There is a lack of effective national quality policy and adequate support systems providing assistance to all enterprises to understand the principles of quality and to develop quality consciousness in business behaviour. The national

Standards and Testing Institution lacks adequate infrastructure and technical facilities, and there are also problems related to enforcement and implementation. Because of a lack of credibility of national policy and enforcement mechanism, there is a need for industry-specific initiatives to set up their own standards as per international requirements, and own testing and compliance procedures.

Bangladesh will have to keep in mind the SPS measures in both developed- and developing-country markets. It should request for support to meet SPS requirements, but should also demand recognition of alternative cost-effective ways to ensure food safety. It should request financing of necessary changes which are based on requirements above international food safety obligations. In addition, Bangladesh should build its capacity to monitor the development and implications of SPS measures and other NTBs in association with other countries to ensure that rules are developed with the full participation of the concerned countries and do not impose excessive costs for unlikely risks. Under the WTO's Aid for Trade initiative, Bangladesh may seek aid to develop the necessary infrastructures and build the necessary capacities. ■

The author is Associate Professor, Department of Economics, University of Dhaka, and Executive Director, South Asian Network on Economic Modeling (SANEM).

Note

- 1 Raihan, S. 2011. "Economic corridors in South Asia: Exploring the benefits of market access and trade facilitation." Mimeo, Research and Information System for Developing Countries (RIS), New Delhi.

Non-tariff barriers facing South Asia

Case of India

Indra Nath Mukherji

The distinction between non-tariff measures and non-tariff barriers (NTBs) could be slim depending on the intended objectives. This article highlights some of the regulations put in place by industrial countries, and also South Asian countries, that are more in the nature of NTBs on imports from India.

NTBs in industrial countries

For marine products, the United States (US) has not agreed to recognition of certification by Export Inspection Council of India. Besides, the US requires mandatory labelling, discriminating “farm raised” and “wild” products with punitive fines. In Norway, the pathogen analysis is carried out by the NMKL method, which is not accepted internationally. In the European Union (EU), marine products are rejected due to alleged presence of bacterial inhibitors/anti-biotic residues without any confirmatory tests. Similarly, in the EU member countries, there is a lack of harmonization of egg products standards, resulting in the requirement of approvals of the production units by individual member countries.

In chemicals, the legislation concerning registration, evaluation and authorization of chemicals increases the cost of compliance substantially in the EU. Further, different minimum

risk levels are applied by member countries of the EU for pesticides, drugs and other contaminants.

NTBs in South Asian countries

Bangladesh

Bangladesh continues to ban imports of poultry products from India despite India having regained avian influenza-free status. Similarly, with effect from 9 March 2002, Bangladesh has put a ban on the import of yarn through the land route ostensibly for checking smuggling, but also for protecting local spinning mills. Bangladesh offers 15 percent subsidy to the exporters of knitted apparel who use locally spun yarn, thereby making yarn of foreign origin uncompetitive. Likewise, sugar, fish and milk powder are also banned for import from all land ports. Indian exporters of potato find the Bangladeshi market closed as importers are required to obtain *Khamarbari* certificates from concerned plant protection authorities in Bangladesh who are non-obliging in this respect.

Under the Bangladesh Import Control Order (2009–2012), some 25 products under four-digit Harmonized System (HS) code fall under the Control List. This list contains a number of banned items such as three wheeler vehicles with two stroke engine (e.g., tempo, auto rickshaw, etc.),

and glass syringes. While Bangladesh has reduced its restricted list appreciably, this has been replaced by a text that lays down a host of conditions that need to be fulfilled before imports could be cleared by the customs.

Pakistan

Lack of most-favoured-nation (MFN) status is the most important NTB faced by India in Pakistan since the latter allows import from India of only those items on its positive list. However, this situation is fast transforming with Pakistan having agreed to offer India MFN status by the end of 2012. In early 2012, Pakistan scrapped its positive list of imports that allowed 1,932 items to be imported from India and has since moved to a negative list of just 1,209 items, allowing more than 7,000 products to be imported. Once the items in the negative list are removed by the end of 2012 as planned, Pakistan would have offered India MFN status, and only the sensitive list under the Agreement on South Asian Free Trade Area (SAFTA) would remain to be pruned as per SAFTA trade liberalization programme.

Under the current notification by Pakistan, only 137 products are allowed to be traded across the Attari-Wagah border. India is anxious that more products be allowed to flow via the land route since the cost of trans-



In Sri Lanka, Indian exporters of cosmetics have to register their products even if they are already registered in India.

portation via the Mumbai-Karachi sea route is many times higher.

India has also raised the inadequate handling capacity of Lahore Customs Station and the non-acceptance by Pakistani banks of letter of credit issued by Indian banks as impediments to trade between the two countries. Moreover, India has identified the imposition of anti-dumping duties on *phthalic anhydride* as being trade restrictive.

Sri Lanka

Sri Lanka requires import licences for 512 items (as of March 2010) at HS eight-digit level, compared with 474 in 2004. More than 25 percent of these tariff lines corresponded to transport equipment, and a similar amount to chemicals. Import-licensing system has been imposed mostly for health, environment and national security reasons. Importers must pay a fee equal to 0.1 percent of the import price to receive an import licence. Products listed in the regulation are subject to non-automatic licensing (goods originating from any foreign country), as and when the country requires such importation, which is considered on a case-by-case basis.

A survey¹ found that in Sri Lanka, along with licensing, other requirements are necessary in some cases. For example, when a pharmaceuti-

cal company exports a product to Sri Lanka, it cannot market the product in Sri Lanka on its own. The product has to be registered by a local company and can be marketed by that company only. Exporters in India said that they faced a situation where they were not satisfied with the marketing efforts of their Sri Lankan counterparts but could not involve another agency. This is due to the fact that, under Sri Lankan practices, exporters cannot enter into an agreement with another agency until the first company gives its consent in writing.

Requirements of multiple certificates are very common in Sri Lanka. Many a time, the process of getting a certificate is not found complex, but the time required for the same is quite long.

Product registration is also mandatory in cases of pharmaceuticals and cosmetics, among others. Exporters of transformers require the KEMA² certificate (stating that the product is of ISO standards) even though their products are certified by several reputed third-party inspection agencies like Crown Agents, Bureau Veritas, Lloyds, S.G.S. Robert, BSI Inspectorate and Griffith UK.³ An exporter cannot export to Sri Lanka without procuring this certificate. Even though obtaining this certificate is not very complex or expensive, it demands a lot of time

and effort, which is an irritant to exporters.

There is also a requirement of registration of cosmetics in Sri Lanka even if the Indian exporter has registration in India. Thus, to export to Sri Lanka, the exporter, every time, has to register the product with the State Pharmaceutical Corporation of Sri Lanka.

Conclusion

From the above, it appears that many of the NTBs faced by Indian exporters are the consequences of lack of border infrastructure, inadequate cross-border banking facilities and lack of mutual recognition of standards and accreditation of testing laboratories. It is hoped that the recently established South Asian Regional Standards Organisation will address most of these issues. ■

The author is former Professor of South Asian Studies, Jawaharlal Nehru University, New Delhi, and currently Senior Consultant, Research and Information System for Developing Countries, New Delhi.

Notes

- ¹ Marketing & Development Research Associates. 2011. "India-Sri Lanka trade relations and effect on India-Sri Lanka Free Trade Agreement." Report submitted to Research and Information System for Developing Countries, New Delhi.
- ² Established in 1927, KEMA is a commercial enterprise, specializing in high-grade technical consultancy, inspection, testing and certification.
- ³ Saqib, Mohammed and Nisha Taneja. 2005. "Non-tariff barriers and India's exports: The case of ASEAN and Sri Lanka." ICRIER Working Paper 165.

Non-tariff barriers facing South Asia

Case of Nepal

Purushottam Ojha

Whether at the multilateral level or through regional trade agreements or even unilaterally, tariff barriers are being dismantled at a faster pace than ever before. Correspondingly, the relative importance of non-tariff barriers (NTBs) has increased. NTBs, in general parlance, are understood as trade barriers, other than tariffs, that restrict imports.

It is widely accepted that developing countries, particularly the least-developed countries (LDCs), are severely affected by the application of non-tariff measures (NTMs) or NTBs by their trade partners as the production processes and the product standards of these countries are put on trial by mainly developed countries. Most LDCs are exporters of agriculture and natural resource-based products. Empirical evidence shows that the frequency of NTMs is generally higher for agriculture products than for manufactures and minerals, and developed countries apply such measures more frequently than do developing countries and LDCs.

NTBs facing Nepalese trade

Nepal has signed a preferential trade agreement with India, is a signatory to the Agreement on South Asian Free Trade Area (SAFTA) and is also a member of the World Trade Organiza-

tion. Besides, it is entitled to preferential market access, with varying coverage, in countries like China, the European Union (EU), the United States (US) and Canada under unilateral preferences schemes, including the Generalised Systems of Preferences (GSP). Thus, tariff is no longer a major issue for Nepalese exports except in the case of apparels in the US market.

Despite the opportunities, Nepal's export performance remains weak due to three major reasons. First, there are supply-side constraints in terms of low productivity, poor infrastructure and inadequate support services. Second, relatively high transit/transportation costs reduce the competitiveness of Nepalese products. Third, Nepal has inadequate capacity to deal with the NTBs imposed by importing countries. Dealing with NTBs would require a two-pronged approach: first, compliance with the statutory measures taken by the importing countries for protecting their legitimate interests in safety and health; and second, identifying and tackling the issues of disguised protection and trade restrictive practices adopted by such countries.

Nepal, on its part, maintains few NTBs on its imports. The imperative for minimizing the barriers is the long and porous border with India as it is

difficult to sustain such measures of trade restriction that alternatively fuel informal trade. The increasing demand for essential commodities in Nepalese markets and poor border control have practically made Nepal an easily accessible market for its neighbours. In contrast, the situation is the opposite on the export front. Nepalese products are facing increasing difficulties in getting access to Chinese and Indian markets on account of quarantine, food safety regulations and imposition of local taxes. The rules of origin criteria, particularly in trade with China, are stringent and difficult to be met by Nepalese exporters. Similarly, Nepalese exports to India became stagnant when the bilateral trade agreement of 1996, which provided for virtually free market access for Nepalese products, was amended with the incorporation of restrictive provisions in 2002.

Article 8 of the Agreement on SAFTA provides for harmonization of standards, reciprocal recognition of test, accreditation of testing laboratories, simplification and harmonization of customs clearances procedures, transit facilities particularly for landlocked member countries, development of transport infrastructures and communications and facilitation of business visa. While the Agreement on SAFTA aims to address para-

Nepalese products are facing difficulties in accessing Chinese and Indian markets due to quarantine, food safety regulations and local taxes.



tariff and non-tariff barriers, no time frame or mechanism is specified in doing so. Thus, the continuation of these barriers could nullify the value of tariff reduction.¹ An analysis of classification and share of specific NTMs in all NTMs in South Asia shows that a large share is on account of sanitary and phytosanitary (SPS) measures, technical barriers to trade and related measures (77 percent), followed by tariff rate quota (10 percent), anti-dumping measures (7 percent), licensing requirements (5 percent) and countervailing measures and others (1 percent).²

A cursory look at the NTBs applied on Nepalese products by importing countries reveals vegetable fats, acrylic yarn, copper products and zinc oxides being under tariff rate quota and subject to canalization; requirement of import permits for certain categories of agriculture products; certifications required from the laboratories of

importing countries; and requirement of payment of local taxes. The cases of rejection of Nepalese honey by Norwegian importers on account of pesticide residue and silver jewellery in the European Union due to cadmium content are some representative examples of the consequences of non-compliance with the standards of importing countries.

Way forward

Meeting SPS standards and technical standards requires upgrading of existing laboratories and setting up new ones and getting international accreditation for tests and certifications, as well as building national capacity. Mutual recognition of tests and certifications at the regional level or at the least with neighbouring countries would help in expanding access to niche markets and also serve as a stepping stone for further advancing compliance with international norms

and standards. The current effort to upgrade and strengthen the Nepal Bureau of Standards and Metrology and Department of Food Technology and Quality Control laboratories so as to qualify them for International Organization for Standardization accreditation is slow and erratic. There is a need to redouble efforts with a priority to create necessary legal and institutional infrastructures in order to place Nepalese labs on the international map. Dealing with the SPS and technical measures that restrict trade with a protectionist intent would require the enhancement of technical capacity to analyse and assess the situation and deal with them in bilateral, regional or multilateral forums.

Addressing the issues of NTBs is an emerging challenge to LDCs like Nepal as they are the most hit by the restrictive trade policies of developed and developing countries alike. There are no alternatives to complying with scientifically proven health and safety standards and regulations. This requires developing domestic capacities. Keeping vigilance on the restrictive practices adopted by trade partners and dealing with such practices require adequate capacity building of domestic institutions. Aid for trade and trade-related technical assistance to LDCs should focus on capacity building and human resources development. The World Trade Organization should ensure active participation of LDC members in the making of the international trade rules, including those on NTMs. ■

The author is former Secretary, Ministry of Commerce and Supplies, Government of Nepal, and currently Senior Consultant, SAWTEE.

Notes

- ¹ Karmacharya, Binod. 2005. South Asian Free Trade Area: Opportunities and challenges. Report prepared for United States Agency for International Development (USAID).
- ² Ashiq, Iqbal Md. 2012. Non-tariff barriers in South Asia: Addressing the challenges. Paper presented at ARTNeT/ WTO research workshop on emerging trade issues in Asia and the Pacific, 4–5 April 2012.

Non-tariff barriers facing South Asia

Case of Sri Lanka

Raveen Ekanayake

Eight rounds of multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade initially, and later the World Trade Organization (WTO), along with the proliferation of bilateral and regional trading arrangements over the past five decades, have brought about substantial reduction in tariff barriers across the globe. Contrary to this trend, the use of non-tariff measures (NTMs) has gained prominence in recent times as an alternate means of protecting domestic industry and/or regulating trade flows.

Being a small, developing island nation, Sri Lanka is heavily reliant on international trade for its economic development and subsistence. The country is a net importer of food and inputs required for its domestic industries, and export-oriented activities are a major source of employment generation and foreign exchange earnings. Therefore, since 1977 the country has pursued a more outward-oriented trade regime, which is evident from its active pursuit of trade negotiations at the multilateral, regional and bilateral levels. Over the years, the country has experienced improved market access for its exports; however, the recent propagation of NTMs under the guise of legitimate considerations poses undesirable market access consequences for its exports.

External NTMs

As highlighted in a study conducted by the International Trade Centre (ITC)¹, some of Sri Lanka's most important export items are agro-based products (including fresh and processed foods), textiles and garments, chemicals, plastics and rubber-based products. But their exports have been affected by NTMs in Sri Lanka's most important export destinations such as the European Union (EU), the United States (US) and India.

Ceylon Tea has been a major export commodity of Sri Lanka since the colonial era, accounting for 14 percent of its total exports in 2011. But it faces burdensome NTMs on its exports in countries such as Australia, Chile, Egypt, Hong Kong SAR, Japan, Kuwait, the Russian Federation, Syria, Turkey and Ukraine, all of which are among the top 20 export destinations for Ceylon Tea. The NTMs are mostly in the form of technical standards and sanitary and phytosanitary (SPS) measures. The technical standards include adherence to technical requirements (e.g., limited moisture content) and certification and labelling requirements. Small and medium enterprises face difficulty in complying with these standards. Compliance with such standards also include additional investments, time and costs. Regarding SPS measures, importing countries employ

varying standards, e.g., herbicide residual allowance in tea exported to the EU varies from that of Japan. Such diverse requirements add to administrative burden.

As in the case of tea, other agriculture and agro-based products are also subject to similar NTMs. Stringent SPS, certification and technical requirements have reportedly been imposed on Sri Lankan cinnamon, coconuts, cloves and nutmeg. While some requirements are viewed as too strict, others are said to have an adverse impact in terms of significant costs and delays associated with demonstrating compliance (e.g., obtaining certificates). For instance, obtaining phytosanitary certification for the export of plants is said to entail an additional cost of US\$43 and an additional 10 days per export consignment. Fisheries exports face similar hurdles. They are subject to varying SPS requirements in different countries.

Chemicals, plastics and rubber-based industries have also raised concerns regarding the growing proliferation of NTMs. Difficulties with documentation and customs handling in the US, and fulfilling certification requirements for exports to the EU, are some of the NTMs that they have faced. Similarly, exports of toys to the EU require adherence to strict chemical content specifications. Sri Lanka



teaonlineofsrilanka.com

Ceylon tea, Sri Lanka's top export product, faces burdensome NTMs in its major export markets.

currently lacks the required testing facilities. Therefore, samples need to be sent abroad, which entails high costs and delays in exports. Companies exporting other manufactured products such as electronic components, transport equipment, leather products, wood products, among others, complain about excessive additional charges, standards and certification requirements applied by importing countries. Indian customs are said to overvalue electronics exports from Sri Lanka leading to higher customs duty. Similarly, exports to the EU are subject to higher value added tax burdens as EU authorities tend to undervalue raw material inputs. There are also issues regarding rules of origin as reported by wood and wood-based product exporters. Moreover, many importing countries, notably the EU and Australia, do not recognize certificates issued by Sri Lanka.

There have not been much NTMs in Sri Lanka's exports of textiles and clothing, which together constitute the country's single largest export. Rather, these products face domestic NTMs and procedural obstacles.

Domestic NTMs

As of June 2010, the WTO was notified a total of 103 technical barriers to Trade (TBT) and 13 SPS measures applied by Sri Lanka, the greater

majority of which concern imports. With respect to exports, a local commodity levy termed "cess" is applied at various rates determined by the Sri Lanka Export Development Board across all exports in raw and semi-processed form. Additional cess is levied on the export of tea- and coconut-related products by the Tea Board and Coconut Development Authority respectively. Such measures erode the competitiveness of Sri Lanka's exports. Imports are subject to a number of para-tariffs which have been officially designated to finance specific domestic development promotion activities. While such levies do not have a direct bearing on exports, they have indirect effects, given that imports constitute a significant component in the value chain of Sri Lankan exports.

Sri Lanka's exports are also hampered by a number of domestic procedural obstacles. Although Sri Lanka performs better than its South Asian neighbours in trading-across-borders indicators, it fares well below the members of the Association of Southeast Asian Nations. The export process is plagued by a protracted customs clearance and documentation procedure largely owing to the absence of an electronic customs clearance process.² Corruption also poses serious obstacles in the form of excessive delays and additional costs.

Way forward

In light of the preceding discussion, it can be argued that concerns surrounding the misuse of NTMs, in particular the disguised use of TBT and SPS as protectionist measures, is a complex issue that requires a collaborative effort on the part of all stakeholders concerned in arriving at a compromise. Obtaining conformity assessments and certification is, by far, the most challenging task for exporters of developing countries as it entails significant costs and time. Developing countries such as Sri Lanka lack the financial resources, technology and human capital to undertake such conformity assessments domestically. Compliance being in the interest of the importing partner countries, developed and the more advanced developing countries should extend technical assistance to countries like Sri Lanka to build its capacity to establish accredited laboratories which could test and certify compliance without delay at reasonable costs. It is also necessary to enter into mutual recognition agreements on conformity assessment with major trading partners. ■

The author is Researcher, Institute of Policy Studies of Sri Lanka, Colombo.

Notes

- 1 ITC. 2011. "Sri Lanka: Company perspectives." ITC Technical Paper No. MAR-11-207.E. Geneva: International Trade Centre.
- 2 Wijayasiri, J. and S. Jayaratne. 2009. "The impact of information technology in trade facilitation on small and medium sized enterprises in Sri Lanka." Working Paper Series No. 13, 2009. Colombo: Institute of Policy Studies of Sri Lanka.

Carbon footprint

Amid the increasing interest in carbon footprint globally, companies are recognizing that lowering it improves their bottom line.

Niraj Shrestha

Climate change is recognized as one of the greatest threats to humankind. Increasing awareness and concerns about anthropogenic impacts on the climate across the world have instigated individuals, organizations, industries and countries to understand, monitor and quantify their level of carbon emissions, and implement a plan to reduce them. “Carbon footprint” calculations are one way of quantifying carbon emissions. These can be done by using online calculators as well as now available sophisticated methods and tools.

What is carbon footprint?

Carbon footprint is the total amount of greenhouse gas (GHG) emissions caused directly and indirectly by an individual, organization, event or product. Carbon dioxide (CO₂) is recognized as a key GHG that contributes to this problem and carbon footprints are usually expressed in equivalent tons of CO₂ or CO₂ equivalent (CO₂-e). The “equivalent” means that the footprint is made up of a number of different GHGs, which have been converted into the equivalent quantity of CO₂ in order to show all emissions in a single number.

The carbon footprint is quantified using indicators such as the Global Warming Potential (GWP). As defined by the Intergovernmental Panel on Climate Change (IPCC), GWP is an indicator that reflects the relative effect of a GHG in terms of climate change

considering a fixed time period, such as 100 years (GWP100). A quantity of GHG is converted into CO₂-e by multiplying its mass by its GWP (Table). For example, 1 kg of methane is equal to 25 kg of CO₂-e. Under the Kyoto Protocol, the Parties decided that the values of GWP calculated for the IPCC Second Assessment Report are to be used for converting various GHG emissions into comparable CO₂ equivalents when computing overall sources and sinks.

Types of carbon footprint

Carbon footprints are basically looked at in two ways: primary footprints and secondary footprints. Primary footprints measure the direct emissions of CO₂ from the burning of fossil fuels for transportation or to produce energy for electricity. Secondary footprints measure indirect CO₂ emissions from

the whole lifecycle of a product—from its manufacturing to its eventual breakdown. Energy is required for the production and transportation of products, and GHGs are also released when products are disposed of. This simply means that the more we buy, the bigger our carbon footprints.

How to measure carbon footprint?

A number of ways have been devised to calculate carbon footprints. One can possibly go to various websites that have simple calculators that calculate carbon footprints based on the information provided. There are different types of carbon footprints—for example, for individuals, organizations, products, services and events. Different types of footprints have different measuring tools, methodologies and boundaries. Based on the need,

Table

Global warming potentials of some greenhouse gases

Species	Chemical formula	GWP100
Carbon dioxide	CO ₂	1
Methane	CH ₄	25
Nitrous oxide	N ₂ O	298
Hydrofluorocarbons	-	124–14,800
Sulphur hexafluoride	SF ₆	22,800
Perfluorocarbons	-	7,390–12,200

Source: IPCC.

individuals can use simple online calculators, and organizations, including corporations, can use standards and protocols developed for quantification and reporting of GHG emissions.

The organizational carbon footprint quantifies both direct and indirect emissions. These emissions are classified and reported in three scopes. Scope 1 covers all direct GHG emissions. Scope 2 covers indirect emissions associated with the generation of electricity, heat, or steam purchased for own consumption. Scope 3 includes indirect emissions not covered by Scope 2, for example, business travel, vehicles used by staff that are not owned by the reporting company, deliveries in third party vehicles, waste disposal, etc.

Similarly, product assessments involve emissions associated with a product. The carbon footprint of a particular product can be from “cradle to customer”, i.e., from the production stage—raw material sourcing, processing, manufacturing, packaging, and delivery to retailers—till it reaches its ultimate customer, or from “cradle to grave”, covering the whole life of the product from the production stage to the customer, as well as emissions associated with the consumer’s use and final disposal of the product.

The current world best practice for corporate or organizational GHG reporting is the one by GHG Protocol Initiative¹—initiated by the World Business Council for Sustainable Development and the World Resources Institute. The reporting is conducted based on the accounting tool or quantification methodology prepared under the “The GHG Protocol: A Corporate Reporting and Accounting Standard”. The organizations have prepared several protocols and standards like the project accounting protocol, corporate value chain (Scope 3) accounting and reporting standard, product lifecycle accounting and reporting standard, and agriculture protocol, among others. Similarly, ISO 14064 also sets out guidelines for the calculation of carbon footprint and emissions reporting. ISO 14067

is a new standard related to carbon footprints.

Carbon footprint assessments can also be undertaken for events, services, websites and journeys, or even to compare emissions from sending a letter by post or by email. To quantify such activities, the principles are the same: inclusion of the direct and indirect emissions for a defined scope of activity. However, it should be noted that some calculation may lead to double counting of emissions. For example, Google claims that only 0.2 g of CO₂ is emitted per search, with YouTube emitting 1 g of CO₂ for each 10 minutes of viewing and Gmail emitting 1.2 kg of CO₂ per year for the typical user. The company calculates that, in total, the typical Google user creates 1.46 kg of CO₂ by consuming its various services.² This example only considers the energy consumption, but does not consider the “cradle to customer” aspect of the computer.

Why should we measure carbon footprint?

The main reason for calculating carbon footprint is to understand and quantify the amount of GHG emissions and to reach an informed decision to mitigate anthropogenic climate change impacts. Growing public awareness of climate change and its impact has changed the perception of how we look at any product. Today, consumers are more informed and prefer products with less carbon footprint. Individuals too are calculating their carbon footprints and are changing their lifestyles and habits.

This new trend has prompted companies and producers to review their production technologies and marketing strategies through quantifying their GHG emissions, public reporting of their carbon footprints, and taking several measures to reduce their emissions. This is believed to have helped producers to analyse the trend of their GHG emissions, monitor the effectiveness of reduction activities, and identify components in the production process that contributes most to the GHG emission. More companies are

recognizing that lowering their carbon footprint not only leads to reputational and efficiency gains but also to increased savings and ultimately increased revenue.

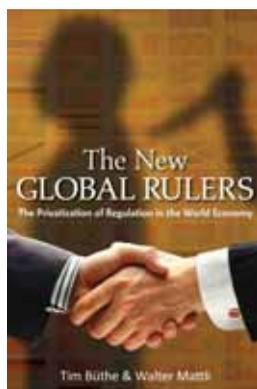
How to reduce carbon footprint?

Once the size of carbon footprint is known, one can know the amount of GHG emissions through energy use, products, services, travel, daily habits, etc. This can then be compared against the national average. Reducing carbon footprint is definitely not a rocket science, at least for individuals. This is easily achievable with little or no additional expenses, time and effort. Some of the methods to reduce primary carbon footprint are: burning less fossil fuels by bicycling, using public transport or walking whenever possible; turning off power at the plug point for electric devices or appliances when not in use; replacing incandescent light bulbs with energy-efficient bulbs; recycling products and purchasing recycled products; avoiding buying over-packaged products; and investing in renewable energy. To sum up, awareness should be put into practice by simply changing one’s habit and becoming more climate friendly.

By measuring carbon footprints, businesses and organizations have successfully developed strategies to tackle climate change and deliver energy efficiency and cost savings. They are increasingly becoming “carbon neutral” or achieving “net zero carbon footprint”. This means, balancing GHG emissions by compensating them with renewable energy like solar and wind energy or “carbon offsetting” in the form of reforestation or alternatively through purchase of carbon credits from carbon-neutral projects such as those under the Clean Development Mechanism. ■

Notes

- ¹ See Shrestha, Niraj. 2012. “The Greenhouse Gas Protocol.” *Trade Insight* 8(1). Kathmandu: SAWTEE.
- ² www.guardian.co.uk/environment/2011/sep/08/google-carbon-footprint



The Privatization of Regulation

Title: The New Global Rulers: The Privatization of Regulation in the World Economy

Authors: Tim Buther and Walter Mattli

Publisher: Princeton University Press

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Chandan Sapkota

As economies get increasingly integrated, their rules of engagement are usually set by multilateral agencies overseeing the entire process. However, it has been seen that integration with the global economy under a multilateral framework would also require adherence to standards set not by international agencies directly under the multilateral bodies, but by private regulators. Is the increasing reliance on private regulators (or outsourcing of regulation to private bodies) beneficial on the road to even more global integration?

Tim Buther and Walter Mattli argue that while expertise and financial resources are necessary, they are not “sufficient conditions for successful involvement in global private-sector standardization”. They argue that standardization is not only technical but also political in nature and it should not diminish the importance of domestic standards-setting bodies.

The authors focus on three private global regulators: International Accounting Standards Board (IASB), International Organization for Standardization (ISO), and International Electrotechnical Commission (IEC). They refer to these private regulators as “focal regulatory institutions” in that they have a monopoly in their respective areas. The IASB sets financial reporting standards on calculating assets, liabilities, profits, losses, types of disclosure of events and transactions, research and development, and corporate governance, among

others. Despite domestic opposition, the United States’ (US) Securities and Exchange Commission instructed US firms to comply with International Financial Reporting Standards (IFRS), produced by IASB, which is a private regulator based in London, by 2014. IFRS is already mandatory for European Union members and sixty other countries. Countries like India, Canada and Brazil have committed themselves to adhering to IFRS.

Similarly, ISO and IEC product standards have become crucial in facilitating international trade. Initially brought to prominence by the Agreement on Technical Barriers to Trade negotiated during the Uruguay Round of trade negotiations that led to the establishment of the World Trade Organization (WTO), ISO and IEC account for 85 percent of all international product standards. The WTO mandates its members to use such international standards unless they are “ineffective and inappropriate” to achieve domestic public policy priorities.

Buther and Mattli argue that just because technical experts set standards does not mean they should supersede domestic political considerations and governance of those institutions themselves. First, regulatory processes are not completely detached from politics. In setting international regulatory standards, the political, philosophical and legal upbringing of experts matter a great deal and those with the most influence would have the final say. Second, the private regulatory bodies

are not operationally self-sufficient as they heavily rely on national-level standards bodies for logistical and technical support. It means the domestic bodies defend the interests of their stakeholders at the international level and try to imprint their regulatory preferences in varying degrees.

The global standards set by private regulators help in harmonization of standards across the globe and assist to deal with them in a coordinated fashion. The privatization and internationalization of governance related to standards is due to lack of necessary human and financial resources, expertise and flexibility to deal with ever-emerging complex regulatory tasks.

However, the authors oppose a system that gives total regulatory powers to private agencies to set global standards. They question the rules in these private organizations, the politics behind rulemaking in such bodies, power structure and governance, among others. Then they provide answers to these questions by developing a framework for the analysis of private regulation.

Additionally, they back up their analysis by two comprehensive multi-country, multi-industry business surveys. The main thrust of the book is that standardization by private regulators is not free from political processes and domestic standards do matter even in global private settings. ■

The reviewer is Associate Economic Officer, Asian Development Bank, Nepal Resident Mission. Views are personal.

5th South Asia Economic Summit



SUSTAINABLE Development Policy Institute (SDPI) organized the 5th South Asia Economic Summit (SAES V) in Islamabad from 11–13 September 2012. SAWTEE was one of the co-organizers of the Summit. The theme of SAES V was “Making growth inclusive and sustainable in South Asia”. The Summit is an annual event initiated in 2008 by a group of leading think tanks in South Asia working in the areas of trade, economics, climate change and sustainable development.

Participants of the Summit called for enhanced regional cooperation to address South Asia’s woes by building on the recent positive developments that have taken place in the region, mainly the improvement in the relationship between India and Pakistan.

Speaking as the chief guest of the concluding session, Foreign Minister of Pakistan Hina Rabbani Khar

said that the solutions to the myriad problems plaguing the region can only come through confidence and trust among SAARC member states. Referring to the recent improvement in Pakistan’s relations with India and Afghanistan mainly on the trade front, she reiterated Pakistan’s commitment to remove all bottlenecks to its trade with its neighbours, which would ultimately benefit the entire region. She expressed Pakistan’s commitment to address food insecurity and climate change through a regional approach.

The Summit brought together about 200 participants, including experts and academics, policy makers, private sector representatives, civil society representatives and media persons from all eight South Asian countries. The goal of the event was to provide inputs to the 18th SAARC Summit. ■

Consultation on NTBs

CONSUMER Unity and Trust Society (CUTS) International organized a Stakeholder Consultation on “India-Bangladesh bilateral trade and procedural non-tariff barriers” on 31 May in Kolkata, India. The purpose of the consultation was to elicit the views and concerns of the business community and other stakeholders about procedural non-tariff barriers (NTBs) affecting cross-border trade between Bangladesh and India and to prepare an advocacy agenda for the removal of such NTBs. The meeting had more than 30 participants representing government, business associations, export promotion agencies, exporters, consumer and other civil society groups, research institutions and media. ■

Training on CGE modelling

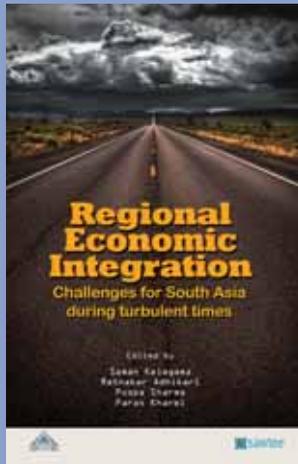
THE 5th South Asian Training Programme on CGE Modelling was held in Kathmandu from 27–31 August 2012. It was jointly organized by SAWTEE, South Asian Network on Economic Modeling (SANEM), Dhaka and Centre for WTO Studies (CWS), New Delhi. Some 30 South Asian researchers and policy makers participated in the training. ■

Rizwana Hasan conferred Magsaysay Award

SYEDA Rizwana Hasan, Chief Executive of Bangladesh Environment Lawyers Association (BELA), a SAWTEE member, is one of the recipients of the prestigious Ramon Magsaysay Award 2012. The Board of Trustees of the Ramon Magsaysay Award Foundation has recognized her “for her uncom-



promising courage and impassioned leadership in a campaign of judicial activism in Bangladesh that affirms the people’s right to a good environment as nothing less than their right to dignity and life.” SAWTEE is proud of her achievements and congratulates her for the recognition of her efforts. ■



Book: Regional economic integration: Challenges for South Asia during turbulent times
Editors: Saman Kelegama, Ratnakar Adhikari, Puspita Sharma and Paras Kharel
Publishers: SAWTEE and SACEPS



Policy Brief: Technology needs and transfer issues in South Asia in relation to climate change and food security
Author: Krishna Ravi Srinivas
Publisher: SAWTEE



Briefing Paper: Gender dimension of climate change and food security
Author: Lopamudra Patnaik Saxena
Publisher: SAWTEE



South Asia Watch on Trade, Economics and Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. The overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalization and globalization.

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