

Facilitating Agricultural Trade by Reducing Domestic Non-Tariff Barriers

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Background

The end of 2015 saw the agricultural sector in Sri Lanka contributing merely 8.7% to GDP while employing nearly 30% of its workforce. Plagued with low productivity, low profitability, weak diversification, poor use of new technology, ineffective extension services and the lack of a mechanism to ensure performance-based salaries to farmers, agriculture has been restricted in its growth. Yet, agriculture and its exports remain a priority as they sustain the livelihoods of a significant portion of the population, are the main source of income for the rural economy and give Sri Lanka an opportunity to fully utilise its vast natural resource base while contributing considerably to export earnings.

Global trade processes in agriculture are perceived as the most complex, requiring the highest regulation and often culminating in lengthy procedures and large amounts of documentation. The World Trade Organisation Agreement on the Application of Sanitary and Phytosanitary Measures recognises that ‘Governments have the right to adopt regulations to protect human, animal, or plant life or health, including food safety regulations’ (p. 69). It is important then to note that regulation in agricultural trade is necessary and that it is the duty of exporters to comply. It is also the responsibility of the relevant authorities to ensure that regulations do not impose compliance burdens to an extent where exporters will not be incentivised to expand or even remain in the export market. This in turn will stifle productivity of the sector and impede competitiveness with the capacity to lead to widespread inefficiencies and corruption.

A recent study conducted on tea, fish, fruit and vegetables exports (Institute of Policy Studies [IPS], 2016) found that non-tariff barriers (NTBs) were a more significant issue than tariff barriers with regard to agricultural trade in Sri Lanka. They noted NTBs such as lack of transparency of food safety requirements and cumbersome, costly, and unnecessarily time-consuming quarantine and testing/certification procedures.

In terms of the agriculture sector specifically, studies have proven that technical measures that act as barriers are a substantial issue. A survey on Sri Lankan exports (International Trade Centre [ITC] 2011) found that that 85% of all NTB cases in agriculture trade in Sri Lanka were related to product-specific technical regulations

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and related conformity assessment. Technical measures become barriers when regulations imposed are outdated and restrictions are made without adequate justification in relation to the necessary purpose of protecting plant, animal and human health. These measures also become a barrier when severe administrative inefficiencies exist in the process of compliance. These inefficiencies can be in the form of additional costs, delays, informational asymmetries and duplicative documentation.

Research Problem and Justification

Agricultural exports in Sri Lanka remain below potential. Sri Lanka has also set an ambitious target for exports of USD 30 billion. However, exporters face several barriers in the export process. Regulations become barriers when they are ineffectively designed, inefficiently administered, and poorly communicated. In such instances, the reduced quality and increased costs, coupled with the perishable nature of the goods, become a barrier to export. Delayed consignments result in spoilage and affect the credibility of exporters and their overall profitability, and reflect poorly on the exporting country. Technical barriers may also induce a culture of non-compliance with mandatory regulations, which are contrary to the stated aims of protecting plant, animal, and human health. Exporters may circumvent the system in place by offering bribes to officials. This will also indirectly have a negative impact on the productivity of the sector, when agricultural inputs of harmful and substandard quality enter the country and are utilised by domestic farmers. Furthermore, 'productive' exporters with capacity and high potential products could be disincentivised from exporting.

Lack of transparency and access to instant information regarding processes and documents required, the authorities in charge, and the time and cost involved have also been noted as key barriers to facilitating agricultural trade. Streamlining these processes will in turn increase efficiency, reduce corruption, safeguard plant, animal, and human health, incentivise exporters, facilitate trade and increase export earnings.

Key Objectives

This study sought to achieve the following objectives:

Identify the barriers to effective regulation of the export of agricultural products to achieve the final objectives of facilitating agricultural exports in Sri Lanka.

Give feasible recommendations to address the barriers based on the ease of implementation.

Methodology

The study used the following approach to arrive at its key findings:

Literature Review: An extensive survey of the existing literature was undertaken to understand key problems facing exporters of agricultural products. This included both Sri Lankan and international studies and a study of the legislation governing the export of agricultural goods. The main objective of the review was to obtain a general understanding of the technical measures applied domestically on agricultural trade and to identify possible barriers to trade.

Key Informant Interviews: One-on-one in depth interviews were conducted with key informants from the private (exporters) and the Government (regulators) sectors. These interviews verified/negated the findings of the literature review and were used to identify specific product sectors whose exports are constrained by technical barriers. Discussions with relevant Government officials were also held to understand the justifications for identified issues and to explore possible solutions.

Stakeholder Roundtable Discussions: Following the conclusion of the interviews, the key findings of the study were presented to the main stakeholders in the private and Government sectors. They were thereafter consulted for recommendations on possible solutions to the problems identified.

The limitations of the study must be considered. Firstly, the number of interviews conducted with exporters and other relevant stakeholders was limited. Secondly, the study focused on four main product sectors (fresh fruits and vegetables, coconut products, spices, and floricultural products) due to the limited time available. Thirdly, there are a multitude of factors affecting agricultural exports. Domestic technical barriers are only one of the many issues that inhibit agricultural exports. Supply-side constraints such as low productivity and high cost of production must be concurrently addressed to ensure sustained growth in export volumes.

Key Findings

In general, well-defined regulations, which are supplemented by efficient administrative procedures and easily accessible information regarding procedures, serve to facilitate trade, rather than acting as a barrier. However, the study finds that in many instances in Sri Lanka, regulations and procedures create NTBs for exporters of agricultural products, and lead to weaker compliance. The NTBs affecting agricultural exports in Sri Lanka can be categorised into three broad areas as regulatory, administrative, and information barriers.

1. Regulatory barriers

The sector is encompassed by a wide array of regulations. Key regulations considered under the study are Plant Protection Act, Seed Act, Forest Act,

Fauna and Flora Protection Ordinance, Fisheries and Aquatic Resources Act and National Environmental Act. The study finds that regulations hinder trade in Sri Lanka in the following ways:

- i. The objective of the regulation is unclear
- ii. The provisions for exporting are not based on research
- iii. The provisions for exporting are outdated
- iv. The interpretation of the regulation can be discretionary
- v. The regulation has not been fully implemented.

2. Administrative Barriers

There are many agencies involved in administering regulations governing the sector. The agencies considered are National Plant Quarantine Service, Forest Department, Wildlife Department, Coconut Development Authority, National Aquaculture Development Authority and Department of Fisheries. The main procedures for export are physical inspection for compliance with regulations, laboratory tests for compliance with standards and obtaining various permits, licenses and approvals. The study finds that administration becomes a barrier to trade due to following reasons:

- i. Weak interagency coordination
- ii. Limited physical and human resources
- iii. Inconsistent timelines and procedures

3. Information barriers

Having updated and reliable information is critical to facilitating exports. Time spent searching for information can entail significant transaction costs for traders. Examples of information required for compliance with technical measures are the regulations, application forms, timelines and fees, standard procedures, lists of restrictions/prohibitions, and contact/enquiry points.

- i. Limited availability of information
- ii. Low reliability of available information
- iii. Information is not presented in a user-friendly manner

In order to facilitate agriculture trade, addressing these NTBs remain critical. Based on the findings of the research and cross-country experiences, the paper makes recommendations to address NTBs, as briefly outlined in Table 1.

Table 1: Proposed recommendations by category of NTB

NTB	Short Term Recommendations	Medium Term Recommendations
Regulatory Barriers	Full implementation of existing regulations	Regular review and update of regulations Regular stakeholder consultations
Administrative Barriers	Establish standard timelines and procedures to check compliance Improve coordination and communication between border agencies Adopt risk management techniques to reduce physical inspections of cargo Establish a mechanism to have a regular dialogue with the private sector	Automating border agency procedures and shifting from manual to electronic communication
Information Barriers	Establish functional enquiry/contact points Publish all relevant information in a timely manner on agency websites	Establish a National Trade Portal – a centralised system to access all trade related information

Key Words: Agricultural Trade, Non-tariff Barriers, Perishable Goods

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