

ASEAN Research Digest

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Research Partners:



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OVERVIEW



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AUTOMOTIVE & MANUFACTURING



FINANCIAL SERVICES & CAPITAL MARKETS



MINERALS, OIL & GAS

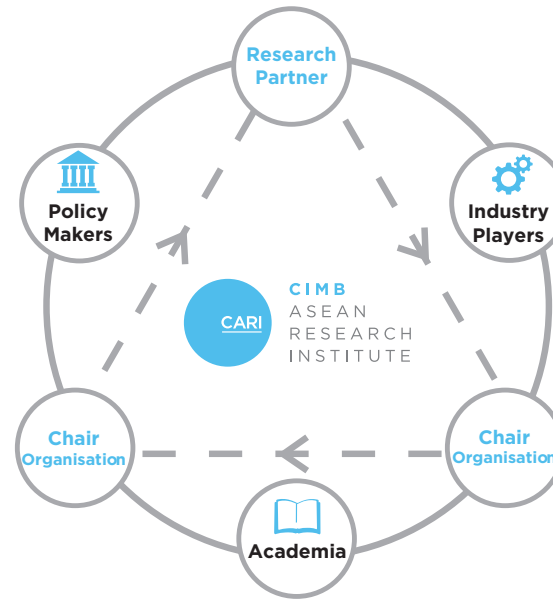
Research objectives:

The CIMB ASEAN Research Institute (CARI) in collaboration with the ASEAN Business Club (ABC) launched the Lifting-The-Barriers Initiative (LTBI) in 2013 as an integrated year long research platform involving core research as well as stakeholder engagement.

The objective was to adopt a vertical approach by means of identifying bottlenecks and barriers hindering free trade of prioritised sectors in the context of the ASEAN Economic Community (AEC).

The LTB Initiative 2014 targets six identified sectors which have pressing relevance to the business landscape in ASEAN and will play a major role in the successful formation of the AEC. The six sectors were Retail, Legal & Tax, Food & Beverages, Financial Services & Capital Markets, Minerals, Oil & Gas and Automotive & Manufacturing.

RESEARCH STRUCTURE



Two leading **ASEAN corporations** were selected to champion each sector, providing the direction and experiential insight into their industry. The input from these champions, or chair organisations, were key to understanding the issues faced by industry stakeholders and to develop the recommendations as part of the discourse.

CARI's Research Working Committee and its Strategic Advisors also worked closely with each of the six nominated Research Partners in producing these reports.

The Research Partners were either top management consulting firms or academic institutions who provided the technical knowledge and quantitative analysis required.

METHODOLOGY

The Lifting-The-Barriers Initiative (LTBI) is divided into four phases.

PHASE I

PRELIMINARY RESEARCH

Core research and compilation of qualitative and quantitative input from targeted sectors.

PHASE II

ABC FORUM



LTB Roundtables



Plenary Sessions

PHASE III

LTB REPORTS

The final outcome, a set of white papers, for ASEAN policy makers and community to effect real changes in the region.

PHASE IV

FINDINGS SOCIALISATION

The findings from the LTB reports will be prioritised and presented to various stakeholders including policymakers.



HARMONISATION OF STANDARDS IS KEY FOR INCREASING INTRA-ASEAN FOOD TRADE

Title of Study: Lifting the Barriers Report: Food and Beverage Industry

By: The ASEAN Food and Beverage Alliance (AFBA) and Food Industry Asia (FIA) **Published by:** CARI, September 2014



BACKGROUND

Research objective:

To explore the trade and production barriers facing the ASEAN food and beverage industry and to suggest possible solutions to those barriers.

- Non-tariff barriers (NTBs) have been identified as increasingly replacing tariffs as protective measures. For the food and beverage industry, the differences between the regulatory requirements of individual ASEAN Member States (AMS) are among those that have the greatest impact on trade.
- ASEAN selected the agri-food sector as one of the priority sectors for ASEAN integration, and it has identified that harmonisation of standards and regulation is key to help the sector realise its potential.

The Economic Importance of Food Trade

- The majority of ASEAN members rely heavily on the agri-food sector for economic growth, trade and investment.
 - ▶ The agri-food sector is the largest employment sector in ASEAN, with about 38% of ASEAN's 620 million people - or 235 million involved in the sector, which includes forestry and fisheries.
- The value of ASEAN agri-food exports has increased rapidly in the past few years, from US\$38.2 billion in 2008 to US\$53.25 billion in 2011. In 2012, the value decreased to US\$49.9 billion.

ASEAN exports agri-food sector	Unit/Scale	2008	2009	2010	2011
Intra-ASEAN	Value (US\$ Million)	4,405	3,566	5,518	8,138
	Share to total exports (%)	1.8	1.8	2.1	2.5
Extra-ASEAN	Value (US\$ Million)	38,232	29,554	38,971	53,249
	Share to total exports (%)	3.9	3.6	3.6	4.3

Source: ASEAN Trade Statistics Database

- ASEAN exports of food products is however only a small part of ASEAN's total exports:
 - ▶ In 2012, intra-ASEAN agri-food exports were only about 2.2% of total exports and extra-ASEAN agri-food exports were only about 4.0% of the region's total exports.

- Free flow of agri-food products within ASEAN is necessary as a majority of AMS rely on the sector for growth, trade, investment and employment. ASEAN can only gain from accelerating efforts to achieve harmonisation of standards:
 - ▶ **Rising wealth means greater consumer demand:** As poverty in ASEAN has decreased substantially and the middle-income population is expanding, demand for more variety and more nutritious food will increase, which will require greater flow of goods across the region.
 - ▶ **Untapped potential for intra-ASEAN trade in agri-food:** There is enormous potential for intra-ASEAN trade in agri-food products if ASEAN harmonises standards and eliminates the most significant technical barriers.

Achievements in ASEAN Harmonisation

ASEAN has already achieved number of its targets:

1. **The ASEAN Common Food Control Requirements (ACFR)** provides a national food control system to assure the safety and quality of food. It takes into consideration the WTO's Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBTs) Agreements.
2. **The ASEAN Common Principles of Food Control System (ACPFCS)** provide a common set of guiding principles for the establishment of food control systems in AMS, taking into account the WTO's SPS and TBT Agreements.
3. **The ASEAN Food Reference Laboratory (AFRLs)** is a centre for information, advice and technical training on food analysis and testing to all ASEAN labs.
4. **The ASEAN Food Testing Laboratories Committee (AFTLC)** monitors and coordinate the food testing activities in ASEAN. It also developed the procedures for the establishment and terms of reference of the AFRLs.
5. **The ASEAN Prepared Foodstuffs Product Working Group (PPFWG)** will be developing the ASEAN Guidelines for Food Reference Laboratories.
6. **ASEAN has developed guidelines** in the following areas:
 - a) ASEAN Audit and Certification of Food Hygiene and Hazard Analysis and Critical Control Points (HACCP).
 - b) ASEAN Principles and Guidelines for Harmonisation of Food Import-Export Inspection and Certification System.
 - c) ASEAN Principles and Requirements for Food Hygiene
 - d) ASEAN Common Principles and Requirements for the Labelling of Pre-packaged Food
 - e) ASEAN Common Requirements for Food Control Systems.

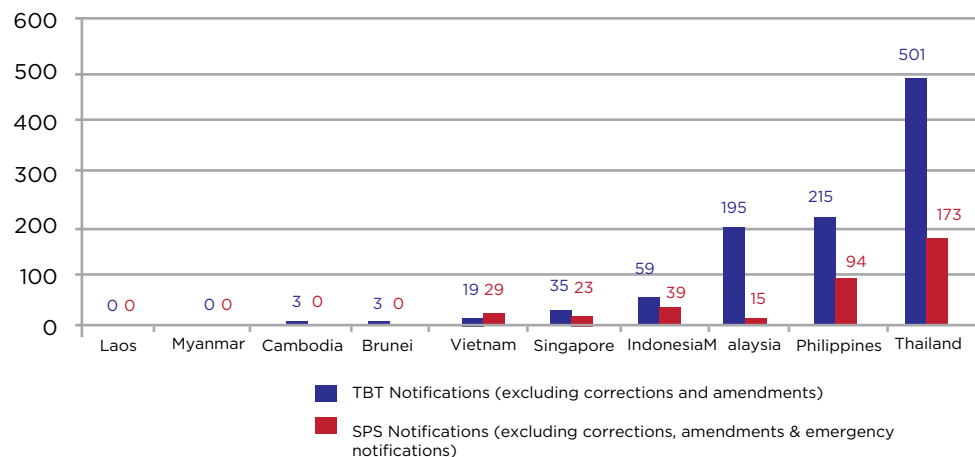


KEY FINDINGS

Technical Barriers to Trade (TBTs)

- Despite the mentioned achievements, significant challenges remain in the food and beverage sector, as different national rules and regulations between ASEAN members create technical barriers to trade (TBTs), which are a major impediment for the expansion of regional and global food trade.
- Technical barriers to trade can:
 - ▶ create complexities and delays,
 - ▶ increase costs and business risks,
 - ▶ compromise food security and safety,
 - ▶ limit the opportunities for SMEs,
 - ▶ limit the development of regional trade,
 - ▶ decrease the region's global competitiveness.
- Harmonising food regulations and standards would spur intra-ASEAN trade by removing or reducing trade restrictions and cost and increase the availability of safe, nutritious and competitively priced food for ASEAN consumers.

TBT and SPS Notifications submitted by ASEAN countries since 1995



Source: Compiled from WTO data

Main challenges in the food sector

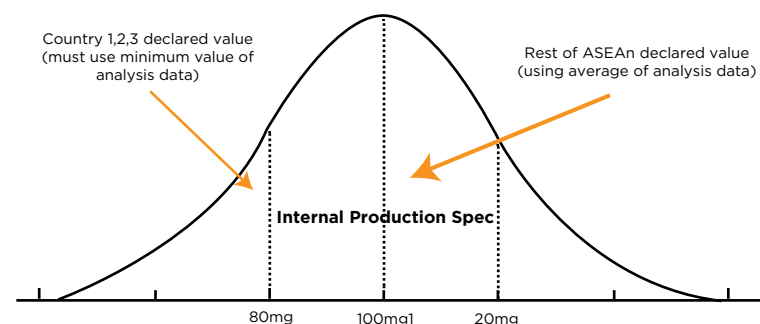
- The ASEAN Food and Beverage Alliance (AFBA) ran an industry survey to identify the most significant barriers to food trade within ASEAN faced by the industry. The results established five priority areas for harmonisation:

Priority areas for harmonisation
1. Nutrition labelling
2. Pre-market product registration
3. Authorisation of food ingredients, additives and flavours
4. Import/Export certification
5. Contaminant limits and analytical methods

1. Nutrition labelling

- There are significant variations in terms of product categories and the underlying criteria. Some of the common challenges include:
 - ▶ variances in mandatory and voluntary labelling requirements,
 - ▶ different minimum and maximum limits for vitamins and minerals,
 - ▶ variances in tolerance levels,
 - ▶ and variances in Nutrition Reference Values (NRVs) used for packaging claims and Nutrition Information Panel (NIP) formats.
- These differences decrease regional competitiveness as the industry has to withstand the costs for redeveloping products and/or packaging.
- The graph below shows an example where three AMS declare the minimum value of micronutrients while the rest of ASEAN declares the average value of analysis data for the same product recipe.

Declared value of a content claim (micronutrient)

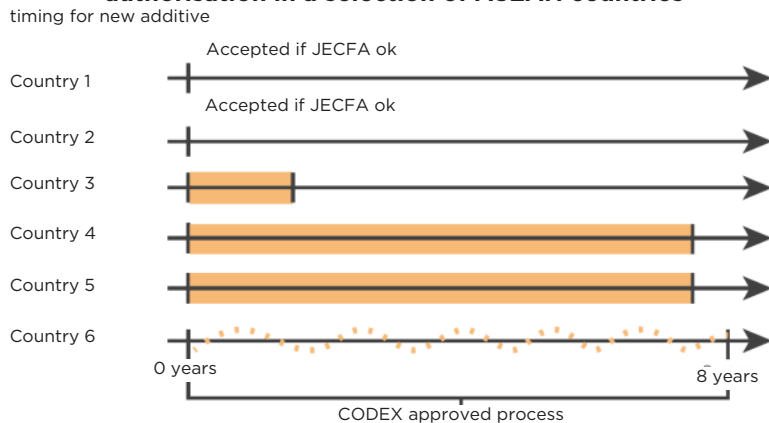




2. Pre-market product registration

- Some AMS require product registration before a product can be marketed, which can be either **pre-market registration** or **post-market notification**.
- Pre-marketing registration requires a government assessment and approval of food composition and package labelling of finished products to ensure products comply with food safety and regulatory requirements before products are permitted for retail sale.

Example of different registration time frames for a new food additive authorisation in a selection of ASEAN countries



- Pre-marketing registrations significantly delays the arrival of products to the market, and thereby hinders an efficient supply chain.
 - SMEs in particular have limited resources to invest in multiple registration processes or finance extended delays

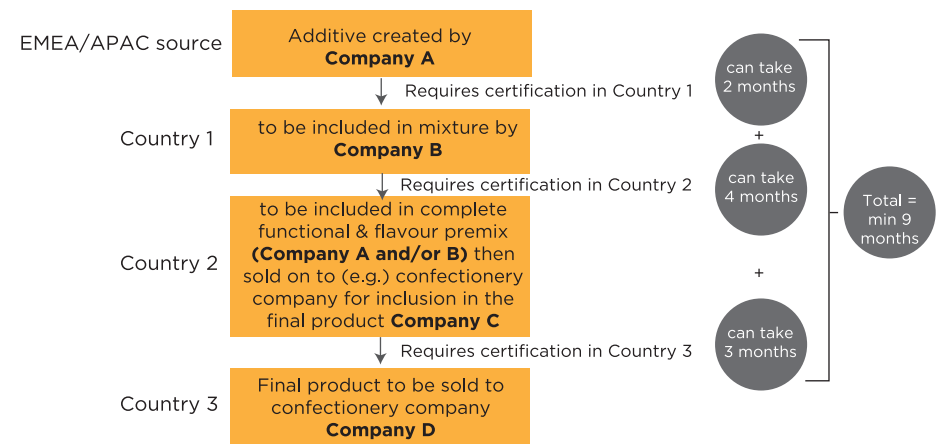
3. Authorisation of food ingredients, additives and flavours

- There is **no standard approval process** enabling an ingredient authorised in one AMS to be marketed in another AMS, which impact regional competitiveness because of **excessive delays** and **additional costs**.
- Some of the common challenges include extended delays, inefficiencies, reluctance to invest in R&D, and lack of competitiveness in global markets, caused by:
 - multiple authorisation procedures and overlapping responsibilities,
 - variances in registration timeframes,
 - differences in compositional standards requirements,
 - no mechanism to adopt authoritative work of Codex and the Joint FAO/WHO Expert Committee on Food Additives (JECFA).

4. Import/Export certification

- Import/export certification is largely managed by customs authorities, with requirements to assess food safety being considered under quarantine requirements for animal and plant health, as well as compliance with food standards.
- The **Codex Committee on Food Import and Export Inspection and Certifications Systems (CCFICS)** has developed principles and guidelines related to food import and export inspection and certification systems to harmonise methods and procedures between trading partners.
 - The ASEAN PFPWG has taken this into consideration when developing ASEAN guidelines.
- ASEAN companies that import and export food products across the region are required to complete inspection and certification requirements for each market in which product is traded.
- Quarantine and safety requirements vary between AMS**, adding additional cost and time for industry agents and hindering the region's overall competitiveness in the global arena.

Example of the duplicating process and timeframe when submitting food flavour applications for use in multiple ASEAN markets

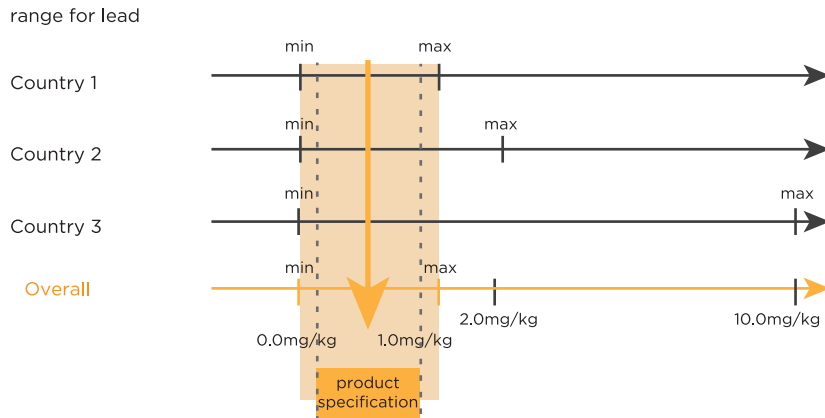




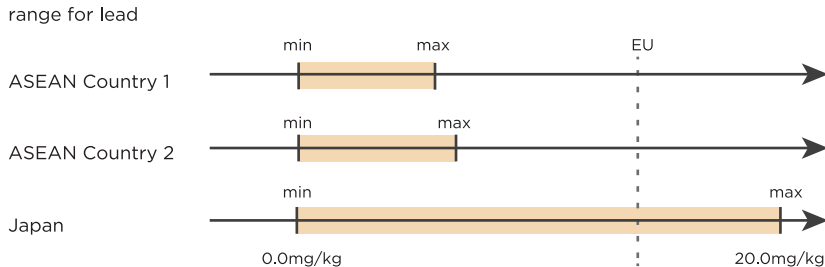
5. Contaminant limits and analytical methods

- There are no uniform maximum levels for contaminants amongst AMS. Some common challenges include:
 - variances in limits for heavy metals
 - differing analytical methods
 - delays in procurement and flow of supply chain
 - variances between AMS and international limits
- This lack of uniformity creates major constraints for companies in the region and adversely impacts cross-border trade, lowering ASEAN's competitiveness.
- Below is firstly an example of variances in limits for heavy metals and secondly an example of variances in limits between AMS and international markets.

Example of the different acceptable levels for lead in a flavour across Asia's markets



Example of the different acceptable levels for lead in a flavour across global markets



- Codex has already set a standard for contaminants in food products. Harmonisation in ASEAN by adopting these standards would reduce costs and increase regional trade.

Main recommendations for the food sector

- The authors of the report suggested three main recommendations to address the aforementioned challenges.

Main Recommendations

1. Mutual Recognition Agreements

2. Public-Private Partnerships

3. Institutions and Regulations

1. Mutual Recognition Agreements

- Mutual Recognition Agreements (MRAs) should be used as a first step towards removing regulatory and technical barriers**, as MRAs are an effective and 'lower-cost' model, which is useful when the difficulty of negotiating harmonised standards is likely to be high.
- While ASEAN has adopted a number of international standards in alignment with the WTO/TBT obligations, it is still hindered by the lack of progress in those areas that are directly and indirectly related to technical barriers, including:
 - licensing and registration,
 - harmonisation of product standards,
 - customs procedures.
- ASEAN should consider the use of Mutual Recognition Agreements (MRAs) already in place in the other priority integration sectors in addressing technical barriers in the food sector, such as:
 - the Electrical/Electronic sector MRA recognising certifiers
 - the Cosmetic regulatory Scheme MRA recognising product registration
 - the MRA for Manufacturers of Medicinal Plants GMP certificates and/or inspection reports.
- The **ASEAN Consultative Committee on Standards and Quality (ACCSQ)** is working towards harmonising national standards and implementing MRAs on conformity assessment to achieve its goal of **"One Standard, One Test, Accepted Everywhere"**.
- The PFPWG had proposed that an MRA be used for **inspection and compliance assessment** but more is needed, including an MRA on **standards, additives and contaminants**, and an MRA on **labelling**.



Main recommendations for the food sector

2. Public-Private Partnerships

- ASEAN should focus on establishing Public-Private Partnerships to harness the benefits of industry consultation.
- The following could be considered as a pathway for MRAs in collaboration with the industry:
 - ▶ supporting application of MRAs to food standards,
 - ▶ reviewing 'best practice' application of MRAs,
 - ▶ supportive industry environment to engage SME stakeholders on application,
 - ▶ transition arrangements and realistic timelines, which minimise cost impact,
 - ▶ developing an implementation plan with industry to support SME competitiveness.
- ASEAN could make more attempts to promote industry participation and involvement, especially in terms of engaging them more on NTB/TBT matters as they are stakeholders directly affected by these barriers.
- Allowing industry stakeholders to observe and participate at ASEAN technical level meetings, as in the cosmetic and pharmaceutical sectors, ASEAN could tap into industry's knowledge and expertise.

3. Institutions and Regulations

- ASEAN should strengthen its institutions and improve its regulatory practice
- At the structural level, the ASEAN Secretariat can take the role of the coordinator of measures and communication among the member states in the harmonisation process.
- In terms of efficiency and practicality, it could potentially be a good conduit for addressing issues between the public sector and the private sector.
- **Multi-Sectoral Taskforces:** In addition to working with existing working groups, ASEAN may also want to explore the option of creating a multi-sectoral taskforce that brings together the senior officials/experts of all the relevant ministries, thus making it more efficient and practical to address cross-cutting issues in the agri-food sector.
 - ▶ The concept of a multi-sectoral taskforce can be modelled on the ASEAN Coordinating Committee on Connectivity (ACCC) which brings together transport, energy, trade, tourism, finance, social and cultural and other areas.
- **Good Regulatory Practice:** With the establishment of the ASEAN Economic Community (AEC), the region should shape regulatory standards and frameworks that meet international benchmarks of Good Regulatory Practice (GRP).
 - ▶ The use of GRP ensures that national regulation only has a negative impact on ASEAN integration where it is absolutely essential.
- ASEAN should consider the promotion of the core principles of GRP to its member states when designing and implementing new legislation, and to urge them to consider the impacts on intra-regional trade arising from unilateral decisions concerning national food laws.

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