



FOREIGN TRADE BARRIERS

WHAT ARE TRADE BARRIERS?

A trade barrier is generally anything that makes trade difficult or even impossible. Examples of trade barriers range from government-instituted tariffs to cultural preferences. Trade barriers have a negative effect on exporters because they interfere with the normal supply and demand and make international trade more complicated. They also negatively impact importers and ultimately consumers since they interfere with competitive sourcing, which can result in higher prices.

The global trend in recent years has been to eliminate as many trade barriers as possible. Organizations like the World Trade Organization (WTO) have been established with the purpose of limiting barriers and reconciling trade disputes among member nations. Free Trade Agreements (FTAs) among countries, such as the North American Free Trade Agreement (NAFTA), ASEAN in Asia, and the European Union customs union have reduced the number of barriers involved in regional trade.

Recent U.S. policy has been to establish trade agreements in all hemispheres by negotiating bilateral agreements with trading partners such as Jordan, Singapore, Chile, Australia, Dominican Republic, Bahrain, Israel, Morocco, Oman, Peru, CAFTA, and CARICOM nations in the Caribbean. (USTR)

See VEDP Fast Facts- "The WTO"

WHY DO COUNTRIES HAVE TRADE BARRIERS?

Trade barriers are as ancient as trade itself, and there are many reasons countries impose trade barriers. Trade barriers initially arose in the form of tariffs levied to generate revenue. For many countries, tariffs are a major source of income and are critical to the national economy. Tariffs, quotas and non-tariff barriers such as excessive regulations are now commonly used to protect domestic industry from foreign competition. Finally, countries often use barriers as tools of foreign policy. Very high or low tariffs can be used to reward or punish other nations in support of foreign policy initiatives. This is the premise of most free trade agreements and embargoes, boycotts and sanctions. For all of these reasons, trade barriers are sensitive and controversial issues.

TYPES OF TRADE BARRIERS

According to the U.S. federal government, the most common barriers are:

- Tariffs, quotas, import licenses, fees and paperwork requirements, and customs barriers that are not uniformly applied.
- Lack of competitive bidding on government tenders.
- Burdensome standards, testing, labeling and certification requirements not required of domestic manufacturers.
- Direct or indirect subsidies by a foreign government in favor of domestic suppliers.
- Export controls such as license requirements and restricted buyer lists.
- Intellectual property infringement, including copyright, patent and trademarks.
- Influence peddling - company/government interference.
- Bribery, corruption and requests for payoffs.



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Import Duties/Tariffs: For many countries, tariffs are important to the national economy and can help raise funds for important social programs. WTO members have agreed to utilize product-identifying codes called Harmonized Tariff Schedule (HTS) for imports and Schedule B for exports. The first 6 numbers of HTS and Schedule B codes are identical for all WTO member countries. This has simplified tariff application, made it less arbitrary, and thus easier to reduce tariffs on groups of products.

Restrictive Tariffs: Governments select certain import items to “limit” by placing restrictively high tariffs on them, effectively keeping foreign suppliers out of the market.

Export Subsidies: A federal program of financial assistance to aid domestic producers is considered an export subsidy. This means the government provides a domestic company some kind of financial assistance in order to make that company’s product cheaper than a similar imported product. This makes imported products relatively more expensive and less appealing to domestic consumers. Alternatively, a subsidy can make it easier for a domestic producer to sell goods in foreign markets, where they might otherwise not be price-competitive. Many subsidies are controversial and are alleged to be protectionist (because a country is protecting its domestic producers through the subsidy) and harmful to international trade. Governments maintain subsidies to fund core industries or fledgling industries in order for them to remain viable in the face of foreign competition. This can be done through tax breaks, grants, etc. The WTO sets a ceiling for subsidies, and any subsidy that exceeds that limit is illegal and takes market share away from un-subsidized competitors.

Countervailing Duties: When a country feels another country is “dumping” products into their market unfairly (selling at less than cost and often with support of subsidies), import duties/tariffs can be an effective tool to offset the discount and protect domestic suppliers. The U.S. request to retaliate against Canadian processed dairy export subsidies is a good example of tariffs as a legitimate tool used to protect industries unfairly harmed by foreign suppliers who dump goods into their country. Countervailing duties are tariffs imposed to offset discounted Imports often subsidized by foreign governments.

Quotas: National governments select certain import items they want to limit and place quantitative quotas on market access, effectively limiting foreign penetration in the local market.

Bans, Boycotts, Embargoes and Trade sanctions: These trade policies can be used in support of foreign policy as reward or punishment for cooperation or lack of cooperation. Examples: Trade sanctions with Iraq were designed to get Iraq to comply with UN resolutions and prevent them from continuing to source items used to manufacture military weapons.

Licensing: Import and export licensing is meant to be used to protect national interests by limiting access to dangerous imports and ensuring that critical technology is not shared with terrorists or rogue nations. If too excessive, they can limit access to foreign markets.



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Excessive Regulations: Standards, testing, labeling and certification: These types of standards aren't necessarily trade barriers, but they can be if the standards are too complex for a foreign company to meet compliance. A country may require that foreign products coming into its markets meet its standards, regardless of the standards the products meet in their domestic market. The government can make these standards extremely difficult for a company to meet, and thus discourage imports.

See VEDP FastFacts- "Foreign Standards Overview"

Lack of Intellectual Property Protection: A country which has weak protection of intellectual property laws fails to protect imported products from illegal acts like trademark infringement.

Cultural Barriers: The most obvious unofficial barriers to free trade are language and cultural differences. These can hinder processing of paperwork, and often are the cause of issues in packaging and labeling. Furthermore, religious nuances and social etiquette unknown to the exporter can contribute to their product's failure in foreign markets. Usually, these barriers can be overcome with research, education and the right in-country partners.

See VEDP FastFacts- "International Marketing" and "Intercultural Communication"

WHAT TO DO ABOUT TRADE BARRIERS

Most cultural barriers can be overcome through research, patience, and understanding. A local agent or representative can be very helpful in addressing cultural differences. However, there are some items that will not sell in certain markets due to strong cultural preferences.

If a country feels it faces illegitimate barriers in trading with a fellow WTO member, the WTO rules allow them to take actions to temporarily counter these activities and file complaints that are then investigated. Past examples of successful enforcement include rulings against Canada's export subsidies on dairy products, India's restrictions on U.S. exports of auto assemblies, and an agreement with Argentina resolving disputes over aspects of its intellectual property regime.

Recently, the U.S. obtained a favorable dispute ruling from the WTO against Japan for its restrictions on imports of apples and a favorable preliminary finding against Mexico for its telecommunications regime. Ongoing enforcement actions involve Canada's restrictions on wheat, China's tax on semiconductors, Egypt's textile tariffs, the EU's moratorium on biotechnology products, Mexico's antidumping measure on rice and its soft drink tax. (USTR)

The United States Department of Commerce also administers the Advocacy Center, which is the "central coordinating point marshalling the resources of 19 U.S. government agencies in the Trade Promotion Coordinating Committee to ensure that sales of United States products and services have the best possible chance abroad." The Advocacy Center can be reached at:



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ITA/US Department of Commerce
The Advocacy Center
1401 Constitution Ave, NW—Room 3814A
Washington D.C. 20230
Tel: (202) 482-3896
Fax (202) 482-3508
Website: <http://www.export.gov/advocacy>

If you are faced with an official barrier, such as an overwhelming tariff, restrictive regulations or government subsidies, there are remedies available. The U.S. federal government has programs to assist U.S. companies if they have difficulties exporting. The mission of the U.S. Department of Commerce's Trade Compliance Center (TCC) is to ensure foreign compliance with trade agreements (see contact information below).

According to the TCC, you should file a complaint if...

- You are experiencing difficulties with a foreign customs office that will not clear your goods for the buyer/importer.
- Your goods are being classified under the wrong tariff schedule heading.
- You are having problems with a foreign customs' documentation requirements.
- You are having problems with consular requirements.
- Your goods have been rejected on the basis of a minimum or reference price.
- The duties charged on your goods are higher than what you expected.
- You are unable to locate an official public source of information for current data and information regarding a country's customs procedures.

The TCC "systematically monitors, investigates, and evaluates foreign compliance with multi-lateral, bilateral, and other international trade agreements and standards of conduct to ensure that United States firms and workers receive all the benefits to which they are entitled, and are aware of the opportunities created by market-opening initiatives." You may report a trade barrier directly by using the trade complaint form on-line, located at:

http://tcc.export.gov/Report_a_Barrier/index.asp or by contacting the TCC with your complaint:

Trade Compliance Center
Market Access and Compliance/ITA
U.S. Department of Commerce
14th Street and Constitution Avenue, NW
Washington, D.C. 20230
Tel: (202) 482-1191
FAX: (202) 482-6097
E-Mail: tcc@mail.doc.gov
Website: <http://tcc.export.gov>



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VEDP SERVICES

The VEDP offers a number of export-related services to Virginia businesses, including group market visits and market research by our Global Network of in-country consultants. These services are available to all Virginia exporters. For more information, please visit our website:

www.exportvirginia.org.

ADDITIONAL RESOURCES

United States Trade Representative

600 17th Street, N.W.
Washington, DC 20508
Tel: (888) 473-USTR (8787)
Email: contactustr@ustr.gov
Website: <http://www.ustr.gov>

The World Trade Organization

Centre William Rappard, Rue de
Lausanne 154,
CH-1211 Geneva 21, Switzerland
Tel: (41-22) 739 51 11
Fax: (41-22) 731 42 06
Email: enquiries@wto.org
Website: <http://www.wto.org>

WORKS REFERENCED

Bosrock, Mary Murray. Put Your Best Foot Forward in Asia: A Fearless Guide to International Communication and Behavior. International Education Systems. 1997.

United States Trade Representative Office. 2009 National Trade Estimate report on Foreign Trade Barriers. <<http://www.ustr.gov/about-us/press-office/reports-and-publications/>>

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