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The long way to integrated markets

SPS/TBT measures as a stumbling block
to integrated agri-food markets markets?

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Introduction

SPS/TBT measures as a stumbling block to integrated agri-food markets markets?

Focus on three topics

1. Evidence on the trade impacts of SPS/TBT measures
2. Forms of regulatory cooperation to foster market integration
3. What types of public (and private) interventions can enhance market integration?

1. Many regulatory measures in use: trade restrictiveness differs

		Types of measures	Examples from food sector		
Trade restrictive	}	Import restriction	Total (= Ban)	If it contains forbidden ingredients	
			Partial	Only specific origins allowed	
			Temporary	Safety must be proven before market re-opening	
Cost of compliance increase / Trade restrictiveness case specific	}	Technical requirem.	product standard	Protein content of a product to be marketed as dairy product	
			process standard	product-related	Requiring hygienic provisions in slaughterhouses/dairies
				non product-related	Imposing husbandry requirements on imports (e.g. animal welfare reqs.)
		Informative requirem./ Labelling	mandatory provisions	Requirement of comprehensive quantitative ingredient lists	
voluntary provisions	Nutritional information				
		Monitoring/ Control		Realise food inspections at the border	

Trade restrictiveness of SPS/TBT measures matter for trade... but can be overcome

- **Cost of compliance with standards most problematic for less and least developed countries**
 - Xiong and Beghin (2014) “MRLs reduce export supply by imposing additional costs” but “does not hinder the creation of new trade partnership”
 - Ferro et al. (2015) „Meeting stringent standards increases primarily the fixed cost to export”
- **Investments to improve domestic market conditions help**
 - Xiong and Beghin (2011) show that „trade potential of African groundnut exporters is more constrained by domestic supply issues rather than by limited market access”
 - Kareem et al. (2016) focusing on Africa-EU fruit and vegetable trade show that “the initiation of trade relationships is contingent not only on market access conditions but also on domestic market constraints in Africa”
- **Experience helps**
 - Peterson et al. (2013) „actual restrictiveness of these measures diminishes dramatically as exporters accumulate experience, and it vanishes when exporters reach a certain threshold.”
 - Ferro et al. (2015) show for existing trade relationships, the trade effect is „indistinguishable from zero“
 - “Once a firm adjusts its production to comply with the standards of a foreign market, those standards do not impact trade intensity”

However, regulatory standards also boost trade

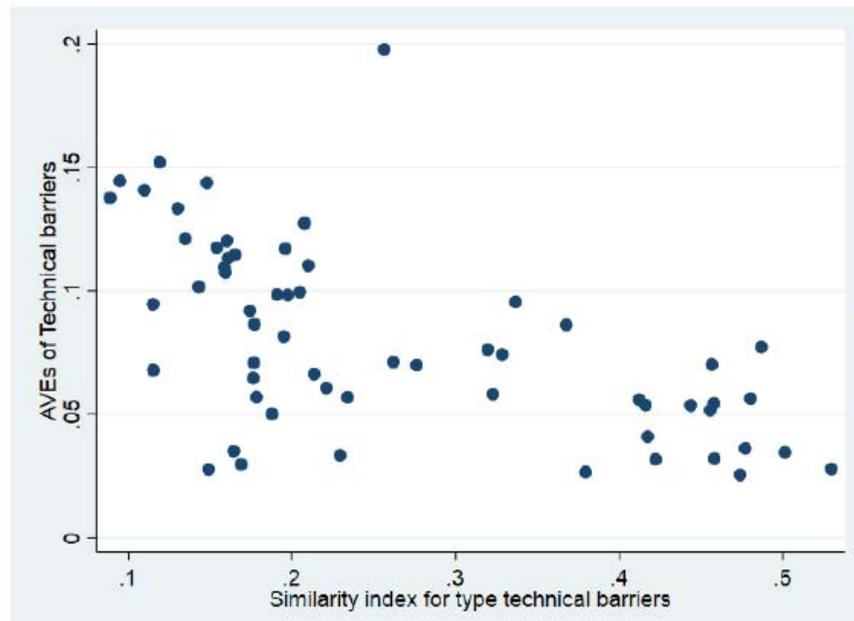
- **Expand production and trade** when the demand of a good is stimulated through better information about the good or by enhancing the good's characteristics (Maertens and Swinnen 2009)
- **Improve national and international welfare** when negative market externalities or information asymmetries in the food chain are present (Xiong and Beghin 2011; DeMaria and Drogue 2012)
- May **provide first-mover advantage** to enhance competitiveness relative to others firms in the market (Moenius 2004; Drogue and De Maria 2012).
 - Often argument for business to introduce new (private) standards
- **Stringency of measures** may be completely **irrelevant** when the regulatory heterogeneity across countries is low (Winchester and Wieck et al. 2012; Faria and Wieck 2015).

„Similarity“ of SPS/TBT measures across countries foster agri-food trade

There is by now a large body of literature that has underpinned this finding:

- Winchester, Wieck et al. (2012) found a **weak negative trade impact of regulatory heterogeneity** of SPS/TBT measures for crop products
- Drogue and Demaria (2012) show for trade in apple and pears and MRLs that „**differences between regulations matter** and may, in some case, hinder trade”
- Liu and Yue (2013) show regarding MRL levels that consumers „prefer the imported goods that are **more similar to the domestic goods**“
- De Faria and Wieck (2015) analyse for GMO approval that high levels of „dis-similarity“ (asynchronous approval) negatively affects trade
- Murina and Nicita (2015) highlight that „SPS measures result in relatively higher burden for low income countries but that **membership in deep trade agreements** seems to **reduce the difficulties** related to compliance with SPS measures”

„Similarity“ of SPS/TBT measures across countries foster agri-food trade



=> The less similar the measures across countries, the higher the calculated tariff equivalent

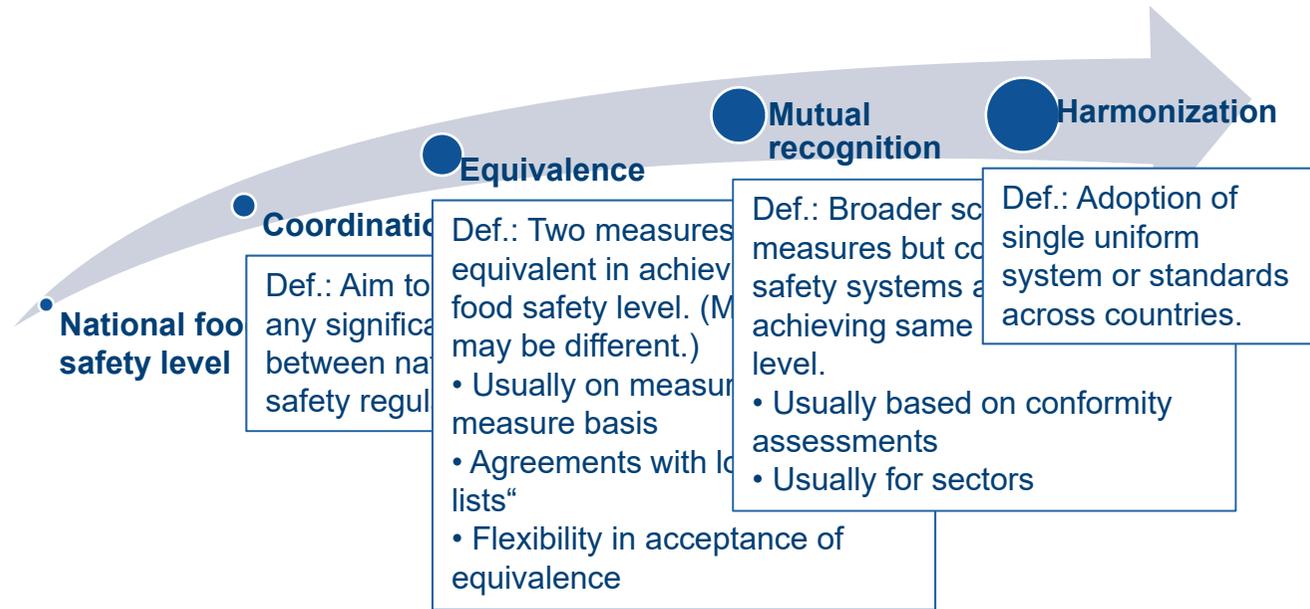
Source: Cadot et al. 2018; Table 7, p. 17 (OECD trade policy paper)

2. Regulatory cooperation to enhance „similarity“ of regulations and overcome restrictiveness

Reasons for regulatory cooperation on SPS/TBT matters

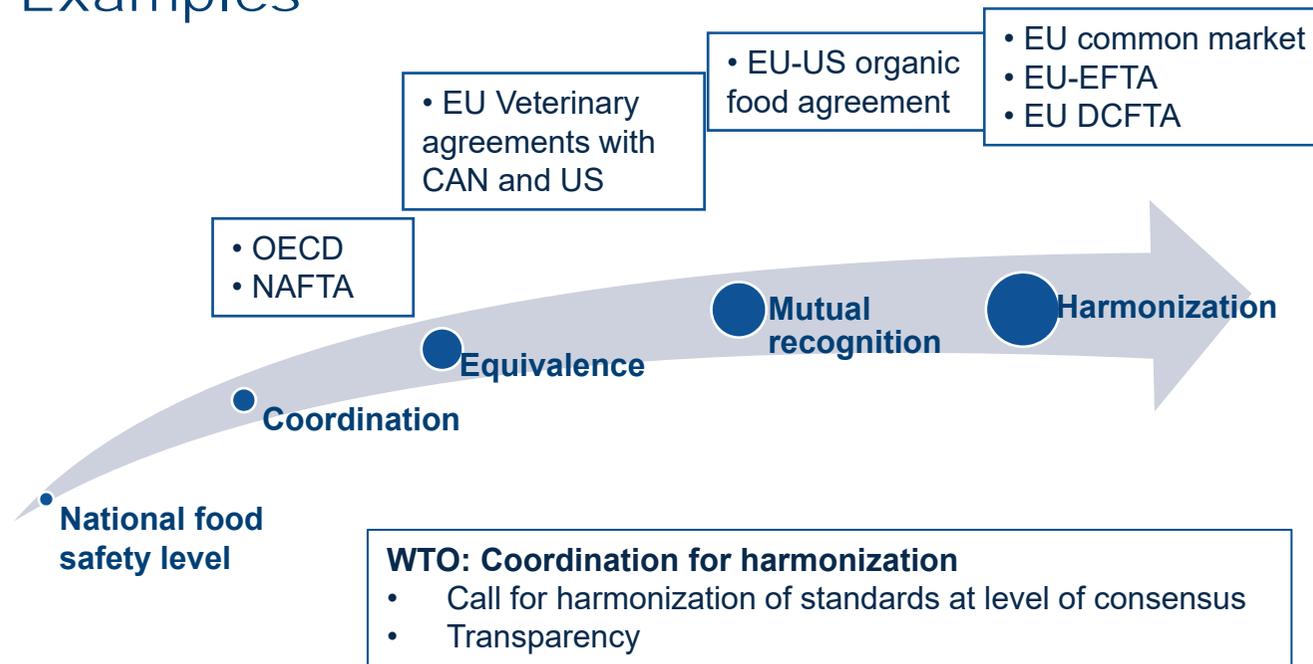
- Benefits for cooperation between countries
 - Reducing trade costs (trade facilitation)
 - Reducing border rejections
 - Improvement of market access
 - Enhanced consumer protection
 - Reduction of market failures: human, plant & animal health, environment
- Costs of cooperation between countries
 - High negotiation and monitoring efforts
 - Increase in cost of compliance in particular after unilateral changes in standards
 - Adherence to rules - loss of national sovereignty
 - Trade deflection for third countries

Forms of regulatory cooperation



Source: Rudloff and Wieck (2014)

Forms of regulatory cooperation - Examples



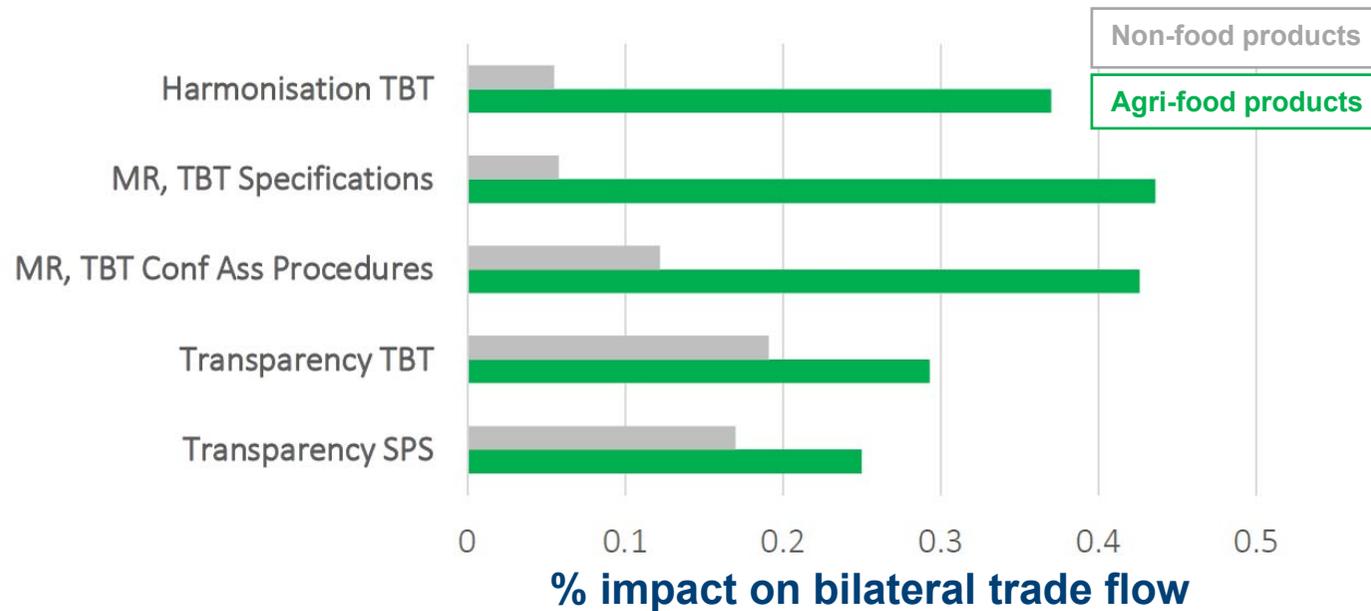
Example EU: many stages of country cooperation to harmonize food regulation and to facilitate food trade

	South Africa	Mexico	Chile	Cari-forum	South Korea	Andean	Central America	Canada
	1999	2000	2003	2008	2010	2012 + 2014	2012	2017
Cooperation on TBT and SPS measures	yes	yes	yes	yes	yes	yes	yes	yes
Regulatory dialogue	-/-	yes	yes	-/-	yes	yes	yes	yes
Cooperation on animal welfare	-/-	-/-	yes	yes	yes	yes	yes	yes
Cooperation on organic goods	-/-	-/-	-/-	-/-	-/-	yes	-/-	yes

Source: Wieck and Rudloff (2017)

Regulatory cooperation fosters trade – in particular agri-food trade

Impact on trade of different types of cooperation approaches



Source: von Lampe (2019) based on Disdier et al. (2019), Table 7, p.26

Example EU: many stages of country cooperation to harmonize food regulation and to facilitate food trade

Study by OECD (2015) found that out of 55 reviewed RTAs

- **5 did not contain provisions on SPS matters**
- **But 40% only referred to SPS Agreement with no further ambition for „similarity“**
- **50% had Joint SPS Committees installed**
- **Most had „generic“ mutual recognition commitment**

Source: Wieck and Rudloff (2017)

3. What is the role for government and business?

Similarity of measures and regulatory cooperation foster trade

Options for public interventions “Push”	Options for private interventions “Pull”
Capacity and trust <ul style="list-style-type: none"> - Enhance transparency - Information exchange - Mutual learning - Continuous dialogue Equivalence and mutual recognition Joint product and marketing standards New regulations aligned with SPS Agreement Extend scope of joint SPS committees	Application of GAP and GMP standards along food supply chain Work on reduction of post-harvest losses Quality upgrades of products Advertise quality and safety of products “Demand” enabling environment regional value chains and safe food
Support „classical“ trade facilitation measures (simplification, streamlining, training,..., digitalisation of agri-food trade procedures)	

Source: STDF webpage, GFSP report (2019), TFRA report (2019), du Plessis (2017), OECD (2015)

Conclusion: Agri-food market integration is underway – but takes time

- SPS/TBT measures are certainly a key challenge for market integration
- Training, capacity building and experience help to overcome the challenge
- Similarity of measures and regulatory cooperation support market integration
- => Work on capacity building, information exchange, trust, equivalence and mutual recognition are important corner stones for market integration
- Demand for food safety from private side is important factor
- It takes time: EU member states work on agri-food market integration since „Treaty of Rome“ in 1957 - but can be done



Thank you for your attention!

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