

Draft Conclusions

Sub-regional Workshop of UNCTAD on Environmental and Health-related Requirements,
Market Access/Entry and Export Competitiveness in the Horticultural Sector
Institute for Trade and Development, Bangkok, 29 September – 1 October 2004

Background

1. Higher consumer awareness on environmental and health issues, pressure by large retailers in developed countries to minimize product risks and associated liability (including food safety and liability risks), better detection methods and recent food scares have led to higher demand for food safety and consistently high food quality. This is supplemented by a shift in emphasis from risk management to risk minimization or avoidance. These developments have induced governments in developed countries to tighten regulation on food safety. Although an international standard (the Codex Alimentarius) exists, there is a tendency to introduce additional or more specific measures that can be termed a “Codex plus” approach that go well beyond food safety issues (and thus beyond the WTO SPS Agreement) and extend to food quality issues (covered by the WTO TBT Agreement).

2. Recent trends in legislation in various developed countries pose serious challenges for exporters of horticultural products from developing countries, notably tropical countries. In the EU, for instance, the General Principles and Requirements of Food Law (EC R 178/02) will soon require the ability of producers and exporters to trace food back through the import chain to the source. Tracing systems have not been an obligation in the past. The Revision of Hygiene Regulation (EC/92/43) increases emphasis on the system of Hazard Analysis Critical Control Point (HACCP). As the latter is considered impractical for application in the farming sector, the Directive recommends the use of ISO 9000 series on quality and quality assurance systems as a means of ensuring compliance with the Directive’s provisions. The Pesticide Regulation on MRLs (EC Directive 91/414 and subsequent) stipulates that MRLs of pesticides will be set at the Limit of Detection (LOD) by default, unless producers outside the EU are able to secure import tolerances upon submission of a complete residue dossier. Market opinion is that in the absence of agrochemical companies investing in generating data to defend registration of MRLs of older, out-of-patent pesticides many developing countries will be unable to complete the necessary dossiers to enable continued use of many significant pesticides, which are mainly relevant in tropical regions. Similar concerns were expressed on very stringent MRLs recently applied in Japan on various imported horticultural products.

3. In addition to mandatory food safety requirements, large private retailers have introduced codes of practice that attempt to assure consistently high food quality, over and above food safety. This has led to a situation, in which increasing importance is paid to process standards, in addition to product performance requirements. International retailers and crop solution industries have teamed up globally with primary agricultural producers, including in the area of horticulture, in strategic supply-chain alliances that include both horizontal and vertical modes of co-operation. The thus applied stringent product and process standards require technical competencies, technical support packages and new management methods, de facto symbolizing a move to high-precision agriculture/horticulture. To assure constantly high product quality, quality management and traceability systems must be in place in the entire food chain. The EUREPGAP standard, for instance, is likely to become a global benchmark for assuring food safety and consistently high quality for horticultural produce. EUREPGAP has replaced or assimilated various regional, product group and retailer specific standards and has integrated regulatory requirements on HACCP, maximum residue levels, and traceability. This is symptomatic of the massive proliferation of standards, including those set by NGOs, a number of them through their market dominance, such as EUREPGAP, de facto mandatory.

4. The concerns and trends mentioned above have been brought out by the country-case studies prepared for the meeting on Bangladesh, Cambodia, China, Philippines and Viet Nam on horticultural products, including fruits, vegetables as well as flowers and ornamental plants.

Impact on developing countries

5. The new food safety, environmental and quality requirements are finding a very different echo in the six beneficiary Asian countries. In the two least developed countries, Bangladesh and Cambodia, horticultural production is largely at the stage of turning from subsistence agriculture into commercial production. The share of horticultural in total export value is very low (0.02 – 0.3%). Exporters are mainly targeting ethnic markets overseas or engage in local cross-border trading with little quality differentiation, specialization and improvement. In these countries, there is hardly any direct linkage between exporters and producers; poor packaging and post-harvest handling; almost absence of cool chain management, only rudimentary marketing information and no or a poor institutional infra-structure that supports training, R&D, certification or extension services.

6. The implementation of the new environmental, health and quality requirements for horticultural exports is confined to experimental projects in these countries. Since 1997, for instance, HORTEX Foundation in co-operation with the Bangladesh Rural Advancement Committee (BRAC) – a large NGO – has organized market-oriented production through a contract farming system. Extensive training and support have been provided to contract farmers, packhouse operators and technical staff. The scheme currently covers over 20 crops exported to 15 different markets. The export value accounts for 10% of total Bangladeshi horticultural export. The contract farmers have already been trained under EUREPGAP, the formal audit and inspection has been done and certification for EUREPGAP is expected in the near future.

7. In the rapidly industrializing countries, China, Philippines, Thailand and Viet Nam, horticultural exports account for 2-3% of total export value. Technical and institutional infrastructure, although effective to a divergent degree, is far more conducive to meeting the new environmental, health and quality requirements for horticultural products exported to developed countries. Even so, currently, there are only two categories of suppliers that can meet the requirements: large-scale producers, and networks of outgrowers that are tightly controlled by large-scale exporters in terms of inputs, outputs and farm practices. Such schemes only require limited governmental support, because of their direct link with major agro-food TNCs or large retailers, which generally provide the capacity to meet the stringent requirements in key export markets. Government policy should rather be focused on networks of outgrowers run by national companies, as well as SMEs that are interested in and capable of exporting horticultural products, including to developed country markets. Government policies should also attract foreign investment for strengthening horticultural exports that can meet stringent health, quality and environmental requirements in key export markets.

8. Most exporting farmers in the six countries suffer from the general constraints faced when trying to implement the new food safety and quality requirements, which are:

Infra-structural problems:

- Poor post-harvest infrastructure
- Lack of efficient internal transport
- Lack of adequate testing facilities

Skill/Management-related problems:

- Poor policy co-ordination at central and local levels
- No or little experience with environmental management practices
- No or a poor system of Standardization, Metrology, Testing and Quality Assurance

Lack of good quality materials' input (seeds, agro-chemicals)

Lack of a comprehensive institutional infrastructure (education, R&D, extension)

- Lack of appropriate management of information on environmental, safety and quality requirements in overseas markets.

9. Another serious problem is additional costs of meeting the new environmental, health and quality requirements. These costs fall into macro- and micro-economic costs. They include initial

export losses; costs of national capacity building; costs of initial compliance at enterprise level; and annual costs of maintaining compliance at company level. Estimates suggest that the operating costs at enterprise level alone are in the order of 2-10% of the value of exported produce. Generally, these costs should be passed onto exporters or importing wholesalers, but this is rarely the case. Generally, they have to be shouldered by producers. The problem is aggravated by the fact that currently there are no Asian certification institutions for EUREPGAP, other than foreign certifiers, and no national certification scheme is being benchmarked as equivalent by EUREPGAP.

10. The new regulatory and supply-chain management requirements are biased against smallholders. Importers tend to exclude exporters relying on small outgrowers. Exporters do not source from smallholders where alternative sources exist. Production costs of smallholders therefore tend to drastically increase, because of more expensive technical advice, agro-chemicals and controls. In this light, smallholders are likely to turn to local, including informal markets as an alternative. In addition, traditional funding policies of financial institutions tend to complicate the situation, because they often link credits to inappropriate use of agro-chemicals.

Recommendations on adjustment policies

11. As horticulture is an important source of revenue for many farmers and export can contribute to poverty alleviation, governments need to make sure that the new health, environmental and quality requirements in developed countries are not becoming arbitrary, unjustifiable or disguised technical barriers to trade.

- The level of awareness and the technical understanding of SPS measures, the SPS and TBT Agreements and the link between process standards and product performance requirements are generally considered to be low. This is related to the problem of accessing and duly analyzing information on new requirements, but is becoming a serious national problem when discussing and implementing the best adjustment approaches and articulating concern or making comments on specific problems in the WTO SPS and TBT Committees.
- Governments in developing countries need to carefully study the principal options and concrete avenues for adjusting to the new requirements in key developed country markets against the overall developmental priorities and the specific country situation (such analysis might include a comparison of the adjustment requirements for conventional versus organic agriculture). This analysis should be based on sound empirical data, including on costs and benefits of adjustment to the new health, environmental and quality requirements, as well as on a review of successful enterprises or schemes.
- There is a need for more and regular exchange of information among farmers, traders, and governmental agencies on new requirements, their implications and on ways of addressing them.
- A concerted effort should be made to address the serious technical and institutional capacity constraints in the exporting countries, in particular in terms of systems of Standardization, Metrology, Testing and Quality Assurance, but also physical infra-structure.
- Developing countries should highlight in the WTO the need for better implementation of provisions on special and differential treatment and technical assistance in the TBT and SPS Agreements. The recently created Standards and Trade Development Facility should be actively used as funding mechanism for technical assistance and capacity building under the SPS Agreement.
- More emphasis should be focused on practical implementation of equivalence of standards and mutual recognition of conformity assessment results.
- In setting new environmental, health and quality requirements, developed countries should conduct ex ante impact assessment on developing countries and take due account of its results.

- There is a need to strengthen sub-regional collaboration in a number of areas, such as early warning systems, creating sub-regional standards, improving testing and certification systems, and fostering exchange of national experiences on adjustment strategies.
- UNCTAD's Consultative Task Force (CTF) on Environmental Requirements and Market Access for Developing Countries may continue the discussion on the above-mentioned issues and may launch pilot activities that (i) contribute to a better understanding of policy choices and pro-active adjustment strategies; (ii) facilitate the forming of public-private partnerships to address specific problems; and (iii) help strengthen specific institutional capacity. The CTF may collaborate with the EUREPGAP secretariat to explore and implement specific activities that build national capacity of interested producers for meeting EUREPGAP requirements and obtaining proper certification, including through the development of national or sub-regional codes of good agricultural practice that are benchmarked by EUREPGAP and reflect national/sub-regional development priorities.