

# Key General Findings of Recent Sector-focused CTF and DFID-project Activities

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## Abstract

1. Genesis and added value of CTF
2. Context of escalating environmental, health, and food-safety requirements in key export markets
3. Key challenges for developing countries
4. Limits of WTO disciplines
5. Becoming pro-active on new requirements

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## Genesis of CTF

1. DFID-funded projects laying the groundwork for CTF (DFID I: 1999-2002; DFID II: 2003-2006)
2. UNCTAD's International Trade Commission gave mandate in 2003 for "exploring the need for a CTF as a project-based activity"
3. CTF created during UNCTAD's 11<sup>th</sup> Conference, held in June 2004 in Sao Paulo, Brazil
4. Work programme on recent CTF activities was recommended by first substantive CTF meeting, held in November 2004 in Geneva

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## Added Value of the CTF

- Country- and sector-focused exchange of national adjustment experiences among DgCs
- Includes in the analysis and discussion voluntary EHFS requirements of the private sector and NGOs and thus provides a formal exchange mechanism between these stakeholders and governments
- Facilitating access to information on new EHFS requirements
- Allows a regular exchange of information among agencies and initiatives that provide TC/CB in fields relevant to CTF discussions
- Provides input into WTO debate (CTE, TBT, SPS)

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## Basis of the Analysis for "Findings"

**DFID-funded project:**

- Country-case studies, national and sub-regional stakeholder dialogue focusing on leather and footwear; horticultural products; organic produce; and electrical and electronic equipment in 6 Asian and 8 Central American and Caribbean countries.

**CTF activities:**

- Country-case studies and sub-regional stakeholder dialogue on horticultural products (opportunities and challenges arising from EurepGAP) and electrical and electronic equipment in 6 Asian, 3 African and 4 Central and South American countries.

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## Concerns of Exporting Developing Countries

- Emerging environmental, health and food-safety (EHFS) requirements will be applied in a discriminatory manner against DgCs.
- DgCs lack the administrative, infrastructural, technical, and managerial capacities to comply with new and more stringent requirements resulting from a transition from conventional to high-precision production methods.
- Adjustment and compliance costs will undermine the comparative advantage of DgCs.
- Institutional weaknesses and compliance costs will further marginalize weaker economic players, including smaller countries, enterprises and farmers.

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## Putting Environmental, Health and Food-safety Requirements into Context

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- Major difference in adjustment process to new EHFSRs between DdCs and DgCs: gradually growing structured environmental regulatory framework that minimized costs and uncertainty versus patchwork.
- Key differences in level and structure of industrialization between DdCs and DgCs: material- and pollution intensive industries, plus relocation.
- SMEs dominate DgCs' economies: their average size is much smaller than SMEs in DdCs.
- New EHFSRs are often intended as internalization tool or incentive to move towards more environmentally sustainable production and consumption methods.
- Appreciating new EHFSRs not only as a barrier, but also as a catalyst and opportunity (often underestimated or not attributed to new standards).
- Voluntary, private-sector EHFSRs are much more numerous than mandatory EHFSRs (through their commercial importance they are de facto mandatory).
- SMTQ systems (standards, metrology, testing, quality assurance) are as important for meeting EHFS requirements as skills and physical infrastructure.

## Main Trends in EHFS Requirements

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### 3 Trends:

1

More strict (e.g. MRLs)

2

More complex (e.g. traceability and auditing requirements)

3

More multi-dimensional (e.g. see next slide)

## Multidimensionality of Requirements for Horticultural Exports

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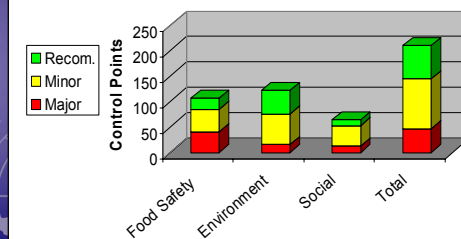
### Pillars of Environmental, Health and Food Safety Requirements

Food Safety	Plant/Animal Health	Product Quality	Environment	Social
MRLs Heavy metal limits Food additives Hygiene requirements Traceability HACCP Veterinary drugs	Surveillance Quarantine Pest risk assessment Sanitation Restrictions on feed Vaccination	Product composition Product cleanliness Grading Labeling requirements Control of nutritional claims ISO 9002	Control of water and env contamination Protection of biodiversity Protection of endangered species Recycling Organic prod requirements	Labour standards Fair trade standards Animal welfare standards

## Multidimensionality of Requirements cont'd

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### Holistic view of EUREPGAP Standard: Food Safety, Environment and Social CPs



## Role of Private versus Mandatory Requirements: "Means to Ends"

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- Different thrust:
  - mandatory requirements in EU: equivalence of risk-outcome
  - Private-sector standards: equivalence of systems
- Private schemes help to reduce the transaction costs by making info about environmental, health, and food-safety requirements (e.g. in Europe: EU-wide, individual member countries', and private sector requirements) **systematically available and practically achievable**.
- BRC representative: "Food safety is not achieved by enforcement alone; the drive for **major change and continued compliance** is one of commercial recognition to supply a market".

## Key Challenges for Developing Countries

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- Lack of local regulation/enforcement in DgCs
- Lack of institutional support (notably significant deficiencies in SMTQ system - standards, metrology, testing, and quality assurance)
- Weak regulatory systems (e.g. on the import, production and sale of crop protection products)
- Lack of knowledge (e.g. on responsible pesticide use)
- Constraints of physical infrastructure



New EHFS requirements tend to reinforce already existing capacity constraints

## EHFSRs and the Limits of WTO Disciplines 13

TBT and SPS Agreements contain disciplines on the preparation, adoption and application of technical regulations, standards and conformity assessment procedures.

Four sets of problems:

- DCs cannot take advantage of the disciplines because in many countries a baseline of institutional capacity does simply not exist.
- The procedural aspects of voluntary standards can be as important as for technical regulations, yet they are outside WTO disciplines (also: non-governmental bodies that set voluntary requirements are not part of WTO debate).
- Notification and transparency requirements need to be further improved
  - Access to information is difficult
  - No difference in notification between complex and simple EHFSRs
  - Format of notification should be changed (even problematic for industry representatives)
- Justification, legitimacy and the role of scientific evidence under TBT / SPS

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## Hierarchy of Trade-related EHFS Management Functions 14



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## Key Problems of Current Adjustment Approach 15

### General Issues

- **Reactive/fire-fighting approach prevails (delaying compliance until after a crisis has occurred). This is costly:**
  - High ad-hoc adjustment costs, resulting from mostly uncoordinated and rushed adjustment
  - Benefits or catalytic role of new standards cannot be fully used
  - Costs of re-establishing reputation and market access
- **Piecemeal and fire-fighting approach on technical assistance**
- **Insufficient participation in pre-regulation or pre-standard-setting consultations by developing country producers/exporters**
- **Costs of adjustment are often more apparent than benefits/catalytic effects. Many potential benefits of standard compliance are:**
  - long-term intangible or
  - accrue to stakeholders who do not incur the associated costs.

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## Swinging the Pendulum 16

Fire-fighting, reactive approach



Pro-active, strategic approach

### INVOLVES:

- In DgCs, looking beyond costs at opportunities and catalytic role of new ERs for national economy:
  - Resource savings, enhanced occupational safety, environmental benefits, new business and export opportunities
- Active participation of DgCs' exporters in pre-standard-setting consultations and revision process of ERs overseas (including insistence on ex-ante assessment of impact on DgCs).

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## Key Elements of a Proactive Role of DgC Governments 17

Key Function of Government:

1. Taking into account broad commercial and developmental objectives.
2. Optimizing long-term costs and catalytic benefits of compliance.
3. Focus on wider distributional and societal impacts of the available responses.

### Clusters of Policy Tools

Info gathering and dissemination – cost/benefit analysis

Public-private sector dialogue

Effective adjustment

Pay special attention to SMEs

Setting up and Supporting SMTQ Systems

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## Pro-active Measures in Importing DdCs 18

### Pro-active Measures

Assuring transparency and inclusiveness in preparation and revision of new EHFSRs

Facilitating information flow/setting up clearing houses on new EHFSRs

Conducting systematic (ex-ante) impact assessments

Dialogue on supportive measures for pro-active adjustment process in DgCs

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## On-line Sources

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### Website of UNCTAD's Consultative Task Force

[www.unctad.org/trade\\_env/test1/projects/taskforce.htm](http://www.unctad.org/trade_env/test1/projects/taskforce.htm)

### UNCTAD Trade and Environment Review 2006: Environmental Requirements and Market Access for Developing Countries: Developing Pro-active Approaches and Strategies

[www.unctad.org/trade\\_env/test1/publications.htm](http://www.unctad.org/trade_env/test1/publications.htm)

