

## The Challenge of Standards in Food Markets



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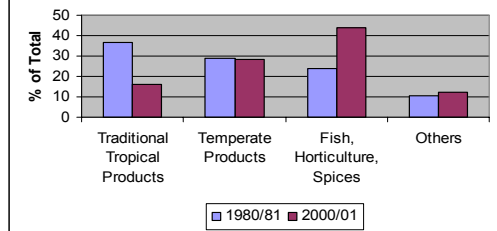
- Opportunities/challenges in high-value foods trade
- World Bank study on SPS standards and developing country trade
- Strategy options for developing countries
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- Structural/distributional impacts
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## Opportunities in High-Value Foods Trade

- *Relatively rapid growth* in world trade in fish and horticultural products, spices, and some livestock products
  - *Multiple driving forces:* high Y elasticities demographic changes; advances in production and logistical technologies, lower levels of traditional trade barriers
- *Some considerable success* among developing countries (DC), with increased int'l market shares

Changing Composition of Developing Country Agro-Food Exports



## Yet, challenges to Competitiveness

- *Traditional:* cost efficiency, supply reliability, logistics management, quality control
- *Managing Relationships:* fewer import 'gatekeepers', supermarket relationships, increased service requirements (info, promotion, etc.)
- *Managing food safety, agricultural health and other standards*



## Proliferation and Strengthening of Agro-Food Standards

- **Driving Forces:**
  - Scientific knowledge, food 'scandals', increased consumer awareness
- **Official Forms**
  - Tightening of regulations and standards
  - Total 'farm to fork' perspective; more process standards
  - Intensification of enforcement/inspection efforts
- **Private Forms**
  - Consolidate sourcing — 'preferred suppliers'
  - Company codes + requirements/audits (ie. HACCP, GAP)
  - Bundling together food safety, environmental, social standards

## On-going World Bank Study

- **Strategies:** What strategies have been used to comply with/influence emerging SPS standards?
- **Costs/Benefits:** What are costs + benefits associated with standards compliance?
- **Structural/Distributional Impacts:** How is standards (non-)compliance affecting distribution of income?
  - Ultimately, what **implications** for international development agencies?

## Main Approaches

- **Supply chain studies** for selected commodities in nine low and middle income developing countries
- ‘Mirror image’ **buyer surveys** for shrimp and fresh fruit/vegetables in the EU, Japan, and U.S.
- Literature review and use of trade, WTO and other data

## Supply Chain Case Studies

Fish + Shrimp	Kenya, Senegal, India, Thailand, Nicaragua, and Jamaica
Fruit + Vegetables	Kenya, Morocco, Thailand, Jamaica, Peru
Animal Products	Ethiopia, Latin America Southern Cone Countries
Nuts + Spices	Senegal (groundnuts), India (spices)

## Strategic Options for Developing Countries

- *Hirschman's (1969) Paradigm of Exit, Voice, and Loyalty as Strategic Options*
- **Exit**—shift export markets, shift to domestic market, shift products, get out of business,
- **Voice**—WTO complaints/cross-notifications, CODEX participation, bilateral negotiations, negotiate with buyers regarding time-frame
- **Loyalty:** pursuing changes which ensure compliance with product/process standards
- Some **combinations** of these options are normally employed at the industry level

## Some Findings on Strategies

- Most common approach is reactive, ‘fire-fighting’ in the context of trade interruption or a perceived lingering threat. There is typically no ‘strategy’ except at very micro level.
- Exceptions: (i) where exceptional private sector leadership, (ii) very strong public-private collaboration, and (iii) all important stakeholders understand/experience the stakes
- Being proactive is better (and less costly) than being reactive, regardless of the specifics

## Illustrative Costs of Compliance

1. Production/ Raw Material Sourcing
  - Good Agricultural Practice (GAP): Hygiene, changing use of agro-chemicals, record-keeping, external certification
2. Processing/exporting
  - Good manufacturing practice (GMP): proper buildings, equipment, QA systems, cold chains, staff training
3. Public sector and the industry
  - Capacities of ‘competent authority’, upgrading inspection and certification capacity, quality of testing services
4. Importers / retailers or whole supply chain
  - Quality system, support for chain partners, risk of ban, rejections, quarantine, re-grading / repacking costs

## Illustrative Benefits of Compliance

- **Market access:** wider range of commercial options
- **Image of trusted supplier:** lower risk, less price competition, joint interest in supply chain
- **Access to better market segments:** higher prices, more value added, brand equity
- **Prevent ban:** no forgone business, no price cuts
- **Environment and health:** less use of pesticides, spillover of healthy food, control of pests and diseases
- **Higher efficiency:** rationalization of processes

## Findings: Cost +benefits

### Costs

- Costs of compliance is much interwoven in total costs
- Great variation—timing, starting point, industry structure, geography, collective action, government response, local availability of expertise
- Investment costs (0.5 –5.0%) of multi-year FOB value
- Recurrent costs generally 1-3% of annual sales

### Benefits

- Often under-estimated/not attributed to SPS mgmt. measures
- Examples of very high ROI; other examples of no return as other factors cripple businesses

## Findings on winners and losers

- Time horizon: first + second round effects may differ
- First round trends toward concentration + more coordinated supply chains, yet multiple factors involved
- SPS requirements/responses exacerbate existing strengths/weaknesses of particular entities
- This does not favor smaller/poorer entities; yet some counterfactual cases of effective responses
- Strategy/timing matter —'fire-fighting' tends to involve very restrictive measures
- Developing countries as a whole not 'losing', but shifts among them

## Needs for capacity building for managing standards

## Challenges for Developing Countries

- Limited SPS management capacities in LDCs
  - Concern that sanitary and phyto-sanitary (SPS) measures/regulations would:
    - pose new or rising non-trade tariff barriers to agro-food trade;
    - erode developing country comparative advantage; and
    - marginalize position of smallholders, small processors and retailers.
  - Limited Voice of LDC in Counter-notifications (Complaints)
- ▶ **Comply or Perish**

## Capacities to manage standards

Ability to achieve optimal relation between efforts and outcome:

1. Absolute requirements (as club member)
2. Choices to be made: what to do, how to do it?
  - standard setting, implementing standards, meeting standards
  - What production sectors, what services
  - Well-informed choices -- based on costs and benefits
  - Private and public choices involved
3. Hence, preference for term “managing standards”

## Support needs expressed in surveys by stakeholders (1)

- **Laboratory** capability insufficient, costs too high
- **Infrastructure** -- roads, water, sewage, electricity, landing place for fish, sanitary control for livestock
- Development and introduction of **good agricultural practices**
- Support for **traceability** systems
- Support for quality **training**: understanding markets, change of culture

## Support needs expressed in surveys by stakeholders (2)

### Limitations:

- Stakeholders biased to direct costs, obstacles, hardware risks as they see them

### Less thought about:

- System weaknesses (laws, regulations, organization of services)
- International obligations
- Public and private responsibilities

## Common SPS deficiencies in developing countries (1)

- Deficient, inappropriate, **out-dated legislation**; poor enforcement
- No recognition of **competent authority**
- **Under-funded** public agencies, lacking skilled staff and inspection and certification capabilities
- Insufficient **public-private dialogue** and cooperation
- No **national strategy** and haphazard allocation of priorities

## Common SPS deficiencies in developing countries (2)

- **Lack of information** on international standards and public and private market requirements
- **Inability to collect data** on pests and diseases, and to respond to requests for information
- **Political economy** of disease and pest reporting – SARs, Avian Flu, Bovine Spongiform Encephalopathy (BSE)
- **Inability to control** pests and diseases, e.g. through zoning and eradication

## Common SPS deficiencies in developing countries (3)

- **Lack of knowledge** and inability to implement Codex standards -- Hazards Analysis Critical Control Point (HACCP), Good Agricultural Practices (GAP), Good Manufacturing Practices (GMP)
- **Weak private sector** capabilities, e.g. technology, training of staff, processing, management of supply chains
- Lack of **negotiating capabilities**, e.g. providing data for risk assessment, exercising rights
- Inappropriate **SPS controls** on imports

## Challenges for capacity building (1)

- **Beware of easy solutions**
  - training of public servants
  - laboratory equipment
  - implementation of standards without cost-benefit analysis
  - assuming more public budget
- **What are main gaps, priorities?** Requires assessment and planning.
- **What is necessary, what is sufficient?** Remember, inspectors and laboratories don't export!

## Challenges for capacity building

(2)

- Analyze **public and private responsibilities**
- What public service does private exporter absolutely need? (public goods, help with market failures, start-up costs)
- Assume permanent **constraints in public resources**: better use of available resources
- Search for **cost effective solutions** with private sector implementation and public sector oversight

## Gaps in supply of donor support

(1)

### Needs assessment, planning, prioritization complex

- **Complexity of SPS fields**: technical issues, trade negotiations, legal aspects, policy, competitiveness
- **Many services, scientific disciplines, stakeholders involved**: overlapping competencies, responsibilities
- **Relatively new fields, evolving issues**: lack of tools, little good practice described
- **Diversity of countries searching for solutions**: tailor-made support needed

## Gaps in supply of donor support

(2)

### Limited cover and experience in donor agencies

- Most efforts on “**fire fighting**” in bilateral trade
- **South-south** trade gets little attention
- **Pool of expertise** “on call” is small and biased toward situations in OECD countries, disciplinary technical
- **Donor support** not readily available in many countries
- **Technical assistance** needs often not bankable, requires grants

## Conclusions on Capacity Building

- **Easy to waste money** on wrongly targeted capacity building for superficially identified needs
- **Competitiveness is crucial** factor for exports and capacity for managing standards has to serve in that perspective
- **Private sector entities** have to play a central role in planning, monitoring and financing of efforts
- **Cost-benefit analysis** is needed for priority setting

## Responses on capacity building

### Developing countries

- Increased demand for support

### Donor community

- Increased efforts bilateral donors and development agencies
- Standards and Trade Development Facility expected to be operational soon

## General Conclusions



- Traditional competitiveness factors remain; for perishable foods SPS management is of increased importance
- The standards ‘playing field’ will continue to move; those standing still will be run over
- Developing Countries need to approach this strategically: be proactive in order to convert a challenge into an opportunity
- Need for additional capacity building efforts from donor community