

How can changes in EU marketing standards affect the rest of the world?

Annalisa Zezza

annalisa.zezza@crea.gov.it

Online Workshop on Marketing Standards:
Benefits and costs of EU marketing
standards for agri-food products

September 9th 2021



OUTLINE

- Some background
- Standards ruling in WTO
 - The growth of TBTs and SPS notification
 - The growth in STCs
- Key research findings on agrifood standards and trade
- International regulatory Cooperation and PTAs
- Conclusions and action for the future

BACKGROUND

- Over the past decades, the **reduction in tariffs** through multilateral and regional trade agreements has provided greater opportunities for the expansion of global agri-food trade. At the same time, in order to trade globally and access markets for high-value products, **food operators must meet international production standards**.
- **Standards in developed countries are more stringent on average**. Standards have become elements of strong debate in **international trade negotiations**. This approach has been reinforced recently by the Green Deal, the F2F strategy and the Biodiversity Strategy. All these documents include, as a relevant driving force, the trade dimension.
- **F2F contains actions** concerning (1) a proposal for a legislative framework for sustainable food systems, (2) a revision of the animal welfare legislation, (3) the consideration of options for animal welfare labelling, (4) the introduction of harmonised mandatory front-of-pack nutrition labelling, (5) the harmonisation of voluntary green claims and the creation of a sustainable labelling framework, (6) the extension of mandatory origin or provenance indications to certain products, (7) the exploration of new ways to provide information to consumers through other means, (8) the promotion of healthier and more sustainable diets, (9) the reduction of food loss and waste, and (10) improved coordination to tackle food frauds, (11) a review of marketing standards for fishery and aquaculture products.

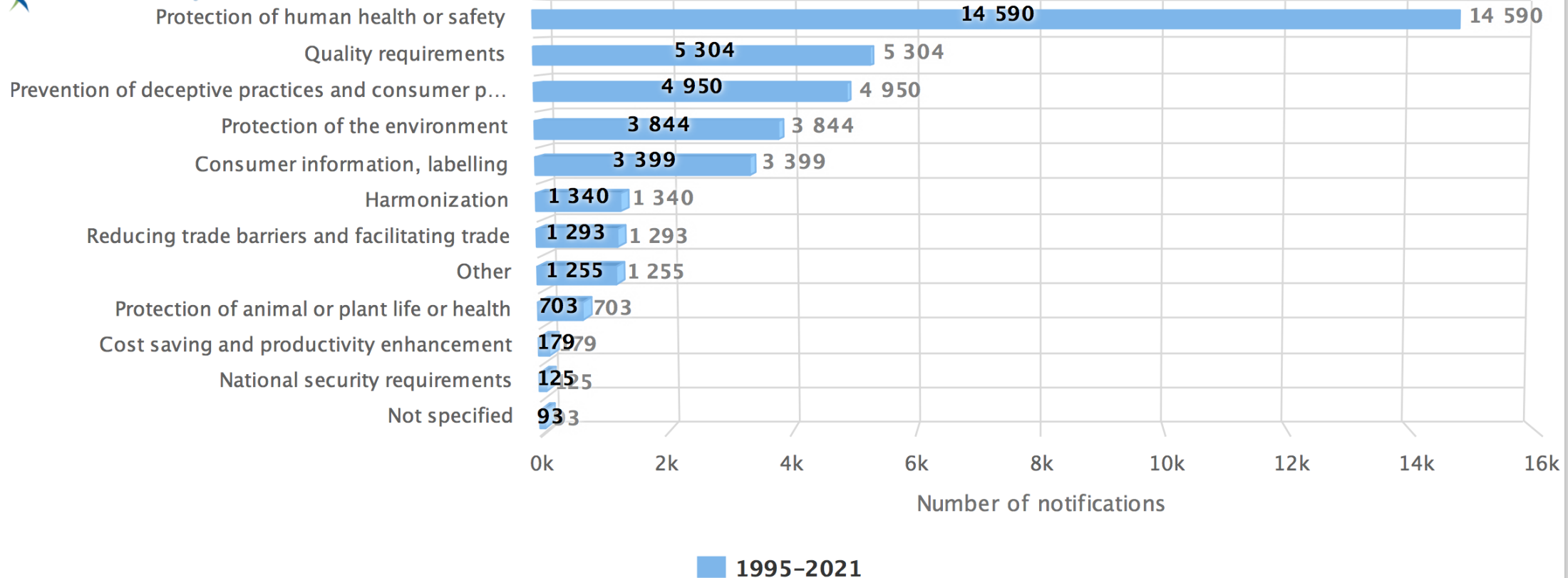
A multiplicity of standards

- Many standards are ruled by **multilateral** bodies. This includes the Sanitary and Phytosanitary Measures (SPS agreement) and on Technical Barriers to Trade (TBT agreement) under the WTO, the Codex Alimentarius Commission of the FAO, and others.
- However, there is a wide variety of standards implemented outside these multilateral bodies as **EU standards** which regulate food safety, animal and plant health, animal welfare and environment protection:
 - CAP good agricultural and environmental practices
 - Food safety requirements (concerning traceability, contamination prevention, feed additives, hygiene requirements, hormones treatments, etc.)
 - EU marketing standards (technical definitions, classification, presentation, marking and labelling, packaging...)
- In addition to standards set by public institutions, a variety of **private** entities use voluntary standards, which are an important part of the international trade framework. However, mandatory standards remain the predominant form of European governance over food safety, animal welfare and environment protection.

STANDARDS IN THE WTO

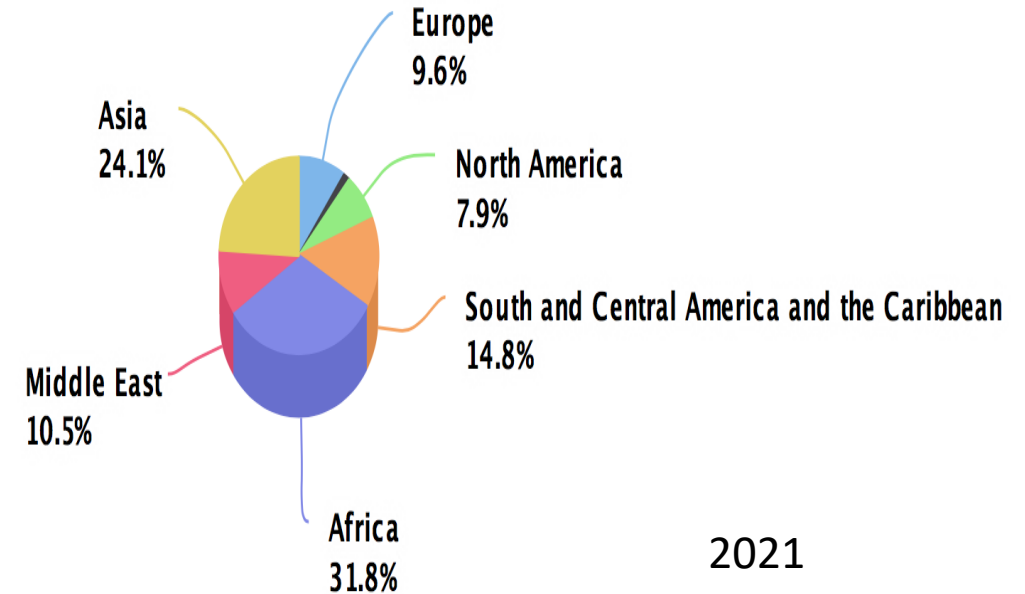
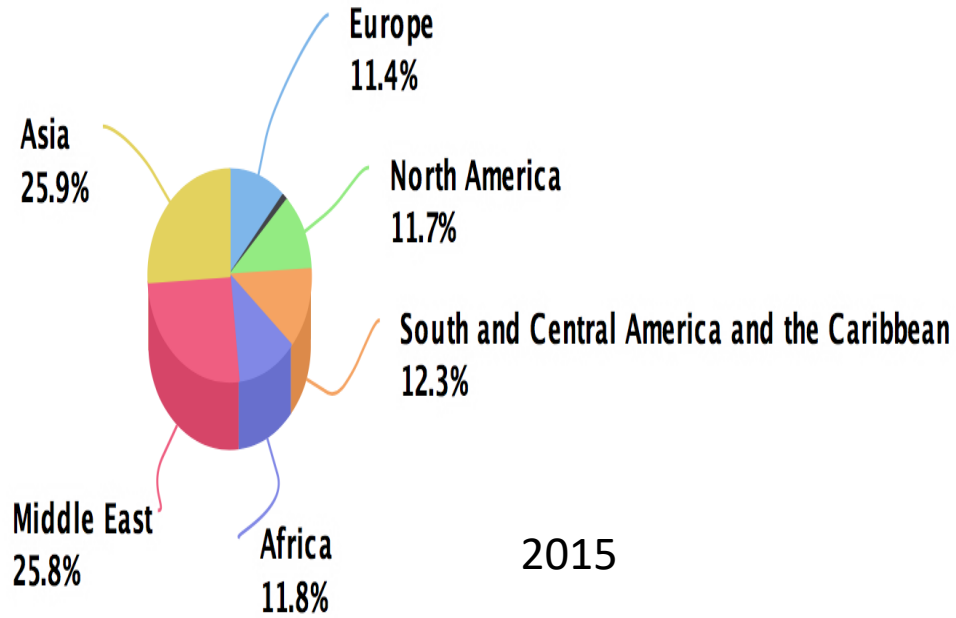
- Despite major advances in the development of global standards and common conformity assessment (**TBT and SPS Agreements**), **domestic and import regulations continue to differ from country to country.**
- While encouraging governments to orientate their import requirements towards internationally agreed standards, WTO rules maintain the right of countries to impose their own standards – as long as they are non-arbitrary, non-discriminatory and least trade-restricting.
- **Individual countries thus remain the main regulatory authorities** on food standards (including food safety standards).

Total TBT Notifications by objective, 1995-2021



The number of notifications submitted to the TBT Committee has grown by an average of 11% per year. This is mostly due to more active participation by developing countries and least developed countries (LDCs), especially in the last five years. **Over 3,000 notifications are submitted annually.** The three product groups with the highest number of NTMs (TBT+ SPS) belong to the agri-food sector.

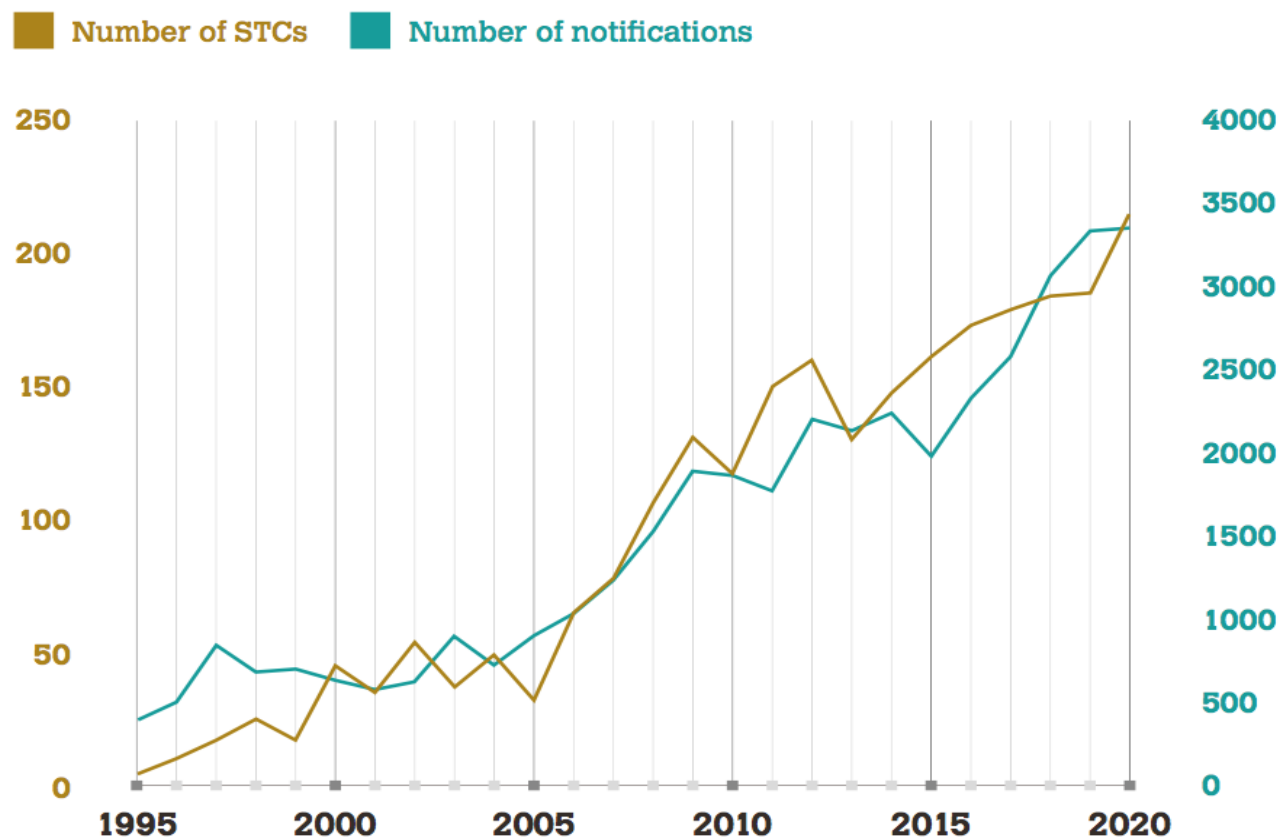
Distribution of new notifications by region



The east African region (Tanzania, Kenya, Uganda, Rwanda) has the highest levels of notifications mainly concerned food and beverages.

ANALYSIS OF SPECIFIC TRADE CONCERNS (STCs) on TBTs

Specific trade concerns (STCs) and notifications raised/submitted per year



- The number of trade concerns raised by WTO members at the TBT Committee has grown by **26% per year**, on average. Discussion of these concerns often allows members to reduce trade tensions before a measure enters into force and helps avoid escalation to a formal dispute.

ANALYSIS OF SPECIFIC TRADE CONCERNS (STCS) ON SPS

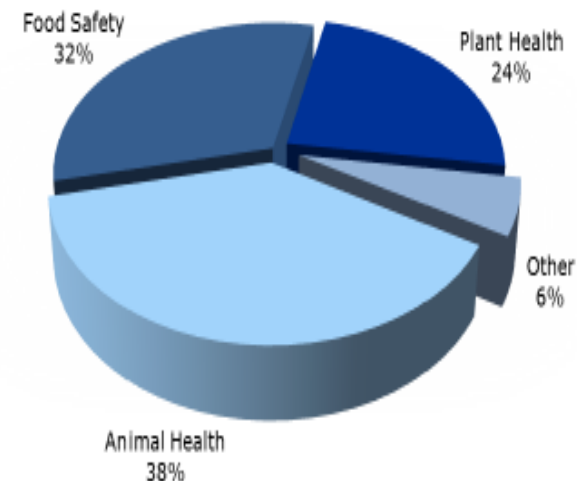
- **The number of SPS notifications has as well as TBTs notifications continuously increased** in recent years, together with the **the share of notifications submitted by developing countries** .
- The EU is the WTO member towards which most SPS STCs have been raised (18%) and that has raised the majority of STCs towards third countries, followed by the US (11%).
- Argentina, China, Canada and Brazil have actively participated in raising STCs. Small developing countries have raised few STCs, probably due to high political and opportunity costs.
- More than half of the issues raised by the EU have been positively solved.

COMPLAINTS (STCS) on SPS

Complaints against SPS measure of			Complaints submitted by		
<i>Country</i>	<i>Number</i>	<i>%</i>	<i>Country</i>	<i>Number</i>	<i>%</i>
EU	78	18.0	EU	88	20.3
USA	47	10.8	USA	87	20.0
Japan	29	6.7	Argentina	47	10.8
China	28	6.5	China	34	7.8
Australia	18	4.1	Canada	31	7.1
Brazil	16	3.7	Brazil	30	6.9
Indonesia	14	3.2.	India	22	5.1
South Korea	13	3.0	Australia	12	2.8
Canada	12	2.8	Chile	12	2.8
Mexico	12	2.8	Mexico	12	2.8

STCs on SPS against the EU

- Most difficult to solve:
 - Pesticides limits on F&V (raised by LDCs)
 - Plant health issues
 - Certification, labelling, inspections, restrictions on novel food (GMs and exotic products)
 - Antimicrobial treatments
- Easier:
 - Zoonosis



DISTRIBUTION OF STCS BY ISSUE SINCE 1995

KEY RESEARCH FINDINGS FROM THE LITERATURE ON AGRIFOOD STANDARDS

- **Standards may both stimulate or reduce trade:** Empirical evidence is not univocal: it depends on the product/ NTM/ country (Santeramo & Lamonaca, E. ,2019).
 - Standards **can reduce transaction costs**(Hudson & Jones 2003, Jaffee & Masakure 2005). , information asymmetries and negative externalities, which may stimulate demand, supply, and thus trade.
 - However, standards **increase fixed production costs and transaction costs** related to conformity assessment (or shift those costs from buyers to suppliers) and thereby create economies of scale and advantages for larger suppliers (Dolan & Humphrey 2000, Gibbon 2003, Maskus et al. 2005).
- NTMs **can profoundly change the structure and the organization of value chains:** compliance with increasingly complex and stringent food standards and monitoring of this compliance throughout the supply chain require tighter **vertical coordination** (Swinnen 2007, 2016). Additionally, upstream in the supply chain, in the relations between producers and processing or exporting companies, there is a move toward **contract farming** and toward **complete ownership integration and large-scale estate farming**.

MAIN OBSTACLES IN LDCs TO COMPLY WITH EU STANDARDS

In low and middle-income countries, implicit norms about food quality and safety in the local market differ substantially from the quality and safety standards that prevail in international markets. Main obstacles to compliance with higher standards are:

- Lack of **knowledge** of SPS requirements and regulations
- **Absence of quality control** laboratories
- High cost of the necessary **infrastructure**
- Absence of modern packaging and classification **facilities**
- **Lack of inspection systems** and skilled workers
- Non-existence of responsible **legal bodies**

International Regulatory Co-operation (IRC) mechanisms

Differences in regulations between jurisdictions, even if they address essentially the same type of issues (**regulatory fragmentation**) contribute to **increasing trade costs**.

- Various mechanisms can reduce the trade costs associated with regulatory heterogeneity and are increasingly used by countries (OECD, 2017):
 1. Countries can **unilaterally** accept the regulatory settings or standards of another country.
 2. Countries can pursue **regulatory co-operation at a bilateral or plurilateral level**. Such co-operation – focusing for example on transparency, mutual recognition, or regulatory harmonisation – is often undertaken within PTAs.
 3. Finally, **international organisations**, in particular those setting standards, can promote regulatory co-operation at a multilateral level.
- **Each IRC mechanism has different trade effects**. Both harmonisation and mutual recognition are assumed to be trade-enhancing. Nevertheless, harmonisation generates compliance costs that vary across countries and may also be prohibitively costly for regulatory systems and hence difficult to achieve in practice.
- IRC mechanisms take some **time to become effective**, and trade impacts are visible only after a phasing-in period.

The growing role of PTAs in the harmonization of standards

- PTAs are now generally more ambitious and comprehensive in scope compared to those generated only a decade ago. PTAs are considered as **laboratories** where negotiators can experiment and promote new provisions that can be transferred at the multilateral level when a consensus is globally reached.
- PTAs contain provisions on standards, technical regulations or conformity assessment procedures.
 - Transparency obligations (i.e. Committee on exchange of information).
 - Mandatory recognition of conformity assessment results
 - Mandatory recognition of technical regulations
 - Harmonisation/alignment of TBT measures at the bilateral/regional level
- New PTAs include **sustainability provisions** in the Trade and Sustainable Development (TSD) chapters but **progress in the implementation of TSD chapters in PTAs is slow.**

Making progress at multilateral level

- Nevertheless, the **multilateral level is considered more appropriate** for addressing global common issues and for taking developing countries' concerns into account.
- A central question is **the relationship between WTO and other multilateral agreements** (e.g. Biodiversity Convention, ILO labour standards, Paris Agreement on climate) in order to progress in achieving SDGs. **The current form of trade agreements does not necessarily lead to an increase in environmental, social and economic sustainability.** Trade restrictive environmental measures introduced to implement MEAs can be challenged under WTO rules, unless a clear and strong causal link between the measure and the environmental objective is demonstrated.
- Under the Generalized System of Preferences (GSP) the EU can influence beneficiaries in sustainably managing environmental resource through incentives (GSP+) but **areas of action have not been extended yet to many fields that are under the umbrella of international conventions related to the environment**, e.g. the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and the UN Framework Convention on Climate Change (UNFCCC).

CONCLUSIONS and ACTIONS FOR THE FUTURE

- There is evidence **on progress in regulatory rapprochement of standards** but there are as well continued problems .
- Adjusting to different regulations imposes costs on firms and government. However, **in order to increase convergence in standards it is necessary to build networks, strengthen relations and open communications channels.**
 - Some issues are very difficult to solve, especially when there is no agreement on the **scientific evidence**. Here, there is an important role of the scientific community to avoid unnecessary conflicts.
 - Conflict resolution could result from better **collaboration** between risk assessment bodies, harmonization of official controls, improved traceability and improvement of early warning systems.
 - The work of technical **international bodies** is crucial.
 - There is also a **role for EU Member States to increase cooperation** among themselves.
- The EU can play a role by **contributing to the institutional capacity and technical knowledge in developing countries** with regard to standard setting, implementation and enforcement.
- **Modernization of trade agreements is needed** with regard to agriculture and food sector in order to make progress in achieving the SDGs.

Thanks for your attention!

Facebook

<https://www.facebook.com/trade4sd>

Twitter

<https://twitter.com/Trade4SD>

Linkedin

<https://www.linkedin.com/company/trade4sd>