

Meeting Standards, Winning Markets

Trade Standards Compliance **2010**

Rationale and Key Findings



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Acronyms

ACP	African, Caribbean and Pacific countries
DG Sanco	Directorate General for Health and Consumers
EU	European Union
FDA	Food and Drug Administration
FVO	Food and Veterinary Office
GAP	Good Agricultural Practice
HACCP	Hazard Analysis and Critical Control Point
PIP	Pesticides Initiative Programme
RRRI	Relative Rejection Rate Indicator
SCCI	Standards Compliance Capacity Index
SPS	Sanitary and phytosanitary measures
TBT	Technical barriers to trade
TSCR	Trade Standards Compliance Report
UNIDO	United Nations Industrial Development Organization
US	United States
WTO	World Trade Organization

Rationale and Key Findings

Trade, trade development and trade-related standards have received prominent and increasing coverage in the literature over recent years. Numerous reports from a wide range of international organizations have highlighted specific aspects of compliance challenges faced by developing countries. This publication does not aim to simply add one further contribution to this extensive list. UNIDO felt that something more, and more holistic, could be done.

UNIDO, with its Trade Standards Compliance Report (TSCR), intends to fill a significant gap: this Report focuses on the challenges faced by developing countries in complying with key trade-related standards, technical regulations and private standards in international trade, estimates the resulting export losses and then relates these compliance challenges and losses to an analysis of developing countries' capacity to establish and prove their compliance, and to the cost of strengthening such capacity.

The TSCR thus aims to be an innovative tool for informed policy choices on better and more efficient trade-related development efforts, or “aid for trade” by governments, the exporting private sector, donor agencies and other technical assistance providing development partners. Drawing on expertise available within other organizations, it also aspires to serve as an early warning tool on the changing landscape of trade standards compliance issues.

While some conceptual work, such as the proposed Standards Compliance Capacity Index (SCCI), is generally applicable, the initial focus of the first edition reflects the present trade composition and immediate trade potentials of many developing countries. Agri-food products are a key export area for many developing countries, including Least Developed Countries, and trade standards related compliance challenges are particularly acute for these countries. Future issues of the TSCR will include a further widened scope of coverage.

Some parts of the TSCR are work in progress, and UNIDO would be glad to receive feedback from academia, developing country practitioners and other development partners that would bring a further enrichment of the forthcoming edition of the Trade Standards Compliance Report.

UNIDO believes that such a periodic publication can best advocate the importance of trade standards compliance, periodically assess changes in the fast changing compliance landscape, promote innovative approaches to assessing the impacts of compliance failure, and ultimately guide more effective capacity-building and its funding. UNIDO intends to develop and expand the TSCR in future years. An Internet-based access to the data sets on market entry challenges and compliance infrastructures will then facilitate further easy research, analysis and benchmarking.

Trade as a development opportunity

It has been largely recognized that expanding and diversifying exports can accelerate economic growth; together with tariff reductions these have been one of the main mechanisms for spreading the benefits of globalization. Nevertheless, despite the overall decline in tariff levels in recent years, firms in developing countries have not been able to reap the full benefits of market access opportunities. One explanation for this is the difficulty they face in complying with trade-related standards. Unlocking the full export potential of developing countries requires compliance with both the public regulations and the private standards of the importing countries. The private sector needs to be competitive and produce what buyers and markets require; for this they must have an enabling environment where internationally accepted services for the proof of compliance are easily accessible at an affordable price. Such export-led growth can then become an engine for economic growth, wealth creation and poverty reduction.

Global trade and trade-related standards

The multilateral trade system under WTO leadership has become more and more a rule-based system based on agreements such as those on Technical Barriers to Trade (TBT) or on Sanitary and Phytosanitary (SPS) measures. Such agreements lay the foundation for equitable treatment for all, but they

require the capacity to both comply with and provide proof of compliance with the resulting trade-related standards.

Technical standards for products are not new; they have been in existence for well over 100 years. Long before international trade took off, countries developed technical standards to guarantee consumer safety, increase transparency in markets and ensure that products met consumer needs. In many cases, the compliance requirements placed on exporters from developing countries are, in fact, simply the same as the requirements placed on domestic producers – compliance with SPS regulations is good for both importing and exporting countries. It protects human, animal and plant health in the importing country, and provides exporters with a basis for securing market access. Equally, compliance with technical standards in non-farming sectors ensures transparency and product compatibility.

Developing trade capacity and compliance with trade standards

International agreements envisage Member States assisting other Member States to build up their institutional capacity for standards compliance. Establishing and sustaining such a quality infrastructure is costly and needs technical expertise. UNIDO has long been involved in supporting the development of national and regional capacities to meet technical standards

in developing countries. It has supported programmes aimed at improving both the institutional frameworks for standards development and conformity and the technical infrastructure for achieving standards compliance. This has meant assisting governments to create and provide continuing support for national standards institutes, microbiology and chemical testing laboratories, national metrology services, national certification capacity, inspection services and accreditation systems.

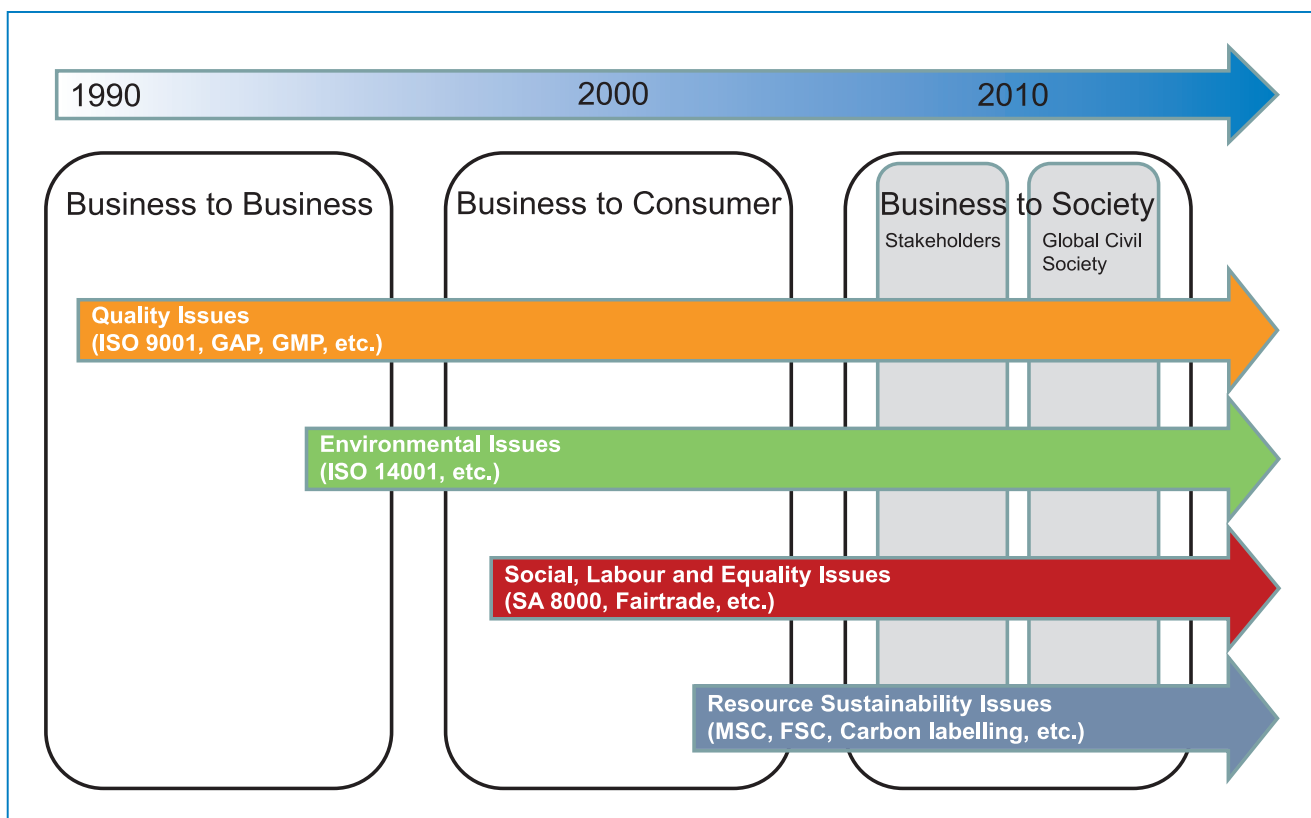
Trade standards evolve as trade expands

Developing countries that wish to continue exporting need to continuously update on new trade standards and acquire the capability to conform to the increasing number of new regulations or even to question the validity of proposed regulations that they consider discriminatory.

The need to remain abreast of developments in the area of trade standards applies equally to public regulations and to private standards. In many cases, private standards have been introduced by leading companies as a means of ensuring conformity with public regulations because of the perceived threat of non-conformance to their brand image or as part of their commitment to the “triple bottom line” (profit, planet and people).

While quality and product safety-related standards have dominated trade relations for a long time, more recently environmen-

Figure 1. Evolving trade standards drivers



tal, social, labour, equality and resource-sustainability issues have gained prominence as consumer and society lead drivers for the development of trade standards and the resulting certification requirements (see Figure 1 below).

There is a widespread sense that compliance challenges are becoming more complex – non-tariff measures are proliferating and becoming more difficult for developing country exporters to meet. This is particularly true for “sensitive” products such as food and children’s toys. In the case of food, continuing research on food and plant safety and more sophisticated analytical techniques have resulted in stricter or more extensive regulation and stricter compliance controls on imported products.

In certain areas, such as pesticide residues, there has been a distinct tightening up of requirements by developed country governments, and in the case of food products, for example, whole new categories of risks to consumer safety have been identified in recent years, such as heavy metals contamination, while existing controls have become more sophisticated. Additional controls over how products are grown, harvested, transported and processed have been introduced. For example, Hazard Analysis and Critical Control Point (HACCP) procedures are now incorporated in food safety management systems along the lines of ISO 22000 standards, while “Farm to Fork” traceability is a new challenge for developing countries and is becoming a key requirement for accessing global markets.

The proliferation of private standards puts a particular challenge on many developing countries. In 2007, the WTO estimated that there were over 400 private standards schemes in operation, and that the number was rising (WTO, 2007). The same WTO report identified concerns raised by developing countries as including multiplication of schemes, lack of equivalence between schemes, lack of scientific justification for certain requirements, and the costs associated with third-party certification. Nevertheless, the pressures for further development of both public regulations and private standards will continue to be felt, particularly in the area of climate change mitigation and sustainability more generally.

Exporting firms in developing countries may find that these requirements act as barriers to accessing new markets. They impose start-up costs on new businesses because the standards have to be first understood and then met. To the extent that import standards in developed countries are more demanding than those in the domestic markets, these firms may need to acquire new capabilities and implement new systems. Further, meeting the standards frequently involves not only producing products to meet particular technical specifications, but also using particular types of processes and procedures and providing documentary proof that these have been put in place. Once met, these standards, however, allow access to large markets based on common requirements.

Aid for Trade as an opportunity to develop trade capacity

As concern about standards and regulations as barriers to trade has increased, so technical assistance programmes in this area have expanded. The WTO-led Aid for Trade Initiative has given a boost to such trade-related technical assistance. The initiative was developed to facilitate export-led growth by addressing supply-side domestic constraints on and compliance challenges to exporting countries. Substantial, but still insufficient, resources are being devoted to a broad range of activities aimed at enabling developing countries to gain access to markets where requirements may be more demanding than those facing companies in their domestic markets. The substantial resources recently devoted to Aid for Trade and trade capacity building initiatives have, however, not been accompanied by equivalent levels of effort aimed at identifying challenges, quantifying costs and identifying best practices in overcoming barriers. More knowledge and research is required about:

- ◆ which particular trade compliance challenges are important for developing country exporters;
- ◆ how trade compliance challenges are changing and evolving and what capacity issues this raises in developing countries;
- ◆ the areas where compliance failures impose particularly high costs on developing countries’ exporters;
- ◆ the effectiveness of different approaches to trade capacity building for standards compliance.

Key findings

While it is difficult to meaningfully summarize in a few lines or pages the wealth of innovative and detailed analyses, new conceptual proposals and case studies in the TSCR, several major findings can be highlighted.

“Border rejections provide a good broad indicator of key trade standards compliance challenges”

Chapter 1 presents the first in-depth comparison of border rejection data of agri-food products for two international export markets, namely the US and the EU. The Report has also analyzed rejections for specific commodities and across both markets.

Patterns and trends in border rejections clearly reveal sectors and products where the real compliance challenges and the reasons for missed trade opportunities lie when exporting their products to either the EU or the US or even to both markets. The analysis utilizes border rejection data based on unprecedented access provided by the US Food and Drug Administration (FDA) and the European Commission Directorate General for Health

and Consumers (DG Sanco). The TSCR thus complements, and its comparative analysis goes beyond, the information earlier available.

The vast majority of border rejections, both for all agri-food products and for particular commodities, are accounted for by a relatively small number of countries. Some countries have high rates of rejection in both the EU and US, and for all or most of the commodities they export, for example India and China, suggesting systemic weaknesses in compliance capacities. Other countries face significant border rejection rates with exports to particular markets and/or for particular commodities, for example exports to the EU of nuts from Iran and fish and fishery products from China and Thailand, suggesting weaknesses in certain value chains or with specific food safety controls.

While the crude numbers of border rejections are perhaps most headline grabbing, it is more informative to examine and consider how rates of rejections vary across countries and commodities and over time for particular countries. On the one hand, such patterns and trends serve to highlight where particular countries perform relatively well or badly, compared to competitors, in their degree of compliance with regulatory requirements in export markets.

The Report presents a summary measure of relative rates of border rejections, the Relative Rejection Rate Indicator (RRRI), which facilitates such comparisons. On the other hand, the rejection analysis provides an indication of how compliance challenges change over time, perhaps as investments are made in particular areas of capacity and/or in response to particular compliance problems. In this context, the Report therefore proposes, in Chapter 3, a tool for the systematic assessment and benchmarking of countries' compliance capacities. In future issues of the Trade Standards Compliance Report, the values of the RRRI will be updated as more rejection data become available. The aim is also to further extend the analysis of border rejections to imports into other industrialized countries, for example Canada, Japan and Australia.

“The value of border rejections is lower than expected but constitutes the tip of the iceberg”

Chapter 2 builds on the border rejection analysis and aims to quantify the financial losses that are caused through border rejections and that could be of significant importance for developing countries.

The Trade Standards Compliance Report has been greatly inspired by earlier analyses of border rejections and of estimations of export losses. This work has been of great interest, and the Report builds on it, identifies additional sources of information, and takes those innovative analyses further.

Although the TSCR analysis clearly advocates that the export losses are relatively smaller for most exporting countries than

earlier estimated, it is rightly argued that these border rejections constitute the tip of the iceberg of missed export opportunities.

Border rejections provide a clear indication of trade standards compliance challenges that need to be lifted to allow a stronger participation of developing countries in international trade relations. More targeted technical assistance is required as many countries do not export at all as a consequence of past rejections – a fact that cannot be quantified from the current analysis on border rejections.

While the level of border rejections of agri-food products in major industrialized country markets provides a crude indicator of compliance challenges, the value of such losses is actually quite small, in total.

Thus, EU border rejections of fish and fishery products, fruit and vegetables and products, nuts and seeds and products and herbs and spices averaged US\$ 72 million per year over the period 2004 to 2008. Rejections were dominated by nuts and seeds, valued at US\$ 55 million per annum but accounting for only 1.2 per cent of the value of nut and seed imports to the EU.

US rejections of the same products averaged US\$ 71 million per year over the period 2004 to 2008. Rejections were dominated by fish and fishery products and fruit and vegetables and products, averaging US\$ 47 million and US\$ 21 million per year, respectively. Rejections of both fish and fishery products and fruit and vegetables and products accounted for less than 0.4 per cent of the value of imports of these products into the US.

However, whilst the immediate cost of border rejections appears to be small in a broad trade context, it can have most serious consequences for individual firms and their employees, as well as for the overall perception of a country's capacity to provide safe products for export markets. At the same time, it is important to recognize that the compliance challenges faced by developing countries due to regulatory requirements in major industrialized country markets have far wider consequences.

Thus, the more significant impact (and cost) of border rejections is likely to be the decision of international buyers not to source from that specific country, or of export firms to curtail exports and/or to divert exports to less exacting markets, thus losing out on high-value export earnings simply because of the fear that product consignments might be rejected.

It is also important to recognize that the value of border rejections for some countries, and especially smaller exporters, can be considerable. For example, EU rejections accounted for almost 17 per cent of the value of Iranian exports of nuts to the EU over the period 2004 to 2008.

In future issues of the TSCR, efforts will be made to extend

the analysis to other commodities and to other industrialized country markets. A more important focus, however, of both the analysis of rates of border rejections and their value, will be on understanding the underlying compliance problems faced by developing countries and making links between investments in capacity-building and changes in the level and/or nature of border rejections over time. This will be supported by country and product case studies.

“Systemic tools for standards compliance capacity benchmarking are needed”

Chapter 3 introduces two different approaches to how the non-compliance of developing countries can be detected and addressed. The newly proposed Standards Compliance Capacity Index (SCCI) and the Food and Veterinary Office (FVO) Inspection Report analysis offer unique benchmarking opportunities to developing countries, donors and international organizations alike. Both approaches will be significantly strengthened in future editions of the TSCR. Feedback on the concept and the findings of the chapter is encouraged and welcome.

There is widespread evidence that trade standards related infrastructural capacity and services are weak in many developing countries and that such weaknesses strongly impede efforts to establish and/or expand agri-food exports, and at the same time endanger effective local consumer protection. The scale of these weaknesses, which can extend across multiple dimensions of trade compliance capacity, makes apparent the importance of identifying priorities in capacity-building and also of assessing the impacts of previous capacity-building investments on compliance capacities. This suggests the need for a systemic approach to quantifying levels of trade compliance capacity that will enable comparisons to be made across countries and over time, and will also serve to highlight areas of particular weakness, and will ultimately facilitate informed policy choices for investments to strengthen local compliance capacities and services.

In this first issue of the TSCR, a new approach to assessing the trade compliance capacity of developing countries is put forward: the Standards Compliance Capacity Index (SCCI). Taking established approaches to asset indices as its starting point, the SCCI provides a systematic and consistent framework in which to assess capacity across areas such as standards-setting, metrology, testing, inspection, certification and accreditation.

Levels of capacity can be compared for any one country across these areas and for any one dimension across multiple countries. While the analysis is based on a survey involving 28 countries from Africa and Asia, in the current Report, because this is an explorative first attempt at applying the index, data are only provided for illustrative purposes, with the countries remaining anonymous.

The aim is to refine the SCCI and collect more comprehensive and reliable data so that results can be reported for a relatively large number of named countries in the next issue of the Trade Standards Compliance Report. It is also intended that the scope of the SCCI will be extended to other areas and issues that influence trade performance.

Compliance challenges are also driven by specific commodity related requirements. For fish and fishery products, the EU’s hygiene requirements provide a convenient point of reference with which to make such comparisons. This is helped by the fact that fairly detailed reports on the inspection of third countries’ compliance are made public by the European Commission’s Food and Veterinary Office (FVO). It is thus possible to observe the particular problems faced by individual countries and how these compare to other countries at a similar level of development, and also to observe changes in compliance challenges over time.

The analysis of FVO Inspection Reports over the period 2006 to 2008 highlights how developing countries face particular challenges in complying with EU hygiene requirements for fish and fishery products, with weak points notably relating to the local Competent Authorities and laboratories and to hygiene conditions in processing facilities and on fishing vessels. These problems appear to relate to resource constraints and a lack of knowledge and understanding of EU requirements and of how to achieve compliance in both the public and private sectors. Secondary issues are weak management within the fisheries value chain and administrative irregularities and lack of empowerment in the Competent Authorities.

In future issues of the Trade Standards Compliance Report, this analysis will be further developed and extended to other regulatory requirements to enable more generalizable results to be derived.

“Overcoming standards compliance challenges needs innovative technical assistance”

Chapter 4 provides an analysis of how technical assistance interventions can be improved by following a value chain approach and provides conceptual innovation for effective technical assistance in building trade compliance capacity in developing countries.

This chapter shows how a global value chain approach is a useful way to make sense of and structure the compliance challenges faced by developing countries in diverse contexts and to assess the effectiveness of alternative technical assistance strategies. It demonstrates how control and oversight (value chain governance) that have previously been achieved through ownership are – owing to the increasing fragmentation of value chains – replaced by requirements to comply with certain standards.

Subsequently, new challenges and opportunities for operators along the value chain are created: while non-compliance with these standards quickly leads to exclusion, in particular with regard to smallholders, value chains facilitate flows of resources and knowledge that enable compliance.

It is also evidenced that compliance issues vary from sector to sector, and that technical assistance providers need to identify key actors and control points along the value chains as entry point for their intervention. Some key questions are provided to facilitate this process.

This conceptual framework proposal is complemented by a case study provided by COLEACP, which describes the experiences gained through the EU's Pesticides Initiative Programme (PIP). In a number of ACP countries, PIP has worked with both the public and private sectors to support compliance with EU regulatory limits on pesticide residues and private good agricultural practice (GAP) standards such as GLOBALGAP.

“Development partners call for better accountability and effectiveness of technical assistance”

Chapter 5 completes the analyses of the TSCR by introducing the concept of a cost-benefit model for technical assistance. While the concept still needs to be strengthened and the model developed, evidence and success stories are already provided from a case study of UNIDO interventions in Sri Lanka supporting the upgrading and accreditation of public sector laboratories with a view to maintaining and enhancing fish and fishery product exports to the EU.

This chapter sets out the need for economic analysis of trade capacity-building, both generally and with particular reference to trade standards compliance. While the case of Sri Lanka demonstrates that there can be considerable gains from establishing and/or enhancing capacities to undertake core compliance services, there is an evident need for more sophisticated analysis which not only provides more rigorous estimates of costs and benefits but also facilitates more general conclusions that can guide processes of capacity-building across developing countries as a whole.

In the long-term such cost-benefit model aims at the development of guiding principles for donors, beneficiary governments and private sector stakeholders as to which investments are likely to yield the greatest returns, not only in terms of trade performance but also poverty reduction.

“The trade standards compliance challenges faced by developing countries will continue to change over time”

Chapter 6 provides an outlook on some major current and emerging trade standards-related challenges that are likely to hamper the further integration of developing countries into the global trading system.

Some key international organizations and entities have highlighted their views on how the landscape of standards compliance might change over time for areas relating to their specific mandates, and on how such changes will influence countries' abilities to participate in higher-value global markets.

While this outlook does not claim to be exhaustive, it compiles valuable insights on some key areas of trade standard-related challenges such as food safety, plant health, social and labour standards, standard-setting, environmental issues and the multilateral trading system.

Other issues such as intellectual property rights will be taken up in the next edition of the TSCR. A topic that has not been specifically touched upon in the current edition is that of the debates on the carbon footprint of exported products and on food miles. This is clearly a concern that significantly harms the export potential of developing countries because of the unclear international guidelines and the different private sector standards. The debate as to how to measure and handle the carbon footprint of various products and how to ideally enlarge towards a holistic life-cycle analysis based evaluation of climate impact, is still very much ongoing and in itself could constitute a major part of a forthcoming TSCR.

Like an early warning system, this outlook points out how regulatory requirements and standards, and compliance challenges in general, are likely to evolve over time, for instance how hazards are managed, and which new hazards need to be addressed, some of which are only now emerging. In parallel, new trade-related standards compliance issues have been identified along new frontiers, including sustainability, climate change, labour conditions, water conservation, etc., in both public and private standards.

While achieving compliance can open up new market opportunities or competitive positions for developing countries, non-compliance, if minimum environmental or labour standards are not met, would soon lead to market exclusion. Early knowledge of changes in the standards landscape will therefore allow countries and enterprises to take timely measures to adapt to the challenges and devise the business responses that will turn them into trade opportunities.

Many of the perspectives from international organizations presented in the TSCR have also highlighted the need for substantive technical assistance support. In the context of Aid for Trade, but also taking into account competing requests for donor contributions, the issues raised in this outlook will allow for an early policy dialogue on countries' development efforts and their development partners' contributions.



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