NTMs and their relationships to international standards

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SPS measures: the most common and costly NTMs

Price impact (in %)

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of NTMs per product</th>
<th>Share of trade</th>
<th>Share of products</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPS</td>
<td></td>
<td>14.3</td>
<td>2.7</td>
</tr>
<tr>
<td>TBT</td>
<td></td>
<td>5.0</td>
<td></td>
</tr>
<tr>
<td>Export</td>
<td></td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Other NTMs</td>
<td></td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td>Agri-food</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: UNCTAD 2018
Impact of a possible reform scenario

% effect on c.i.f. trade unit values

Current and potential price-reducing impact of regulatory convergence in ASEAN

-8 -6 -4 -2 0

Animals and meat
Fruits, vegetables and grains
Fats & oils
Processed food, beverages & tobacco
Minerals
Chemicals
Plastics
Leather
Wood products
Paper
Textile and clothing
Footwear
Stone & glass manufactures
Precious metals, pearls
Metals and metal manufactures
Machinery and electronics
Vehicles
Optical & medical instruments
Miscellaneous manufactures

price reduction: current convergence
price reduction: potential/further conv.
Two different challenges

a) Traditional non-tariff barriers: Quotas, contingent protection, …
   • Strongly regulated already under WTO agreements
   • Direct economic objectives
     → elimination conceivable

b) Technical measures to trade: SPS and TBT
   • Partially addressed by WTO
   • Usually regulated as (domestic) market policy by ministries for agriculture/health/… and Bureaus of Standards
   • Primary objectives not trade-related: to protect human, animal and plant health, or the environment, etc.
     → elimination not an option
What are the Options

• Transparency

• «Good Regulations»
  – Regulatory coherence (national)
  – Regulatory cooperation (international)
From Coordination, Equivalence, Mutual Recognition, to Harmonization

International Standards one form of harmonization
International Standards

- Private Standards
- International Standards
- Voluntary Sustainability Standards
International Standards

- Technical standards developed by international standards organizations
- Many standard developing organizations
  - World Standards Cooperation (WSC)
  - Agriculture: WTO AoA

- The General Principles of the Codex Alimentarius state:
  - "The publication of the Codex Alimentarius is intended to guide and promote the elaboration and establishment of definitions and requirements for foods to assist in their harmonization and in doing so to facilitate international trade."
SPS and TBT

• SPS
  – Members shall base their sanitary or phytosanitary measures on international standards to achieve a broad harmonization

• Three sisters mentioned:
  – Codex Alimentarius Commission
  – International Office of Epizootics (OIE)
  – Offices of the International Plant Protection Convention (IPPC)
SPS and TBT

• TBT
  – Where technical regulations are required and relevant international standards exist or their completion is imminent, Members shall use them, ... , except if

• NO definition of International Standard or Organizations mentioned

• Annex 1 on Terms and Definitions: the agreement provides the definition of a standard
Coping NTMs in Three Sisters

Like NTM coding of national legislation
Some Statistics

- International standardizing bodies (ISBs)
  - Mostly sanity and phytosanitary (SPS) measures
    - TBT requirements in some instances
    - 87% of all observations fall under chapter A on SPS measures
  - Affect a limited scope of tradeable products
    - Animal, vegetable and foodstuff products make up 95% of all observations
Similarity of National Regulations with ISB

• Due to the complexity of SPS measures and TBT, it is extremely difficult to assess the similarity of these measures with international standards.
• We are therefore applying two approaches here:
  – The Regulatory Similarity Index can compare at a broader scale the structure of national regulations with international standards. (Section 3)
  – Three case studies compare at a very detailed level national regulations with international standards for specific products. (Section 4)
Global NTM transparency initiative
Example: Similarity with Codex

<table>
<thead>
<tr>
<th>NTM types and codes for a specific product at HS-6 level: e.g. beef</th>
<th>Importer Y</th>
<th>Codex</th>
<th>Exporter Z* after reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>A21: Maximum residue limit</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>A62: Animal raising processes</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>A83: SPS certificate</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>A14: Special authorization</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>
Regulatory distance plotted onto 2-dimensional space: only agriculture

Modern MDS (loss=stress; transform=identity)
Regulatory distance plotted onto 2-dimensional space: only agriculture

Modern MDS (loss=stress; transform=identity)
Similarity versus Stringency

- The structural regulatory similarity shows how similar NTMs a country and an ISB impose in terms of their type, based on the NTM classification.
- However, having a same type of NTMs does not mean that they have a similar level of stringency.

- Example: A31 on labelling requirement for SPS reasons on prepackaged food.
  - international standard requires an importer to label the country of origin on the product.
  - Country A’s regulation requires to label not only the country of origin, but also expiry date, ingredients and name of the importer in black color in the country’s national language.
Methodology: Stringency

• Over-regulated criterion: When the criterion exists only in national regulations.
  E.g. Maximum residue limit of a harmful substance, Aflatoxin B1, exists only in Vietnamese regulations.

• Under-regulated criterion: When the criterion exists only in international standards.
  E.g. Maximum residue limit of harmful substance, Aflatoxin B1, exists only in the Codex Alimentarius.

• Similar criterion: When the criterion exists in both national regulations and the international standards and it is similarly strict.
  E.g. Maximum residue limit of harmful substance, Aflatoxin B1, exist both in Vietnamese regulations and the Codex Alimentarius. The limit is same as 5μg/kg.

• Stricter criterion: When the criterion exists in both national regulations and the international standards but the criterion in the national regulations is stricter.
  E.g. Maximum residue limit of harmful substance, Aflatoxin B1, exist both in Vietnamese regulations and the Codex Alimentarius. However, Vietnamese regulations sets up the stricter limit of 1μg/kg.

• Less strict criterion: When the criterion exists in both national regulations and the international standards but the criterion in the international standards is stricter
  E.g. Maximum residue limit of harmful substance, Aflatoxin B1, exist both in Vietnamese regulations and the Codex Alimentarius. However, the Codex Alimentarius sets up the stricter limit of 1μg/kg.
Methodology (cont.)

Step 1: Identify a single product of interest for a given country at HS 6-digit-level.

Step 2: Find all the country NTMs and international standard NTMs imposed on the Step 1’s product of interest. Then, identify the types of NTMs that commonly exist in national regulations and the international standards.

Step 3: From the international standard NTMs, compile measure description and if necessary, source documents of the commonly existing NTMs per type. Then, decompose the compiled measure description into detailed requirement criteria. Repeat the same with respect to the country NTMs.

Step 4: Per type, compare the detailed requirement criteria that are decomposed from country NTMs and international standard NTMs.

Step 5: Sort out the stringency of the detailed requirement criteria decomposed from country NTMs into five stringency categories – over-regulated, under-regulated, similar, stricter and less strict.

Step 6: Present one NTM type that applies to one product in a country with as a proportion of five stringency categories.
Case Studies

- Vietnam: cashew nuts in shell
- Bangladesh: fresh apple
- Lao PDR: animal feeds
Results

- Regulatory stringency in Vietnam’s cashew nuts in shell, by NTM type
Results

- Regulatory stringency in Bangladesh’s fresh apples, by NTM type
Results

Regulatory Stringency in Lao PDR’s animal feeds, by NTM type
Conclusions

• International Standards are intended to overcome costs related to variance of regulations
• Potential: Int. Stand. could reduce costs significantly
• It appears that only very few countries follow Three Sisters closely (i.e. difference in extensive margin: add or leave out measures; careful: data quality)
• Where they follow there can be differences in stringency and that seems to be the case
  – Less differences where in global value chains
  – Some consumer markets may be underregulated
• Potential not yet used
• Support to countries when they design new regulations