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Specific trade concerns regarding the application of sanitary and phytosanitary measures by WTO countries – the European Union’s perspective

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Abstract

The main aim of this paper is to examine and discuss major trade concerns over the application of sanitary and phytosanitary measures (SPS) by WTO member countries, with the particular emphasis on the European Union’s SPS issues. While SPS measures are the key elements in the system of protection of life and health of people, animals and plants, numerous specific trade concerns (STCs) formally raised to the WTO, show that these measures are often considered to be overly restrictive and inconsistent with the provisions of the SPS Agreement. The analysis, based on the data retrieved from the SPS Information Management System of the WTO, revealed that both developed and developing countries play a significant role notifying specific trade concerns, with developing country notifications increasing faster. The European Union is active both as a party raising the SPS issues and maintaining the measures questioned by trade partners. The conducted analysis of specific trade concerns, helps to identify measures related to the EU’s trade in agri-food products, which very likely constitute a tool of trade protectionism. Thus, the results have practical implications for governments and the EU’s decision making bodies that can undertake actions to remove unjustified barriers as well as for the companies that need to take into account the existing SPS requirements in their foreign markets entry strategies.

Keywords: specific trade concerns; sanitary and phytosanitary measures; WTO; European Union; international trade; agri-food products

JEL codes: F13

INTRODUCTION

With the globalization of food industry, resulting in longer food supply chains and increasing international trade in agri-food products, ensuring food safety and health protection have become one of the most challenging tasks for governments. Countries set their own laws, regulations, requirements, and procedures to protect plant, animal or human health from disease or other affliction, to a high extend related to international trade. These so called sanitary and phytosanitary measures (SPS) are routinely applied to the domestic and imported goods with the aim to ensure that food is safe for consumers, and to prevent the spread of pests or diseases among animals and plants.

However, some governments may impose strict SPS measures that are addressed by trade partners for being unjustified and creating disguised protectionist barriers to trade, applied with the main aim to shield domestic producers from economic competition. Since tariffs and quotas have been reduced in the process of multilateral trade liberalization within the World Trade Organization (WTO) and due to numerous regional and bilateral trade agreements, non-tariff measures such as SPS measures, which offer an alternative to classical protection instruments, are on rise. In the most controversial cases using such measures may lead to trade disputes between the WTO members, while in most of the cases countries which have doubts about the necessity and scientific grounds of the application of SPS measures by trade partners, first raise so called specific trade concerns (STCs) to the SPS Committee of the WTO [Grant and Arita, 2017, p. 46].

The purpose of this paper is to examine and discuss major trade concerns over the application of sanitary and phytosanitary measures by WTO member countries, with the particular focus on the European Union's SPS issues. It analyses the number, type and composition of specific trade concerns raised to the WTO SPS Committee and describes examples of specific trade issues, including both those in which the European Union acts as a member raising the issue, as well as those in which it is a member maintaining the measure at question. The research methods used in the article included a review of literature, studying of the legal acts as well as the analysis of statistical data retrieved from the SPS Information Management System of the WTO.

Limitations of the research are mainly connected with the complexity of the problem and in some of the cases the difficulties with gathering complete empirical material about SPS actions. Since the SPS policies are at the intersection between international relations and international business, the further area of the research could be the study of trade losses costed by imposing SPS as well as strategic and operational implications of the existence of the strict SPS requirements for exporting companies.

SANITARY AND PHYTOSANITARY MEASURES AS TRADE POLICY INSTRUMENTS

While tariffs have been progressively reduced over the years, as a result of trade liberalization, the importance of non-tariff measures, such as sanitary and phytosanitary

measures, in countries trading internationally has significantly increased. Non-tariff measures can be defined as policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both [UNCTAD 2018]. Compared to tariffs, these measures are less transparent and often have negative effects on trade. Due to technical complexity, they can create a particularly deceptive and difficult market access barrier to challenge. Nevertheless, government laws or practices, such as sanitary and phytosanitary standards, may be justified as they help to achieve countries' public policy objectives. WTO rules strive to reduce as far as possible the use of measures that unnecessarily impede market access, while not undermining the sovereign right of any government to provide the level of health protection it deems appropriate.

Deardorff and Stern [1997], Bora et al. [2002, pp.2-3], UNCTAD [2018] and others propose classifications of non-tariff measures. According to Bora et al. [2002, pp.2-3], NTMs may be broadly classified according to the intent or immediate impact of the measures into five categories: measures to control the volume of imports; measures to control the price of imported goods; monitoring measures including price and volume investigations and surveillance; production and export measures; technical barriers imposed at the border. In this approach, STS measures are included to the group of technical barriers, imposed at the frontier which are used to ensure that imported products conform to the same standards as those required by law for domestically produced goods. They may lead to the prohibition of non-complying imports or necessitate cost-increasing production improvements.

The UNCTAD classification of NTM measures comprises 12 types of NTB measures which belong to 3 broader groups: technical measures, non-technical measures and export-related measures. Sanitary and phytosanitary measures belong to the group of technical measures, together with the technical barriers to trade and pre-shipment inspection and other formalities. UNCTAD defines SPS measures as measures that are applied to protect human or animal life from risks arising from additives, contaminants, toxins or disease-causing organisms in their food; to protect human life from plant- or animal-carried diseases; to protect animal or plant life from pests, diseases, or disease-causing organisms; to prevent or limit other damage to a country from the entry, establishment or spread of pests; and to protect biodiversity. SPS measures are grouped in the UNCTAD classification into 8 broader categories and over 30 subcategories. The main categories include: prohibitions/restrictions of imports for SPS reasons; tolerance limits for residues and restricted use of substances; labelling, marking and packaging requirements; hygienic requirements; treatment for elimination of plant and animal pests and disease-causing organisms in the final product; other requirements on production or post-production processes; conformity assessment; SPS measures not elsewhere specified [UNCTAD 2018].

As the use of NTMs is on rise, interest in the extent to which existing non-tariff barriers may effect international trade is also growing. Research on this subject was carried out by a number of authors [Kee, Nicita and Olarreaga 2009, pp.172-199, Hoeckman and Nikita 2011, pp. 2069-2079, Fontagné et al. 2013, pp.2-4]. The results of these studies show that non-tariff measures distort and restrict international trade, and in some countries they have an even larger share in the overall restrictiveness index than tariff barriers.

The firm level study by Fontagné et al. [2013, pp.2-4], which addresses the trade effect of restrictive product standards on the margins of trade, shows that SPS concerns have a negative impact on both the extensive and intensive margins of trade, as SPS represents a further fixed or variable cost to entry the foreign markets. Moreover, according to the results of their studies, SPS measures that have triggered the exporting country to raise a concern to the WTO, reduce the probability to export by 2.2%. Authors also observe a differentiated effect of SPS concerns across heterogeneous firms: the negative impact of SPS is higher for smaller and reduced for big players with diversified sector-market portfolios, which have better ability to cope with additional costs, and which can move resources from unaffected to SPS imposing sectors and markets, when it is needed.

However, results of some empirical studies suggest that the impact of SPS measures on agri-food trade may be diverse and need not always be negative. Crivelli and Groeschl [2012, pp. 444–473] found that aggregate SPS measures pose a negative effect on the probability to export to a protected market, but, conditional on market entry, trade flows to markets with SPS standards in place tend to be higher. It is due to the fact, that on one hand, SPS measures pose a serious barrier to market entry by increasing the fixed costs of trading, but on the other hand, SPS standards provide information on product safety to consumers and thus exert a positive impact on the trade flows of those exporters that manage to overcome the fixed cost of entering the market.

INTERNATIONAL REGULATIONS ON SANITARY AND PHYTOSANITARY MEASURES

Sanitary and phytosanitary measures are addressed in various trade agreements and are regularly notified to and debated within the WTO. The Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement), adopted as part of the Final Act of the Uruguay Round of Multinational Trade Negotiations in the year 1994, is the main multinational agreement dealing with the SPS issues. It applies to all sanitary and phytosanitary measures which may, directly or indirectly, affect international trade [WTO 2018a].

The SPS Agreement recognizes (in Article 2) that governments have the right to adopt regulations to protect human, animal, or plant life or health and to establish the level of sanitary or phytosanitary protection they determine to be appropriate. It implies that countries may use widely divergent standards and standards-based measures to protect their consumers, and preserve natural resources.

However, the SPS Agreement establishes a number of general requirements and procedures to ensure that governments adopt and apply SPS measures to protect against real risks rather than to protect local products from import competition. The SPS Agreement in an attempt to make it easier to distinguish between legitimate regulations and those which appear to be non-tariff barriers to trade protecting producer interests, states that members shall ensure that any sanitary or phytosanitary measure:

- is applied only to the extent necessary to protect human, animal or plant life or health,
- is based on scientific principles,
- is not maintained without sufficient scientific evidence,
- do not arbitrarily or unjustifiably discriminate between members where identical or similar conditions prevail,

- shall not be applied in a manner which would constitute a disguised restriction on international trade.

The Agreement, without requiring member states to change the level of protection they see appropriate, encourages harmonization of SPS measures among WTO member countries, on the basis of international standards and guidelines, such as for instance the Codex Alimentarius or recommendations of the International Office of Epizootics (OIE) [WTO 2018b].

In cases where relevant scientific evidence is insufficient, member countries may provisionally adopt sanitary or phytosanitary measures to avoid risk, but they shall seek to obtain the additional information necessary for a more objective assessment of risk and review the sanitary or phytosanitary measure accordingly within a reasonable period of time [WTO 2018b]. The latter regulation was a base for adopting and applying the European Union's precautionary principle, which is the main element of the EU's regulatory system in the area of food safety and health and environment protection causing controversies among its trade partners.

Although it shall not be invoked as a pretext for protectionist measures, the application of the precautionary principle by the EU has many critics, arguing that that the precautionary principle has been used in an arbitrary and unreasonable manner, tending to focus on worst cases, rather than rational analysis of risks and benefits, and as a result, preventing beneficial developments and stifling innovation [Marchant and Mossman 2004, pp. 4-44, Sandin 1999, pp. 889-907]. Proponents claim that that the protection of the environment and human health is an overriding priority, and that the costs of the consequences of a lack of precaution may also be large [Ahteensuu 2007, pp. 366-38, Todt and Luján 2014, pp. 2163-2173].

TRENDS IN SPS AND STCS NOTIFICATIONS

Under the SPS Agreement, WTO members are obliged to provide a prior notice of intention to introduce new or modified SPS measures, or to notify immediately when emergency measures are imposed. The main objective of complying with the SPS notification obligations is to ensure transparency through informing other members about new or changed regulations that may significantly affect market access. It can also enhance clarity and predictability of international trade as it reduces trade disruptions and costs. As a result it gives businesses a clearer picture of future opportunities and encourages foreign direct investment [WTO 2018c].

In the period 1 January 1995 to 02 January 2018 the total number of notifications of SPS measures was 22352, out of which: 14935 were regular measures; 2019 – emergency measures; 4,976 – Addenda; 401 – Corrigenda; 19 - Translation supplement and 2 - Recognition of equivalence. As it is shown on the Figure 1, the total number of notifications have been growing between 1995 and 2017 with the highest level of notifications submitted per year in 2015. Most of notifications are regular ones, which means that measures are to be notified well before the entry into force of the relevant measure, at an early stage when amendments can still be made before an SPS regulation is finalized. The routine procedure can be eliminated in cases of emergency, which the SPS Agreement defines as cases "where urgent problems of health protection arise or

threaten to arise" for the WTO Member implementing the measure. This refers to the so called emergency notifications.

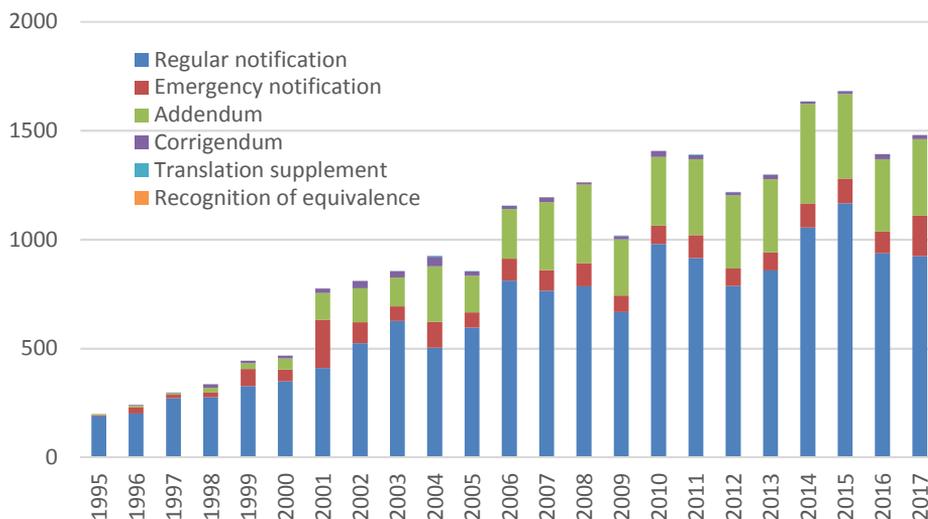


Figure 1. The number of SPS notifications submitted per year

Source: own elaboration based on [WTO 2018c].

In addition to regular or emergency notifications, countries can provide additional information to the original notifications in the form of: changes or updates (Addendum); correction of an error (Corrigendum); availability of translation (Translation supplement) or a notification about a determination of the recognition of equivalence of sanitary or phytosanitary measures of another member or members (Recognition of equivalence). The increased number of notifications does not automatically imply greater use of protectionist measures, but rather enhanced transparency and awareness regarding food safety and growing international trade. Many or most of SPS are considered to be legitimate health-protection measures.

Sometimes, however, SPS measures notified by a country are being questioned by its trading partners, especially when they may cause serious problems for exporters. In such cases a WTO member can raise an issue as a specific trade concern at SPS Committee meetings, which can be an important way of gathering support and solving a problem. STCs are not formal disputes at the WTO forum and they also not always lead to formal disputes. But STCs very often reflect divergences of views between countries regarding the regulatory approach towards risk management. By raising STCs, members often are not only requesting information or clarification; they also send a strong signal that they already have reasons to believe that the SPS measure is inconsistent with the SPS Agreement [Horn, Mavroidis and Wijkström 2013].

Altogether, 427 specific trade concerns were raised in the years 1995-2017.

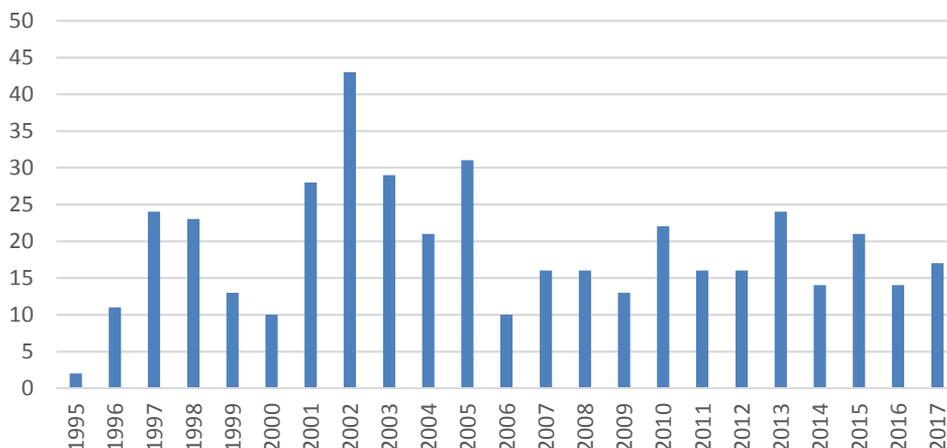


Figure 2. The number of new specific trade concerns (STCs) raised per year

Source: own elaboration based on [WTO 2018c].

During the first half of the analysis period, developed countries were more active members in this field, raising the most of the SPS concerns. Between 1995 and 2007 developed states raised 183 STCs while developing countries (including CIS) - 123 STCs and LDCs only 3. Since 2008 the situation has changed as more STCs have been raised by developing countries. In the years 2008-2017, developed economies raised 59 specific trade concerns, developing countries - 128 and LDCs - 4. In total, in the analysis periods, developed countries raised 242 STCs, developing countries - 257 and LDCs - 7, which shows that the developing countries became active participants of the WTO system. They are also a group of countries maintaining the most of SPS measures questioned by trade partners, who submit their trade concerns over these issues.

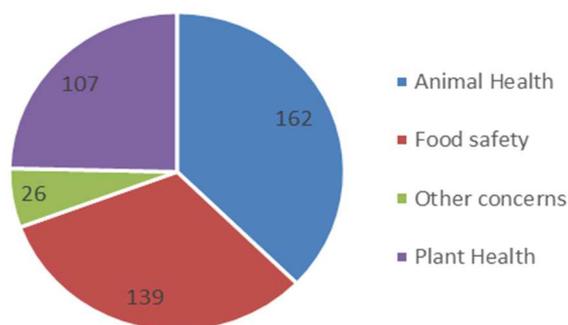


Figure 3. Specific trade concerns (STCs) by subject

Source: own elaboration based on [WTO 2018c].

Out of three major areas of SPS concerns which can be identified, animal health concerns have the biggest share in total concerns, but food safety and plant health are also significant subjects of concerns.

THE EXAMPLES OF SPECIFIC TRADE CONCERNS RAISED AGAINST/BY THE EUROPEAN UNION

The European Union is active both as a party maintaining measures complained against, as well as a party rising specific trade concerns. Between January 1995 and January 2018 in total 86 STCs were raised against the measures maintained by European Union. Out of all the issues raised against the EU, the majority (60 concerns) were expressed by developing countries. Only 26 issues were raised by developed countries, i.e. the US, Australia and Canada. European Union addressed 87 STCs against measures maintained by its trading partners. More than half (46) of the EU's concerns were raised against the developing countries, the rest against developed countries or unspecified group members. Additionally, in 43 cases, the EU acted as a party supporting STC.

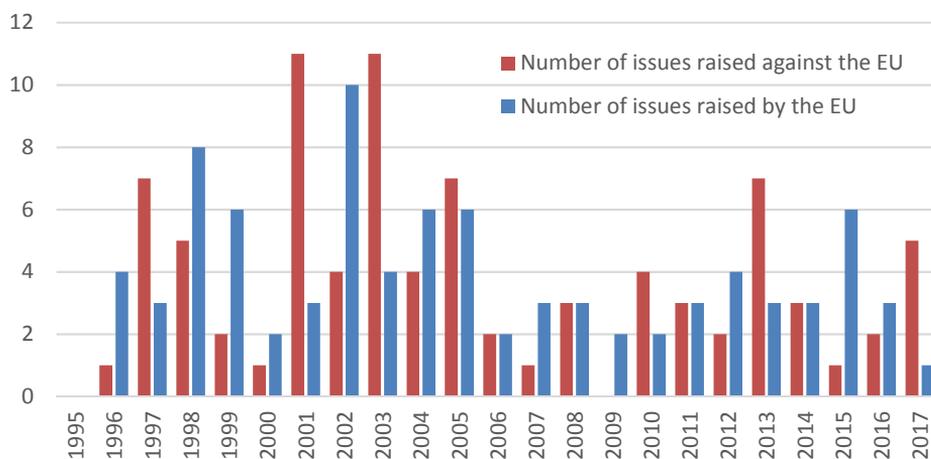


Figure 4. STCs raised by/against the European Union

Source: own elaboration based on [WTO 2018c].

Most of the members raising concerns against SPS measures maintained by the European Union are big exporters of agricultural products to the EU market and often view that strict European regulations are fundamentally driven by protectionist, rather than health concerns and are aimed at restricting highly competitive imports from third countries to the benefit of producers in the EU. The examples of trade concerns against SPS measures maintained by the European Union in recent years include among others [WTO 2018]:

- EU ban on mangoes and certain vegetables from India (member raising the concern – India; the first date raised: 9.07.2014);
- EU withdrawal of equivalence for processed organic products (member raising the concern – India; the first date raised: 9.07.2014);
- European Union revised proposal for categorization of compounds as endocrine disruptors (members raising the concern – Argentina; China; United States of America; the first date raised: 25.03.2014);

- EU proposal to amend Regulation (EC) No. 1829/2003 to allow EU member States to restrict or prohibit the use of genetically modified food and feed (members raising the concern – Argentina; Paraguay; United States of America; the first date raised: 15.07.2015);
- EU MRLs for bitertanol, tebufenpyrad and chlormequat (member raising the concern – India; the first date raised: 27.10.2016).

The above mentioned concerns refer to many different types of SPS measures applied (or intended to be introduced in future) by the European Union, such as import prohibition, tolerance limits, conformity assessment etc. In most of the cases the countries which raise concerns towards the EU represent developing countries, which have difficulties with meeting high European sanitary standards. For instance, India expressed concern regarding proposed amendments to Regulation (EC) No. 396/2005 to change maximum residue levels (MRLs) for bitertanol, tebufenpyrad and chlormequat in certain products, India stated that the lowering of MRLs would seriously impact Indian grape exports to the European Union, which accounted for almost 25% of the country's total grape exports [WTO 2017]. India further argued that international standard organizations (i.e., Codex Alimentarius) had not recommended such a low level of MRLs. In general, questioned the rationale behind the EU's decisions to lower the MRLs and requested the European Union to provide relevant scientific justification for these EU's actions.

However, trade concerns against the measures maintained by the EU are also submitted by developed countries, such as the in the case of the EU proposal to amend Regulation (EC) No. 1829/2003 which would allow EU member States to restrict or prohibit the use of genetically modified food and feed already approved at EU level [WTO 2017]. This concern is a part of a long dispute between the European Union and the US over the use of biotechnology in food production, which revealed fundamentally different approaches of both sides towards risk management. The precautionary principle was and still is a central point of the EU's regulatory approach towards GMO which results e.g. in small number of approvals of biotech products and in a zero-tolerance policy for the presence of GMOs not yet approved in the EU on its territory, while the US accept the use of GMO on a wider basis. The United States claimed that the amendment would allow EU member states to restrict or ban the use of such products with no justified reasons, on arbitrary ground and in a discriminatory manner.

At the same time the UE has raised several trade concerns addressing SPS policies of other countries, questioning them for being inconsistent with the provisions of the SPS Agreement. The examples of trade concerns expressed by the EU include among others [WTO 2018c]:

- Russia's restrictions on imports of fruits and vegetables from Poland (the first date raised: 15.10.2014);
- Korea's import restrictions due to African swine fever (the first date raised: 15.07.2015);
- India's amended standards for food additives (the first date raised: 15.10.2014);
- China's import restrictions due to Highly Pathogenic Avian Influenza (the first date raised: 16.03.2016).

Among concerns raised recently by the European Union, the countries addressed are mainly big agricultural importers from Asia and Russia. In relations with these countries

the EU strongly promotes regionalization, which is a concept where an area of a country is recognized as pest or disease-free or with low pest or disease prevalence. Trade from such areas is allowed even if the health status in the rest of the country is not favorable. According to the WTO SPS Agreement governments should also recognize disease-free areas which may not correspond to political boundaries, and appropriately adapt their requirements to products from these areas. Unfortunately, many countries do not recognize pest- or disease-free areas or their regulations regarding regionalization are very unclear. The example of such a policy are China's import restrictions on Highly Pathogenic Avian Influenza (HPAI). After the outbreak of HPAI in Europe, China continued to maintain its country-wide ban despite the European Union's regionalization efforts. The European Union considered China's policy as overly trade restrictive and not recognizing the concept of pest- or disease-free areas, as the OIE international standard stated that the measure could be lifted after the application of a stamping out measures. This stamping out policy was strictly implemented in the European Union whenever an outbreak occurred. Raising a specific trade concern on the 16th of March 2016, the European Union requested China to clarify its scientific basis for the country-wide bans and its procedures to recognize regionalization [WTO 2017]. The continuation of embargo had a negative impact on the EU's market shares in Asia, which shows that SPS measures can create serious market access barriers. In recent years, the European Union has also considered several measures imposed by Russia on agri-food imports as being discriminative, disproportionate and more trade restrictive than necessary.

CONCLUSIONS

The sanitary and phytosanitary standards are one of the key elements in the system of protection of life and health of people, animals and plants. However, the numerous specific trade concerns raised over the application of certain SPS measures show that WTO members believe that in many cases obligations under the SPS agreement have not been met and measures at question are applied as a tool of trade protectionism rather than with the aim to protect the health of consumers. The analysis showed that both developed and developing countries play a significant role notifying specific trade concerns, with developing country notifications being on the rise.

The European Union is active both as a party maintaining measures of concern to other countries, as well as a party rising specific trade concerns. Most of concerns against the EU's SPS measures are expressed by developing countries, this group of countries has also biggest share in the concerns raised by the European Union.

The conducted analysis on specific trade concerns helps to identify measures related to the EU's trade in agri-food products, which likely constitute a tool of trade protectionism and distinguish them from justified measures. Thus, the results have practical implications both for governments that can undertake actions to remove unjustified barriers as well as for the companies that need to take into account the existing SPS requirements in their foreign markets entry strategies.

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