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Lowering of SPS settings to international standards offers big gains all round: The case of Vietnamese pork trade

59th National

Dr Ray Trewin

Crawford School of Public Policy, ANU

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**Lowering of SPS settings to international standards
offers big gains all round:
The case of Vietnamese pork trade**

**59th National AARES Conference, Rotorua, New Zealand
11 February 2015**

**Dr Ray Trewin
Crawford School of Public Policy, ANU**

SPS Background

- **SPS arrangements define rules & procedures in an attempt to ensure human & environmental health (misused e.g. Indonesian second-hand clothes!);**
- **Rationalisation of governments' role is based on public goods & possible lower costs**
- **WTO international standards are not mandatory**
- **Scientific justification, based on a choice of risk, is required if standards are stricter than international ones & an unnecessary constraint to trade => least trade constraining aspect which means economics is needed, but can contribute more than this narrow aspect**

Economic costs and benefits

- **Economic analysis is a useful counterweight to the inappropriate use of trade-related SPS regulations**
- **Codex standards appear to capture the benefits of standards but the costs increase with strictness**
- **Case of EU stricter regulations saving 2 Europeans in a billion per year but costing \$670m per year in African exports, money which could be used to save a much greater number of African lives**

Weaker and Stricter Standards

- **Some weaker standards (e.g. US meats) support Codex being an upper bound but standards are mainly stricter (e.g. Australian+ strictness of 20 times Codex)**
- **Strictness could increase disease risk by high prices encouraging smuggling, complacency with lower precautionary spending & industry responsibility, as well as lower natural immunity from greater isolation (cf Super bugs develop in sterile hospitals)**
- **Broader benefits with lowering strict standards resulting in consumers obtaining cheaper yet “safe” products**
- **Domestic producers could benefit from concentrating on lower standard domestic & international markets where they are more competitive, and becoming more so with new competition, plus other “non-strict” producers benefit from reduced retaliatory threats & lower input costs**

Case for CGE analysis

- **SPS analysis generally undertaken partially (e.g. export country costs from constrained market access, or prospective import countries costs from stricter settings raising domestic prices & supporting a sub-optimal resource allocation)**
- **Trade constraints costs on both imposing countries & prospective importers offering gains from unilateral or multilateral liberalisation**
- **A CGE approach is required to capture significant domestic gains from restructuring & a more efficient resource allocation**

Vietnam pork trade CGE analysis

- **Aims to illustrate the impact of specific SPS regulations with the use of tetracycline in the international pork trade, including the impact on Vietnam (VN), of strict standards being lowered to Codex ones, plus having other suggested VN SPS constraints removed**
- **A gravity model used to estimate the relationship between the restrictiveness of the beef standard and trade flows - the estimated coefficient implies that a 1% decrease in the stringency of the standard increases the trade flow by 0.59%**
- **This elasticity is used to estimate a tariff equivalent to shock in the CGE modelling**

Table of results of strict standards to international levels

Country	Imports	Exports	Output	Welfare
	%	%	%	\$m
European Union 27	0.17	-1.12	-0.31	-6.6
USA	0.02	7.86	0.92	102.2
Canada	0.5	4.93	2.3	24.1
Australia	37.15	-0.81	-3.88	25.5
Japan	0	-56.48	-0.03	0.2
Other developed	0.02	-0.26	-0.01	0.3
Korea	0.01	-3.1	-0.01	-2.5
China	29.69	-52.32	-0.76	82.2
Hong Kong	22.57	0.16	-51.74	128.7
Russia	-0.01	-0.11	0	2.6
India	0.01	-0.02	0	-0.2
Vietnam	0.35	54.91	9.64	9.0
Malaysia	1.26	0	-0.2	0.2
Singapore	0.04	-1.43	-0.05	-0.1
Philippines	-0.02	-0.01	0	0.3
ASEAN	0	-16.86	-0.06	-1.4
Other Asia	-0.01	-9.1	-0.02	-0.5
Mexico	-0.03	-0.02	0	-3.1
Chile	87.04	0.11	-4.57	13.4
Latin America	0.04	8.52	0.5	20.1
Middle East & North Africa	0	-1.64	0	1.0
Sub Saharan Africa	0	-0.01	0	1.1
Rest of World	0	-0.07	0	1.5
World	1.06	1.09	-0.07	398.0

Results of strict standards to international levels

- Increase in imports of countries that raise their MRLs (Hong Kong (HK)(from US, Canada, VN & Brazil) plus Australia, China, Chile, EU & Malaysia)
- Increase in exports from countries that previously could not satisfy all of the higher standards (US, Canada, VN & Brazil)
- Output - VN up 9%, some restructuring to a more efficient allocation of resources (Relevant GTAP welfare effects are Allocative efficiency, Terms of trade (ToT), & Productivity with ToT dominating but not in pork, whilst Allocative efficiency shows a slight move out of beef to pork production but most gains are from Productivity) and HK down 52%

Results of strict standards to international levels (Cont.)

- Trade diversion away from countries with higher standards (e.g. Australia) that now face competition from exporters with lower standards (e.g. US, VN)
- Welfare up for exporters US & Canada with positive ToT; importers HK & China through cheaper imports; and traditional exporters Australia & Chile from cheaper imports as well
- Big gains all round to domestic consumers (e.g. cheaper, safe food) & producers (e.g. cheaper inputs, more competitive pressures, & less risk of retaliation)

Table of results of Vietnam “SPS constraints” removal

	Rents captured	Rents dissipated (Unilateral)	Rents dissipated (Multilateral)
Imports (%)	40.0	36.1	55.6
Output (%)	-5.6	-7.2	-10.3
Welfare (\$m)	-1.7	8.1	9.6

Results of Vietnam “SPS constraints” removal

- Constraints on trade, like any VN SPS measures, impose costs distributed across producers & consumers, some of whom may be in other countries (e.g. EU) under bilateral (VN-US) trading arrangements, due to substitution effects
- The assumptions made about whether the constraints are binding multilaterally or bilaterally, or perhaps not at all, can also be important in terms of the size & distribution of costs & benefits
- The distribution of rents may be important, welfare increasing rather than decreasing when the rents are not transferred but dissipated with the removal of restrictions
- VN can benefit from a right liberalisation of its constraints

Institutional aspects

- **Private (e.g. quality and non-standards policies, like processing which must add value, not just costs) versus government (e.g. public goods like health) roles**
- **WTO endorsed unidentifiable processes like animal welfare (e.g. fishing methods), which are best handled directly, are more open to capture by vested interests**
- **WTO Special & Differential treatment for Developing Countries (DCs) could give the market signals that products are not up to standard**
- **WTO dispute settlement in terms of raising tariffs offers no real compensation**

Conclusions

- **Economics is important in terms of providing cheaper alternatives from a country's own interests perspective, trading-off the benefits (e.g. higher trade & economic welfare, including in DCs) against the costs (e.g. small number of deaths) cf (changeable) science basis which often implies more expensive technological solutions**
- **It does not make sense to spend resources on chasing upward moving targets (e.g. private jingoism if NZ apple imports allowed) when the costs exceed possible benefits**
- **What is required is more transparent information (including professional society endorsement) showing that it is in a country's own best economic interest to unilaterally open up markets and have a greater focus on safe food regulations from their perspective regardless of the source, expanding the supply of cheaper, safe foods**

Thank you!

- **Any questions, comments etc?**