

Food Safety and Agricultural Health Management in CIS Countries: Completing the Transition

ISSUE 26
OCTOBER
2007

After their successful economic recovery, members of the Commonwealth of Independent States (CIS)—former republics of the Soviet Union—now face challenges to further integrate into the global economy, to profit more from trade in agricultural products and food, and to compete in domestic food markets. Profitable access to global food markets depends much on the ability to meet international food safety, plant, and animal health standards.

Since their independence in 1991, the CIS countries have experienced significant changes in their agriculture and food sectors. After a decade of contraction, agricultural production in most CIS countries has recovered or stabilized in the past few years. Some countries have recorded impressive rates of growth. While achieving much progress in transitioning towards the market economy and integrating into international markets, they face great challenges in further unleashing their potentials in the agriculture sector and in benefiting more from international trade. One of the remaining tasks is reforming their food safety and agricultural health management

systems. This note highlights the main issues involved and outlines a reform agenda.

GOST-BASED STANDARDS

Safety standards are at the core of any country's food safety and agricultural health management system. What makes the CIS countries unique is their use of standards based on the GOST (*gosudarstvenny standart*, or "state standard") system of the Soviet Union after their independence. Designed to serve the planned economy, the GOST system is inconsistent with market economy principles. In market economies, while standards related to product safety are mandatory, quality standards are usually voluntary. By contrast, GOST standards are highly prescriptive mandatory standards for both quality and safety, originally designed to ensure complete compatibility and interchangeability of products in the Soviet Union. They are difficult to change and the rigidity of the system stifles product innovation, thwarts product diversity and consumer choice, and hampers adoption of new technology. The system is also slow to respond to emerging food safety or agricultural health risks. Moreover, the sheer number of detailed standards (over 20,000) makes it hard for the industry to implement and for government agencies to enforce. Arbitrariness of enforcement and discretionary powers in inspection agencies create room for rent-seeking and informal payments.

Not only are the GOST standards significantly different from international standards, but they also have a different system for implementation. In Organization for Economic Cooperation and Development (OECD) countries, increasingly the private sector has taken on the primary role of ensuring product safety throughout the supply chains, while the government has taken on mainly a supervisory and enforcement role. By contrast, the GOST system relies heavily on the public sector for various control functions. Thus, GOST requires an extensive institutional structure for support. Many CIS government agencies have food safety and agricultural health management functions, and many of their functions overlap. As a result, the private sector is subject to multiple—often duplicative—government inspections, which is costly for both the public and private sectors, without actually improving food safety.





THE CHANGING MARKET ENVIRONMENT

The GOST-based standards system has become a major barrier to the CIS countries' efforts to further integrate into the world economy and benefit more from international trade. GOST standards are generally not recognized by OECD countries. Some CIS countries have good potential for exporting agro-food products, but the biggest and potentially best-paying market, the European Union (EU), has high food safety and quality standards that most producers and processors in the CIS countries cannot meet. Moreover, as many Central and Eastern European (CEE) countries have joined the EU and replaced their GOST-type standards with EU standards, foreign markets that accept products produced to GOST standards have been shrinking.

On the other hand, there are more challenges in the domestic market. The CIS consumer markets are changing rapidly with the growth of personal income and the development of modern retailing. Supermarket chains—many from Western Europe—are rapidly expanding their operations in major cities in Russia and Ukraine, which often have product safety and quality requirements similar to those in EU countries. As more and more urban consumers demand better quality and buy more of their food in supermarkets, products made according to GOST standards will find a decreasing market that offers relatively low prices.

Furthermore, as CIS countries join the World Trade Organization (WTO), they need to comply with the WTO rules, including the Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures (the SPS Agreement), which requires that measures taken to protect food safety and plant and animal health should be based on science and not be used as disguised trade barriers. Four CIS countries—Kyrgyz Republic, Georgia, Moldova, and Armenia—have joined the WTO since 1998. The remaining countries—except Turkmenistan—have all applied for membership and are in the process of accession talks. The SPS Agreement recommends harmonization of national standards with international standards, such as food safety standards established by Codex Alimentarius, animal health standards by the World Organization for Animal Health (OIE), and plant health standards by the International Plant Protection Convention (IPPC). A member country must have scientific justification if it decides to use a standard that is different from the international standard and if that standard results in greater restriction to trade. GOST



standards are likely to become a source of contention since they are not based on scientific risk assessment and include mandatory quality prescriptions.


Coming to realize the incompatibility of their practices and the principles of the multilateral trading system, many CIS countries have undertaken to reform their standard systems and other aspects of SPS management. For example, the four WTO members have modified their framework laws to make them generally compliant with broad WTO principles; Russia, Ukraine, and

Kazakhstan have also passed new laws on technical regulations to meet the WTO requirements. However, to translate these general laws into specific regulations and to implement these regulations will take much more time, effort, and strategic planning.

REFORM EXPERIENCES OF TRANSITION ECONOMIES IN CENTRAL AND EASTERN EUROPE

Many Central and Eastern European countries that belonged to the Eastern Bloc also had standards systems similar to the GOST system. During their transition to market economies and as part of their accession to the EU, they have largely finished the transformation of their food safety and agricultural health systems. Although their reforms have a broader goal than those in the CIS countries—they need to comply with all EU regulations for member states by adopting the *Acquis Communautaire*¹—their experiences provide some general lessons for the CIS countries in their reform efforts to establish a system consistent with market-economy principles and the WTO requirements.

- Replacing GOST-based systems has proven to be more complex than expected. The reform involves an overhaul of laws and regulations, which requires between five and ten years of work by teams with thorough knowledge of food safety, plant health, and animal health regulations, as well as international standards and foreign languages. Inspection and monitoring programs also need to be revamped based on new regulations and risk evaluations. Few senior policymakers in CIS countries understand the scope of work and timeframe required.
- Strong political leadership is essential to the success of such reform. The transformation of the food safety and agricultural health management system involves many stakeholders in both the public and the private



sectors. Strong leadership is needed to solicit support and build consensus.

- The reform is costly. Over a seven-year period, new EU member states' accumulated expenditure for upgrading agro-processing enterprises and marketing under the Special Accession Program for Agriculture and Rural Development (SAPARD)² program was equivalent to 18 percent of their agricultural GDP in 2000. Under the Poland and Hungary: Assistance for Restructuring Their Economies (PHARE)³ program for institutional reform and capacity building, a considerable amount is spent on areas related to food safety and agricultural health. Sizable support from the European Commission is channeled through these accession programs. The CIS countries will not have access to external assistance of this scale; thus, careful planning, sequencing, and prioritizing are critical to the success of the reform.
- Changing the “way of thinking” is crucial. The transformation of the standard system and other practices in food safety and agricultural health management involves a fundamental shift in people's understanding of the roles of the government and the private sector. Staff of government agencies must adapt to their new advisory and supervisory (as opposed to direct control) roles to facilitate business activities and protect consumers. Experience in new EU member states has shown that these changes are essential but difficult to accomplish.

RECOMMENDATIONS FOR REFORM OF CIS COUNTRIES

Most CIS countries are still at an early stage of transforming their GOST-based systems or have yet to start the process. Given the importance of this reform to public health and the competitiveness of the agro-food industry, policymakers in these countries should work closely with various stakeholders to complete the transition in a smooth and cost-effective manner. The following actions are recommended to accomplish this:

- *Carefully choose reform goals and strategy.* Though the CIS countries share the common heritage of the GOST system and the challenge of reform, they have different opportunities for expanding agricultural trade beyond the CIS. Their capacities to implement the required changes also vary widely. Therefore, their reform agendas should have focuses and priorities suitable to each country's particular needs and interests. The Russian Federation is a big importer of agricultural and food products; with its upcoming WTO accession, the priority would probably be to remove unnecessary mandatory standards to fulfill its obligations as a member of the WTO and reduce trade interruptions. Since it has the extensive financial and technical resources to make the transition, its most challenging task is to cre-

ate an effective institutional framework and to change the mindset of officials. Ukraine, Moldova, Kazakhstan, and the Caucasus countries generally have strong comparative advantage in agriculture, particularly in certain food products. They have the potential to gain greater access to the demanding and better-paying markets of the European Union and the top-end urban markets in Russia and Ukraine. They could selectively adopt EU standards for products with strong export potential while gradually transforming the whole standard system. For the Central Asia countries, their trade is likely to continue to depend mainly on the Russian market and other countries in the region, so their transition would best be guided by what happens in these markets and by assessing domestic public health and agricultural health risks. Periodic consultations with their main trading partners can contribute to compliance with the changing market requirements. Also, weaknesses in the domestic food safety situations need to be addressed.

- *Streamline institutions.* A common problem in most CIS countries is the presence of too many agencies involved in food safety with overlapping mandates. Therefore, clearly dividing the responsibilities among these agencies should be a top priority in the restructuring. Consolidation of certain functions and resources will not only improve efficiency and reduce cost by avoiding repetition in inspections, but also enable more targeted capacity building and technological upgrades.
- *Put in place new inspection and surveillance programs.* The old inspection and monitoring programs need to be replaced with new ones based on new regulations and evaluation of public health and agricultural health risks, trade opportunities, and costs and benefits.
- *Consolidate and upgrade laboratories.* Many CIS countries have a large number of laboratories to support the numerous inspections in the GOST system. However, testing capacities are generally poor because of the lack of recurrent funding and use of outdated equipment or technology. Policymakers often focus on investing on expensive laboratory facilities to improve food safety and agricultural health. However, without consolidating and reorganizing the system based on new institutional mandates and re-assessing the framework for recurrent cost financing, such uncoordinated investment would result in huge waste.
- *Build up private sector capacities.* Ultimately, it is up to the producers and processors to produce safe, good-quality food, and meet the various requirements of their customers. Most food companies in CIS countries, however, use old facilities inherited from the Soviet era that do not meet modern hygiene requirements. Major investments are needed in plant, equipment, water, and sewage treatment to comply with good manufacturing

practice (GMP) requirements. In addition, major efforts are needed to improve hygiene practices and to introduce food safety and quality management systems such as HACCP (hazard analysis and critical control points). On the producers' side, efforts are needed to promote good agricultural practices (GAP) among farmers.

- *Supply chain management* is an important tool for the private sector. Modern agricultural product marketing is increasingly characterized by the development of coordinated supply chains. Supermarket chains and agro-food processors often engage in various arrangements with suppliers, traders, and producers, rather than rely on the traditional wholesale market to meet their sourcing needs. Compared with on-spot transactions, coordinated supply chains not only enable retailers and processors to have reliable supply of products or raw materials, but also make it easier to exercise farm-to-fork control over food safety and quality.

Private sector capacity-building and upgrading is largely a private sector responsibility, but the government could facilitate such effort by providing information, training, extension services, and financing, if appropriate. Experiences also show that foreign direct investment (FDI) can play a positive role in introducing modern technologies and safety and quality management systems (including supply chain development) to the agro-food sector. It is, therefore, important that the government take measures to improve the general investment climate.

- *Strengthen regional cooperation.* CIS countries will benefit from strong regional coordination and cooperation because they share common food safety and agricultural health problems, have the same legacy of the GOST system, and face common tasks in transforming it. Potential areas of cooperation include standards harmonization, border control and quarantine, joint monitoring, surveillance and contingency programs, resource sharing in risk assessment, diagnostic capacity, training, and advisory services.

- *Seek international support.* Government officials in the CIS countries, particularly the small, lower income countries, have had little exposure to the international standards and food safety and agricultural health systems in market economies. At the same time, these countries generally lack financial resources for taking the necessary reform measures. Donor support—financial and technical—can play an important role in facilitating the transformation of their systems and upgrading the relevant human skills.

CONCLUSION

Further integration in the global economy is the obvious way for CIS countries to unleash their potential in agriculture and food production. Profitable access to global food markets and capacity to compete in the high-end domestic markets depend much on the ability to meet international food safety, plant, and animal health standards. Replacing the GOST-based standards systems with new ones compatible with the market economy and compliant with the WTO principles has been a difficult undertaking for transition economies. It requires strong leadership, careful and clear strategizing, and significant investment of financial and human resources. Donors and international organizations could facilitate the process by providing effective assistance to the CIS countries, especially the smaller, poorer ones, to support this important aspect of transition.

SELECTED READINGS

World Bank. 2005. *The Dynamics of Vertical Coordination in ECA Agrifood Chains: Implications for Policy and World Bank Operations*. World Bank, Washington, DC.

World Bank. 2007. *Armenia: Managing Food Safety and Agricultural Health: An Action Plan*. World Bank, Washington, DC.

World Bank. 2007. *Moldova: Managing Food Safety and Agricultural Health: An Action Plan*. World Bank, Washington, DC.

World Bank. 2007. *Food Safety and Agricultural Health Management in CIS Countries: Completing the Transition*. Report No.: 40069-RU. World Bank, Washington, DC.

¹ The entire body of legislation of the European Union accumulated up to the present. Candidate countries must adopt the *Acquis Communautaire* before they can join the EU.

² SAPARD: Special Accession Program for Agriculture and Rural Development. This program ran from 2000 to 2006 and was used mainly to prepare the agricultural sector and rural areas in EU candidate countries for EU membership.

³ PHARE: Poland and Hungary: Assistance for Restructuring Their Economies. Originally designed for Poland and Hungary, this program evolved into a pre-accession program for many more EU candidate countries with the priority on institution building and investing in the *Acquis Communautaire*.

This note is based on the last-mentioned report, written by a team led by Kees van der Meer, consisting of Don Humpal, Cees de Haan, Laura Ignacio, and Xin Qin. The report can be freely downloaded at www.worldbank.org/rural or requested by email from ard@worldbank.org.

