

# **Annex 1**

## **STANDARDS AND SPS MANAGEMENT: BASIC CONCEPTS**

# **STANDARDS & SPS CAPACITY WITHIN ZAMBIA AND THEIR IMPACT ON TRADE**

## **1 The importance of standards**

Standards play a key role in facilitating trade and development and in enabling countries to achieve objectives related to human health, environmental protection, and agricultural productivity. Primary producers and subsequent processors and traders who cannot meet regulatory and/or commercial requirements may endanger consumers, may fail to access particular markets, or may be unable to sustainably and profitably compete in those markets. For low income countries that aspire to diversify their trade into higher value or value-added agro-food and light manufactured products, there are growing challenges related to compliance with food safety, agricultural health, environmental or other standards being applied by (potential) trade partner governments and/or private sector buyers. Box 1 highlights some of the pertinent dimensions of standards that are being increasingly applied in both developed and developing countries, although with different degrees of stringency and levels of actual enforcement.

The capacities to meet commercial quality requirements as well as comply with these additional standards are, increasingly, being seen as a core competence for effective participation in international trade. Yet, in many developing countries, there is only an incipient and under-developed “culture” of quality plus only limited and isolated capacities to manage food safety, agricultural health, and environmental risks. This is certainly the case in Zambia where the underlying capacities for standards management, both in the public and private sectors, are very weak. A strategic approach is needed, which gauges near and longer term challenges and opportunities, and which prioritizes investments in awareness-raising and capacity-building. Certainly in the short-term, there will be insufficient demand for and capacity to deliver certain services related to standards management.

The SPS management system involves a range of technical and administrative functions, requires a variety of skills, physical infrastructure and institutional structures. Some of the regulatory, research and management functions should be carried out by government. Importing countries often require certain functions be performed by a designated public sector “competent authority”; for example, the issuing of phytosanitary certificates is a “public service” function. The private sector also has a key role to play in building, or at least providing support for, the national SPS management system. In many developing countries, the absence of competent public authorities has prompted the private sector to assume a leading role in, among other things, setting and adopting standards. Hence, capacity-building in the private sector should complement, and in certain cases substitute for, public sector capacity, e.g., investing and managing accredited laboratory testing facilities.

Identifying a country’s food safety and SPS capacity weaknesses and, subsequently, determining capacity-building priorities and the recipient of the capacity building,

whether public authorities or private entities, should be based on a strategic approach that captures export opportunities and creates a competitive advantage, while minimizing the associated costs.

The approach to the assessment of Zambia’s SPS capacity needs attempted to identify:

- Sectors or sub-sectors that have clear export opportunities and where SPS-related capacity weaknesses have constituted, or could constitute in the future, a serious constraint.
- Weaknesses in technical and administrative functions and physical and institutional infrastructure that have impacted the export prospects.

**Box 1: Quality and SPS Management Functions**

In the context of food and agriculture, quality and SPS management involves an agglomeration of basic and more sophisticated technical and administrative functions, including:

- Applying GAP and quality management at farm level,
- Applying GMP, HACCP, and quality management among packinghouses/processors, etc,
- Maintaining the identify of products/raw materials (i.e. traceability),
- Registering/regulating the manufacture, distribution, and use of agro-chemicals,
- Applying quarantine procedures, including for emergency situations,
- Carrying out pest/disease surveillance and information management,
- Developing/maintaining pest- or disease-free areas,
- Inspecting and licensing food processors, etc.,
- Testing products for contaminants and microbiological content,
- Verifying/certifying biological materials (i.e. seeds; seedlings),
- Verifying/certifying imported/exported products related to known hazards,
- Reporting possible hazards to treaty/trading partners, and
- Notifying WTO/trading partners of new SPS measures

Such administrative and technical capacities for quality and SPS management are embodied in institutional structures and procedures, physical infrastructure and human capital. It is often assumed that the management of food safety and agricultural health is predominantly the responsibility of the public sector. Indeed, there are various crucial regulatory and risk management functions that are normally carried out by the public sector and circumstances where importing countries require that particular functions be performed by governmental entities. However, the private sector also has fundamentally important roles to play—in the process of standard-setting and in the actual compliance with food safety and agricultural health requirements. Capacity building in the private sector can complement (or even substitute for) public sector capacity, as in the development of certification and testing services. Industry ‘codes of practice’ may go a long way in assuring self-regulation. .

## **2 The need for a strategic orientation on standards management**

In considering possible responses to the emerging complex of food safety, agricultural health, environmental, and other standards, what objectives are private entities and policy makers pursuing? Alternatively, one can ask what parameters define the “success or failure” of efforts to achieve compliance or otherwise respond to emerging standards? There are a number of possibilities, more than one of which may be pursued simultaneously. These include:

**a) Market access:** The most obvious success measure for efforts to comply with evolving standards is the level of access to existing or new markets for agro-food and other products. This might include the value or volume of trade over time compared to some benchmark. In the case of existing markets, the benchmark might be the level of exports or market share prior to the imposition of the standard or the level of exports that is estimated to have occurred in the absence of the standard. In the case of a new market, it might be the level of exports or market share in a comparable market for which there is a history of trade.

**b) Benefits exceeding costs:** To be considered successful, the benefits from compliance measures or other responses should clearly exceed the associated direct and indirect costs. Compliance should not be sought “at any cost”. Both the non-recurring and recurring costs of compliance need to be compared with the expected flow of benefits over some defined time period in terms of the economic value of exports, spill-over effects etc. Cost-effectiveness might be used as an alternative metric, whereby differing approaches to maintaining or achieving market access are compared against the value of a defined unit of exports. This cost/benefit calculus might vary among different private stakeholders and between these and policy-makers, depending upon which costs and benefits are included as being relevant to their own decision-making.

**c) Long-term competitiveness:** Aside from short and medium-term impacts on market access, it is important to recognize the effects of compliance efforts on the long-term competitiveness of an industry and the different participants therein. Indeed, a more strategic perspective on standards would suggest that this is the most appropriate metric to use. Thus, compliance efforts should be judged in terms of the extent to which the compliance acts to enhance competitiveness, on a sustainable basis, in the context of prevailing competitive forces and trends.

**d) Social inclusion/exclusion:** Beyond the trade effects of efforts to comply with new standards, it is important to recognize that the resultant changes to the structure and *modus operandi* of supply chains can result in the inclusion or exclusion of particular groups. Of greatest concern is the impact on vulnerable groups, for example small-holder farmers and small and medium-sized enterprises (SMEs), especially where these have become dependent on export-oriented supply chains and may have limited alternative livelihood opportunities.

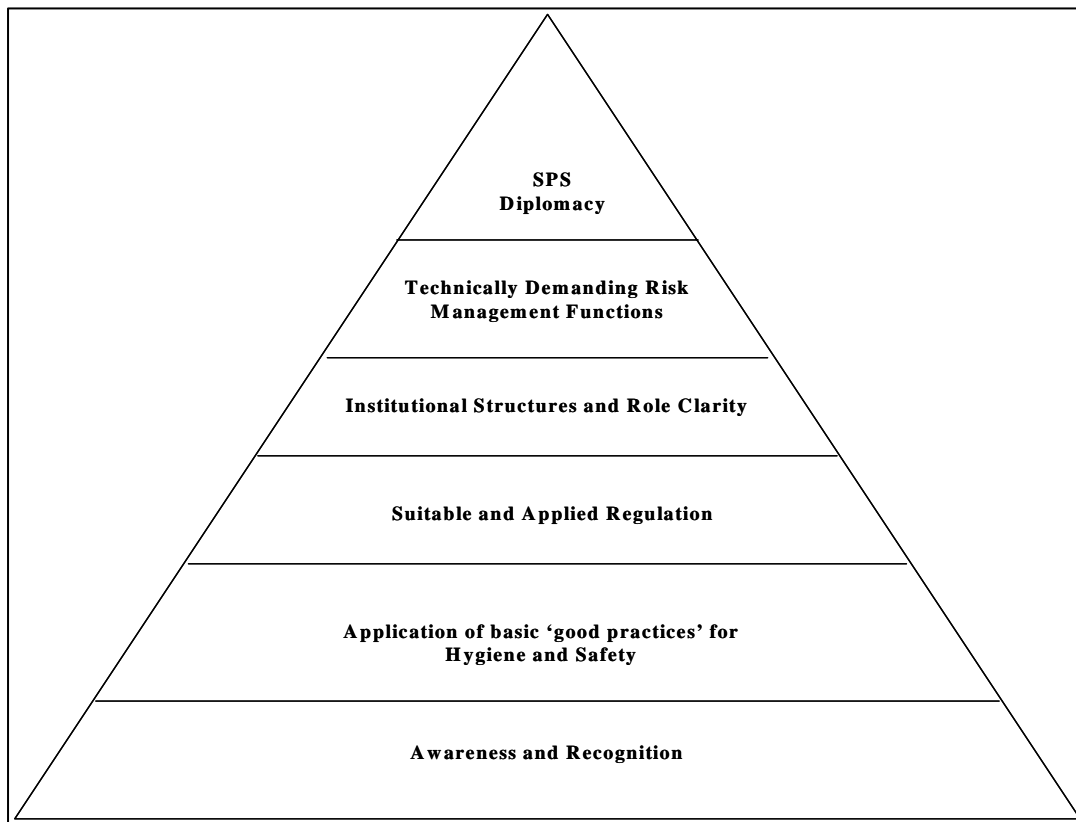
**e) Spill-over effects:** Efforts to comply with agro-food or other standards for external markets can have both positive and negative spill-over effects for domestic consumers and producers. These may include impacts on food safety, agricultural productivity, worker safety, and rural livelihoods. The extent of these spill-overs will depend on the level of integration of supply chains and regulatory systems for international and domestic markets. Although rarely considered, the existence of such social and economic spill-overs can have a significant impact on the balance of costs/benefits associated with capacity-building and compliance efforts.

These points suggest that standards management needs to be considered from a wider strategic perspective that pervades many elements of development. Compliance decisions can have wide-ranging implications not only for market access and the efficiency of resource use, but also for the livelihood of vulnerable social groups and wider processes of economic and social change.

Thus, the challenges and opportunities posed by standards certainly need to be factored into the commercial and other strategies of farmers, trading and processing enterprises.

In assessing the capacity needs related to each sector, a useful framework is the concept of a hierarchy of SPS management (World Bank, 2005<sup>1</sup>). Functions towards the base of the pyramid represent the foundation of an effective SPS management system, while those towards the top add value to the entire system and gain in importance as export sectors mature and encounter increasingly complex technical, administrative and even political challenges (Fig 1).

**Fig 1 Hierarchy of trade-related SPS management functions**



*Source – The World Bank 2005*

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<sup>1</sup> Food Safety and Agricultural Health Standards – Challenges and Opportunities for Developing Countries, The World Bank 2005

The foundation of any SPS management system is broad awareness among participating stakeholders about the relevance and importance of food safety and agricultural health to the competitiveness of their country/sector/firm and recognition of their own role in this system. An essential component of building awareness among stakeholders is access to information about regulatory changes in international markets and other relevant information, and effective flow of such information between various stakeholders.

With broad awareness and common application of good practices, many potential SPS risks can be effectively managed at the enterprise (or farm) level. Yet other risks cannot be fully controlled on such a decentralized basis. These are more systemic in nature and require broader oversight or collective action, requiring basic research, surveillance systems and quarantine and emergency management systems. In such contexts, even if individual farms and firms apply good practices, they may not be able to control all hazards, thus the need for scientific testing and verification systems. Some of these functions need to be mandated by law in order to ensure that they are implemented appropriately. An effective regulatory framework, and transparent institutional structures, is therefore placed in the middle of the pyramid.

At the top of the pyramid is so-called “SPS diplomacy”, which includes the international obligations of individual World Trade Organization (WTO) members but also relates to engagement in the technical and political realm of official and private international standard setting, negotiations with bilateral trade partners and with regional integration partners on matters dealing with harmonization, equivalence, joint programs, special considerations, etc. This relates to the concept of “voice” as part of compliance strategies associated with SPS standards (see World Bank, 2005; Jaffee and Henson, 2004<sup>2</sup>). The ability to have an effective “voice” in such international fora is something that few lesser-developed and small countries have yet perfected.

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<sup>2</sup> Standards and Agri-food exports from Developing Countries: Rebalancing the Debate, by Jaffee & Henson (2004) Policy Research Working Paper 3348, The World Bank