



## CAREC Trade Facilitation Learning Opportunity

Modernizing Sanitary and Phytosanitary Measures to Expand Trade and Ensure Food Safety-Sharing the Baltic Experience

# Introducing the Baltic Experience in Modernizing SPS Measures: Highlights from a World Bank study

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



# Introducing the Baltic Experience in Modernizing SPS Measures: Highlights from a World Bank study

- Introduction and key outcomes
- Extent of legal reform
- Extent of regulatory agency restructuring
- Nature and extent of development partners support (EU, World Bank, FAO, OIE, etc.)
- Time horizon
- Costs and cost breakdown (physical investments, training programs, etc.)
- Lessons for CAREC
- Introducing the Baltic leaders of SPS modernization

# INTRODUCTION AND KEY OUTCOMES (1)

## Objectives:

### Direct Objective:

Provide general analysis and recommendations for policy makers in transition economies undertaking the progressive adaptation of existing food safety and agricultural health management systems to comply with international standards.

### Other objectives

To be useful to professional staff in bilateral and multilateral agencies providing support on trade policies and SPS capacity building.

Non-exclusive CIS relevance: the needs of CIS countries are the main focus of this study, but many of the findings will be relevant to other transition economies, and several generic issues covered will have relevance for developing countries as well.

## Method

The study draws on earlier analytical work and projects in CIS countries carried out over ten years by various organizations, donors, and the World Bank in the areas of food safety, animal health, and plant health.

## Group 1- Most developed/ Group 3 less developed

	Group I				Group II				Group III			
	The Russian Federation	Ukraine	Belarus	Kazakhstan	Armenia	Azerbaijan	Georgia	Moldova	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
Land area, population	Large				Small, partly landlocked				Small, landlocked			
Surface area (1000 sq.km)	17,098	604	208	2,725	30	87	70	34	200	143	488	447
Population, 1000 (2005)	143,151	47,111	9,776	15,146	3,016	8,388	4,474	4,206	5,156	6,507	4,833	26,593
Development level	Moderate to high				Low to moderate				Low			
GDP per capita (constant 2000 US\$), 2005	2,444	959	1,868	1,972	1,128	1,182	971	429	319	237	..	673
School enrollment, secondary (% gross), 2004	93	92.9	93.5	98.1	91.4	83.1	82.3	82.8	88	81.8	..	94.6
Agriculture productivity	Moderate to high				Low to moderate				Low to moderate			
Agriculture value added per worker (constant 2000 US\$), 2003	2,323	1,400	2,766	1,436	2,809	1,076	1,503	706	961	454	1,352	1,601
Economic reforms	Mixed (moderate to high) *				Mixed (moderate to high)				Mixed (moderate to low) **			
Main export products	Cereals, beverages, oil seeds, meat, dairy and egg, vegetables and fruit				Beverages, vegetables and fruit, sugar and honey				Vegetables and fruit, sugar and honey, cotton, wool			
Export destination	Neighboring countries, EU, distant markets				Neighboring countries, Middle East, partly EU				Southern Russia, neighboring countries including China			
SPS requirements in present export markets	Moderate to high				Moderate to high				Low to moderate			
Urbanization	Moderate to high				Moderate to low				Low			
Urban population (% of total)	73	68	72	57	64	52	52	47	36	25	46	37
Domestic market potential	Moderate to high Rapid urbanization and consumer markets change Still large traditional domestic markets				Limited to moderate Modest urbanization and consumer market change Traditional domestic markets still dominate				Limited to moderate Low urbanization and consumer market change Small, relatively unsophisticated domestic markets			

Data sources: WDI database; FAO 2006; the authors.

Notes: \*In Group I, Belarus has been slow to reform.

\*\* Kyrgyz Republic undertook more reforms than did the other countries in this group.



## INTRODUCTION AND KEY OUTCOMES (2)

### SPS Issues for Country Groups

	Group I: Russian Federation, Ukraine, Kazakhstan, and Belarus	Group II: Armenia, Azerbaijan, Georgia, and Moldova	Group III: Turkmenistan, Uzbekistan, Tajikistan, and Kyrgyzstan
Food safety situation	Good to moderate DALY rate: 33–101	Good to moderate DALY rate: 31–440	Moderate to poor DALY rate: 147–1103
Animal health situation	<ul style="list-style-type: none"> <li>• Perceived increases in zoonotic diseases from smallholder farms, although official databases show strong decline in tuberculosis and brucellosis in Moldova, the Russian Federation, and Ukraine</li> <li>• Emergence of HPAI</li> </ul>		<ul style="list-style-type: none"> <li>• Rise in Echinococcosis and other zoonotic diseases</li> </ul>
Plant health situation	Threat of introduction of pests due to weakened border controls		
	<ul style="list-style-type: none"> <li>• Good capacity to detect mycotoxin and pesticide residues</li> <li>• Moderate capacity to deal with emergency outbreaks of pests and diseases</li> <li>• Moderate plant quarantine</li> </ul>	<ul style="list-style-type: none"> <li>• Weak capacity to detect mycotoxin and pesticide residues</li> <li>• Weak capacity to deal with emergency outbreaks of pests and diseases (locust, rats)</li> <li>• Weak plant quarantine</li> </ul>	<ul style="list-style-type: none"> <li>• Very weak capacity to detect mycotoxin and pesticide residues</li> <li>• Very weak capacity to deal with emergency outbreaks of pests and diseases (locust, rats)</li> <li>• Very weak plant quarantine</li> </ul>
Capacity to meet requirements in OECD markets for sensitive products	Moderate to low	Moderate to low	Low
Competitiveness in OECD and top-end CIS markets	Moderate to weak	Weak	Very weak

# INTRODUCTION AND KEY OUTCOMES (3)

## Basic Principles

- Sanitary and phytosanitary (SPS) standards provide an important means of protecting human health from unsafe food and of shielding crops and livestock from pest and disease hazards.
- Lack of compliance with international standards can be an obstacle to successful participation in international trade for transition countries.

## World Bank Report Ratio

- Leveraging WB role in capacity building for trade and development, WB ability to deal with concerns that cut across disciplines and borders, and the lack in studies applicable to transition countries.
- Research started in 2002 on the implications of public and private food safety and agricultural health standards for development of country trade.
- Content: Examination of stakeholders responses and costs incurred to comply with international standards, review of transition from GOST to international standards

## INTRODUCTION AND KEY OUTCOMES (4)

### Elements of an SPS and Agricultural Health Management system

- GAP - Good Agricultural Practices
- GMP- Good Manufacturing Practices
- Legislations and regulations
- Surveillance and monitoring
- Inspection
- Quarantine
- Response Emergency
- Conformity assessment
- Establishing and operating laboratories
- International negotiations
- Participation in international bodies
- Education and training



# EXTENT OF LEGAL REFORM (1)

## Guiding principles

1. Key role of Risk assessment and analysis of costs and benefits.
2. Food safety management has shifted from downstream to upstream and basic responsibility for food safety compliance has shifted to the private sector.
3. Separation of policy making, policy implementation, and policy evaluation is key to increase transparency and to avoid conflicts of interest.
4. Close cooperation among government, the private sector, and civil society is key for food safety and agricultural health management.

# EXTENT OF LEGAL REFORM (2)

## Post USSR status and requirements for reforms

CIS countries' current practice in the SPS field, largely based on the GOST system of the Soviet Union, is not compliant with the principles of the WTO SPS Agreement. (lack of scientific risk analysis and transparency, inclusion of mandatory quality parameters which are voluntary for WTO rules)

GOST system standards systems as presently applied provide insufficient protection for human, plant, and animal health.

GOST large number of detailed standards makes it difficult for the private sector to comply fully and for government authorities to supervise and enforce.

GOST inflexibility makes prompt response to new and emerging food safety and agricultural health threats difficult.

Government SPS agencies in small CIS countries cannot keep their skills and facilities up to date due to lack of funding.

Corruption further reduces the effectiveness of control systems.

GOST system also constrains the competitiveness of the food industry in the CIS countries: multiples inspections represent high cost for the private sector and for the government.

# Why not simply replace GOST by international standards



## Difficulties

- High budgetary cost
- Limited technical capacity, including language - especially in area of risk-based management
- Need for double system (Russia and other CIS still require GOST)
- Vested interest in maintaining old system
- Potential impact on large informal sector

# EXTENT OF REGULATORY AGENCY RESTRUCTURING (1)

Lithuania and Poland: → **Completed transitions**

- Now members of the European Union.
- In four to seven years, both countries were able to harmonize their food safety and SPS laws, regulations, and enforcement practices with those of the European Union (with grace periods for the private sector)
- Before accession Poland and Lithuania were already relatively advanced trading economies within the former communist bloc. Yet the transition from GOST standards to EU standards was a major and demanding project.
- Strong political leadership is an important factor for success in the transition process.
- Officials and industry representatives in both countries describe the process of transition as causing tremendous changes in the regulatory framework, institutional alignments, training, and industrial and marketing management; but more than all these, it caused a huge shift in the “way of thinking” about managing food safety and agricultural health.
- The transition required a huge investment and enormous operating expenditures before compliance with the EU standards could be reached, allowing the free circulation of goods within the EU and establishing a new eastern frontier for the common market.
- Major consolidations took place in diagnostic capacity.
- Access to relevant information and the need for specialized language skills constituted the main bottlenecks.
- Standards bureaus were relegated to background roles.
- Transposition was gradual, and both countries retained significant numbers of GOST-based regulations, standards, and enforcement procedures until the late

# EXTENT OF REGULATORY AGENCY RESTRUCTURING (2)

## Poland

- The initial fear that the agro-food industry would suffer from the entry of Western European food products proved unfounded and Poland developed from being a food importer before the transition into a food exporter at present
- Labs under the Ministry of Health from 248 to 66 and slaughterhouses from 2,600 (1999) to 1,200 (2006).
- The meat industry declined from about 7,000 companies in 2001 to 3,000 in 2006.
- The new system delegated more responsibility to producers and processors, required fewer veterinarians for meat inspections.

### Financing

- These adjustments were financed by support from the European Union as follows:
- the cumulative EU investment to upgrade the public food safety and SPS capacity before accession in 2004 was about €175 million, and the cumulative EU investment in the restructuring of private industry totaled about €1.2 billion.
- The total PHARE budget for strengthening agricultural administration institutions amounted to about €178.5 million, of which 26 percent (€46.7 million) covered veterinary services and 17 percent (€29.9 million) covered improvements in plant protection institutions.
- The food and agriculture sector has received about €450 million in annual transfers to complete the transition since joining the EU. These transfers offset the costs of a major consolidation in the national food industry.

### Lessons learned

- Careful sequencing and timing of activities (Inventorying regulations and the status of food processing facilities - the first step- followed by development of plans for adapting existing institutions, with emphasis on training, and then by introduction of new legislation and regulations).
- Clarity and transparency in drafting the legislation in local language.
- Adequate time for industry to adapt to new regulations, with strong emphasis on capacity building.
- Major attitude changes undergirding the public inspection system as inspectors change their function from top-down supervision and control to a much more advisory role under the HACCP, GAP, and GMP systems.



# EXTENT OF REGULATORY AGENCY RESTRUCTURING (3)

## Lithuania

Integration process since 1990, joined the WTO in 2000 and became a member of the EU in 2004 (*Acquis Communautaire* fully transposed into domestic legislation).

Great efforts have been made to improve its food safety and SPS management to meet accession requirements and fulfill its obligations as a member of the WTO.

26 Major achievements : reorganized and streamlined administrative framework for food safety and agricultural health, with a very clear division of responsibilities; a State Food and Veterinary Service (SFVS) was also created to serve as the single official food control agency, necessary administrative capacities were built up and the HACCP system was introduced in all food establishments and applied in all levels, laboratory system was consolidated and effective border controls instituted.

### Financing

The EU provided large amounts of financial support and technical assistance for Lithuania's transition.

Nearly €30 million was spent in new and renovated laboratory facilities and equipment alone.

From 1997 to 2003, the PHARE program allocated roughly €40 M to agriculture, of which €30 M for SPS.

### Lessons learned

In July 2000, three separate agencies for food safety control—the State Hygiene Inspection, the State Quality Inspection, and the State Veterinary Service—were merged into the State Food and Veterinary Service (SFVS), reporting directly to the Prime Minister.

The functions and responsibilities of various ministries and agencies were more clearly defined: the Ministry of Health establishes mandatory requirements for food, such as maximum residue levels (MRLs), and monitors food safety and food-borne diseases, for which it uses expertise from research institutions; the SFVS is responsible for the implementation and enforcement of food safety and veterinary controls, both for domestically produced and imported products; and risk assessment is undertaken at the Center for Risk Assessment and Information at a university institute.

The number of inspections required was significantly reduced, and the total number of government staff performing inspections decreased.

Laboratories inherited by SFVS from the previous separate agencies were consolidated from 50 to 10 in 2001.

Throughout the accession process, Lithuanian authorities had good understanding of the issues and were determined to resolve the problem of overlapping government responsibilities and to establish agencies adequately organized to implement the *Acquis Communautaire*.



## EXTENT OF REGULATORY AGENCY RESTRUCTURING (4)

### Vietnam and Lao PDR

Socialist countries that have now adopted a system of market economy.

In both countries, the socialist planning system and GOST were much less developed than they had been in countries of the former Soviet Union.

Several control principles of a state planned system, similar to Soviet GOST principles, had been implemented and consequently had to be replaced by WTO principles.

Vietnam became a WTO member in 2007, Lao PDR in 2014

WTO membership in both cases requires extensive legal and institutional reforms and capacity building.

Both countries offer examples of achieving success in international trade by adopting standards compatible with principles of the market economy; by allowing, and even promoting, the development of the private sector; and by complying with the SPS requirements of their trading partners

# NATURE AND EXTENT OF DEVELOPMENT PARTNERS SUPPORT (EU, WORLD BANK, FAO, OIE, ETC.)

CIS countries require extensive support from their trade partners, donors, and international agencies in changing their SPS systems.

Effectiveness of external support for SPS capacity building could be improved by providing more support to governments for planning and strategizing their SPS transition: the resulting SPS action plans and roadmaps would also form a basis for more effective donor coordination.

Donor support to simplify and consolidate food safety and SPS institutions in the smaller and lower income CIS states would help improve the sustainability of both donor and national investments.

In this effort, donors could put greater emphasis on the following:

- Early support for risk analysis and cost benefit assessments of policy, regulatory, and enforcement options; and - sequencing of investments to ensure that priority risks, whether domestic or trade related, are considered first.
- Smooth transitions of food safety and agricultural health management systems in CIS countries could be enhanced by twinning institutions and exchanging staffs with donor and former transition countries.

Donors must improve communication and coordination among themselves to promote synergy, to practice division of labor in providing technical and financial assistance, and to avoid repetition and overlap.

The costs of adjustment to international standards are much higher in the private sector than in the public sector: in lower income countries (Groups II and III), donors will need to work closely with national governments to identify the proper mix of business environment improvements, incentives, and subsidies needed to induce rapid change in the food and beverage value chains and to enable farms and firms to restructure and compete in domestic and international marketplaces.

Most support offered by donors and international agencies is provided to meet formal requirements. By adhering to existing formal requirements, donors and international agencies may advise countries to establish systems and undertake investments that may not be optimal or the most cost-effective options available for their particular needs, circumstances, and goals. Ultimately, of course, the countries themselves must carefully assess their own best interests.

## TIME HORIZON (1)

- Transition from GOST-based systems to WTO-compliant systems has proven to be more complex and difficult to achieve than expected.
- International systems are based on very different principles, and the expertise, work programs, and equipment needed to operate them differ widely from those of GOST. Therefore, a huge amount of difficult work is involved in making the transition.
- It requires assessing and compare thousands of regulations
- Much of the lab infrastructure and equipment and the inspection and monitoring programs must be adjusted and the staff trained
- Since the main markets of these countries continue to be CIS countries still operating under GOST-based standards with their mandatory inspections, they must for some time maintain two parallel systems.

## TIME HORIZON (2)

- The ability to make the necessary changes in quality and safety management for access to OECD markets differs widely across the CIS countries and with the exception of the Russian Federation and, perhaps, Ukraine, CIS countries have insufficient human skills and financial resources to achieve a smooth transition within a **five-year time span**.
- The principles and concepts of the international standards system are still new
- There is little knowledge about the risk analysis framework and, although a basic WTO principle, it is not applied even by the CIS WTO member countries.
- Traceability systems are slowly being introduced among leading food companies in CIS, but it will take at least **15 to 20 years** before they are common in the smaller, poorer CIS countries.
- A general weakness in most CIS countries is the lack of understanding among senior policymakers and public sector managers of the scope, timeframe, and size of the process required to change from GOST to international standards.

# COSTS and COSTS BREAKDOWN

## Country Groups capacities and options

Estimating the costs and benefits of investing in SPS capacity building is methodologically and empirically very complicated but useful. Need of **Appropriate measurement and levels of aggregations**

### Some examples:

introducing WTO compliance in Armenia and Moldova suggest public investment levels of about US\$3 per capita, and project duration has been estimated at four to six years.

The Baltic countries and other new EU member countries in Central Europe went through reform processes with much higher requirements than those needed for WTO compliance, since they had to adopt the entire EC legislation (*Acquis Communautaire*).

The investment on public sector reform and capacity building is about 1 to 2 percent of agriculture GDP annually for a period of six to seven years.

The cost for the private sector of achieving compliance with international requirements is much higher than for the public sector. The cost level will depend on the extent to which requirements are imposed on different market segments, such as demanding export markets, upcoming domestic urban food markets, and traditional markets. For EU accession, the fundamental requirement is that all aspects of legislation harmonize with the *Acquis Communautaire*, and experiences in the new member countries show that, despite high levels of accession support, many food enterprises had to be closed.

CIS countries may also decide to follow a differentiated approach for the different market segments. By doing so, they will be able to manage the different risks in each segment effectively without unnecessarily raising public expenditure or the burdens on small enterprises or increasing food prices for poor consumers.



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## COSTS and COSTS BREAKDOWN

### PHARE Expenditure on Agriculture in Lithuania and Poland, 2000–2006

Country	Total PHARE funds for agriculture (million euro)	of which EU contribution (million euro)	Funds for SPS		Total PHARE funds for agriculture as % of ag GDP	EU contribution to PHARE agriculture funds per farm labor (euro)	EU Funds for SPS	
			Total funds for SPS-related projects	of which EU contribution			as % of ag GDP	per farm labor (euro)
Lithuania	53	40		24	13.0%	206	5.9%	93
Poland	306	179	204	115	6.6%	119	2.5%	45

*Source:* PHARE project lists were provided by the Poland and Lithuania Ministry of Agriculture; Eurostat; World Bank Development Data Platform Time Series.

*Note:* The PHARE program is mainly for public sector institution building. Funds for SPS under PHARE include projects on veterinary and phytosanitary control, veterinary and phytosanitary border control, enforcement of the EU food control system, development of animal tracing and epidemiological surveillance systems, strengthening food control laboratories, and others.

# COSTS and COSTS BREAKDOWN

## SAPARD Expenditure 2000–2006

Country	Total SAPARD (million euro)	Total EU contribution to SAPARD (million euro)	SAPARD investment in agro-processing and marketing									
			Total costs (million euro)	Total public expenditure (million euro)	of which EU contribution (million euro)	Private contribution (million euro)	Total (7 yrs) as % of ag GDP	Annual avg as % of ag GDP	Total (7 yrs) per farm labor (euro)	Annual avg per farm labor (euro)	Total SAPARD as % of ag GDP	Total SAPARD per farm labor (euro)
Czech Republic	324	154	105	52	39	52	12.2%	1.7%	491	70	37.9%	1518
Estonia	243	86	42	21	16	21	27.2%	3.9%	1107	158	159.1%	6466
Hungary	703	266	182	73	55	109	9.7%	1.4%	822	117	37.5%	3177
Latvia	387	153	106	53	40	53	48.7%	7.0%	755	108	178.1%	2763
Lithuania	542	212	129	58	44	71	31.8%	4.5%	503	72	132.9%	2108
Poland	2659	1201	1196	598	448	598	25.6%	3.7%	465	66	57.0%	1035
Slovak Republic	294	128	90	45	34	45	26.0%	3.7%	700	100	85.4%	2298
Slovenia	156	45	76	27	18	49	17.7%	2.5%	1004	143	36.5%	2069
Bulgaria	808	121	230	115	86	115	14.1%	2.0%	789	113	49.5%	2777
Romania	2083	1073	468	234	176	234	11.1%	1.6%	137	20	49.4%	611
Total	8200	3439	2622	1275	954	1347	17.7%	2.5%	357	51	55.4%	1117

Source: Country SAPARD programs; Eurostat; World Bank Development Data Platform Time Series.

Note: The SAPARD program is used mainly to prepare the agricultural sector and rural areas in candidate countries for EU membership. It runs from 2000 to 2006. The national SPARD programs vary from country to country, but typically funds are allocated to the following priorities:

- Investment in agricultural holdings;
- Improving agro-processing and marketing;
- Diversifying economic activities in rural areas;
- Rural infrastructure, agri-environment, and so on.

(Special accession programme for agriculture and rural development)

# LESSONS FOR CAREC

- Replacing GOST-based systems with WTO-compliant systems has proven difficult.
- The capacity to implement the changes in quality and safety management required for access to OECD markets varies across the CIS countries.
- CIS countries have diverse opportunities for integrating into trade systems beyond CIS.
- The Russian Federation is the major trading partner with the CIS countries, and its joining the WTO in 2012 represents a dominant factor in their economic futures.
- Overhauling laws and regulations completely on food safety, plant health, and animal health regulation; international experience; legal skills; and language skills.
- Prioritization of legislative tasks focusing on market opportunities and major health and commercial risks.
- The rule of law will need to be strengthened and transparency increased to reduce the discretionary powers and rent-seeking opportunities of the implementing agencies.
- Reducing the number of institutions involved in SPS and quality management, realigning mandates, and abolishing overlaps of responsibility.
- Establishing risk assessment or risk evaluation as the basis for SPS policymaking (data and skills)
- Overhauling work programs for inspection and monitoring thoroughly (risks, costs, and benefits).
- Reorganizing, consolidating and upgrading testing facilities.
- Upgrading staff skills and approaches to new tasks in all policy units and services.
- Upgrading private enterprise capacities in GAP, GMP, quality and safety management, supply-chain management, sanitary practices, infrastructure, and marketing.

# INTRODUCING THE BALTIC LEADERS OF SPS MODERNIZATION

Our next speakers will be the representatives of the SPS transition teams from Lithuania and Latvia.

Mr. Vidmantas Paulauskas, Deputy Director of State Food and Veterinary Service, Lithuania

Ms. Biruta Amolina, Head of Foreign Relations and International Project Management Division, Food and Veterinary Service, Latvia

They will present the overviews of each country's experience in modernizing SPS measures, including:

- major changes in the standards control system
- what was done with GOST standards?
- major changes in inspection programs and laboratory system
- public funding of the SPS system
- most challenging aspects of the transition
- extent of private sector involvement/consultation
- how resistance to reform was overcome
- how transition costs were funded
- what could have been done better

**Thank you**

**谢谢**

**спасибо**