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Empirical insights on the dynamics of SPS trade costs: The role of regulatory convergence and experience in EU dairy trade

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HIGHLIGHTS

- EU's Sanitary and Phytosanitary (SPS) measures create significant barriers to dairy trade.
- Regulatory convergence between the EU and trade partners significantly reduces trade costs.
- Experience in trading with the EU mitigates the negative impact of SPS measures over time.
- Larger exporters to the EU, such as the USA and New Zealand, benefit from aligning SPS measures with EU standards.
- Smaller exporters face challenges in offsetting SPS-induced trade costs despite regulatory convergence.

The EU's SPS measures, while essential for food safety, impose substantial trade costs on dairy trade. Regulatory convergence and trade experience play critical roles in mitigating these costs, especially for larger exporters. Policymakers must focus on harmonizing regulations, supporting capacity building, and leveraging trade experience to foster a conducive environment for dairy trade.

INTRODUCTION

BATModel Researchers published a study examining the regulatory heterogeneity between the EU and third country in dairy trade.

partners in behind the border Sanitary and Phytosanitary (SPS) measures.

The European Union's (EU) implementation of stringent Sanitary and Phytosanitary (SPS) measures aims to ensure food safety and sustainable agricultural practices. However, these measures can inadvertently act as trade barriers, particularly impacting non-EU countries seeking market access. This policy brief examines the extent to which regulatory convergence and trade experience can mitigate the trade-dampening effects of the EU's SPS measures on dairy trade. By identifying pathways to facilitate trade while upholding SPS standards, this brief provides actionable insights for policymakers and stakeholders.

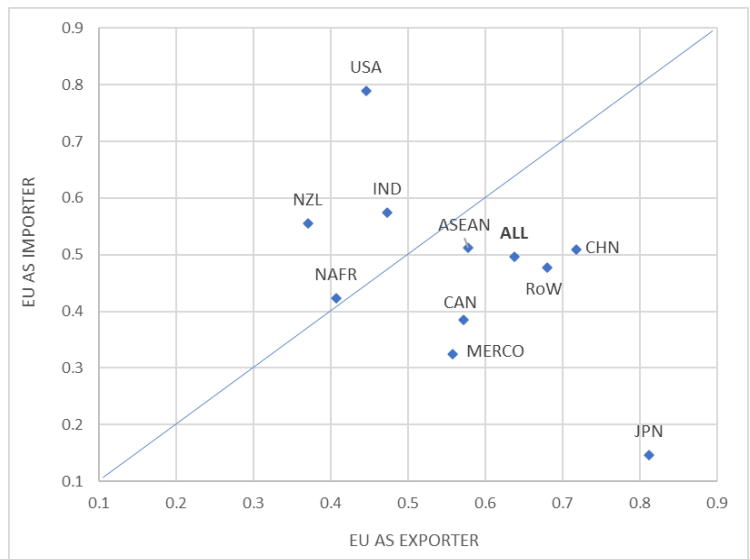
DATA AND METHOD

This study utilizes a panel dataset covering EU dairy trade with 67 exporters and 96 importers from 2010 to 2016. A structural gravity model, inclusive of domestic trade, estimates the trade impact of SPS measures. The analysis introduces Regulatory Overlap (RO) and Experience (EXP) indicators to assess their moderating effects on trade. The Ad-Valorem Equivalent (AVE) of SPS measures quantifies their trade cost, while tariff data provide a comparative benchmark.

MAIN RESULTS

The findings reveal an average AVE of 10.4% for SPS measures, indicating substantial trade barriers. Regulatory convergence with the EU's SPS measures yields a 14.4% reduction in AVE trade costs, equivalent to five years of positive trade experience. Additionally, every incremental year of trading experience reduces SPS-induced trade costs by 2.9%. However, the benefits of regulatory convergence and experience are not uniform across trading partners. Large exporters to the EU realize greater trade cost savings than smaller exporters when aligning with EU standards, suggesting an asymmetry influenced by market size and trading history.

Figure 1. The asymmetric Regulatory Overlap of behind the border SPS categories in bilateral trade with the EU



Notes: own calculations based on UNCTAD (2018). Averages in the estimation sample across sectors, years and countries within the group.

POLICY RECOMENDATIONS

- **Promote Regulatory Convergence:** Encourage alignment of SPS measures between the EU and trading partners, potentially through deeper integration within trade agreements, to realize significant trade cost savings and improve market access.
- **Facilitate Capacity Building:** Provide technical assistance and knowledge sharing to smaller exporters to the EU to help them meet EU SPS standards more effectively, thus reducing compliance costs.
- **Incentivize Trade Experience:** Acknowledge the value of long-term trade relationships by implementing measures that simplify and expedite trade for experienced exporters, fostering a positive trade history with the EU.
- **Balance Protection and Trade Facilitation:** Regularly review SPS measures to ensure they are necessary and proportionate, maintaining a balance between safeguarding food safety and facilitating trade.
- **Enhance Transparency and Dialogue:** Increase the transparency of SPS measure formulation and application and maintain active dialogue between trading partners to address concerns and minimize trade frictions.