



PAGE 4: B.1) YOUR CASE STORY: TITLE AND DESCRIPTION

Q1: TITLE OF CASE STORY

Non-Tariff Measures Raise Food Prices and Hinder Regional Integration in Central America

Q2: CASE STORY ABSTRACT

This project set up a two-year window of financing for technical and advisory services in support of trade facilitation efforts aimed at deepening regional integration in Central America. The focus of the project was on improving the quality of the trading environment by enhancing the efficiency of the supply chain. These priorities were fully aligned with those of the Bank's Aid-for-Trade strategy. The program had four broad components, based on discussions and requests from the region: implementing an improved, harmonized system across customs' agencies; establishing single-window merchandise clearing, in order to reduce transactions costs; advice on strengthening and standardizing quality control; and improving the trading capacity of small market participants, especially agricultural producers. The case study below covers one aspect of this project, which consisted of the creation of a new data set and the analysis of sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT) in the region in comparison with other parts of the world.

Q3: LONG DESCRIPTION OF THE CASE STORY

It is July 2012 and cattle farmers in Nicaragua are worried because Guatemala has enacted a series of laws that restrict beef trade. These so-called "non-tariff measures," or NTMs, require that beef crossing the Guatemalan border meet stricter safety and labeling standards. The Guatemalan government argues that these measures protect the country's consumers from health hazards. But the Nicaraguan farmers say they hurt business and unfairly shelter Guatemalan producers from competition.

This is just one example of the debates that arise in the food industry in Central America and elsewhere. While it is laudable and good policy for a government to use legitimate, non-trade related legislation to protect its citizens from certain risks, governments can also use these measures to protect domestic industry. Regardless of their intention, in an increasingly globalized, competitive world, non-tariff measures increase the cost of doing business, impact prices, affect the competitiveness of the private sector, and impact the overall welfare of the economy.

In a recent study, I looked into how non-tariff measures affect regional integration in Central-America. My emphasis was on the role of sanitary and phytosanitary (SPS) measures, because they are applied to agricultural products and processed food, which drives intraregional trade. The study, "Non-tariff Measures in Central America, Incidence, Price Effects, and Consumers' Welfare," examines the prevalence of NTMs in the region and examines their impact on import prices. I found that these measures are unusually widespread in Central America. Within the region, Guatemala, Nicaragua, and Honduras use them most frequently; Costa Rica has the lowest reported application.

There is some evidence that non-tariff measures have replaced the more straightforward import tariffs. The 2012 World Trade Report, for example, shows that NTMs now restrict trade more than tariffs do. In Central

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America, non-tariff measures are creating obstacles that hinder effective trade integration, despite the existence of the CAFTA-DR trade agreement. The issue is sometimes not about the measure itself, but about the way it is applied. If a measure is applied in an inefficient or confusing manner, that process can increase the cost of compliance or the clearance time, which delays the product's entrance into the market.

These measures can have unintended negative consequences for consumers. One major impact is on food prices: Our study estimates that SPS measures—such as inspection requirements or labeling standards for meats and grains – increase import prices in Central America by approximately 30 percent, on average.

This is because firms must expend time and money to comply with any measures that affect their products. In El Salvador, for example, the entry of foods and drinks into the sanitary registry – a process that verifies that all the products meet the country's SPS standards – requires between 48 hours (for low-risk goods) and 20 days (for goods that require laboratory testing). The company must then spend two to four weeks preparing a product file. They must also pay between 250 and 450 US dollars per item registration. When companies are faced with this type of requirement, some – especially if they are small – abandon the effort altogether. Others simply pass part of the cost on to the consumer. In Guatemala, we estimate that such measures increase the price of meat by 68.4 percent.

While some NTMs are effective policy tools to achieve non-trade objectives, such as the protection of human, animal and plant health, the imprudent use of these measures can hurt some of the world's poorest consumers. In Central America, it is essential that countries work together to simplify key non-tariff measures. This effort could have a tremendous impact on national and regional competitiveness.

In the study, we make specific suggestions for lessening the negative impacts of NTMs on the regional economy. In particular, the manner in which the countries' sanitary registries work is hindrance to deeper regional integration. The problem is that while there is mutual recognition of registries between countries, all exporters must produce paperwork for each individual country they want to enter. So, for example, if a Nicaraguan milk producer has registered her yogurt in Guatemala, when she goes to export it to Costa Rica, she must provide all the materials again. A solution that could make great strides in this arena is the formation of a regional, electronic database that centralizes documentation about the credentials that each firm submits to meet the sanitary registration requirements. This would lessen the time and cost burden on exporters, who now have to gather all the documentation each time they apply to a sanitary registry.

Support for the creation of such a database and work towards a regional information portal on non-tariff measures – similar to the one in place for South America through ALADI – would help exporters and importers better navigate the regulations. This would help Central American governments remedy imbalances that affect final food prices. And the reduction of food prices would be a big step in helping citizens in a region that has long struggled to overcome poverty and inequality.

Q4: Please add here web links to project/programme materials.

http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2013/12/24/000442464_20131224114656/Rendered/PDF/835670WP0P12020Box0382091B00PUBLIC0.pdf

http://econ.worldbank.org/external/default/main?pagePK=64165259&piPK=64165421&theSitePK=469372&menuPK=64166093&entityID=000158349_20140506092257

<http://siteresources.worldbank.org/EXTPREMNET/Resources/EP128.pdf>

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Q5: YOUR CONTACT DETAILS	
Name:	Miles McKenna
Ministry/Institution/Organization:	World Bank
Country:	USA
Email Address:	mmckenna@worldbank.org
Q6: FUNCTION	Public sector
Q7: FUNDING PARTNER Tick the appropriate box(es)	Other (please specify) Funding was provided through the Trade Facilitation Facility, a multi-donor trust fund managed by the World Bank Group.
Q8: Additional information	
http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:22109269~menuPK:5937761~pagePK:210058~piPK:210062~theSitePK:239071,00.html	
Q9: START DATE OF PROJECT/PROGRAMME	11/2009
Q10: STATUS OF PROJECT/PROGRAMME	Fully implemented
Q11: DURATION OR, IF ON-GOING, EXPECTED DURATION OF PROJECT/PROGRAMME	3-5 years
Q12: COST OF PROJECT/PROGRAMME	Between US\$1 million and US\$5 million
Q13: Additional information	<i>Respondent skipped this question</i>
Q14: TYPE OF FUNDING FOR PROJECT/PROGRAMME	Grant

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Q15: PROJECT/PROGRAMME TYPE	Regional
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Q16: SINGLE COUNTRY/CUSTOMS TERRITORY	<i>Respondent skipped this question</i>
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Q17: REGION (If the region does not appear in the drop down menu, please enter manually.)	Other (please specify) Central America
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Q18: MULTI-COUNTRY (Enter all countries or customs territories)	<i>Respondent skipped this question</i>
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Q19: CASE STORY FOCUS Tick the appropriate box(es)	REDUCING TRADE COSTS FOR MERCHANDISE GOODS , Customs reform, Other border agency reforms, Support for compliance with non-tariff measures (including standards) , Upgrading transport infrastructure, REDUCING TRADE COSTS FOR SERVICES, Improving the regulatory environment for services
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Q20: HOW SUCCESSFUL WAS THE PROJECT/PROGRAMME Tick the appropriate box(es)	Successful
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Q21: WHAT WERE THE OUTPUTS OF THE PROJECT/PROGRAMME Tick the appropriate box(es)	Other (please specify) See additional information.
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Q22: Additional information(maximum 300 words)

Activities to increase competitiveness of the export basket included diagnostic/analytical work on export performance, infrastructure for unlocking exports, SEZs, innovation, and quality systems.

Activities to modernize customs administration included diagnostic/analytical work using the Customs Assessment Trade Toolkit (CATT) in Costa Rica, Nicaragua, and El Salvador. Technical assistance included a strategic plan drafted in Costa Rica; control strategy and risk management assistance in Nicaragua and Costa Rica; assistance with non-intrusive means of control in Costa Rica; border management assistance in Costa Rica; and capacity building for customs in Nicaragua. Capacity building/knowledge sharing events were also held in Nicaragua and Costa Rica.

Other capacity building/knowledge sharing events were also carried out to promote regional dialogue and consensus.

Activities to assess and enhance transport and logistics included a Trade and Transport Facilitation Assessment (TTFA) in Nicaragua; a Central America trucking survey; multiple studies on the challenges for road freight in Central America; and transport and logistics country policy notes for Honduras and Guatemala.

Activities to improve regulatory provisions and procedures included diagnostic/analytical work on the economic incidence and price rising effects of non-tariff measures in Central America; a specific look at NTMs in Costa Rica; Registro sanitario de alimentos y bebidas: Analisis de procesos y costos; Costos de cumplimiento de medidas no arancelarias en Centroamerica: Analisis de productos alimenticios en Guatemala, Honduras, y Nicaragua. Technical assistance was also given in the creation of an inventory of non-tariff measures. Capacity building/knowledge sharing events were also held in Costa Rica.

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Q23: WHAT WERE THE OUTCOMES OF YOUR PROJECT/PROGRAMME Tick the appropriate box(es)

Other (please specify)

This project was an analytical and advisory activity (AAA) based on technical assistance, not a direct intervention to reduce trade costs.

Q24: Additional information(maximum 300 words)

Respondent skipped this question

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Q25: WHAT WERE THE IMPACTS OF THE PROJECT/PROGRAMME Tick the appropriate box(es)

Other (please specify)

This project was an analytical and advisory activity (AAA) based on technical assistance, lessons learned are provided below.

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Q26: Additional information(maximum 300 words)

The main findings of the work supported by the TF are the following (grouped by thematic area): 1) Trade competitiveness and diversification: Overall, exports are concentrated in relatively low-value added products, such as textiles, coffee, sugar, ignition wiring sets (auto part), and shrimp. The bulk of regional exports originate from foreign owned firms located in Special Economic Zones (SEZs), with a concentration in the clothing and auto parts sectors. Export growth is driven by existing products in existing markets. Very little introduction of new products in new markets is observed. DR-CAFTA tariff reductions had limited impact on exporters in Guatemala and El Salvador in increasing exports to new markets, suggesting that a complementary agenda beyond tariff reductions is necessary to achieved sustainable export gains. There is untapped potential to increase trade to South America, BRICs (Brazil, Russia, India, and China), and Mexico. Intra-regional trade appears to be close to its potential. 2) Customs administration: CATT assessments in Costa Rica, El Salvador and Nicaragua showed that there continues to be a lack of integration between customs procedures that cause time delays and control management problems. They also demonstrated a lack of strategic thinking that is preventing customs from benefiting from technological and administrative advancements. Follow-up technical assistance helped address some of these weaknesses: In Costa Rica, a strategic plan was drafted based on government supported policies and advised by international best practices. Follow up assistance was provided to implement the plan among the various stakeholders. Assistance on control strategies and risk management systems primarily helped to expedite existing systems through the implementation of more sophisticated risk assessment mechanisms. In Nicaragua, assistance was delivered to provide adequate technical and administrative control systems of risk, classification, valorization, and merchandise origin designation. 3) Trade logistics and transport: The analysis on infrastructure and logistic services identified significant trade and competitiveness obstacles. The road network in the region reveals large infrastructure deficiencies in the secondary and tertiary networks. Poor quality of rural roads limits accessibility of farmers to market (above all during the rainy season) and increases transport times and costs, especially for producers of time-sensitive products. Time delays, particularly during the first transport segment from the farm gate to the consolidation center, can also lead to major product losses for producers. Logistics facilities could also be improved. There is a limited availability of refrigerated storage facilities, distribution or processing centers by production zones in rural areas delays the time it takes to transport products from farm to processing centers, leading to delays and product loss. The state of ports in the region vary widely, with most still mired in outdated practices, yet to introduce private terminal operators who bring with them modern practices. With regard to freight transport, the assessment finds the region faces inefficiency in many of the elements that are necessary for a well-functioning transport sector including institutional and regulatory frameworks, border management, firms and independent owners' operation and management, use of technology, financing, and infrastructure planning. 4) Non-tariff measures: Central America is one of the regions where NTMs are especially prevalent. The Central America level of coverage is only comparable to that of South Asia, a region well known for the use of NTMs as trade barriers. On average, around 70 percent of tariff lines in the region are affected by at least one NTM.

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Q27: LESSONS LEARNT Tick the appropriate box(es)

Importance of alignment between different development partners in programming

Importance of attention to long-term sustainability

Q28: Additional information(maximum 300 words)

Respondent skipped this question

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Q29: PROJECT OR PROGRAMME MONITORING AND EVALUATION FRAMEWORK Tick the appropriate box(es)

Other (please specify)

This AAA provided technical assistance that helped to further inform on-going policy and project design in Central America, and therefore M&E are on-going.