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THE APPLICATION OF REGIONALIZATION IN THE MEAT TRADE: WHY THE RELUCTANCE?

Currently, the world meat trade is undergoing substantial changes as a consequence of the spread of transboundary animal diseases. These diseases have resulted in the implementation of trade embargoes applied nation-wide against infected countries, contrary to the principle of regionalization. This principle allows a country to declare part of its territory free from a given disease even though there have been outbreaks in other regions thus averting the need to suspend all exports. Its application consists in the formal recognition that a zone is disease- or pest-free.

This article presents some of the disputes caused by reluctance to apply the regionalization principle in the case of the three main transboundary diseases that have affected meat trade in recent years: "mad cow disease", foot and mouth disease, and avian flu. This article analyses the positions taken by some consumer markets and the challenges that the principal exporting nations have faced when confronted with trade embargoes.

Some of the conclusions presented in this article are based on the study "Gripe aviar: los impactos comerciales de las barreras sanitarias y los desafíos para América Latina y el Caribe, *Comercio internacional series*, No. 76 (LC/2576-P), Santiago, Chile, July 2006, available at

http://www.eclac.cl/publicaciones/Comercio/9/LCL2579P/S76CI-L2576e-P.pdf .

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I. Introduction

Intensification of international trade has made recognition of disease-free areas or low prevalence areas (regionalization)[1] increasingly important as a factor that facilitates the free flow of products. Indeed, the emergence of a disease that endangers human health usually triggers a decrease in the consumption of the product in question and the imposition of sanitary barriers by importing countries. Such circumstances cause a decrease in imports and make access to consumer markets more difficult.

The legitimacy of protecting domestic markets against the entry of foods that endanger human health is unquestionable. However, it is also undeniable that transboundary diseases have created circumstances that lead to a new wave of sanitary restrictions, some of which - for example, the indiscriminate embargos imposed on whole countries and even entire continents in which the disease has not even been detected - are totally without scientific justification. Such policies transgress the principle of regionalization. Furthermore clear differences exist among member-States regarding interpretation and implementation of the rules and guidelines of international organizations. Each country has the right to set its own level of sanitary or phytosanitary protection (article 3 of the Agreement on the Application of Sanitary and Phytosanitary Measures). These facts are reflected in the high number of complaints brought before the Committee on Sanitary and Phytosanitary Measures of the World Trade Organization (WTO) regarding the reluctance of countries to apply the principle of "regionalization".[2]

II. APPLYING THE PRINCIPLE OF REGIONALIZATION IN RELATION TO THE MAIN TRANSBOUNDARY DISEASES

(A)"Mad Cow" disease (Bovine Spongiform Encephalopathy (BSE)

When bovine spongiform encephalopathy (BSE) or "mad cow disease" was detected for the first time in 1986, outbreaks were restricted to the United Kingdom and a few European countries. However, outbreaks spread to important beef exporters such as Canada and the United States of America . [3] In Canada , the outbreak of BSE detected in May 2003 in the province of Alberta meant losses of 333 million dollars in 2003 for the Canadian cattle industry. When compared with the value of exports of the previous year (25% reduction), this equates to a decrease of 207,000 metric tons in its total beef exports (see table 1). The United States , which receives more than 80% of Canadian beef exports,[4] imposed an embargo on the importation of Canadian beef following this outbreak of BSE. This caused a reduction in Canadian beef exports from 461,000 to 323,000 metric tons between 2002 and 2003.

Some months later, the United States faced the same commercial difficulty when this disease was detected in a single cow in Washington State . The initial reaction of the international market was the immediate suspension of purchases of all beef from the United States beef, causing a loss of US$ 2.612 billion in 2004 exports (see Table 1). The volume of beef exports fell from 1.1 million tons to 201,000 in 2004. Canada , which had been the fourth largest consumer of United States beef in 2003, with an imported volume of 106,000 tons, reduced this amount following the outbreak in the United States to 27,000 tons in 2004.[5]

Table 1

VARIATION IN BEEF EXPORTS

(in millions of United States dollars)

	2000	2001	2002	2003	2004	Decrease
Canada	1,182	1,339	1,322	989	1,444	**-25% (2002/2003)**
United States	3,252	2,696	2,644	3,196	584	**-82% (2003/2004)**

Source: FAOSTAT, 2006.

The disease, in both cases, was detected in only one animal on one farm. However, the losses amounted to over US$ 2 billion dollars in the United States . This commercial loss could have been minimised if there had been less resistance to the application of the principle of regionalization in international trade relations.

B) Foot and mouth disease

The introduction of regionalization in international rules has had a significant impact on the growth of South American beef exports in recent years. The principle is fundamental for vast countries, such as Argentina and Brazil , which report diseases that are restricted to one specific geographical zone. Both of these countries have promoted their beef exports from zones free of foot and mouth disease, thus avoiding, through regionalization, the application of a total embargo on meat from the entire country. In the past five years, Argentina has increased the value of its exports by 11%, and Brazil by 33% in spite of the isolated outbreaks of foot and mouth disease that occurred throughout this period (see table 2).

Table 2

PRINCIPAL BEEF EXPORTERS IN LATIN AMERICA AND THE CARIBEAN

(in millions of dollars)

	2000	2001	2002	2003	2004	INCREASE (2000-2004)
Argentina	662	249	475	595	1,020	**11%**
Brazil	783	1,009	1,090	1,508	2,429	**33%**

Source: FAOSTAT, 2006

This situation would have been better if certain markets had not suspended Brazilian and Argentine beef imports from regions unaffected by the disease. Reluctance to apply the principle of regionalization explains why, in the first 10 years of operation of the World Trade Organization (1995/2004), Argentina, followed by Brazil, presented more notifications on this issue than any other country in the region. This is because these countries are the first and fifth largest beef exporters in volume terms (2004). They are also the most adversely affected in the region by outbreaks of foot and mouth disease in their herds, thus making them dependent on regionalization in order to continue exporting.[6]

The recent outbreak detected in the province of Corrientes (Argentina) in February 2006 illustrates the varied reactions of countries facing the same sanitary risk. In this event, there are countries that have only embargoed exports from this region and other countries that have embargoed the exports of all Argentine bovine meat even though, for example, matured, boned meat is not a vector for the transmission of foot and mouth disease. This issue has been the subject of the most recent trade dispute regarding the reluctance to apply the principle of regionalization in Latin America . It could even lead to the imposition of a trade complaint in the Dispute Settlement Mechanism of the World Trade Organization, if the total embargo on Argentine beef is maintained. Important markets for Latin American exports, such as the European Union, have applied the principle of regionalization on various occasions, as in the case of the latest outbreak in the province of Corrientes , when it restricted its embargo on beef to exports from the affected region only. European governments have used regionalization as it guarantees the export of its own beef and poultry products in spite of various outbreaks of “mad cow” disease and bird flu in its territory.

(C) Bird Flu

The case of bird flu once again brings generalized trade embargoes to the fore of the debate. An analysis of urgent notifications sent to the World Trade Organization and those reported by the European Commission (between 2005 and May 2006) reveals that many countries have completely prohibited poultry imports or in some cases imports coming from an entire continent, whether or not the disease has been detected throughout its territory (see table 3).

Table 3

TRADE EMBARGOES ON EUROPEAN POULTRY EXPORTS

(March and April 2006)

Countries applying embargo	Embargo extension	Application of regionalization
Angola, Azerbaijan, Bulgaria, Cameroon, Cuba, Egypt, Jordan, Kenya, Panama, Papua New Guinea, Philippines, Republic of Korea, Senegal, South Africa, Syria, Togo, United Arab Emirates,	The entire European Union	No

Source: DG Trade, European Commission, SPS Trade Barriers Fiches <online>.

The unwillingness of the United Arab Emirates and South Africa to apply the principle of regionalization creates an additional concern for Latin American exporters. The United Arab Emirates is one of the leading poultry importers in the world. In 2004, this country was the seventh largest importer of Brazilian products, accounting for 122,000 metric tons or 4.6% of the total volume of Brazilian poultry exports. South Africa is another leading consumer of Brazilian poultry products and is the largest importer in Africa . This country was

the sixth major importer in 2004, corresponding to 6% of the total volume of Brazilian poultry exports for that year. In the case of a hypothetical spread of bird flu to the American continent and of a possible trade embargo by the United Arab Emirates and South Africa, Brazilian poultry exports would fall by 270,000 metric tons or approximately 70% more than the total exported to other countries in Latin America and the Caribbean (156,000 tons in 2004).

III. PRINCIPAL DIFFICULTIES FOR THE COUNTRIES IN THE REGION

Within the World Trade Organization, the issue of regionalization continues to be treated as a high priority on the agenda of the Committee on Sanitary and Phytosanitary Measures. There continue to be important differences among members that want importing nations to recognize their exporting zones as free from disease without too much bureaucracy, particularly in cases where this status has been recognized by the standard-setting bodies and by countries that adopt a more cautious approach to such recognition. According to Latin American countries, failure to apply the principle of regionalization results in lack of clarity, delays and inconsistency in terms of the requirements, procedures and results demanded by importing nations before consenting to recognize and officially declare a zone free from disease.

According to notifications sent to the World Trade Organization, the countries of the region are making substantial investments in the control and eradication of pests and diseases with the objective of obtaining pest- and disease-free zones and gaining access to markets for their livestock products. However, the uncertainty caused by the absence of a properly defined administrative procedure for the recognition of regionalization turns these investments into high-risk ventures and limits market access. The other significant challenges for regional exports are the fact that various importing nations are unwilling to accept the recognition made by the competent international organizations and the imposition of excessive red tape, which causes delays in the recognition of disease-free areas.[7]

The current debate in the World Trade Organization is focused on two points: (i) the specification of a maximum period to recognize that a region is disease- or pest-free and (ii) the jurisdiction for the issuance of administrative and technical guidelines.[8] It is interesting to cite an example involving Colombia that shows the problems faced by the countries of the region in order to obtain recognition of disease-free regions (see World Trade Organization document G/SPS/GEN/612).

Difficulty in obtaining recognition of disease-free regions (average: 2 years)

	10 months		7 months	
Nov. 2003 Colombia requests recognition by the importing country of regions free from foot and mouth disease in order to make its exports to that country viable.	---->	**Sept. 2004** Importing country requests clarification. Colombia prepares a new document proposing a reduced area in line with the importer's request.	---->	**Apr. 2005** Colombia requests an answer relating to the documents presented. The importing country replies that the said documents are still being studied.
	6 months			
May 2005 Colombia sends the requested complementary documentation.	---->	**Nov. 2005** The importer submits the observations of the evaluation completed to date.	---->	**Dec. 2005** Colombia reports that there is still uncertainty regarding the recognition of its foot and mouth disease-free regions (G/SPS/GEN/612

In a similar case Peru faces difficulty in exporting animals and animal products in spite of already being officially recognized by the World Animal Health Organization as an FMD-free area. The Peruvian government reported that the excessive requirements laid down by the health authority of the importing nation created delays. Furthermore an additional demand was imposed that could not be met by Peru (related to the establishment of a compensation fund).[9] The countries of the region argue that the importing countries, which have the discretion to select the documents they consider necessary for recognition of regionalization, have used this power as a strategy in order to stall imports. The degree of freedom that this implies allows importing countries to deviate from the guidelines established by the competent international organizations and apply their own requirements in order to recognize a given area as disease-free. Facing these challenges, the countries of the region have presented various proposals. Chile has suggested the preparation of a notification form to be used to notify countries of the recognition (or rejection) of an area as free from pests and disease (G/SPS/W/181). Argentina has presented the most controversial issues regarding the recognition procedure (G/SPS/GEN/606). Colombia has presented a flowchart with the necessary steps in an effort to facilitate recognition (G/SPS/GEN/611).

IV. CONCLUSION

The decision to close the border when a neighbouring country detects the presence of a disease does not seem to be the most appropriate measure for three basic reasons: (i) it infringes international regulations; (ii) it generates an unjustified financial loss in other regions of the exporting country that are not affected by the disease; and (iii) it weakens the case for enforcing this registration in the event of the opposite situation occurring, since no country is completely safe from the spread of diseases or pests to its territory, owing to the intensity of current trade flows.

In view of the fundamental importance of the principle of regionalization for agro- exporting countries, the efforts of the WTO Committee on Sanitary and Phytosanitary Measures should be focused on the most important challenges: (i) determining which organization will be responsible for issuing guidelines that explicitly state the procedure that countries must follow in order to recognize the disease situation in other countries and effectively incorporating them into the national legislation of member countries; (ii) increasing cooperation programmes among member nations, particularly among neighbouring nations, for the cases that require adaptation or regulations or technical trainingand; (iii) including in the international regulations a less complicated procedure that would allow the automatic recognition of an area as disease-free if recognized as such by international bodies.

Countries have responded in different ways when asked to recognize the principle of regionalization. This has implied different procedures depending on the demands of the individual country. Furthermore, the periods involved in obtaining recognition have varied considerably owing to the lack of transparent guidelines in the administrative process involved in the recognition of sanitary and phytosanitary situations. [10] In this context, it is important that countries, under the guidance of international organizations and the Committee on Sanitary and Phytosanitary Measures, promote a synergy of efforts in order to balance procedural requirements that promote the degree of sanitary protection scientifically required, without implying unjustifiable excesses or over-flexibility stemming from fear. It must not be forgotten that regionalization is the instrument that has allowed hundreds of countries that today present some type of disease to continue exporting products from non-affected areas. For this reason, regionalization warrants special attention from the international community.

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[1]The principle of regionalization, set out in article 6 of the Agreement on the Application of Sanitary and Phytosanitary Measures of the World Trade Organization (WTO), requires governments to recognize regions situated in other countries as safe import sources of food and animal and plant products, instead of applying measures to the entire territory of a given country. The International Plant Protection Convention (IPPC) contains three rules relating to regionalization: 1) No. 4 regarding the requirements for the establishment of pest-free areas; 2) No. 10 regarding the establishment of pest-free production areas and 3) No. 22 regarding the requirements for the establishment of areas of low-pest prevalence. Furthermore, the Terrestrial Animal Health Code of the World Organisation for Animal Health sets out the requirements for “disease-free status”.

[2] World Trade Organization, “Review of the Operation and Implementation of the Agreement on the Application of Sanitary and Phytosanitary Measures (G/SPS/36), 11 July 2005; and “Specific Trade Concerns” (G/SPS/GEN/204/Rev.5), 25 February 2005.

[3] The countries of Latin America and the Caribbean are considered free of bovine spongiform encephalopathy (BSE).

[4] In 2004, of 556,000 metric tons exported by Canada , 461,000 were sent to the United States . Source: *Meat Market Assessment* (FAO).

[5] Source: *Meat Market Assessment* (FAO).

[6] G/SPS/GEN/204?Rev.5. *Specific Commercial Concerns*, 25 February 2005.

[7] G/SPS/GEN/611 (Colombia); G/SPS/GEN/608 and G/SPS/GEN/609 (Brazil); G/SPS/GEN/440/Rev.1 and G/SPS/GEN/622 (Mexico); G/SPS/GEN/606 (Argentina); G/SPS/GEN/607 (Peru); G/SPS/GEN/610 (Chile); and G/SPS/GEN/623 (Ecuador).

[8] Some countries (Argentina , Brazil , Chile , Peru and the members of the European Union) wish the Sanitary and Phytosanitary Measures Committee to establish clear and predictable administrative directives even though international organizations (OIE, IPPC) continue preparing technical guidelines. Other members (Canada , New Zealand and the United States) believe the Committee should wait for the organizations to present their guidelines in order to proceed to make good the possible deficiencies. See documents in footnote 2.

[9] G/SPS/GEN/607, 6 December 2005.

[10] G/SPS/GEN/610, 7 December 2005 (Chile).
