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SPS Measure as a Trade Policy Instrument: Focus on the Pork Industry

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1. Introduction

Technical trade barriers are a class of nontariff trade barriers that include a wide range of measures used by nations to control markets, safeguard consumers, or protect natural resources. These measures can also be used to discriminate against imports in order to support domestic industries. However, to ensure fair trade the WTO implemented measure encouraging member countries to base NTBs on established international standards. For the purpose of this article, Sanitary and Phyto-sanitary (SPS) measures were considered as an example.

SPS measures include all relevant regulations, requirements, and procedures used to ensure the safety of agricultural products for people, plants, and animals. This includes processes and production methods; testing, inspection, certification, and approval procedures; quarantine requirements for transporting animals or plants; procedures and methods of risk assessment; and packaging and labeling requirements related to food safety.

Governments use SPS as rules and procedures to make sure that food and beverages are safe to consume as well as to safeguard plants and animals from pests and diseases. Unfortunately, governments sometimes seek to disguise measures that are discriminatory, unduly burdensome, or not based on scientific evidence as legitimate SPS measures

Based on the aforementioned, Namibia implemented the SPS mechanism in the form of an import ban on pork and pork products beginning on August 9, 2022, in response to an outbreak of foot and mouth disease in South Africa between June 13, 2022, and August 5, 2022. This was done through the Directorate of Veterinary Services (DVS) in the Ministry of Agriculture Water and Land Reform (MAWLR). The South African Directorate of Animal Health confirmed the FMD outbreak, which affected six (6) provinces in that country subjecting

Namibia to a greater risk due to high import volumes of pork and pork products from South Africa. Hence, the import ban by Namibia was implemented to prevent the spread of FMD from South Africa to Namibia.

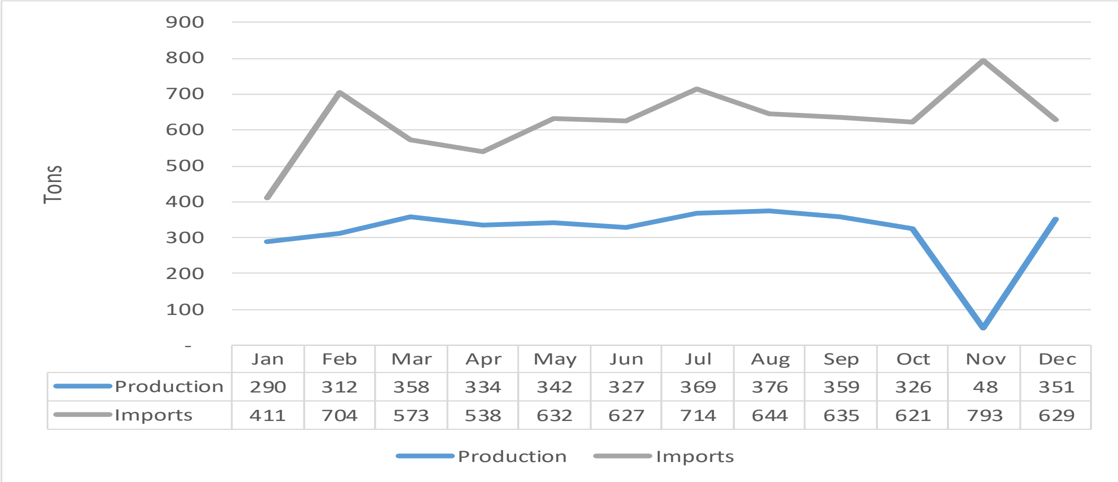
Following the implementation of the SPS measure, importation of pork and pork products origination from South Africa was subjected to entry restrictions into Namibia. The restrictions were applicable to products entering Namibia for consumption as well as on products transiting through Namibia to other markets. This policy measure has a number of implications, particularly since Namibia imports the majority of its pork and pork products from South Africa. This article is tailored to illustrate that picture by providing an overview of domestic production, imports, and government measures in support of the industry, implications and industry views.

2. Analysis of domestic production

Just like for many other products, Namibia remains heavily reliant on imports of pork to meet its domestic requirements. The country's dependence on foreign markets for this product is attributed to its low production capacity. Production of pork in Namibia depend on a few (13 registered) producers supplying to only two slaughtering abattoirs which caters for the entire country. Production figures provided by the Meat Board of Namibia show that in 2021 total production from registered producers stood at 3,793 tons, this represents an average production of 3126 tons per month. However, when compared to imports, a total of 7,520 tons was imported to fill the gap. This imply that the total supply of port to the domestic market amounted to 11,313 tons constituting of domestic production and imports. From this analysis it can be deduced that domestic production of pork represents 33.5 percent of total supply whereas imports represent the largest share of 66.5 percent. This is a clear indication of this sectors low production capacity exposing the country to risks associated with high dependence on imports.

Figure 1 is a reflection of monthly production and import figures for the year 2021, what is clear from this representation is that for every low monthly production figure there is higher import figure, for instance February, July and Nov recorded the lowest production figures of 312 tons, 369 tons and 48 tons respectively which corresponded to higher import figures (704 tons, 714 tons & 793 tons) respectively.

Figure 1: monthly production and imports of pork for 2021.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Production	290	312	358	334	342	327	369	376	359	326	48	351
Imports	411	704	573	538	632	627	714	644	635	621	793	629

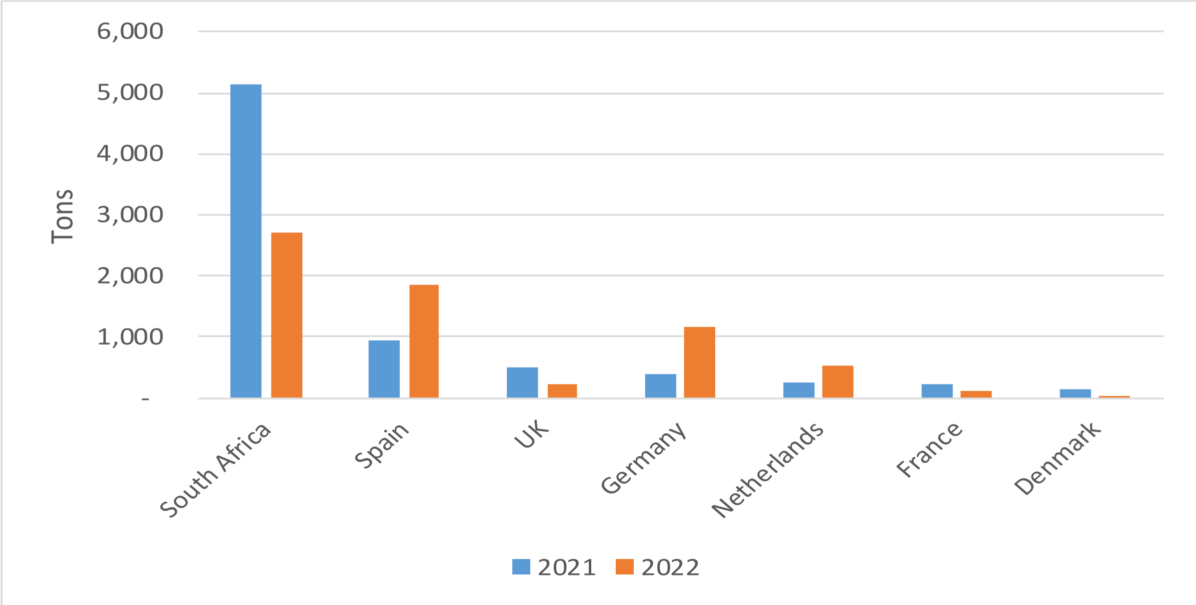
Source 1:Chart derived from figures provided by Meat Board of Namibia

Despite the low production capacity of the domestic industry, consumption of pork in the country remains high as reflected by the volume of imports. The high volume of imports is an indication of a shortfall in domestic production hence imports are used as cover up for the shortfall. This is a clear indication that the country cannot sustain itself from own production capacity as it consumes more than what it is able to produce.

3. Overview of imports by country

It was established in the foregoing section that due to Namibia's low production capacity of pork and pork products, the sector highly depends on imports from foreign markets. The high dependence of the domestic economy on other markets presents the country to fluctuations in the international market, for instance the current import ban on pork and pork products from South Africa due to the FMD outbreak in that country. The current import ban has put the domestic sector under pressure as South Africa remains a major player in supporting domestic demand with imports as shown in Figure 2. In 2021, South Africa supplied the domestic market with 5,142 tons of pork representing 68 percent of the 2021 total which stood at 7,562 tons. However, in 2021 South Africa imports into the domestic market declined to 2,709 tons representing 39 percent of total (6,892 tons) supply. Overall, imports from the rest of the world declined by 10 percent in 2022 while imports from South Africa declined by 90 percent. The huge decline in imports from South Africa is a direct impact of the SPS measure implemented by the Namibian government.

Figure 2: Import of pork by country

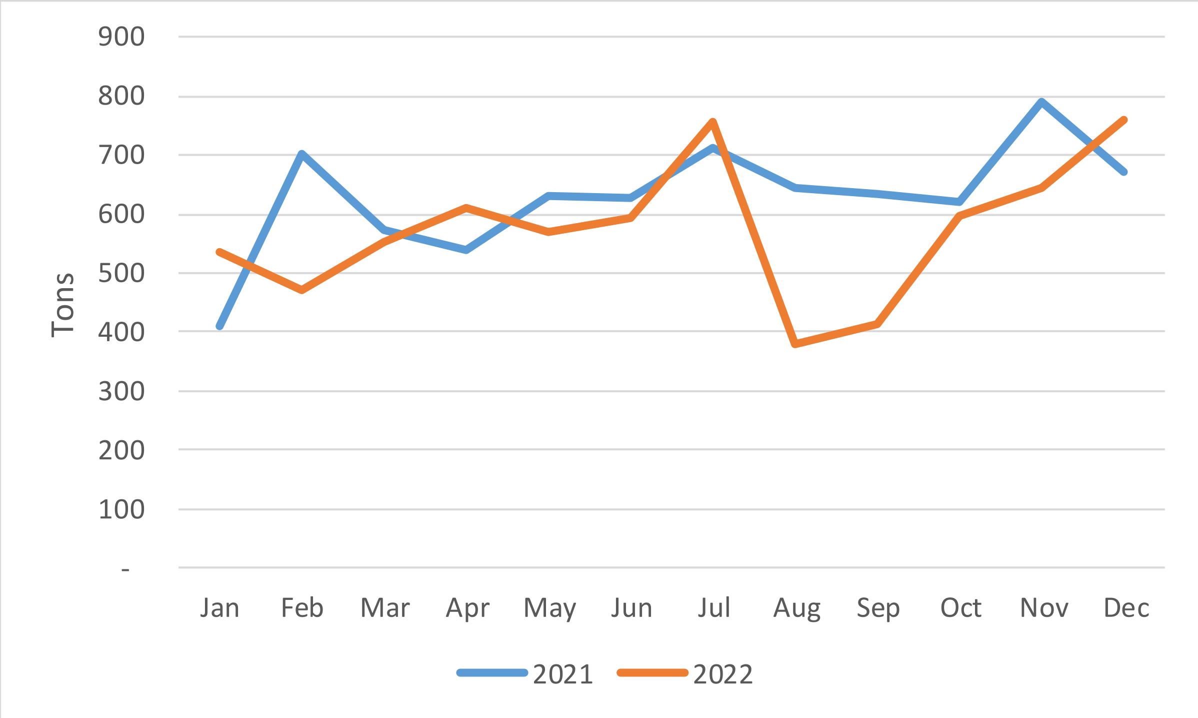


Source 2: Chart derived from data obtained from the Meat Board of Namibia

Following the decline in imports from South Africa, Figure 2 also show that a corresponding increase in imports from other countries was observed. For instance, imports from Spain rose by 50 percent to 1,862 tons after recording 934 tons in 2021, as a result Spain's market share grew from 12 percent in 2021 to 27 percent in 2022. Germany's imports into Namibia also rose resulting in that country's share rising from 5 percent in 2021 to 17 percent in 2022. The subsequent increase in imports from these markets following the import ban placed on South Africa's clearly shows that domestic importers were able to find alternative markets on the expense of developing/supporting the domestic market.

Further analysis of pork imports on monthly basis as reflected in Figure 3 show that for both 2021 and 2022 imports followed a similar trend between Jan to July. However, for 2022 it shows a sharp decline, falling by 100 percent from 756 tons in July to 378 tons in August. This noticeable decline is attributed to the import ban instituted in August 2022. However, from September imports started rising as importers negotiated new deals with other suppliers outside the FMD affected country. The substitute of market shows that the import ban was not instituted to protect the domestic pork industry from competition but rather to prevent the spread of the FMD into the domestic economy.

Figure 3: Pork imports by month for the years 2021 and 2022



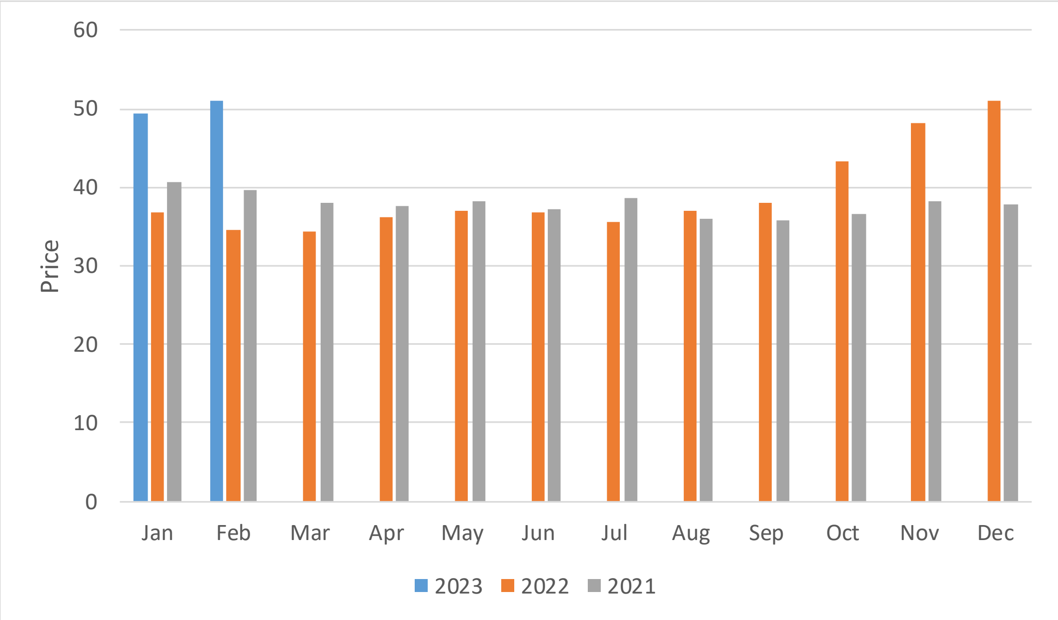
Source 3: Chart derived from figures obtained from the Meat Board of Namibia.

4. Implication of the SPS Measure

As clearly demonstrated in the foregoing sections, the import restriction on pork and pork products from South Africa led to a general decline in imports of this product from the rest of the world while much of the decline observed was from South Africa. However, a noticeable increase in imports from other suppliers was observed, however it was not sufficient to cushion the impact.

The decline following the import ban created a mismatch in demand and supply such that total supply dropped, resulting in a shortage of the product. This demand/supply mismatch led to higher prices of the product in the local industry. Figure 4 shows that when compared to the same period in 2022, the ceiling price for pork was higher from January to July 2021. However, as a result of the import ban, prices for 2022 began to increase in August 2022. It can be observed that prices rose by 5.6 percent, 15.6 percent, 20.7 percent and 26 percent in the months preceding August, that is September, October, November and December respectively. After increasing to its December level of N$51/kg in February 2023, the ceiling price saw a slight decline in January 2023 at N$49.5/kg. There is no doubt that the import ban is responsible for this, and the increased price response is consistent with the economic theory that "supply restrictions lead to higher prices." What happens next, then?

Figure 4: Domestic price of pork by month from Jan-21 to Feb-23



Source: Chart derived from figures provided by the Meat Board of Namibia

The industry and the nation as a whole will be affected further by the subsequent price increase shown in Figure 4. First, the higher prices deter consumers from purchasing the product as they look for less expensive substitutes. Due to lower product demand and higher production costs, producers will struggle to maintain their competitiveness. Given that the industry is still in its infancy, this could result in its demise as a whole. Once more, the collapse of this crucial sector will jeopardize the nation's ability to feed its people. And finally, as the industry fails, workers there will lose their jobs, worsening the current prevailing unemployment rate.

5. Government incentives to the industry

Since Namibia's independence, the country has been a net importer of pork and pork products; as a result, the domestic industry has found itself in competition with more advanced industries for the domestic market. The domestic market is still in its infancy, making it uncompetitive in terms of economies of scale when compared to foreign producers. As a result, the Namibian government has implemented incentives to support the industry.

For instance, the implementation of the pork market share promotion scheme. The scheme is meant to support local producers by compelling importers to buy products from the local producers.

The purpose of this scheme is to encourage pork importers to buy locally produced pork, thereby supporting local producers. The scheme requires all pork importers and producers to be registered with the Meat Board of Namibia which is the regulator of the scheme. The Scheme is a quantitative restriction on the importation of pork and pork products based on a ratio of 1:2 and 1:3 depending on local supply. For instance, when there is an oversupply of the product in the domestic market, usually between February and September, every importer must import 2 kg for every 1 kg of pork sourced locally under the 1:2 ratio. Meanwhile, importers are required to import 3kg for every 1kg of locally sourced pork under the 1:3 ratio when there is an undersupply of the product, mostly between October and January.

6. Industry views

As a way to ensure comprehensiveness of this article, a qualitative approach was considered by soliciting the views and opinions of producers, particularly those registered with the Meat Board of Namibia. According to the industry, there has been a massive improvement in the uptake of local products following the implementation of the scheme although not all registered producers are currently benefiting from the scheme, partly due to the distance to the nearest abattoirs. Currently, there are only two abattoirs in the country, one in Mariental and the other one in Tsumeb which makes accessibility impossible for producers in other parts of the country as it is expected that producer make deliveries at their own cost. This implies that market access is limited only to producers in or around the two aforementioned towns. In terms of exports, producers indicated that none of their products are exported but also that not all the quantity produced is absorbed by the domestic market due to the reason provided above.

It was also found that the current import ban presents no implications to the local producers but it has proved that importers have a preference for foreign products over domestic products. This is because importers could not absorb all the quantity availed by producers since the implementation of the ban.

7. Conclusion

The objective of this article was to discuss Sanitary and Phyto-Sanitary (SPS) measures as applied by the Division of Veterinary Services in the Ministry of Agriculture Water and Land Reform. Subsequent to the FMD outbreak in various provinces of South Africa, DVS implemented an SPS measure as provided by the WTO in the form of an import ban on pork and pork products from South Africa. The article provided an overview of the implications of the import ban on the domestic economy considering import statistics as well as production statics. The article also provided incentives implemented by the government to support local production and also considered opinions and views of local producers as far as the scheme is helping them and whether the implementation of the import ban has any implication on their activities.