From Data to Policy: National NTM initiatives to pursue good regulatory practices

by

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Why does good regulatory policy matter to trade?

- Domestic regulations address various market imperfections – but lead to NTMs
- Regulatory heterogeneity can increase trade costs
- Good regulation can enhance demand – and facilitate trade
- ‘Eliminating’ NTMs makes no sense – goal is efficiency
Trade costs of regulatory heterogeneity

THE DEFINITION

Trade costs of regulatory heterogeneity

- Information costs
- Specification costs
- Conformity assessment costs

THE EVIDENCE

- They are non-negligible in some sectors
- They distort GVCs
- They may be fixed (affect market entry) or variable (act as a tariff)
- They are country and sector specific
- Their importance has become clearer as traditional barriers have been lowered
Some facts: NTMs raise import costs

Estimates of price effects of NTMs - aggregated to HS2 level, AVEs % Frequency weighted
SPS and TBT can have demand-enhancing effects – while raising import prices
Multi-level approaches to reducing trade costs

Unilateral
- Adoption of good regulatory practice

Bilateral
- Regulatory provisions in trade agreements
- Mutual recognition

Plurilateral
- Adoption of international standards developed by international standard setting bodies

Multilateral
- Transparency disciplines of WTO
Unilateral action

• Good regulatory practices – GRP
  – Promote regulatory quality, predictability and transparency

• Regulatory Impact Assessment – RIA
  – Should pay more attention to trade impacts

• Tools include OECD Cost-benefit framework 2009:
  – Comparative analysis of different ways to address the same regulatory issue
  – What is least cost solution?
  – Costs and benefits for: consumers producers, governments; domestic and abroad
Good Regulatory Practices can...

**Benefits**
- Limits information, specification and conformity assessment costs
- Submits regulation to evidence-based process, allows inputs from stakeholders (including foreign)
- Non-discriminatory; can avoid sector-specific pressures
- Preserves regulatory space

**Costs/Challenges**
- Methodological challenges
- Guided by national concerns; regulatory convergence may not prevail
- Regulatory frictions can arise from different enforcement mechanisms
- *ex post* assessment often neglected
- Allowing access to foreign entities

**Success factors**
- Most useful in heterogeneous situations
- Domestic commitment to regulatory policy and existence of oversight body
- Adaptation/adoption process (at home and abroad)
- Size of trade costs
Domestic preferences and trade costs

**Potential to successfully negotiate co-operation:**

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<th>Preference for domestic regulation</th>
<th>Trade costs</th>
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Negotiations are more promising if trade costs are high and preferences to keep domestic regulations are low

Information exchange can already bring benefits: take foreign regulation into account when designing your own
1. PTAs and IRC between countries which are already big trading partners: **endogenity**

2. Strong trade **impacts**: legal enforceability, transparency, MRA of TBT conformity assessment

3. **SPS-related IRC** mechanisms more significant than TBT IRC mechanisms

4. Strong **phasing-in effects** in PTAs and in IRC
Regulatory similarity reduces trade costs
Multilateral – using international standards

**Benefits**
- Limits specification and conformity assessment costs stemming from regulatory heterogeneity
- Supports a multilateral approach fit for globalised production and markets
- Allows countries access to standards that can be used in domestic legislation at low costs
- Flexible, voluntary and demand driven

**Costs / challenges**
- Multiplicity of standards in the same field
- Use of standards in regulatory documents is complex and opaque
- There may be questions about the quality, international dimension, appropriateness to local needs of the standards

**Success factors**
- More systematic consideration and use in domestic frameworks
- Greater assurance that international instruments are fit for purpose and of high quality
- Avoid fragmentation and overlaps
Further reading on NTMs and IRC


