

Compliance through Supply Chains: Comparing Food and Manufacturing Sectors



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How do the regulations/standards impact on Asia?

- ◆ The questions are,
 - If regulations/standards create challenges to exporting countries and firms
 - How exporting countries' **governments, firms** adapt to the regulations/standards
 - What are the implications of such adaptation measures taken by firms & governments
- ◆ We examined the above questions both in **food industry** and in **other manufacturing industries**.

Common/different challenges for food and manufacturing sectors

Common challenges are,

- ◆ Implementing traceability throughout supply chains is becoming more important.
- ◆ Cleaner/safer products to tightly regulated markets, less cleaner/safer products to less regulated market
- ◆ Adaptation to regulations/standards and competition among countries leads to setting countries' versions of regulations/standards.

Different challenges are

- ◆ Food tend to have more direct impact on health.
- ◆ Freshness is important for food.
- ◆ Manufacturing goods tend to have longer and more complicated chains.

Studies on Compliance in Food Industry



IDE-JETRO and UNIDO have jointly produced the Report “Meeting Standards, Winning Markets: Regional Trade Standards Compliance Report East Asia, 2013”

The report complements the UNIDO Trade Standards Compliance Report.

It refers to rejection data at quarantine of major **importing countries**, i.e. **Australia, EU, Japan, and US**, which offers a measure on the implementation of food safety regulations.

ASEAN, China, Japan and Korea are analyzed as **exporting countries**

We conduct **case studies** on the adaptation of Asian firms/farmers to food safety regulations/standards abroad through supply chains focusing **on China and Vietnam**

Food Industry Case 1: Cultured Shrimp Industry in Vietnam

◆ Problems

- Improper use of feeds and inputs
- Aggregation of shrimp from various ponds

◆ Current measures

- Firms: vertical integration, at the same time keeping contract farmers, higher traceability
- Government: strengthening inspection, creating VietGAP, banning inappropriate substances

◆ Future challenges

- Adaptation throughout supply chains requires capacity building for small farmers.

Food Industry Case 2: Frozen vegetables in China

◆ Problems

- Residual pesticide detected in frozen spinach imported to Japan in 2002
- Leading to banning/boycotting products

◆ Current measures

- Firms: voluntary sample testing of processing/finished products and quality control by HACCP, ISO
- Government: regulations to use direct-managed farm

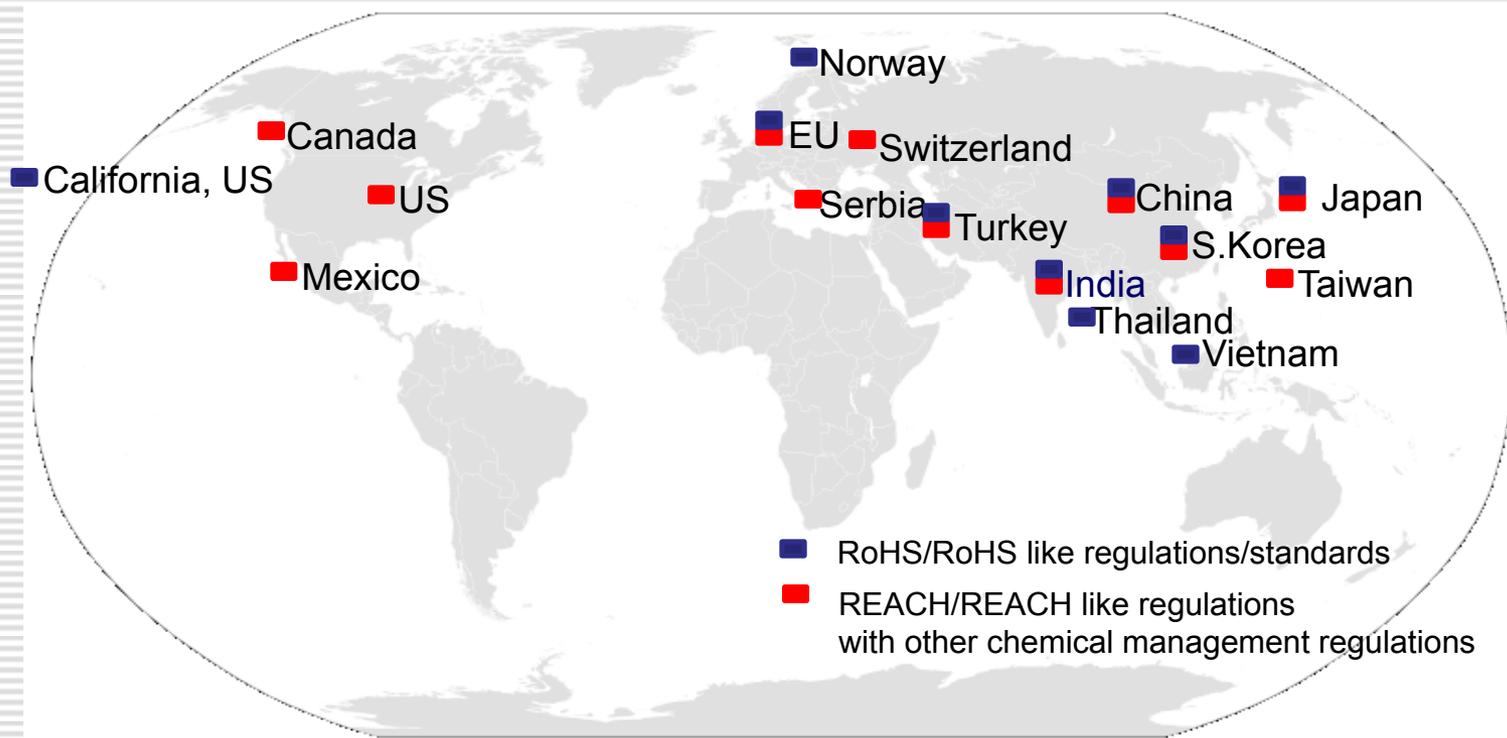
◆ Future challenges

- The measures are intended only for the export sector which consists of mere 1% of Chinese production. Complete compartmentalization is questionable in the future. Production for domestic markets need to be reformed as well.

Manufacturing Industries: Environmental Regulations and Standards are increasing.

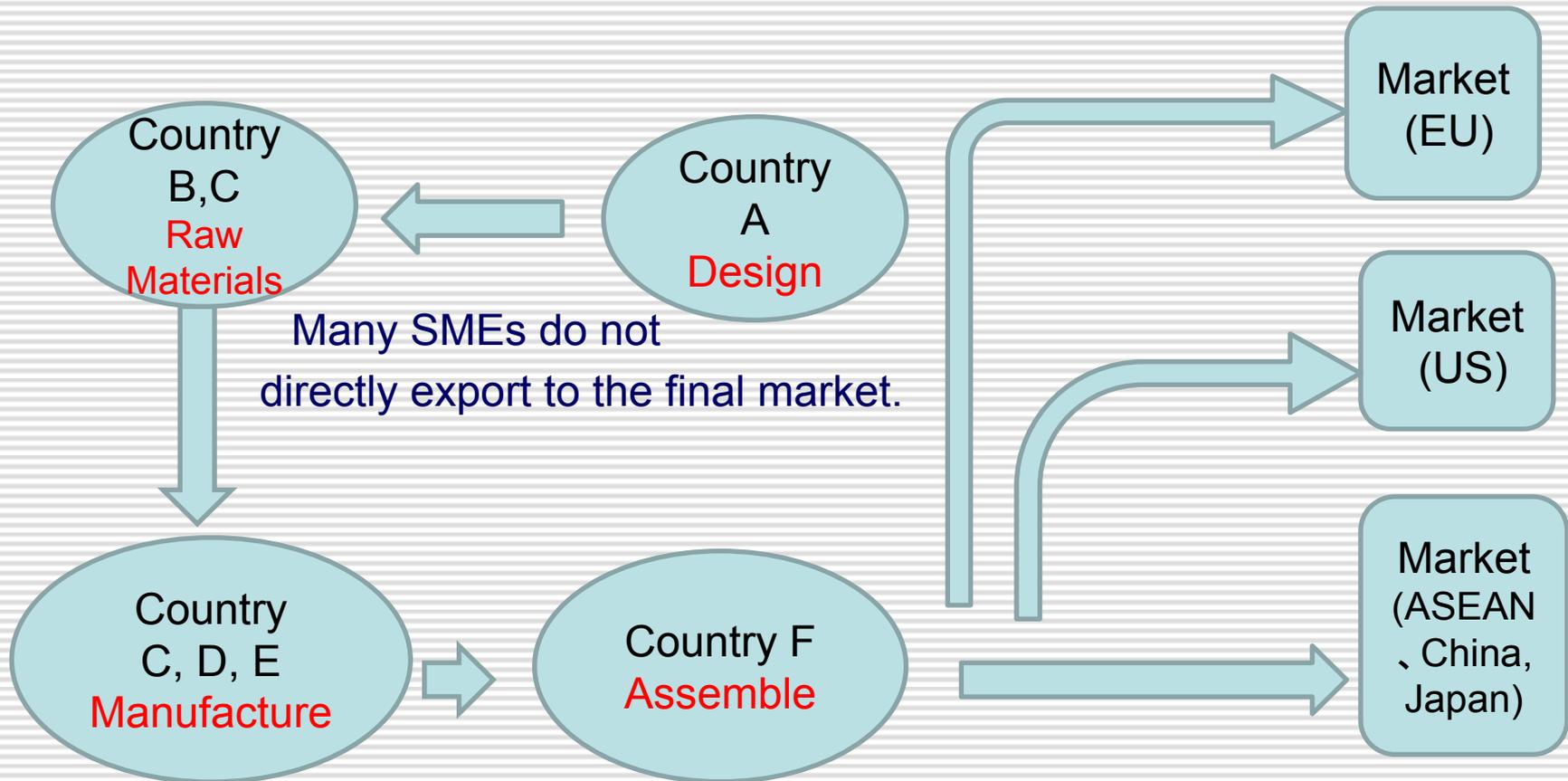
Product-related env regulations (PRERs)

Imposing requirements on product characteristics in order to protect health and the environment at consumption/disposal sites
eg. EU REACH, EU RoHS, and RoHS-like, REACH-like regulations in other countries



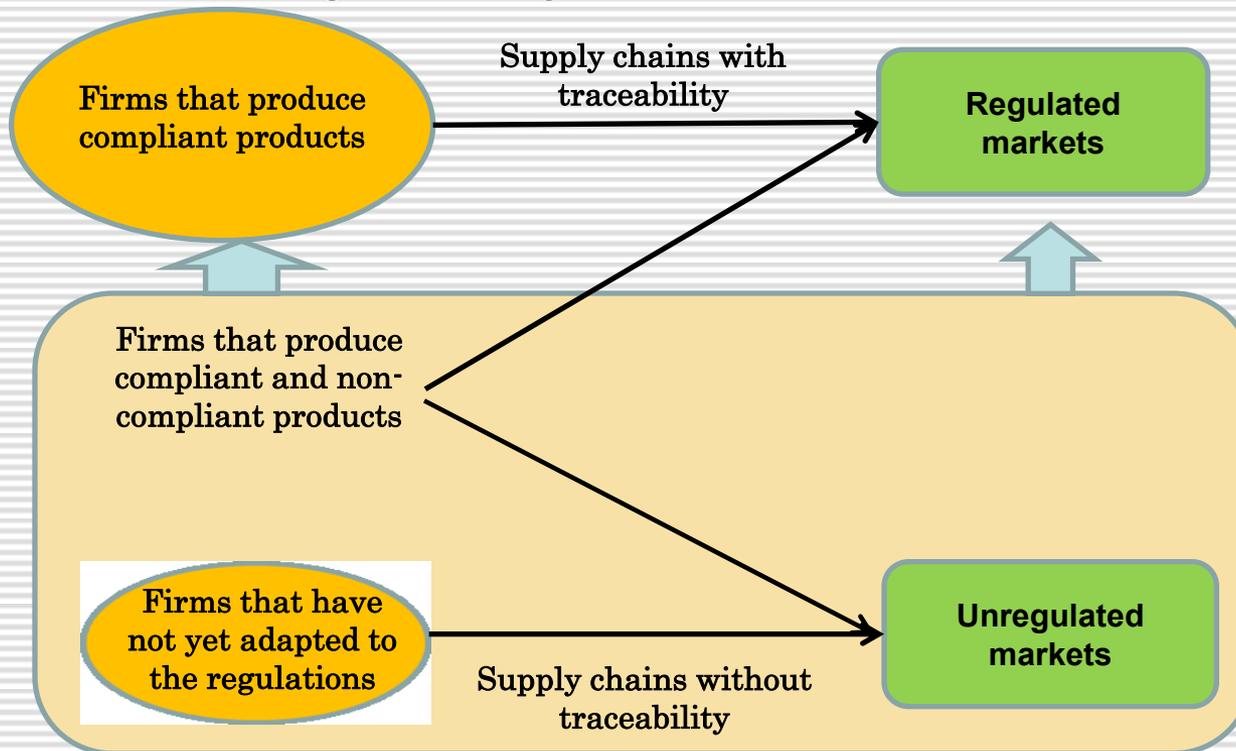
Extensive supply chains in Asia pose a major challenge for compliance

Supply chains of manufacturing sectors are extensive in this region due to vertical integration in Asia. At each production stage, compliance to PRERs is required.



Results of survey in Vietnam (2012) and Malaysia (2013) for the product related chemical regulations

Most of the firms answered they had adapted. However, 51% of Vietnamese firms and 28% of Malaysian firms said that they use different chemicals according to the regulations in destination markets.



Policy Recommendations

- ◆ Adaptation to regulations by firms/governments is **partly successful**.
However,
 - ◆ Adaptation efforts need to be made throughout supply chains. SMEs taking part of supply chains often have a lack of capacity.
Support measures for SMEs are inevitable.
- ◆ As regulatory strictness differ among countries, **supporting developing countries to implement appropriate regulations** is recommended in order to avoid countries to become pollution havens.
- ◆ To enhance competitiveness of firms, some countries introduce similar yet modified regulations/standards. This may create additional barrier for trade. It is important to **provide discussion platform so that countries can take adaptation actions in a harmonized way.**

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Thank you