

An Economic Theory of the SPS Agreement

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Abstract

Sanitary and phytosanitary (SPS) measures are important policy instruments to regulate food safety and to protect the domestic ecosystem from biological invasions. Economists criticize the World Trade Organization's (WTO) Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) for its lacking economic considerations in regulating SPS measures. In this paper, I show that, despite these criticisms, the SPS Agreement, which is mainly based on the risk analysis approach, can play a role of improving economic welfare in the world. However, the SPS Agreement contains loopholes from economic point of view, owing to uncertainty involved in science. The SPS Agreement would potentially allow countries to use SPS measures for disguised protectionist purposes or would cause countries to lose from not being able to use SPS measures for economically sound reasons.

Keywords: sanitary and phytosanitary measures; quarantine; food safety; biological invasion; scientific uncertainty; disguised protectionism.

JEL classification: F13; F18; Q17.