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Public and Private Standards for Food Safety and Quality in Global Value Chains

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Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium's (IATRC's) 2014 Annual Meeting: Food, Resources and Conflict, December 7-9, 2014, San Diego, CA.

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Public and Private Standards for Food Safety and Quality in Global Value Chains

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Outline

- Challenges in food markets
- The role of public and private food standards
- Implications for food supply chains
- Glass half empty or half full?
- Interesting research questions

Challenges in food markets

- Heightened awareness of **food safety**
- Multiple dimensions of **food quality**
 - Food miles/carbon footprint; organic; animal welfare; ‘natural’; health; origin/source/local; GMOs ; labour standards ...
- Credence attributes
- Consumers increasingly interested in **where** their food comes from and **how** it was produced
- Traceability, labelling, certification, standards

Credible quality signals

- Public standards
 - Objectives?
 - Outcomes?
- Private standards
 - Objectives?
 - Outcomes?

Public Standards

- Mandatory (regulatory) standards
 - legal obligation for compliance
- Response to a perceived market failure
 - Negative externalities (food safety)
 - Public goods (environment)
 - Information asymmetry (labelling)
- Objective (in theory): achieve socially optimal level of food safety, environmental protection, etc.

Public Standards - Examples

- **Food safety:** Mandatory HACCP; FSMA
- **Environment:**
 - Pesticide residue limits;
 - Pollution regulations; waste water treatment
- **Animal welfare:**
 - EU ban on cages for layer hens (2012)
 - Bans on confinement pens for sows (EU, US)
- **Labelling, certification:**
 - Mandatory nutrition labelling
 - Mandatory GMO labelling
 - Mandatory country of origin labelling (COOL)
 - National organic standards (EU, US, Canada ...)

Public Standards - Challenges

- Different countries have different standards (social objectives; priorities; resources)
- Implications for relative competitiveness of imports, exports
- Pressure to regulate, restrict imports (environmental tariffs)
- Trade frictions (GMOs, beef hormones, COOL)
- Challenges for WTO

What does the WTO have to say?

- **Principle of Non-Discrimination:**
 - ***Like products:*** cannot discriminate based on process and production methods (PPMs)
 - ***National Treatment:*** imported products must be treated equally to domestic 'like products'
 - ***Most-Favoured nation:*** all foreign like products granted same market access
 - E.g. negative labelling of imported pork produced under lower animal welfare standards not allowed
- Default principle unless exceptions agreed to

What does the WTO have to say?

- **GATT Article XX: General Exceptions**
- Measures permitted that would '*protect public morals ... animal... life or health*' or be '*relating to the conservation of exhaustible natural resources*' (Grethe, 2006)
- E.g. US Shrimp-Turtle case (1998)
- Could the 'public morals' argument apply to animal welfare?
- Weaker case; unwelcome precedent?



What does the WTO have to say?

- SPS Agreement
 - Permits measures that are “*necessary to protect human, animal or plant life and health*”
 - Based on scientific risk assessment
- TBT Agreement
 - Labelling, technical standards, packaging requirements, etc.
 - Must conform to principle of non-discrimination; “like products”
 - Ambiguous wording regarding legitimacy of process-based regulations

Lessons from experience

- WTO dispute panel rulings:
 - US Shrimp-Turtle case
 - US Tuna-Dolphin case
 - EU Beef Hormone ban
 - EU GMO ban
 - COOL
- Meanwhile ...



Proliferation of private standards for food safety and quality

BRC GLOBAL STANDARDS ✓
THE WORLDWIDE STANDARDS OF CHOICE



International Organization for Standardization



CANADA GAP
CERTIFIED / CERTIFIÉ



www.sPCA.bc.ca/farm



.ca

Private standards

1. Voluntary consensus standards
 - coalitions of firms, industries,
may involve government
2. Proprietary standards (individual firms)
3. Third party standards
 - NGOs, independent standard-setting bodies

Voluntary consensus (private) standards

- coalitions of firms, industries, may involve government

E.g. GLOBALGAP (EUREPGAP)

- Business-to-business standard
- Retailer-driven, multiple countries (1997)
- Food safety, environment, animal welfare, worker health & safety



Voluntary consensus standards

E.g. Assured Food Standards

- Producer organizations (UK)
- Red tractor logo (consumer signal)
- Food safety, animal welfare, environment, traceability
- Origin?



Voluntary consensus standards

E.g. CanadaGAP

- Canadian Horticultural Council
- Covers firms that produce, pack, store fruits and vegetables
- Good Agricultural Practice manuals. HACCP-based on-farm food safety guidelines
- Third party audits by a certifier
- Required by many retailers



Voluntary consensus standards

- **GFSI – Global Food Safety Initiative**
(Consumer Goods Forum)
- Retailer driven: improvements in food safety management systems
- Attempt to consolidate private food safety standards
- Attempt to reduce duplication
- Benchmarks, certifies existing private standards:
 - British Retail Consortium (food safety)
 - Safe Quality Foods (SQF)
 - International Food Standards (IFS)
 - CanadaGap
 - Etc....



Other Private standards

2. Proprietary Standards (firms)

- E.g. Nature's Choice (Tesco PLC)
- E.g. WholeFoods
- E.g. Starbucks



3. Third Party Standards

- ▶ NGOs, independent standard-setting bodies
- ▶ E.g. ISO, SPCA...



Why develop private standards?

- Product differentiation (sometimes)
- Competitive advantage (entry barrier?)
- Enhance supply chain management
- Reduce liability
- Achieve ethical/social objectives (NGOs)
- ➔ Lowers transaction costs
 - Search, negotiation, monitoring costs

Do private standards lower transaction costs?

- For sellers, in determining quality and processes required by buyer or complying with export market requirements?
- For buyers, in identifying reliable suppliers or enforcing quality requirements?
- Third party audits
- Reduce costs of contracting?

Private standards and search (information) costs

- Arise ex ante (prices, qualities, trading partners)
- Do private standards lower search costs?
 - For sellers, lower transaction costs in determining quality and processes required by buyer
 - For sellers, lower transaction costs in complying with export market requirements?
 - For buyers, lower transaction costs of identifying reliable suppliers (repeat transactions)

Private standards and negotiation costs

- Costs of physically carrying out the transaction
- Do private standards reduce negotiation costs?
 - Lower transaction costs of defining quality requirements (once standards established)
 - Assist in price discovery
 - Reduce costs of contracting?

Private standards and monitoring & enforcement costs

- Ex post – ensuring terms of transaction adhered to
- Do private standards reduce monitoring & enforcement costs?
 - Lowers transaction costs of enforcing quality requirements
 - Third party audits

Private standards: Is the glass half empty or half full?





Glass half empty: challenges

- Compliance costs can be significant
- Higher burden on supply chains from countries with lower public & private standards
- Challenge for exporters from developing countries?
- Asset specific investments by suppliers & supply chain “lock-in”
- Market power
- Multiple competing standards

Glass half full: opportunities



- International harmonization & mutual recognition occurring faster than with public standards
- Access to global supply chains across multiple retailers in multiple regions/countries
- Encourages product differentiation and leads to differentiated markets
- Stronger assurances for consumers
- More efficient management of supply chains

Developing country implications

- Public and private standards both a challenge
- Costs of compliance
- Capacity for verification, certification, testing
- Discriminatory mandatory public standards could be challenge through WTO mechanisms
- But no jurisdiction over private standards
- Yet private standards can be *de facto* mandatory if a market requirement



Conclusions

- Extension of WTO jurisdiction over private standards hard to envision
- Private standards for food safety and quality likely to gain in importance
- A market response to consumer preferences
- Trade diverting/reducing or enhancing?
→ A need for more empirical work



Research questions

- Implications of private standards for the structure of value chain relationships?
- Do private standards enhance or inhibit access to global value chains?
- Credibility of quality claims: who do consumers trust, and why?
- Public sector role in facilitating voluntary quality verification, certification?