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

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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)
- 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
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?