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Potential for Privatization of Food Safety and Quality Assurance: Private Testing of Fresh Produce

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Consumer concerns about pesticide residues in food products, especially fresh fruits and vegetables, have been heightened in the last three years by reports by government agencies and private interest groups. These reports have been critical of both the process used by the federal government to set pesticide residue tolerances and the enforcement of these tolerances through sampling and testing programs. In response to these concerns, Congress and the responsible agencies are considering changes in the system that regulates the presence of pesticide residues in food.

In the meantime, several firms in the food industry have seen an opportunity and/or felt a responsibility to provide residue testing services in addition to those offered by the federal government and the states. This testing is an informal (i.e., not legislated or brought about by changes in regulations) privatization of safety and quality assurance for an important category of grocery store products. Similar informal privatization is occurring with development of seals assuring product characteristics such as the American Heart Association's seal for food products that meet its standards for cholesterol, fat, and sodium content.

For pesticide residues, privatization may occur at the level of setting residue tolerances and/or at the level of testing for residues. Private testing services may offer tests based on residue tolerances set by the federal government or on other, stricter standards such as "no detectable residue". If the former is the case, then only the enforcement is privatized. If the latter, then use of testing services privatizes the standard setting as well as the enforcement. In reality, products, such as organic produce, that meet standards different than those enforced by government regulation have long been available to consumers. What is different about the current situation is the increased share of the market that is relying on private testing. If this share continues to grow, de facto privatization of safety and quality assurance for fresh fruits and vegetables could occur without any change in government policy.

No consensus exists on whether pesticide residue testing is a suitable candidate for privatization. On the one hand, considerable scientific and technical expertise is required to perform the risk assessments needed to set tolerances. There may be production and distribution economies associated with a single standard formulated and enforced by a government agency. The existence of multiple testing services and standards may have the effect of eroding rather than reenforcing consumer confidence in the safety of fresh produce. Finally, private testing services and the advertising claims that may be made based on their use may generate a need for government efforts to check on the accuracy and veracity of these services.

On the other hand, little expertise is needed in standard setting if the standard chosen is a zero tolerance for residues. Private testing services may be more efficient and/or provide better targeted services than government agencies. Consumers may value having a variety of products with different

residue profiles from which to choose. Finally, deception or fraud by private testing services may be a minor or nonexistent problem so that little government monitoring is required. At this point, the suitability of residue testing to privatization is an open issue on which research is needed.

Growers, distributors, retailers, and their trade associations have had diverse reactions to the strategic opportunity presented by increased consumer concern about pesticide residues. Much of the industry would prefer to continue to rely on government regulation to assure the safety and quality of fresh produce. Their efforts have been directed toward informing consumers about the regulatory framework that is in place and reassuring them that this system delivers a safe food supply.

Others in the industry see an opportunity in or feel a responsibility to provide safety and quality assurance beyond what is offered by government programs. Depending on their goals, some retailers announce their use of private testing services in advertising and point-of-purchase materials, thus incorporating food safety services into their merchandising plans. Others treat use of these services as part of operations, or quality control, and do not advertise it to consumers. These differences in strategic approach are likely to have a large influence on the ultimate performance impact of the de facto privatization now under way in the area of produce testing.

Current Development of Private Residue Testing Services

The use of private residue testing services by grocery retailers for fresh fruits and vegetables has developed over the past two years. The largest of these services in the United States is NutriClean of Oakland, California. Its services, in most cases, represent a privatization of both the standard setting and enforcement functions. Although its services are tailored to the needs of individual retailers, the standard used by NutriClean in its testing is usually "no detectable residue". This standard is often stricter than the tolerance set by the federal government.

NutriClean enforces its standard through certification of growers and dock testing of fresh produce. In its certification program, growers must give NutriClean a full disclosure of all pesticides used on a particular crop. NutriClean then tests for residues of all the reported chemicals. Growers are charged a flat fee per field to be certified but this cost is generally passed on to retailers. Information from the certification process is circulated to NutriClean's retailer clients who use the information to make buying decisions. The cost to retailers is reported to run from $3000 to $5000 a week. In addition to its certification service, NutriClean will contract with retailers to sample produce at the receiving dock and test it for specified residues. For most retailers, NutriClean's testing focuses on a limited number of higher volume fruits and vegetables.

An interesting aspect of the NutriClean service is its use of an exclusivity clause. Under this clause, NutriClean will only contract to provide its services to one retailer in each market. Such exclusivity may be

important to retailers who wish to emphasize their use of NutriClean in promotional materials to differentiate their stores from others in the market. NutriClean's business has grown quickly since 1987 when only three relatively small retailers on the West Coast were its clients (see Table 1). It now provides its services to over 600 stores in the United States and about 300 in Canada.

Other private testing arrangements are being used by over 500 stores in the United States (see Table 2). Spartan Stores, a wholesale cooperative located in Grand Rapids, Michigan, is contracting with a private lab to provide testing services for its 500 stores. It tests 8 to 10 produce items per week using Environmental Protection Agency (EPA) residue standards. Thus Spartan's approach represents a privatization of enforcement but not of standard setting. Primus Group of Santa Monica, California is offering services similar to NutriClean certifying that commodities have residues "well below" EPA tolerances. Primus is reported to have two retailer clients at this time (see Table 2). A third firm, Hall-Kimbrell Environmental Services, Inc. of Lawrence, Kansas, has recently announced its offering of residue testing services. Finally, Nature Right of Sacramento, California is offering produce testing services to growers certifying that products are within federally set legal tolerances.

At present, about 1200 of the 30,000 supermarkets in the United States or 0.04 percent are using private residue testing services. While still small, this share is growing. Other retailers are asking growers to certify that their products are grown according to government regulations and do not contain illegal residues. The trend toward privatization of safety and quality assurance represented by these developments in the produce industry may be a harbinger of future developments in other major grocery store product categories. It therefore deserves further attention and research.

Table 1. Retailers Using NutriClean's Private Pesticide Residue and Nutrition Testing Service for Fresh Produce.

Retailer (Headquarters Location)	# of Stores	Type of Testing	Date Started Service
Raley's (Sacramento, CA.)	54	Pesticide Residues Nutritional Content	Before 10/5/87
Irvine Ranch Farmers Markets (Costa Mesa, CA.)	12	Pesticide Residues Nutritional Content	Before 10/5/87
Nob Hill General Stores (Gilroy, CA.)	--	Nutritional Content	Before 10/5/87
Farm Fresh (Norfolk, VA.)	65	Pesticide Residues	6/15/88
Fred Meyer, Inc. (Portland, OR.)	70	Pesticide Residues Nutritional Content	6/88
Andronico's Park & Shop (Albany, CA.)	3	Pesticide Residues	Before 6/88
Bread & Circus (Brighton, MA.)	5	Pesticide Residues	Before 6/88
Ralphs Grocery Co. (Compton, CA.)	135	Pesticide Residues	6/88
Stop & Shop Cos. (North Quincy, MA.)	115	Pesticide Residues	3/89
Petrini Markets and Quality Plus (Santa Rosa, CA.)	26	Pesticide Residues	Before 3/89
A & P Co. (Michigan stores)	125[1]	Pesticide Residues	4/89
Harry's Farmers Market (Alpharetta, GA.)	1	Pesticide Residues	Before 5/89
ABCO Markets (Phoenix, AZ.)	70	Pesticide Residues	6/89
TOTAL U.S. STORES	681		

[1]Includes 75 Farmer Jack's acquired from Borman's that began using NutriClean in September, 1988.

Table 1. Retailers Using NutriClean's Private Pesticide Residue and Nutrition Testing Service for Fresh Produce. (Continued.)

Retailer (Headquarters Location)	# of Stores	Type of Testing	Date Started Service
Provigo Distributors (Canada)	300	Pesticide Residues	5/89
TOTAL STORES	981		

Source: Supermarket News, Wall Street Journal, and Food Institute Report, various issues.

Table 2. Retailers Using Private Pesticide Residue and Nutrition Testing Services Other than NutriClean for Fresh Produce.

Retailer (Headquarters Location)	# of Stores	Testing Service/ Type of Testing	Date Started Service
Spartan Stores (Wholesale Cooperative) (Grand Rapids, Mi.)	500	Unnamed Private Lab Pesticide Residues	10/88
Scolari's Warehouse Markets (Reno, NV.)	--	Primus Group Pesticide Residues	Before 3/89
Teixeira Farms, Inc. (Santa Monica, CA.)	--	Primus Group Pesticide Residues	Before 3/89
TOTAL STORES	500		

Source: Supermarket News and Food Institute Report, various issues.