

# Private Standards for Food Safety and Quality: Is the Glass Half Empty or Half Full?

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# Outline

- Emerging issues in food markets
- The role of public and private food standards
- Implications for food supply chains
- Challenges and opportunities
- Looking ahead

# Emerging issues in food markets

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

## Demand for product variety, quality, food safety

- Interest in where food comes from and how it was produced
- The consumer's information problem:
  - How do I **KNOW** that this product is safe?
  - How do I **KNOW** that this product is sustainably produced?
  - How do I **KNOW** that this product is Canadian?
  - How do I **KNOW** that this product is authentic?
- Solutions?

## Demand for product variety, quality, food safety

- Solutions?
  - Source locally – no guarantees
  - Closer supply chain coordination
  - Labelling, traceability
  - Standards, certification
  
- All or some of the above...

# Public Standards

- Mandatory (regulatory) standards
  - legal obligation for compliance
- Response to a perceived market failure
  - Negative externalities  
(food safety, environment)
  - Information asymmetry (labelling)
- Regulate to protect consumers, protect the environment, protect collective reputation ...

# Public Standards - Examples

- **Food safety:**

- Mandatory HACCP; US Food Safety Modernization Act (FSM); Safe Food for Canadians Act

- **Environment:**

- Pesticide residue limits;
- Pollution regulations; waste water treatment

# Public Standards - Examples

- **Animal welfare:**
  - EU ban on cages for layer hens (2012)
  - Bans on confinement pens for sows (EU, US)
- **Labelling, certification:**
  - Mandatory nutrition labelling
  - National organic standards (EU, US, Canada)
  - Certification of food safety practices in US FSM



## Public Standards - Challenges

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

Proliferation of **private standards** for food safety and quality

# Private standards

## 1. Voluntary consensus standards

- coalitions of firms, industries,  
may involve government

## 2. Third party standards

- NGOs, independent standard-setting bodies

## 3. Proprietary standards (firms)

# Voluntary consensus (private) standards

- coalitions of firms, industries,  
may involve government

## **E.g. GLOBALGAP (EUREPGAP)**

- Retailer-driven, multiple countries (1997)
- Business-to-business standard
- 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, wholesale, 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....

# Third party standards

- Independent standard-setting bodies (e.g. ISO)
- NGOs (e.g. SPCA)
- Ethical/social objectives

# Proprietary (firm) standards

- Nature's Choice (Tesco)
- WholeFoods
- Starbucks
- A&W
- ....

- Sourcing products with specific attributes
- Production protocols
- Consumer signals



# 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
- Assist price discovery process

# 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

# Looking ahead

- Public Vs. private standards
- WTO no jurisdiction over private standards
  - How to deal with private SPS standards unresolved (25–26 March 2014).
- Private standards for food safety and quality likely to gain in importance
- A market response to consumer preferences and management of supply chains

# Interesting questions

- Implications of private standards for supply chain relationships?
- Are quality claims credible: who do consumers trust, and why?
- Public sector role in facilitating voluntary quality verification, certification?