Effects of Private Standards on Meat Trade

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lower prices for many agricultural commodities,
the effects of the Asian financial crisis on important markets for U.S. agricultural exports, and
the decline in the exchange-rate competitiveness of U.S. agricultural exports. Agricultural exports have, however, remained above pre-Uruguay Round levels.

Agricultural exports continue to expand

Source: United Nations data
Why Have Standards

• Sets forth attainable levels of food quality on various quality dimensions.

• Facilitates trade by establishing a concrete basis upon which food qualities, such as food safety, can be measured
  – Gives producers confidence that products cannot be rejected if meet the standard
  – Gives producers a target that must be attained
  – Gives consumers a minimum level of quality.
Public standards that helped expand trade of all types

- Sanitary and Phytosanitary (SPS) Agreement
  - conditions under which SPS issues could be used to limit trade
  - consideration given to science and international standards setting bodies, such as the Codex Alimentarius in making those determinations

- Technical Barriers to Trade (TBT) Agreement
  - Discuss conditions under which trade in goods and services might be restricted
  - limits how packaging, labeling, customs forms, etc. could be used to block trade.
Why Have Private Standards?*

• For Industry Group:
  – Establishes common standard, facilitating production
  – Reduces costs of establishing standards.
  – Has legitimacy if endorsed by multiple buyers.
  – may be more comprehensive than general standards, e.g. EurepGap versus GAP.
  – Enforced with third party audits or own auditor
Private standards

• For individual Firm:
  – Combine elements of several national standards. Allows firm to freely move products across countries but within firm.
  – Allows company to differentiate products. Supermarkets might use it for their private brands
  – Enforced by exporter, third party audits, or in-house auditor.

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Examples of Industry Groups

• British Retail Consortium (BRC):
  • focus on the processing facilities, including detailed documentation and traceability of all administrative and factory processes

• EurepGAP: 13 largest European retailers including Royal Ahold, Marks & Spencer, Tesco, Safeway, and Sainsbury start it. At least 23 members now
  – Environmental quality, worker welfare, and food safety focus
  – documentation and traceability of produce at the farm level

• Suppliers must conform to both and individual standards.

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Kenyan exports of fresh produce

Source: based on data from the Kenyan HCDA. Data modified as in Jaffee (2003)
Kenyan Exporters Adapt to EurepGap
(Jaffee and Masakure, 2005)

- Spot Market
  - products come from non-controlled sources
- Products for Supermarkets arranged by exporters
  - Full compliance with HACCP
  - Professionals hired to manage production system
  - Farmers are trained, sometimes provided inputs,
  - Farmers monitored to ensure compliance
  - Backward integrate into farming to ensure traceability
The Ghanaian Adaptation to EurepGap (1)

• Blue Skies Exporting company
  – Purchases and processes fruit from certified growers
  – provides loans for grower certification, pays for farmers training in EUREPGAP, builds infrastructure.
  – conducts farm inspections
  – checks fruit quality at harvest time
  – no formal contract with growers, imposing a risk on them, since they make investments.
The Ghanain Adaptation to EurepGap (2)

- Farmapine farmer cooperative
  - assists small- and medium-sized pineapple producers who own from half an acre to 30 acres to gain certification
  - guarantees markets and prices and conducts all marketing.
  - provides all inputs on credit; these costs are deducted from what the farmer earns from his harvest.
  - ensure fruit quality by preparing, harvesting, and packing fruit for export.
  - Farmers must deal separately with leftovers and fruit that does not meet standards.

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How countries have performed under European Standards
   (Jaffee and Makasure, 2005)

• Overall Kenyan exports rise
• Small Kenyan landholder share of exports drops from 45 percent to 27 percent over 1989-2002 (Jaffee, 2003).
• Ugandans do not successfully comply with EurepGap
• Peruvian complies and becomes leading exporter of Asparagus.
• Ghanain exporters supply market for fresh-cut fruits, including pineapples, passion-fruit, papaya, mango and coconut
Adapting to the American Market: The case of green onions*

- Some U.S. and Canadian buyers require high standards for food safety and use third party audits to enforce standards.
- Costs for Mexican green onion growers to adopt GAP/GMP: $0.7 to $2.5 million (Avendaño and Schwentesius, 2003).
- 25% of growers comply with EurepGAPs, which cover environmental quality and worker welfare.
  - Produce to one set of standards to meet needs of all buyers.
- Hepatitis outbreak leads to a $12.43 to $7.23 price drop per box in one week.
- Six months later: growers with full or partial GAP compliance have no impact on output. Others lose 50-100% of output.

*Calvin, Linda, Belem Aventine, and Rita Schwentesius, 2004
Summary of Private Standards, primarily fruits and vegetables

- Emerged because public standards do not include features demanded by consumers.

- Specify particular qualities, such as food safety, worker rights, environmental standards, ripeness, etc.

- Tailored for special products or special needs.

- Used for export or domestic sources
Private Standards in Meat Products.

- Wal-Mart and other U.S. retailers require third party certifications
  - U.S. retailers have had separate quality programs, raising costs for producers and requiring each retailer to have its own program.

- European retailers established GlobalGap for meat and produce in 1997 to minimize cost of complying with 27 countries and a European agency
  - Responds quickly and precisely to food safety and other events
  - reduces compliance and management costs

French Minimum Quality Standard in beef

- Prohibition of growth stimulants and steroids
- Prohibition of ground animal parts in cattle feed
- Progressive Prohibition of growth-inducing antibiotics
- Health monitoring of the animals, identification and treatment of diseases and systematic veterinary examination before and after slaughter
- Systematic tracking down of ESB through tests (cattle of more than 24 months old)
- Verification of the elimination of specific risk materials
- Verification of identity (ear tags and animal passports)
- Computer data base of animals by country
- Traceability; each animal part is precisely identified; allows traceback to specific animal
- Country of origin/birth, raising, and slaughter of animal and the registration number of the slaughterhouse and parts-cutting room (and whether it is monitored and certified)
- Labeling at the points of sale and labeling of origin of meat served at restaurants

Source: Codron, Giraud-Héraud, Soler, 2005
### Carrefour private label beef in France

- Requires animal breed and that France is the country of origin
- Requires that maximum slaughter age of cattle is less than 9 years
- Specifications related to musculature and fat
- Specification of minimum carcass weight (300 kg for cows)
- Requires minimum of 12–18 days aging to ensure meat tenderness
- Requires minimum time of pasture-feeding
- Requires production notebook verified by government and monitored by a third party expert

Source: Codron, Giraud-Héraud, Soler, 2005
Summary of Private Standards and Produce Trade.

• Private standards are common in fruits and vegetable trade
  – Deal mainly in north-south trade
  – Suppliers provide off-season produce, e.g. winter tomatoes
  – Supply exotic fruits and vegetable, e.g. mangoes.
Will Meat Trade Follow Produce Trade?

- North-south trade in meat and poultry is not common, except for spot market.
- No off-season or exotic markets.
- Unless U.S. exporter has some other way to differentiate its product, private standards would loom as just another standard that an exporter must meet to satisfy market conditions.
  - Would likely raise costs.