

Private and Public Standards for Food Quality: A Symbiotic Relationship?



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UNIVERSITY OF MINNESOTA

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Panel Discussion:

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Three important purposes of grades and standards:

1. Standardization (consistency of quality and safety; reduces transaction costs; facilitates trade)
2. Product Differentiation: (informs consumers and lowers price elasticity while increasing loyalty)
3. Reduces Risk to buyers and sellers (increases credibility & trust; facilitates tracability & predictability)

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Grades and Standards:(G&S)

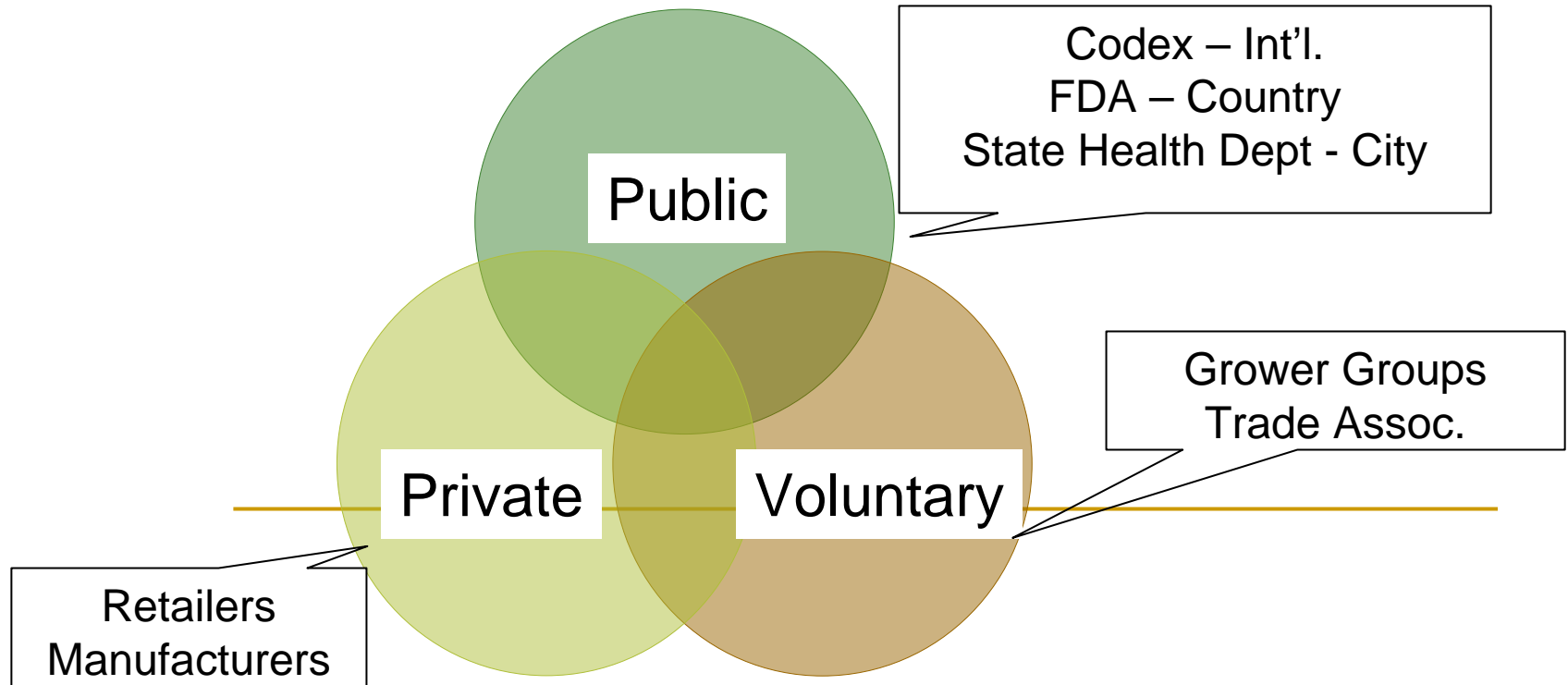
- ARE Public goods for homogeneous commodities
- ARE Private or semi-public goods for differentiated foods/services

Who sets G&S?

When, why and to what end?

Do public and private G&S substitute or complement each other?

Food Grades & Standards



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❖ Structural changes in food systems worldwide has shifted the food sector from a passive friend of producers to a vital ally of the consumer.(Josling)

❖ This means that:

Meeting consumer demands requires vertically integrated supply chains which require tracability of origin and separability of output which

=>

Private G&S

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- ❖ Public or national trade standards may even get in the way of business for global companies who want to source their ingredients from the cheapest source or import product from their home land to a foreign location (e.g. KFC).
- ❖ Global companies want open trade to get lowest prices for inputs and wide distribution of products.

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❖ With decline in trade tariffs came a rise of NTB's along with a call to harmonize food safety and quality standards between trading countries → CODEX.

❖ Fear (and reality?) that Int'l organizations are too slow, too political, too ineffective, and too unenforceable.

Global Trade Regulation



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International rules established by WTO – 1995

- Transparency
- Equivalence
- Science-based
- Harmonization

Tend to focus on SPS concerns relative to food quality – not useful for product differentiation

WTO – SPS Complaint 1995-2001



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Total complaints = 187

By developed countries: 109

By developing countries: 78

Complaints related to human health measures = 108

TSEs(BSE)	50
Toxins and heavy metals	30
Foodborne pathogens	14
Other	14



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Codex Alimentarius

Code of Ethics

“ International trade in food should be conducted on the principle that all consumers are entitled to safe, sound and wholesome food and to protection from unfair trade practices” (FAO, 1999)

Codex: A Tortured Process  World Wide Accepted
Baseline Standards

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Who sets standard and when?

Public: --

Rely on performance standard – meets a specific criteria e.g. max. microbiological count; is pasteurized; COOL;

Network externalities; Lower transaction costs

Low enforcement – slow enforcement

Suspected of protecting domestic businesses

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Who sets standard and when?

Private: --

- Rely on process standard –e.g. “not GMO;” GMP; GAP; HACCP;
- Also performance standard: strict quality and safety characteristics to meet differentiated product needs. (e.g. Supermarkets brand names – Tesco , Marks & Spencer, World Foods)
- Enforcement: 3rd party audits, self-regulating, fast

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Private: -- Chosen When BUYER:

- Needs consistent and high quality product
- Needs consistent, reliable quantity (logistics st.)
- Needs differentiated product
- Investment in a “Brand”
- Product is important to sales
- Needs to signal suppliers

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Private Company Standards: Causes & Results

Economies of scale and scope

Bargaining power with suppliers

Develop trust along the supply chain

Reinforces demand driven chain

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Private Standards: Results for suppliers:

- More investment in equipment, testing, seeds, breeds
- Barriers to entry if supply inconsistent or too small.
- Concentration/cooperation among suppliers
- Increased income and decreased risk
- Increased tracability

- Displaced framers??

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Private G&S: Results for public policy makers:

- Less control of Grades and Standards
- Still need to set minimum G&S for safety and quality
- Private G&S only good for one company at a time and if that company leaves or sells, G&S can change
- Private standards pull up public standards – easier to change and enforce public G&S

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Private G&S: Results for consumers:

- More trust in private standards?
- More cost passed into final product?
- Less certainty of standards across retailers and little way to check on them compared to public standards.

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Are Private G&S substitutes or complements to Public G&S?

Both

Each plays different role.

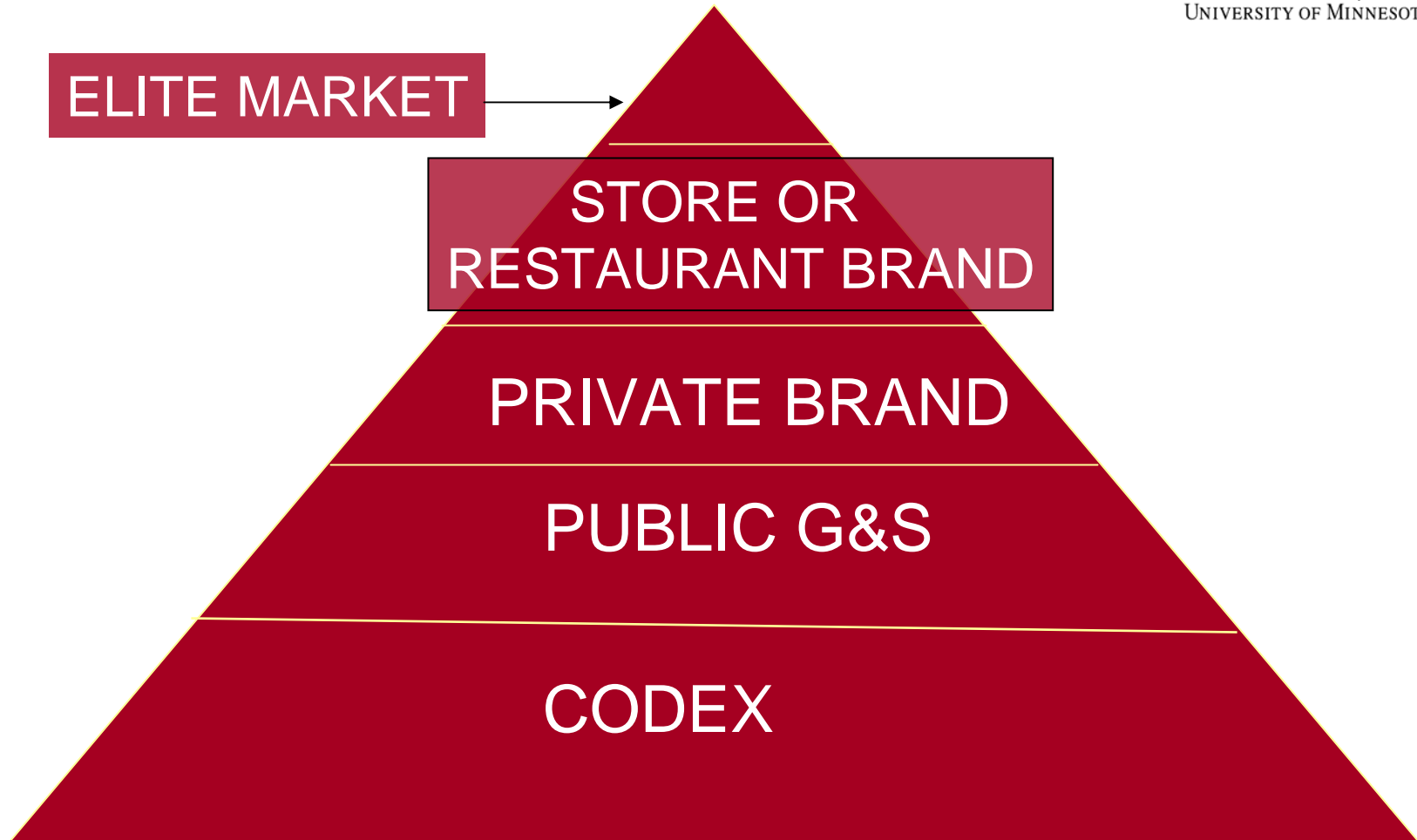
Public is necessary but not sufficient.

Private compliments public and also provides a substitute.

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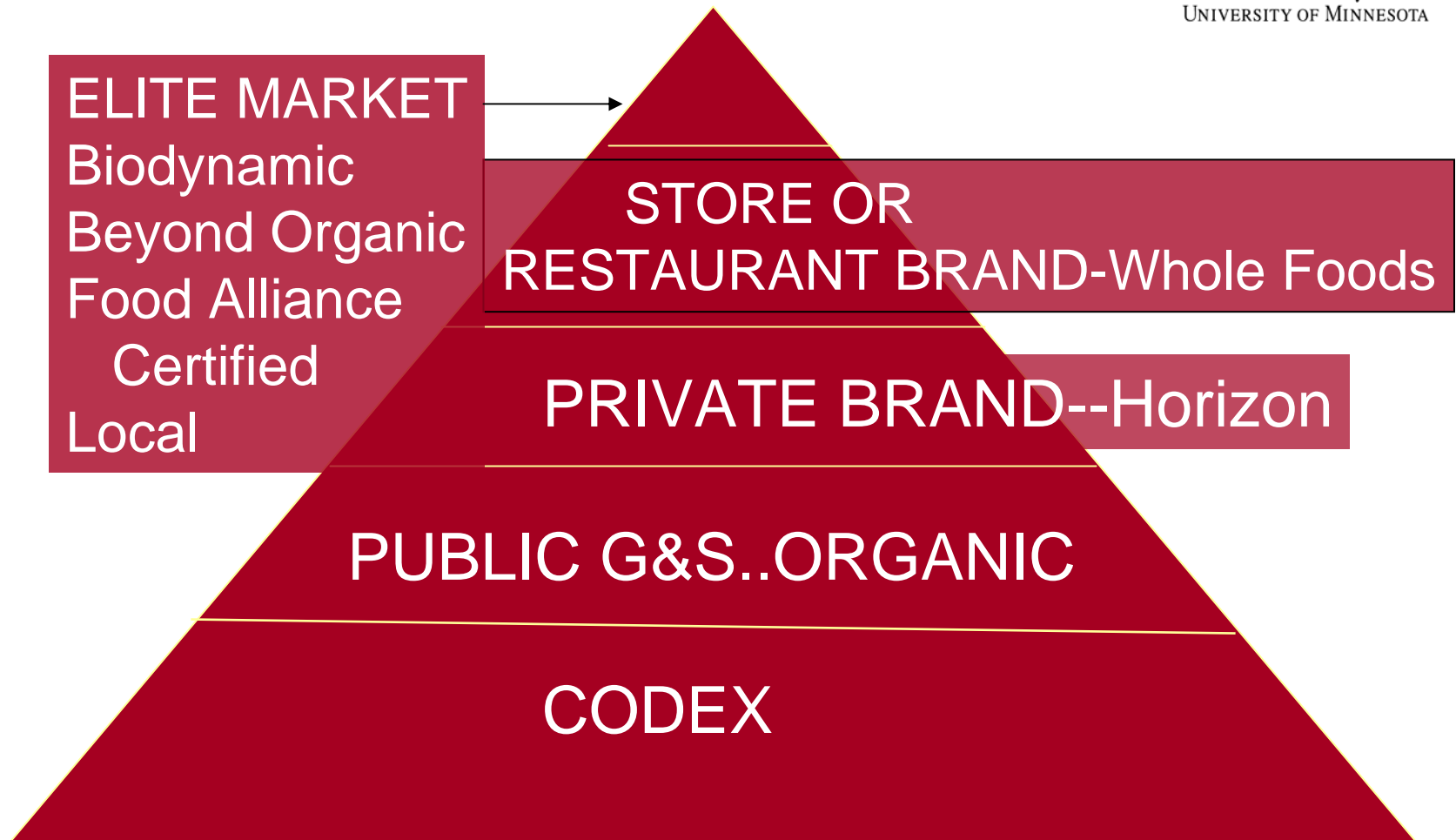
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Public Standards Used by the Supply Chain – Case Study



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References:

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Josling, Tim. The Impact of the Globalization of the Food Industry on Agricultural Trade Policy, 1/31/01, (Manuscript)

USDA, ERS – various web sites

Thank You, Jean Kinsey

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<http://foodindustrycenter.umn.edu>