



Understanding stakeholder drivers for introducing and complying with private voluntary standards – a fresh produce example

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Today the range of existing PVS is extensive, covering all stages of the food supply chain: production, inputs, transport, trade, marketing, etc. They meet all kinds of concerns, from food safety to animal welfare, from the environment to quality or taste. With the globalisation of procurement networks, PVS are increasingly common in agrifood supply chains worldwide as supplier networks expand. This paper seeks to address the drivers of complying with PVS, from the perspectives of both the food retailing industry and developing countries producers. The export horticulture trade linking the poorest continent with the richest consumers provides a good laboratory for examining these incentives. It also frames a considerable challenge: how to safely and efficiently produce food that simultaneously and equitably delivers sustainable development benefits to rural Africa.

Public standards in the food industry have a specific public good objective – food safety. Standards are also the typical way of conducting efficient business in all industrial production processes. In food supply chains, quality has been regulated for over 500 years. Greater prominence during the 20th Century included massive publicity of food-borne public health crises in the 1990s (BSE) which raised consumers' concerns and reinforced the trend toward third-party certification and labelling.

Legal responsibility for 'due diligence' (doing all that is reasonably possible to ensure safety) has been increasingly imposed on the private sector through successive EU food safety legislation. In order to achieve this efficiently, the industry has employed PVS to leverage private incentives within the supply chains and transform its trading systems. In addition there are further motivators at work, including the trend for supermarkets to become both manufacturers and processors as they seek to grow profit through their own labels.

Some of these private incentives are highly apparent, for example financial gain for the

retailers and mitigation of their risks. Yet others are more subtle and relate to the slow transformation of the industry from abiding by *minimum* public standards to one striving for *maximum* private standards. In essence, this transformation of food safety has been driven from a pre-competitive to a competitive issue.

Niche market suppliers are better placed to adapt to more complex requirements of a PVS than those supplying bulk commodities, being that the latter are quality and high-value oriented whereas the former are governed by price and cost issues. With quality programmes already in place, there are elements of vertical coordination which can be leveraged. For bulk products, implementation of PVS requires network-wide coordination and the reorganisation from anonymous bulk products.

What drives the development of private standards?

There are three key incentives for PVS development and implementation - sometimes operating at the same time.

- **Efficiency:** PVS are a means for **continued >>**

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Working with the whole supply chain to explore opportunities for securing, upgrading and expanding pro-poor procurement in international horticultural supply chains from developing countries

Key messages

- Private voluntary standards (PVS) have provided industry leadership on the crucial food safety issue
- PVS have distinct economic advantages for the whole industry but only for those participants who can comply
- PVS is an issue of survival in the market for many small-scale growers (SSGs) and farmers in developing countries
- Developing PVS that recognise the nuances of sustainable development in Africa will require new mechanisms of information sharing and knowledge generation

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>> **continued** lowering a range of transactions costs and upgrading efficiency in supply chains. Key trade process efficiencies include harmonisation and outcomes can include consolidation. Successful participants will see savings from adapting existing practice in line with PVS stipulations. Yet, friction can occur where imbalances exist between sectors, with *one participant's efficiency saving being another's costly investment* (e.g. GlobalGAP has been shown to have increased on-farm costs). Developing a standard is driven by economic efficiency concerns throughout a supply chain; yet often implementing a standard is motivated by maximising financial efficiency for a particular participant or sector.

• **Willingness to pay (WTP):** PVS can be a means for raising consumers' WTP for products, through a combination of ways including product differentiation, higher prices and increased sales. Complementary strategies of retailers include increasing consumer loyalty and growing market share.

• **Privatisation of food safety legislation:** the responsibility for food safety of imported food to the EU is placed on the seller – for instance by Article 11 of the General Food Law Regulation (EC) 178/2002 that applies to food business operators. This alters the incentives facing the food industry and shifts the designation of risk.

Which form of PVS is chosen will depend on which driver is foremost and the nature of the product and the sector.

What drives development of private standards in the food retailing industry?

Driven by the needs to ensure legal compliance and communicate this efficiently with consumers, core retailer industry incentives for PVS derive from the need to manage risks and *guarantee food safety* through reliable information within the supply chain. The food industry was once considered a *pioneer* in quality assurance and quality management. Yet, towards the end of the 20th Century, it fell behind. Problems generated by the fragmented nature of the industry were compounded by differing consumer perceptions over food safety between countries and segments. In sum, there was no industry leadership until the rise of retailers as powerful players in the early 1990s filled this vacuum. The food retailers now collectively lead the setting of PVS within the food sector, being the 'standards-setters'.

For private 'standards-setters', there is a financial and economic impetus to guaranteeing food safety. PVS can be wielded as broader instruments of supply chain management and control. Specifically, PVS can provide a portal into the hidden information within a supply chain that not only unlocks guarantees over food safety and denotes responsibility along the supply chain but also can be exploited for either private or supply-chain-wide benefits through lower risks, higher margins, greater flexibility and sharpened competitive edge.

What drives compliance with private standards by producers in developing countries?

Developing countries are recipients of PVS in the food

Drivers for PVS development for 'standards-setters' – the food retailers

Profit	Export horticulture tends to be high-value and niche and as such has a demand profile that is somewhat price inelastic. Consumers tend to be loyal and wealthier. All are ingredients to make sustainable profits.
Outsource	Successful firms seek to outsource non-core activities – PVS enables outsourcing of food safety to suppliers, which frees valuable in-house resources to concentrate on core business.
Risk management	PVS helps distribute risks efficiently throughout the supply chain to those most able to both deal with and communicate food safety.
Harmonisation	PVS enables simplified, less risky, decision-making and lower transactions costs owing to search and screening (less gathering information on who you can rely on in new countries or regions), smaller group of possible sellers and enhanced compatibility between products by reducing variety.
Communication	PVS upgrades the potential to message accurately to consumers (communicating quality management), suppliers (ensuring they supply appropriate and relevant information as well as product) and competitors (credibility as the originator of a successful industry standard)
Business tools	PVS are flexible, fully operationalised, hands-free, supply chain management tools that provide incentives to other participants to comply with conditions stipulated by the setter. These participants remain independent eradicating the need for expensive ownership of the firms involved to achieve these goals. Furthermore, PVS are tools that can be flexibly enforced depending on market circumstances.
Information management	For information generation PVS are rich sources of information on the supply chain which help make decisions [e.g. on who to buy from, when, and at what price].
Preferred buyer	PVS can generate dependency for suppliers on the buyers by restricting exit for suppliers who have invested in sunk costs of compliance; these investments are often amortised over long periods.
Legal requirements for due diligence	PVS ensures compliance with baseline legislation specifically the main provisions of the General Food Law Regulation (EC) 178/2002 that apply to food business operators. This includes Article 11 on imports and Article 18 on traceability.

industry and export a small proportion of their total production as fresh produce in compliance with these standards. Export horticulture offers benefits at a macro level including foreign exchange earnings, balance of trade, cross-subsidisation of other forms of less-valuable but important trades and local economic development opportunities. It can also be a trade catalyst since internationally recognised standards provide a common language for trade, helping harmonise national standards, removing invisible barriers to trade as well as generating multipliers of higher quality trade: better transport infrastructure and better services provision.

At an industry level, while structures will exist for compliance with public standards, no consensual decision will be taken at an industry-level to attempt compliance with a particular PVS. A range of agencies are involved including local and national government, relevant authorities, donors, and industry lobbies. The production unit complying with the PVS might be an individual SSG, a collective of SSGs, a cooperative, an outgrower



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scheme, or a larger farm.

For producers, incentives are mostly around access to markets and the cascade of perceived benefits they will receive. In the export horticulture industry, rural SSGs were the traditional suppliers. Indeed, most SSGs get certified or comply with PVS not because of the perceived technical efficiencies, but because their buyer demands it. Hence, it is primarily an issue of survival in the market, though several other motivations exist.

PVS challenge SSGs in developing countries. Farmers are constrained by their exposure to regulations on production owing to [often] less stringent domestic public food safety regulation, and less experience of trading products that have formal PVS compliance requirements. Hence, the quality might be there, but communicating this remains a challenge. To be truly efficient sustainable development champions, PVS that include producers in developing countries must be designed in ways that incorporate information on the significance of the impact of this trade and compliance with these standard have on livelihoods, communities, and opportunities in rural areas.

Drivers for PVS compliance for producers in developing countries

Financial	As with any new market opportunity, investment is necessary to comply. Higher income, larger margins or opportunities for these are significant drivers.
Technical efficiencies	Increased organisational performance and enhanced chances of organisational survival. Benefits from implementing and running compliant systems result in less fraud, higher yields and more efficient farms.
Upgraded benefits of trade	Benefits such as training, help to support and upgrade organisational performance.
Signalling	Compliance signals to all buyers of quality produce and production skills of the farm. Crucially these signals are important in accessing finance, training, information, etc.
Reduced risk	More durable trading relationships than available on alternative markets e.g. local markets.
Alternatives	For farmers with few alternatives for cash crops, this might be their only option to sell these products.