

Crossfire: 'Private standards are an unnecessary additional barrier to trade that exclude small-scale producers and processors in the developing world'

PETER LUNENBORG and ULRICH HOFFMANN

In our debate between two experts, Crossfire invites Peter Lunenborg and Ulrich Hoffmann to argue the case 'Private standards are an unnecessary additional barrier to trade that exclude small-scale producers and processors in the developing world'.

Dear Ulrich,

The last decade has witnessed the multiplication of private standards and certification schemes in the food sector, largely because of food safety scares and increasing sustainability concerns. These standards impose additional requirements on producers beyond those of governments, which are often based on international standards, for instance the Codex Alimentarius.

For me as a consumer, many private food safety standards seem to be unnecessary. They do not address my issues of concern. First, it is unclear whether higher standards for traceability and food safety do in fact increase food safety or food quality in general. Cucumbers

still get infected with *E. coli* and salmonella continues to thrive in meat products. Second, food safety appears to me to be mainly an issue from store to fork which is not addressed in private standards: good agricultural practices do not prescribe how retailers should store and package food, and how consumers should wash their hands and prepare their food. Third, all these standards do not result in delicious food: Fairtrade bananas are sold green, the strawberries and mangoes are unripe. Fourth, in many countries consumers have more trust in public guarantees of quality than in retailer schemes (Bienabe, 2010). Furthermore, international standards such as those developed by the FAO/WHO Codex Alimentarius Commission are often informed by experts from the private sector already; why the need for additional private standards?

I see the potential value of some sustainability standards, in particular those ensuring that food is organic, GMO-free

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or halal/kosher. Most countries where such food attributes are popular, however, have a public standard. For instance, most developed countries have adopted a public standard for organic products. In these countries, certification to the public standard is mandatory (Liu, 2009). An additional private standard in such situations seems to be superfluous. Other sustainability standards may be less relevant in a developing country context, child labour a case in point. In my opinion, it is absolutely common for children in agricultural societies to work on the farm. My great-grandmother did the same.

Overall, the emergence of private standards has marginalized small-scale farmers, producers with limited resources, and own land holding of less than 2 hectares. In contrast, downstream market operators, retailers, and processors in developed countries usually are the main beneficiaries when a standard commands a price premium in a destination market.

Many standards address the situation of sophisticated developed country farms and are not always directly relevant for simpler farming. The development process of private standards is seldom participatory or transparent. Private standards are often more stringent without a clear justification. A well-publicized

example is the EU's harmonized aflatoxin standards that have set tolerance levels much lower than those in the Codex Alimentarius.

The compliance costs for small-scale farmers are often prohibitive. In the case of some organic standards, a field has to lie fallow for three years before it can be classified as 'organic'. Certification is costly and periodic renewal fees are due. Many small-scale farmers are illiterate while private standards are frequently more onerous with respect to information, communication, and documentation of the certification process. Often, local expertise to implement the private standards is not available and has to be flown in. However, additional investment does not bring with it automatic market access neither higher farm-gate prices (Luvai, 2008).

In conclusion, private standards are often unnecessary and exclude small-scale producers. Nevertheless, private standards developed by small-holders themselves or standards with the explicit objective of giving a fair return to small-holders might be useful for them. In the future, they should probably look into producing for less demanding markets (e.g. regional markets) or team up with other small-scale producers or primary marketing organizations (usually lead exporters).

*Best wishes,
Peter*

Dear Peter,

(Private) voluntary sustainability standards (VSS), in your view, are largely unnecessary because they provide little benefit to consumers in addition to government regulation, in particular on food safety, and often make products more expensive, both for producers and consumers. If this were true, the question would arise why most sustainability markets, in which VSS play a key role, have shown double-digit growth rates in recent years, often several times higher than in conventional markets.

The rapid expansion of sustainability markets and related VSS is closely linked to several factors: 1) consumers want more information on specific modes of production and prefer specific sustainability characteristics or features of products; 2) globalization has led to long and often sophisticated international supply chains, where assurance of specific quality parameters and production methods is far from easy; and 3) companies are liable for their products to consumers and want to reduce related risks.

It is true that food safety and even some production-related characteristics (such as organic production) are regulated by governments, but regulation is often static, rarely harmonized at international level, and needs to address society-wide interests. Conversely, VSS are very dynamic, in fact they often are

the driver of change, they are applied to international supply chains across borders, and they can cater for preferences or interests of specific consumer groups. Furthermore, regulation, in particular in less developed countries, is often difficult to enforce effectively and implement in the light of existing deficiencies in administrative, human, technical, and infrastructural capacities. For instance, the quality of drinking water is often problematic or farmers in many countries still use home-made 'cocktails' of unsafe or over-dosed agrochemicals. VSS effectively overcome such compliance problems.

VSS comprise requirements mostly related to health, safety, environmental, social, and animal welfare issues. Many of the requirements are referred to as 'credence characteristics' of a product, i.e. attributes that neither the trader nor the consumer can verify through direct examination of the product. Several VSS are combined with labels that are recognizable by end-consumers (e.g. organic or fairtrade products), some of which may lead to price premiums. Many, however, are business-to-business standards that are not visible to end-consumers.

While not exclusively a developed-country phenomenon, in the light of increasingly globalized supply chains, consumers in OECD countries increasingly want

the goods and services they purchase to meet specific health and safety requirements (as regards product characteristics), on the one hand, and environmental and social sustainability criteria on the methods of production of the goods and services purchased, on the other hand. Governments have traditionally reacted by developing policies, regulations, and technical requirements, which, however, are mostly confined to product characteristics. NGOs and private companies are taking on a new role in the development of VSS and codes of conduct on modes of production and processing, placing emphasis on their environmental, social, and economic impacts. VSS are thus a driver of change. In a number of sectors, VSS have already become a market reality.

VSS are most prominent, in terms of quantity, level of sophistication, and multi-dimensionality in the food and agricultural sector, notably for fresh produce and beverages, which can be regarded as a trendsetter for all sectors. VSS are also of importance in textiles and clothing, the footwear sector, toys, timber and timber products, natural cosmetics, liquid biofuels, and electrical and electronic goods. Carbon-footprint standards are emerging as a new frontier, in particular for areas and sectors where first and second-best carbon-pricing tools are impractical

or politically difficult to adopt. Although still an exception rather than the rule, VSS play an increasingly important role in South-South trade and even for access to national markets. A prominent case in point is intra-Asian trade in fresh food and vegetables and the domestic fresh food markets of Thailand and Malaysia.

Mistakenly, VSS are seen by many key policymakers in developing countries as a technicality, not a strategic policy issue of: 1) internalization of environmental and social costs; 2) promotion of sustainable production and consumption methods (including opportunities for energy/material/resource efficiency and related cost savings); and 3) sustainable competitiveness in growing and lucrative markets.

As VSS are much more dynamic than regulatory requirements and are a constantly moving goalpost, over time, they have become more stringent and prescriptive, complex, and multi-dimensional (i.e. dealing with several issues). In addition, increasingly, several VSS have to be met for the effective market entry of a single product (e.g. an organic product entering a European supermarket often has to be certified not only under organic standards, but also under the GlobalGAP and Fairtrade standards). This significantly complicates compliance and drives up inspection, testing,

and certification costs. Against this background, VSS tend to reinforce already existing capacity weaknesses at the producers' level in developing countries, such as poor physical and institutional capacity, skills, policy coherence, and public-private sector dialogue. Therefore, VSS can enhance the risk of marginalization of small-scale producers and poor countries or regions, in particular LDCs.

In order to address the existing market reality of VSS and avoid potential negative impacts on global supply chains and smallholders, it is important that VSS are scrutinized to assess that they are: 1) proportionate to the (real, not perceived) risk they claim to address; 2) scientifically based; 3) that their burden of compliance is distributed fairly; and 4) that a policy framework is developed to maximize the benefits of VSSs while limiting their potential negative impacts. In this very context, developing countries need support on pursuing proactive policies on VSS aimed at: 1) making VSS a means for achieving or contributing to specific sustainability goals (this is the rationale for public and donor funds being used for VSS compliance); and 2) developing a coherent national strategy that uses VSS as a tool for achieving specific developmental and poverty-eradication goals. The soon-to-be-launched UN Forum on Sustainability Standards (UNFSS), a joint

initiative of FAO, ITC, UNCTAD, UNEP, and UNIDO, will provide assistance with these issues.

*Yours,
Ulrich*

Dear Ulrich,

Thanks for your elaborate response. In my initial message I made a distinction between 'food safety standards' and 'sustainability standards' that mainly aim at serving environmental and social objectives.

You argue that private standards are 'necessary' by pointing at the double-digit growth of niche markets. This reasoning does not apply to private food safety standards, as compliance is de facto required for the bulk of food products marketed in the EU (e.g. GlobalGAP). At the same time, it is unclear whether more stringent private food safety standards have resulted in a significant increase in food safety and decrease in food poisoning incidents. The Annual Reports of the EU's Rapid Alert System for Feed and Food (RASFF) do not indicate such a trend. If anything, food poisoning incidents are increasing, but this might also be explained by improved recording. At any rate, I think the jury is still out on the necessity of food safety standards that go beyond those required by international standards.

As for sustainability standards, some of them are 'necessary',

when they truly address genuine concerns by consumers in destination markets and serve legitimate environmental or social objectives. In many cases, however, consumers are not always aware of the negative side-effects or distributional consequences of compliance by producers with certain standards. To give some (extreme) examples in the area of animal welfare: the requirement to slaughter animals in a 'halal' way leads to massive displacements of live cattle around the world by sea – obviously not all animals survive such trips. The coveted label of 'Parma ham' causes cattle to be transported from all over Europe into Italy. What about CO₂ emissions? Also, sustainability standards are used by private actors to carve out niche markets for themselves and convince final consumers through marketing, or restrict choices so customers are more likely to choose products produced under sustainability standards (e.g. some Swiss supermarkets sell mainly Fairtrade bananas).

Nevertheless, I agree that, when final consumers are willing to pay for products produced in a certain way, market actors (retailers, processors) should be free to offer such products. Most of these standards have 'good' or 'legitimate' objectives from a societal point of view, e.g. correct pesticide use, as

you pointed out. In the end, producers have to deal with the market realities: they have to adjust their way of producing to market requirements, despite how they might view such requirements.

Given the current market realities of sustainability standards, it seems we both agree that they marginalize small-scale farmers, especially in the case of overlapping or duplicate standards. You have sketched out some basic conditions under which the negative distributional impacts of private standards on small-scale producers could be mitigated. Perhaps these could be ingredients for a set of 'sustainability' guidelines for 'sustainability standards'. These recommendations could be generic, but also be made more specific by sector or standard. They would address standard-setting organizations, (developing country) governments, and small-scale producers. The proposed UN Forum on Sustainability Standards (UNFSS) could play a catalysing role in such processes. In addition, there might be a need to enlighten consumer organizations about the possible distributional or other side-effects about certain standards.

*Yours,
Peter*

Dear Peter,

Many thanks for your comments on my line of argument.

As regards the role of private standards for assuring food safety, I concur with your view that there is, as yet, insufficient evidence on whether such standards have indeed noticeably improved food safety. However, as I stated before, the degree of globalization of food supply and processing chains has significantly increased in recent years. In the absence of private food safety standards, food products passing through globally run supply chains would have been subject to a large number of national mandatory food safety regulations, many of them divergent or fragmented in nature. Under such conditions, private standards assure consistent and homogeneous approaches and safety requirements throughout the whole supply chain.

In my view, one of the reasons why food safety levels have not been clearly lifted by the more widespread use of private standards is the fact that agrochemical use has continued to increase, rather than decrease. Therefore, many private standards foster the use of best practices in agrochemical application as part of a risk management approach. The second step of a more fundamental transformation of agricultural production methods towards a preventive approach, for instance as practised under organic agriculture or agroecology, is only encouraged by some sustainability standards.

Many private standards, such as the GlobalGAP one you refer to, are not confined to food safety issues, but rather form meta-standards that address multiple and often interrelated issues. Of the some 240 control points of the GlobalGAP standard, for instance, almost half are on environmental issues and a fifth related to social issues. Many control points in these two clusters, however, have a direct or indirect impact on food safety (e.g. improved occupational safety bears on better food safety).

I share your view that often consumers are not aware of some problematic side-effects or distributional consequences of compliance with some private standard requirements (you cite the case of halal-compliant meat). It is therefore important not to overemphasize or single out individual goals of requirements, but rather examine private standard requirements within the overall context of the life cycle (impact) of a product. Such an approach reduces the risk that by plugging one hole, two others are created and environmental and social problems are just shifted.

Making private sustainability standards work for small-scale producers and poverty alleviation is undoubtedly a major challenge. Too stringent or complex standard requirements may indeed exclude those from dynamic markets that need the access most.

As I mentioned before, I see two effective approaches to reduce the smallholder marginalization risk. First, the burden of compliance with private standards needs to be distributed fairly. This needs to be addressed when setting the standard and elaborating on conformity assessment. Providing some generic 'sustainability' guidelines, as you mentioned, could be a step in the right direction, and is already actively discussed within the framework of the International Social and Environmental Labeling Alliance (ISEAL), a coordinating body of several sustainability standard-setting organizations (ISEAL has developed a set of Common Requirements for the Certification of Producer Groups, which establish best practice guidance on the operation and certification of groups of small-scale producers).

Second, more heed needs to be paid to a supportive national policy framework that maximizes the benefits of private standards for small-scale producers, while limiting potential negative impacts. This will require building institutional, human, infra-structural, extension services, and networking capacity. Such a two-pronged approach will, however, be of little effectiveness if there is a big mismatch between smallholder capacity and private standard

requirements. It is therefore important that small-scale producers are only involved in those private standards that are commensurate with their entrepreneurial and technical capacity, are particularly supportive of smallholders, such as fairtrade, organic agriculture or Utz-certified, or focus on local markets that accept much less complex and expensive participatory guaranty systems as proof of compliance. Conversely, integrating small-scale producers into global supply chains governed by stringent and complex private standards will necessitate almost permanent financial and technical support by developing country governments or donors.

*Yours,
Ulrich*

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