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FINAL REPORT ON PRIVATE STANDARDS AND THE SHAPING OF THE AGRO-FOOD SYSTEM

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Foreword

This report is an initial attempt to understand the economic incentives behind the recent growth in private voluntary standard schemes and to identify the emerging policy issues which these may raise. The paper reviews the role of such private standards, in particular those of leading retailers, in shaping the agro-food system.

The paper was prepared by Linda Fulponi with assistance of Adeline Battisti-Borot who was also responsible for undertaking the farmer association surveys and examining farmer driven standards.

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FINAL REPORT ON PRIVATE STANDARDS AND THE SHAPING OF THE AGRO-FOOD SYSTEM

Executive Summary

1. The study examines the role of private voluntary standards in shaping the agro-food system, with a focus on product sourcing. It discusses the main economic incentives for the development of such standards as well as their likely evolution from the perspective of lead retailers in OECD countries. It also provides information on the views of agricultural producers regarding to the importance of private voluntary standards for market entry and effects on revenues, competitiveness, farm efficiency worker safety and the environment. The information presented is based on interviews and surveys of lead retailers and a survey of farmer organizations in OECD countries.
2. The study identifies three key developments in private standards schemes in the food sector over the past decade: 1) a move to voluntary management systems in the food industry for the monitoring of product and process attributes; 2) the emergence of coalitions of firms for setting private collective voluntary standards and 3) an increased use of private standards in the context of global business to business (B2B) practices.
3. Results from interviews with retailers suggest that the development and use of private standards schemes is closely linked to the economic environment as well as institutional and legal frameworks in which the firms operate. Among the main factors characterising the economic environment are the strengthening of consumer demands and expectations regarding food, in particular food safety and to some extent production methods affecting the environment, labour conditions and animal welfare. The interviews revealed the reasons for the development of private standards, whose compliance can be verified through third-party audits and certifications. The most important among these include increased competition among retailers for consumer spending as well as a move to reduce in-house monitoring and inspection costs and an increase in product sourcing across the globe. Firm reputation, in terms of food quality and safety was voiced as a key concern of retailers. Failure to meet consumer expectations, in particular for food safety, was viewed as damaging to firm reputation, which in turn could lead to a loss in earnings and consumer loyalty.
4. Institutional and legal frameworks in which firms operate were also considered to be an extremely important determinant in developing private standards schemes which not only ensure compliance with given food safety regulations but also provide a margin of defence against possible outcome failures. Thus the development and use of private standards on a B2B basis with emphasis on process management were seen to correspond both to the importance of reputation as well as to the requirements imposed by the new food economy.
5. As the legal framework affects all firms and no firm is exempt from the possibility of a food safety failure, lead firms expressed the view that food safety should be a non-competitive issue. In this perspective, co-operation on food safety was seen as the first issue to be tackled through systematic cooperation in the development of private standards. Harmonization of standards to both facilitate sourcing and reduce transactions costs for buyers and suppliers was also viewed as an important motive for initiating cooperation among retailers.

6. The first effort in relation to the development of food safety standards was the formation of the EurepGap standard by a coalition of European food retailers (Eurep). This was followed by the establishment of the Global Food Safety Initiative (GFSI) which set out required criteria for the development of private standards which are then benchmarked by the group. The standard set up by Eurep refers only to primary production (GAP=Good Agricultural Practices), while the benchmarked standards of the GFSI also include standards for processed goods and retail distribution practices in addition to those for agricultural products,.

7. The study found that for agricultural food products the private standards required by retailers focussed above all on the management process used to achieve a given outcome in addition to the traditional product control. These procedures, coupled with reporting requirements, make private standards more demanding than government requirements. Interview results also suggested that private standards would likely continue to increase in terms of food safety along with technological improvements and harmonization efforts in other areas are likely. Social and labour conditions of workers were seen as the next most important issue to be tackled in co-operation between firms in the food sector.

8. Survey results of farmer associations confirmed the high emphasis on food safety but also on other production process characteristics, particularly agri-environmental practices. Meeting private standards was considered a condition to do business with both manufacturers and retailers. However many responses noted the overlap of requirements among standards and expressed the wish for harmonization among standards. The reported effects of standards on income and environment were ambiguous. However numerous responses suggested that meeting supply logistics requirements in terms of delivery quantities and timing was also an important variable in securing market entry for many downstream buyers.

9. Overall the study finds that private voluntary standards schemes can contribute to improving food system efficiency so as to deliver and ensure specific product and process attributes at reasonable cost to consumers. Nevertheless, these standards may also be exclusionary for certain producers. Compliance with private voluntary standards schemes may exclude those producers who, due to lack of potential scale economies or otherwise can not easily meet the standards' requirements and remain economically viable. The study also notes that this issue may potentially be more important for small holders in developing countries, which must also contend oftentimes with a lack of well functioning institutional and physical infrastructure services. This development is not, however, exclusively due to private standard schemes, but is likely to be part of general trends in industrial organisation (*e.g.* concentration, search for scale economies or new ways of doing business) which are occurring in all sectors of the economy.

I. Introduction

10. The purpose of this paper is to improve understanding of the economic incentives behind the recent growth in private voluntary standard (PVS) schemes and to identify the emerging policy issues. It is the result of initial work on the topic of private standards and the agro-food system. This work complements previous studies on the agro-food system in the OECD.¹

11. The paper discusses the role of private standards in shaping the agro-food system, who sets them and why as well as briefly reporting on producer experiences in their use. It is based on interviews with leading food retailers, standards' owners and selected manufacturers and surveys of farmer associations. While the focus is on OECD country experiences, private standards should be thought of as raising global governance issues, as the industrialised countries' food systems rapidly diffuse to non member economies.

12. Preliminary analysis of the literature and retailer interviews suggest three main developments in private standards of the food sector: 1) the move to voluntary management systems for the monitoring of product and process attributes; 2) the emergence of coalitions of firms for setting private collective voluntary standards and 3) the increased use of global business to business (B2B) standards.

Towards voluntary standards that include process attributes

13. The first development is a move to a management system approach to monitor food product and process attributes. The management systems approach to monitor and evaluate performance of production processes now characterizes most private voluntary standard (PVS) schemes in the food sector. These include variants of ISO 9000 (International Standards Organization) for quality control, ISO 14000 for the environment or SA8000 (Social Accountability) for social conditions.² This 'systems management approach' is widely used in all sectors, thus food and agriculture are no longer the exception. Such management systems can be viewed as tools for achieving not only a given product attribute but also the process for doing so. These are no longer uniquely driven by technical product performance standards but govern the entire production process, whether controlling for safety, quality or environment attributes in food manufacturing or in agriculture. For instance, HACCP (Hazard Analysis and Critical Control Points) is a specialised quality control system with food safety as its objective. It has become the norm in the food sector, recommended by Codex and required by many governments. Its goal is to monitor production processes at key points in any production or distribution system to reduce risk and eventually to remedy any failures rapidly and efficiently. This implies an approach which is seen as more reliable for ensuring a given attribute or avoiding others than simple controls on specific product performance criteria.

¹ *Structural Adjustment in the Agro-Food Sector*, [AGR/CA(92)4].

Vertical Co-ordination in the Fruit and Vegetable Sector, [AGR/CA/APM/FV/M(95)1].

Impact of Dairy Policy on Industry Structure and Performance in selected OECD Countries, [AGR/CA(96)7].

Market Concentration in the Agro-Food Sector: Selected Economic Issues, [AGR/CA/APM(2001)18].

The Evolving Agro-Food Chain: Selected Economic Issues, [AGR/CA/APM(2001)30].

² Social Accountability International is a non-governmental multi-stakeholder organization which has developed a labour and social standard for assuring humane workplaces. <http://www.sa-intl.org/index.cfm?fuseaction=document.showDocumentByID&nodeID=1&DocumentID=136>

Development of standard setting coalitions

14. The second development is the emergence of coalitions of leading firms for setting private standards in the food sector.³ This is exemplified in private initiatives such as the Eurep (Euro Retailer Produce Working Group) and GFSI (Global Food Safety Initiative). While firms continue to compete over quality, price, service and variety, they also pursue common objectives in a non-competitive manner. The principal objective of the GFSI is food safety. This issue is seen to be of high importance for all members.⁴ For the Eurep the objectives are food safety and good agricultural practices for sustainable agriculture. These are examples of a collaborative approach which could reduce transactions costs and improve efficiency for those participating in the coalition and perhaps their suppliers. While producer associations that set technical and compatibility standards have long existed, what is new with standard setting coalitions is that they are corporate led with a power to impose decisions on different players in the system. Such arrangements however can raise a number of subtle issues concerning competition, particularly when undertaken by firms who together dominate a given sector, for instance leading food retailers. This could raise issues with respect to limiting market competition.

Development of business to business (B2B) standards

15. The third development is the increasing use of PVS as global business to business (B2B) standards in procurement and as a governance tool to improve chain performance. Most of these are not communicated directly to consumers, so their role in product differentiation for final demand is somewhat ambiguous. These PVS schemes are easily integrated into new forms of procurement processes to reinforce links between retailers and preferred suppliers, dedicated wholesalers and central procurements systems. Both are expanding not only in the industrialised countries but also by a growing number of countries in Central and South America, Asia and Africa. Reardon (2005) characterizes 4 key developments in procurement in developing countries: 1) centralised procurement through distribution centres (DCs); 2) specialised procurement agents, that is, specialised or dedicated wholesalers which represent a move away from traditional wholesalers; 3) preferred suppliers for assured and consistent supplies; and 4) use of PVS schemes on suppliers to ensure high quality and increasingly safe products. A few examples of this evolution are represented by procurement systems used by the CARHCO retail chain in Central America, China Resource Enterprises, Vanguard and Wu-mart retail chains in China, the Shoprite chain in South Africa as well as retailers such as Carrefour, Tesco, Walmart, Metro and Ahold in their global operations.

16. There may be economic benefits to being tied to leading food firms and their product chains. For instance, being linked to major retailers may not only provide for market access but also permit supplying firms to upgrade their positions in a product chain. (Nadvi and Waltring, 2003; Humphrey, 2000; Kaplinsky, 2002; Gereffi, 1999; Dolan and Humphrey, 2001). The role of PVS in the governance of commodity chains by these firms is particularly relevant for developing countries. Unless these agents are able to meet the PVS set by leading firms they may find themselves excluded from the important centres of economic activity, in spite of lower tariffs or higher import quotas by importing countries.

³ This idea is adapted from Cassella (1997, 2001). In this work, the private standard is a club good to improve the functioning of markets. Private firms form coalitions and on the basis of mutual interest determined by technology and market conditions set standards and certification mechanisms. This often can result in new standards bodies, as well as voluntary guidelines at the national and international level. International legislation on specific product characteristics can also be inspired by the workings of the coalitions.

⁴ This strategy relates to concerns which are so complex and at the same time so essential to the survival of any firm or industry that they can only be effectively dealt with in a collaborative fashion, and therefore should not be subject to competitive behaviour.

17. These three developments are taking place against a socio-economic setting which is characterised by the increased voice of civil society in influencing the agendas of national governments, corporations and international organizations concerning the conduct of the food system, and by the integration of food firms within world financial markets. These two elements imply both continued pressure on firm financial performance and a permanent need to meet consumer-civil society demands and expectations as well as an expanding regulatory configuration in domestic and world markets. To sustain financial performance, in a sector generally characterised by low margins and inelastic demand, there is a constant incentive to reduce costs for both manufacturers and retailers. At the same time, to continue doing business and grow, it is essential that the cost reduction does not come at the expense of firm reputation and consumer satisfaction.

18. Many of the private standards schemes are becoming global standards as the food system becomes interlinked across the world, either through growth in collective PVS or diffusion of from lead to 2nd tier food retailing and manufacturing systems. This could reduce national bias of standards and permits greater co-ordination of production and distribution across the globe with expected economies of scale and efficiency gains. From a trade perspective this should imply increasing flows of goods between countries. It also means that the economy is no longer defined uniquely by national borders, but by areas of activities for achieving financial and welfare objectives (Messner, 2003). While national institutional frameworks remain important, the private sector, enterprise and civil society associations, as well as international organizations, are increasingly taking the lead in shaping global standards for food. This may lead to the development of mixed forms of governance, within which public and private regulatory systems co-exist in parallel or influence developments in each other and even overlap at certain points.

19. This paper attempts to lay out the main issues and questions for policies arising from the use of private standards in the evolving food system. The rest of the paper is organized as follows: section II discusses the economic dimension of private standards; section III describes the world of private standards and summarizes the results of interviews with leading retailers; section IV presents producer associations experiences with private standards; section V analyses the impacts of private standard developments on the agro- food system; and section VI attempts to define the policy questions with respect to private voluntary standards.

II.a. Economic Dimensions of Private Voluntary Standards (PVS)

20. This section discusses several important aspects of the economic environment of the food sector bearing on the development of private standards. These include: 1) strengthening of consumer demands and expectations regarding food, 2) the increased market power of retailers and 3) the importance of information, quality and reputation.

Changing food expectations

21. Food demand has been changing with the evolution of lifestyles, demographics and increases in household incomes. Consumers increasingly focus on food safety, quality and methods of production (Kinsey, 2003).⁵ The trend towards quality-differentiated products is a particularly important component of the retailer strategy.⁶ As the last link in the chain between producers and consumers, retailers are in a privileged position to translate and to transmit both actual and emerging consumer demands back through the food chain to producers and manufacturers. Thus the chain is transformed into a demand/supply loop,

⁵ Quality-differentiated foods include a wide variety of product/process attributes such as convenience, safety as well as production methods, such as environmental and animal welfare characteristics.

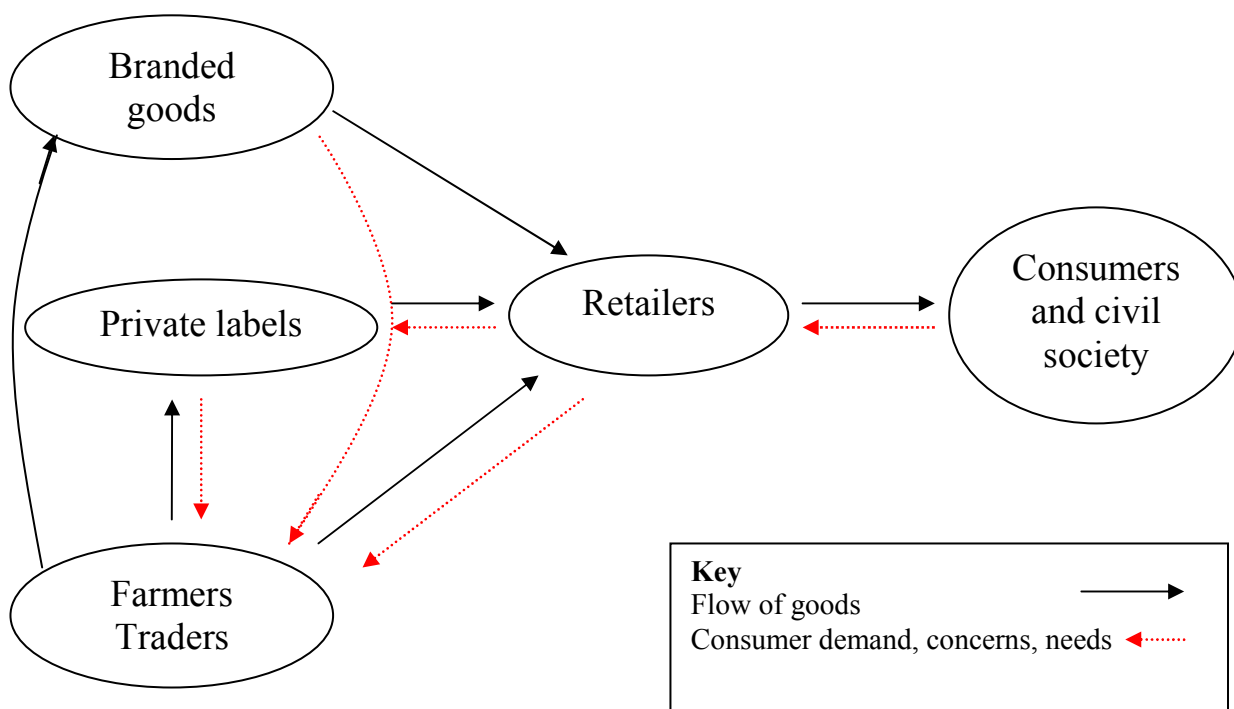
⁶ Standard supermarkets usually stock about 40 000 different products, so there is sufficient choice available to satisfy most consumers.

with the main drivers coming from the demand side (Kinsey, 2002). This is seen in Figure 1. Many of the quality attributes expected by consumers go beyond the simple organoleptic and appearance traits of foods and include food safety as well as process and production aspects such as animal welfare, environment, labour conditions and health. The latter are often difficult to define in precise ways and vary in importance across cultures.

Quality and quality management

The term 'quality' is defined according to the International standards organization (ISO) as a characteristic that a product or service must have. Food quality can refer to attributes such taste, texture, appearance, variety, nutritional content, and the like which customers want. Food safety can also be considered a required food characteristic thus part of a products quality, but because of its health importance it is differentiated from other product requirements. Quality management is then the set of activities a firm carries out to implement a given characteristic including quality planning, control, assurance and improvement.

Figure 1. The food sector



Source: Adapted from *Emerging Trends in a New Food Economy*, Kinsey (2002).

Retailer market power

22. Most sectors of the economy in OECD countries have experienced a trend towards fewer but more efficient firms.⁷ Consolidation and concentration have characterised the major food manufacturing and processing firms in the 70s and 80s, giving them substantial bargaining power with other players up and down the food chain. Since the 90s this power has shifted to the end point of the food chain, to the retailing sector as market power of leading retailers has grown. Growth in retail sector bargaining power,

⁷ Industrialisation refers to a range of structural changes: including larger firm size, specialised production, vertical co-ordination as well as concentration (MacDonald, 1999).

coupled with innovations and technological advances in information systems and transportation as well as with new ways of doing business, including marketing and distribution systems, have changed the food sector's food delivery system dramatically. International investment, global competition and cross-border business activities have made the world economy rather than national borders the sector's frame of reference. Firms in many sectors of the economy are becoming characterised by more complex financial arrangements, coupled with new ways of organising the production and distribution of goods and services across the globe (OECD, 2001). The food industry is no exception to this trend; for instance, the computerized information and logistics systems business model introduced by Wal-Mart has spread through retail groups throughout the globe from the United States to Latin America, Europe and Asia. This way of doing business has brought intense competition to the food retailing sector, oftentimes with benefits of lower prices and variety to consumers (Kinsey, 2003). However this evolution can also drive out smaller firms or lead to larger firms to acquire smaller ones. Some suggest that this outcome actually reduces consumers' shopping choices, varieties offered and limits product innovations (Dobson *et al.* 1999, 2000; Cotterrill, 2000). While major manufacturers remain powerful actors in determining what food is produced and how, it now appears that retailers may be even more potent in shaping the food system (Grievink, 2003; Connor, 2003).

Increased retailer market concentration

23. Growing market power at the retail level may be attributed to a number of factors, but two stand out in importance: 1) increased market concentration at the retailer level, and 2) the growth of goods manufactured under a retailer or private label. An indication of the economic importance of a set of firms in a given geographic area can be calculated by the sum of their market shares, or their concentration ratio. In many European countries the 5-firm retailer concentration ratio is over 50%, as shown in Table 1. This is significantly increased when buyer groups are also taken into account. Similar results hold for other countries such as Australia, the combined market share of the two leading retail firms was 76% in 2002 according to industry estimates, while in the United States the market share of the five leading retailers was 27% in 2000, but in the large metropolitan areas it is much higher.^{8,9} For instance in 1998 the 4 firm market share in the 100 largest cities was about 73% according to USDA estimates.

⁸ Estimates of the National Association of Retail Grocers of Australia(NARGA)

⁹ Census of Retail Trade reported in "U.S. Food Marketing System, 2002/AER-811. p.67

Table 1. 5-firm concentration ratios in selected countries

| | Excluding Buyer Groups | Including Buyer Groups |
|--------------------|-------------------------------|-------------------------------|
| Austria | 60 | 59 |
| Belgium/Luxembourg | 61 | 66 |
| Denmark | 56 | 77 |
| Finland | 68 | 71 |
| France | 56 | 65 |
| Germany | 44 | 53 |
| Greece | 27 | 34 |
| Ireland | 58 | 58 |
| Italy | 18 | 26 |
| Netherlands | 56 | 72 |
| Portugal | 63 | 67 |
| Spain | 40 | 64 |
| Sweden | 78 | 81 |
| United Kingdom | 63 | 56 |
| Average | 54 | 61 |

Source: Buyer Power in Food Retailing: The European Experience, Paul Dobson, based on CIR's European Retail Handbook and trade sources(data for 1999)..

24. Increased market size is associated with substantial buying power including the ability to impose product requirements and standards on suppliers (Dobson *et al.*, 2003). In many cases this power has increased with the consolidation of procurement procedures through buyer group associations. Furthermore, cross-border alliances have arisen in recent years, accentuating this market control. Such alliances include, the European Marketing Distribution (EMD), with members from Spain-Euromadi, France-Leclerc, Italy-Esselunga, Norway-Unil A/L, Germany-ORA, as well as members from the UK and Sweden or Advanced Marketing Services (AMS) with members from Netherlands-Ahold, France-Casino/Opera, Germany-Edeka, Ireland-SuperqQuinn, UK-Safeway and others. According to Dobson Consulting these “illustrate the various degrees of collaboration between sharing of buying price information and acting as a single purchasing unit as well as of collaborating on the sourcing of private label products. The turnover of buyer group associations gives an idea of their importance in markets and the implication is that they can heavily influence the direction and type of products on markets” (Dobson, 2003 p.5). As an example EMD’s turnover was EUR 119 billion and AMS’s EUR 70.9 billion in 2005. As a consequence of their market share they are able to bargain for concessions from suppliers, which in turn lead to cost advantages over smaller rivals. When these cost advantages are passed on as lower prices to consumers they can increase sales and gain market shares (‘virtuous circle’). See Box 1 for a brief discussion of economic issues related to the growth in retailer market power.

Growth of private labels

25. The growth in private label goods is another explanation for the increase in retail level market power as such goods represent an important earnings segment for retailers as well as a tool for building reputation. Consequently, these goods have provided incentives for developing private standards. Food retailers are no longer uniquely involved in food distribution but are also significant players in food manufacturing and many private labels now compete with the best of the branded foods. Private label products encompass all merchandise sold under a retailer’s brand. That brand can be the retailer’s own name or a name created exclusively by that retailer. In some cases a retailer may belong to a wholesale group that owns the brands that are available only to the members of the group (Bergès-Sennou *et al.*, 2004). Market shares of private label goods could also grow as evidenced by recent reviews (Hoch *et al.*, 2004; Dobson *et al.*, 2003; Dobson and Waterson, 1999). While most branded product sales are fairly

stationary, taking into account population and income growth, private label sales do indicate an upward trend. This is because retailers control private label product marketing while simultaneously they are also both the buyer of and competitor with branded products (Hoch *et al.*, 2004).

Box 1. Retail Market Power: from the mom and pop shop to the one stop centre

Economic analysis has traditionally viewed retailing as a highly competitive industry, particularly in comparison to large branded manufacturers. Thus they have been described as an industry sector with many firms and easy entry and where small price changes induce substantial customer switching (Posner, 1976, Bork, 1978). Retailing now involves a limited number of firms and may be described as a form of monopolistic competition. Entry is often costly and incumbency advantages are important. The latter include advantages tied to specific assets such as location and reputation. Retailers can also experience economies of size and scope, again an advantage over smaller rivals. Increasing returns may also arise because fixed costs can be distributed over high output levels and variable costs decline when buying large quantities.

Furthermore many have diversified and have become multinational in their operations. For instance, it is not uncommon now to find large food retailers with their own banking, credit and publishing services in house, in addition to selling a wide array of durables and foods. The one-stop shop format has been the trend even in nationally based retail systems. Even with variations across countries the general trend is world-wide, just as in the case of the logistics and computerised inventory management systems of Wal-Mart.

What are the advantages of size? Large retail chains can negotiate favourable terms with their suppliers providing a further competitive advantage and better conditions of trade as they determine rules and conditions for shelf space. Supplier relations are also influenced by the economic importance of these retail chains and are accentuated with the increasing importance which private label goods bring (Dobson *et al.*, 1999, Gabrielson *et al.*, 2002). They can dictate conditions of sale with their "preferred suppliers", who often sub-contract out production thus creating a hierarchy of suppliers. In this situation risk is shifted to the preferred supplier who is finally responsible for delivery and quality but may not necessarily receive large margins.

This asymmetric market power leads retailers to impose specific requirements on suppliers, yet without having to bear the ownership risk. This may affect innovation on the part of manufacturers as relations with the large retailers are not necessarily guaranteed. Dominant firms may also oblige producers to exclusive supply contracts. With the growth in market share of private labels, buying power is an important factor in maintaining substantial margins on such goods, which, in turn, may further reinforce their market share. Such forms of buyer-seller relationships can also arise between farmers and downstream operators.

Yet this consolidation, which leads to sizeable economies of scale and scope, gains from higher investment levels and internalisation of spillovers may yield efficiencies beneficial to economies as a whole (OECD, 2004). The evaluation requires knowledge and understanding of the specific market structure of the country in question. Further discussion of retailer market power leads to discussion of related competition policy. The question always posed is: are the efficiency gains to consumers larger than the possible distortions created? (OECD, 2004; OECD, 2001).

26. Through increasing market concentration and control of shelf space of products, retailers have become the 'gatekeepers' to consumers in most OECD countries (Dobson *et al.*, 2003).¹⁰ But this has

¹⁰ Private label goods are important to most retailers' earnings, accounting for about 11% to 40% of value share, though the volume shares are much higher as seen in Table 2. From the theoretical literature, private label products are considered as a way for retailers to discriminate demand by supplying a new product and enhance their share of profits in a vertical structure (Giraud-Heraud *et al.*, 2003, Bergès-Sennou *et al.* 2004). With the introduction or the threat of the introduction of a private label good of a quality comparable to that of the national brand, the wholesale price of the national brand decreases. The consumer benefits as the price of the national brand decreases and the choice of goods within a product category increases.

increased their product responsibility and intensified the need for controlling quality, safety and other attributes to prevent any risk to reputation. This, in turn, has stimulated the development of private standards.

The importance of information, quality and reputation

27. In this overall market context the economic role of information, quality and reputation provide the basic elements for understanding the growing importance of private standards in the food system. Standards can, in general, improve consumer's information about product quality, if the standard is known. As a result, confidence rises and there is an overall increase in demand. In the food sector, the quality of goods is often difficult for customers to ascertain until after consumption (experience goods) and even after consumption it is not always possible to ascertain certain quality attributes (credence goods).¹¹ In a world of imperfect information, firms *signal* quality to consumers to reduce the information gap and to remedy the information problem that arises with credence goods. However for experience goods, firms *invest* in quality so that consumers will develop firm or brand loyalty through repeat purchases. This builds firm reputation and justifies food firms' investments in quality and safety management systems, in innovation and technology as well as in audit and inspection services. Minimum standards may be used in situations of imperfect information. In the literature, the theoretical discussion considers 'minimum quality standards' (MQS) as a minimum that can be applied to any attribute, but the economic reasoning remains the same. A brief description of such standards is given in Box 2.

¹¹ If an attribute can be ascertained only at some infinite horizon after consumption then it is a credence good, in this optic, a credence good collapses into the experience good definition (Burgess and Waterson, 2004).

Box 2. Minimum Quality Standards

With imperfect information, groups of firms and/or regulatory agencies may set minimum quality standards (MQS). Most often MQS are used to increase the qualities of goods produced and consumed, though there remains debate on their final effects. When governments set MQS this is usually done for consumption externality reasons, for instance tied to health and safety, where free market qualities may be considered insufficient. This is, for instance, the case for requiring seat belts or air bags in automobiles or in prohibiting certain pesticides on food products. Authors such as Leland, 1979, Shapiro, 1983 argue that regulatory MQS are not sufficient to raise consumption quality of consumers, since many already consume above the minimum standard and the others might be driven out of the market as prices rise. As price competition becomes dominant when differences in qualities are reduced, higher quality firms must increase quality even further to remain competitive. However, the difference between the 'new' high quality and minimum quality never reaches the previous levels, thus the price premium for higher quality declines. This raises market participation, with higher qualities for all and an increase in welfare (Ronnen, 1991; Gal-Or, 1997).¹

In the food sector there has been widespread use of minimum quality standards on products and processes related to consumption externalities, such as food safety.² To maintain reputation as high quality sellers, to keep customer loyalty and to earn premiums, sellers may decide to set quality levels above MQS. Some suggest that this behaviour is a response to consumer demands for higher quality by those willing to pay for it (Lutz *et al*, 2000; Ecchia and Lambertini, 1997; Boom, 1995; Crampes and Hollander 1995). This may also explain why specific high quality product lines in food retailing are set up, such as Tesco's Nature's choice, Carrefour's Filière de Qualité or Loblaw's President's choice. Growth in private standards above MQS raises the question of the economic or strategic motivation of firms. Is it a new way to compete, a way to insure against possible failures, a strategy to pre-empt government regulations or simply to influence the regulatory outcomes?

1. These results are obtained in imperfectly competitive markets where sellers can set prices rather than act in the price takers as discussed in Leland and Shapiro. Ronnen finds that competition in qualities relaxes price competition: To alleviate the effects of the more intense price competition on their revenues, high quality sellers raise their quality in reply to the low quality sellers that have also raised their quality to the mandated minimum quality level. Consequently if variable costs do not rise 'too quickly' with quality, prices corrected for quality fall" (Ronnen, 1991 p. 503).

2. When minimum standards are set exogenously, they may not be optimal. The optimal standard is found by balancing the benefits accruing to high quality consumers and losses to those who would purchase a good at a quality below the minimal. Regulatory agencies set minimum standards for goods for which there might be negative health, safety or environmental impacts on society.

II.b. Political economy and legal issues

Political economy issues: private and government strategies

28. Analysis of firm and government behaviour and their interactions concerning standards can best be discussed in a political economy type framework. Timing is an important element in determining final outcomes. When governments move first in setting a minimum 'quality' standard for some product or process characteristic, this reduces the 'quality' difference between firms and increases price competition. In this case competing firms may decide to raise even further their 'quality standard' of a given attribute in order to relax price competition. But differences in quality between firms are never fully restored to previous levels, that is prior to government standard setting, so prices fall (or increase by less) and welfare rises (Ronnen, 1991; Shaked and Sutton, 1982).

29. Another story is that firms or a group of firms may decide to exceed mandatory standards if, in doing so, they can influence future regulations. The timing of government and firm decisions is again important. (Arora and Gangopadhyay, 1995; Lutz *et al.*, 2000). If firms decide to adopt a standard above

current and expected levels before governments do, then regulators may be influenced to set lower MQS than they would have done otherwise. Under this strategy, firms may have undertaken substantial investments in machinery and equipment or logistics to ensure their specific standard. Governments might be unwilling to increase costs for firms. This may be the case where there are consequences on employment or prices, if governments set different minimum standards. Thus such a pre-emption strategy may reduce social welfare compared to the situation where the government would have moved first (Lutz *et al.*, 2000). This situation can arise in areas where MQS hitherto did not exist. In the food sector this could possibly be the case for process attributes, such as animal welfare or environment.¹²

30. In certain cases firms over-comply or exceed required standards in order to further enhance their reputation of offering high quality products. Since over compliance may improve reputations, public knowledge of a firm's behaviour provides incentives to over-comply. (Lutz *et al.*, 2000, Arora *et al.*, 1995, Boom, 1995).

Legal Framework Issues

31. Once the public authorities have laid down the rules and regulations, firms must comply. But beyond fulfilling specific rules or performance criteria of the food sector, firms are subject to the general commercial and civil legal codes. In most OECD countries liability laws make sellers legally responsible for damage or harm resulting from a product sold by them. In case of dispute, the manufacturer or retailer must prove that all necessary precautions, within his capacities, were undertaken to ensure that the products sold or manufactured by the firm were safe. In the United Kingdom, the food safety issue has taken on particular importance with the passage of the 'due diligence clause' of the Food Safety Act, 1990. This clause states that:

".. It shall be a defence for the person charged to prove that he took all reasonable precautions and exercised all due diligence to avoid the commission of the offence by himself or a by a person under his control."

32. The onus of responsibility for food safety is now on the individual director and has certainly affected the ratcheting-up of food safety standards and increased stringency of their management systems. The firm itself must now undertake the verification, or at least be able to provide evidence, preferably through a paper trail that it undertook all possible steps to prevent the product from causing harm. Though few other countries have a 'due diligence clause', an approach similar to that of the UK may be adopted in other EU member states. Some firms are already beginning to reflect on strategies to adopt should this occur. The EU food law also contains a similar legal liability clause. Liability can be a potent incentive to follow government regulations and recommendations or even go beyond them as a margin of defence (Caswell and Hooker, 1996).

III. The world of private standards

33. Private voluntary standard schemes for agricultural products can, in principle, be developed by anyone of the participants along the chain, from farmers to retailers as well as through collaborations between farmers, food industry, retailers or other participants, such as governments or NGOs, including consumer groups. To schematize this notion, one can consider a continuum of standards, organized according to the degree of producer autonomy or initiative in developing the criteria. Other organizing principles could be used, but this schema may help to order the different types of standards and highlight the role of producers in them. Along the continuum, standards can vary from farmer self- imposed

¹² In key sectors such as automobiles and airlines private standards of leading manufacturers have been adopted by governments as binding regulatory requirements for all manufacturers.

standards for marketing purposes, such as brands, or product marks on one extreme, *to* those developed through collaborative schemes between farmers and industry, such as farm assurance schemes, and on to pure buyer schemes, such as brand name manufacturers or retailer private label standard schemes at the other extreme. One can call the independently developed producer standards, pure producer schemes and those that are set independently of farmers as pure buyer schemes. Between these two end points is a continuum of what can be called quasi producer schemes which vary in degree of **producer participation**. These include schemes that retain some farmer control or initiative in their specification but are adapted to demands of buyers. The **PVS** may be either a B2B or business to consumer (B2C) standards or contain elements of both.¹³ Producer and quasi producer standards schemes are essential for product differentiation to buyers, whether they are final consumers or intermediaries or retailers. They all attempt to capture a share of value added of the product. Buyer driven schemes are also used for product differentiation and market segmentation and have as added objectives: chain performance and governance. Annex B discusses a possible representation of the continuum of private standards schemes used in the sector and provides some examples of each

Leading Retailer Private Standards Schemes

34. Given the importance of buyer determined standards, and in particular, retailer standards for producers, the focus of this paper is on retailer buyer standards. The focus of the remainder this section is on retailer private standards. These were chosen because about two thirds of food consumed passes through the retail sector, large supermarket formats account for about 60% or more of food sales in most OECD countries and their relatively high degree of market concentration. The findings, which are qualitative in nature, are based on interviews with firms and a short survey (see Box 3).

Box 3. Selection of Retailers for the OECD Survey

The criteria for retailer selection was size in a given country, importance globally and membership in the Global Food Safety Initiative (GFSI). GFSI is also the first coalition of retailers and access to these leading actors in the food system was considered to be very important for the relevance of opinions expressed. It is recognized that by only looking at the leading firms some bias is included in the survey results, such as the exclusion of small-independent chains that may not use private standards schemes. The list of firms interviewed along with the questionnaires is found in Annex C.

35. Rising consumer and civil society expectations of firm behaviour, increased oversight and communications by NGOs may have pushed firms to deal with issues such as labour, environment, safety, corporate responsibility and health, which were previously under the domain of public and international agencies. Leading retailers have become keenly aware of these new dimensions in food demands and are now developing safety and other 'quality' management standards in these areas that begin at the farm level.^{14 15} Retailers are attempting to take the lead in this through standard setting and enforcement.¹⁶ In

¹³ There appears to be a tendency for what were B2B standards to also use a logo to inform consumers of the scheme used. It is unclear what the impact of the logo is on consumer's willingness to pay, as they are often also used in conjunction with labels of different sorts.

¹⁴ Producer associations in most OECD countries have also been actively involved in setting quality and process requirements for different foods, for instance San Daniele ham producers in Italy, or organic food producers in many OECD countries as part of their quality strategies. These products must meet specific product and/or process requirements to qualify for use of a particular label or trademark. The relevance of the information provided and its credibility are important elements of the quality strategy chosen and also determine the appropriate mode of governance in the chain (Raynaud *et al* 2002; 2005). But the developers of the standard wield no economic power except on their membership. See [DAFFE/COMP/WP2(2004)2] on competition aspects of these organizations.

fact many private codes and standards in the areas of food safety, environment and animal welfare have made the demarcation between private and government standards ambiguous. Their capacity to develop and adopt product and process assurance systems, coupled with information technology advances and changes in supply chain logistics are defining new ways of doing business and potentially (re)shaping the food chain.

36. What is new in standards setting is the rise of private standards-setting coalitions among major players.¹⁷ These are industry grass roots harmonization efforts (Casella, 1997, 2001). They operate to secure and to promote competitive advantage of member firms where this is understood as the ability to manage the network of firm linkages, connecting activities from production to distribution (Porter, 1990; Dolan and Humphrey, 1999, Casella, 2001). Such a development may signal a new strategy in managing the supply chain. But it also may raise a competition policy issue. In the absence of regulatory frameworks, the setting of a global private voluntary standard by a coalition of firms with market power may raise possible anti-trust violations (Casella, 2001).

37. Two important examples of standards-setting coalitions are the Euro-Retailer Produce Working Group (Eurep) and the Global Food Safety Initiative (GFSI). In both cases leading firms collaborate in identifying an objective of importance to the industry (e.g. sustainability or food safety) and collectively find new cost-efficient approaches for achieving it. The collective standard is viewed as a public good by the coalition and is conceived to address a non-competitive issue within the coalition.

The Global Food Safety Initiative (GFSI) and Euro-Retailer Produce working group (EUREP)

38. Faced with a growing number of firm level food safety standards schemes, the GFSI was created by retailers in 2000, to harmonize standards so as to reduce costs of achieving food safety (see Box 4). Food safety standards are costly to develop and maintain as well as to monitor. Efficiency gains were considered possible by moving towards one standard rather than each firm managing its own while all having the same objectives. Through the development of guidelines or codes of practice in agriculture, manufacturing and distribution, guiding principles were laid down for reducing food safety risks in a non-competitive fashion. The goal is of one unified food safety standard to which all suppliers can comply and upon which all retailers can rely even under varied legal liability requirements. Such an approach to food safety was intended to decrease transaction costs through diminishing in-house inspections and multiple audits and certification. The goal of one standard remains, but now operates through benchmarking of schemes that meet the overall GFSI guidelines. However it still remains difficult for major retailers to give up their favourite standard or their own standard and accept as equivalent other benchmarked standards. Nonetheless this is a beginning and should be viewed as a foretaste of what is to come in the future.

¹⁵ The term 'quality' management is used to mean any specific attribute being managed with a system similar to an ISO 9000/9001 quality management one and does not refer to organo-leptic or visual qualities of food necessarily.

¹⁶ Over the past 10-15 years it is the retail sector which has become the leader in the food chain displacing much of the market power of brand manufacturers. This is part due to the growth of private label products, as well as consolidation in retailing through mergers and acquisitions which can span several continents is described in Part II.

¹⁷ The increase in food safety incidents has provided an incentive to the private retail sector to develop supplier management systems which assure the integrity, traceability, safety and quality of food. The systems and their compliance certifications do not imply that resulting products are in fact safe but rather that producers can demonstrate that they can supply food that is safe and meets consumer quality demands.

Box 4. Global Food Safety Initiative

The Global Food Safety Initiative (**GFSI**) is a retail led network of food safety experts and their trade associations founded in May 2000. It was an idea launched by a group of international retailer CEOs who identified the need to enhance food safety, ensure consumer protection, and strengthen consumer confidence and to set requirements for food safety schemes and improve cost efficiency through the food supply chain.

The Food Business Forum facilitated the initiative, which is based on the principle that food safety is a non-competitive issue, since any potential problem could cause repercussions throughout the sector.

The main objectives of the GFSI are:

- to implement a scheme to benchmark food safety standards world-wide;
- to build and implement an international early warning system;
- to encourage co-operation between the global food sector and national governments;
- to coordinate good retailing practices (GRP);
- to communicate the Initiative to all concerned parties and promote consumer education. (GFSI, 2003)

The Food safety standard of the GFSI is a set of 'key elements' which serve as requirements against which existing food safety standards will be benchmarked. The 'key elements' defined by a task force are: 1-Food safety management systems; 2-Good Practices for Agriculture, Manufacturing and Distribution; and 3- HACCP (Hazard Analysis and Critical Control Points). The set of requirements is based on Codex Alimentarius and other legislative requirements taking into account a background of recent consumer health and safety concerns. These are set out in the GFSI's Guidance Documents. The GFSI also sets out requirements for all certification bodies and ensures that clear, unambiguous and objective guidance is given in interpreting its Guidance document. Detailed requirements can be found on website: www.globalfoodsafety.com

The benchmarked food safety standards can then be applied by food suppliers throughout the food chain, upon agreement with retailers, when defining contracts for sourcing of products. Retailers and suppliers have the discretion to apply the benchmarked standards to specific products, and this may vary across countries according to regulatory requirements, product liability and due diligence regulations as well as company policies.

Certification of suppliers with a benchmarked food safety standard is a preventative measure to minimise risk and the beginning point for providing food safety in the chain. Cooperation within a world-wide food sector with national and regional governments/authorities is essential and is to be actively promoted and developed.

39. The EUREP is another example of a retailer coalition. Its aim is to ensure good agricultural practices which will also meet food safety regulatory requirements and agricultural sustainability goals. Its approach to setting standards has evolved from a uniquely retailer dominated one to a more collaborative one in which stakeholders, including producer groups and consumers associations can participate. It has developed a private standard of its own EurepGap(Euro-retailer produce group and Good Agricultural Practices). This is essentially a B2B scheme with standards covering the areas of food safety, environmental protection, animal welfare and occupational health and safety using management systems approach. It has been widely adopted by producers in OECD and non-OECD countries wishing to enter retailer distribution circuits particularly those of northern Europe.

Box 5. EurepGap

The Euro-Retailer Produce working group (Eurep) established its own standard for good agricultural practices, EurepGap, in 1997 based on retailer needs to reassure consumers that food was being produced in a safe and sustainable manner within context of a globalised food economy. Originally developed with reference to fruits and vegetables it has expanded to include integrated assurance schemes for farms and aquaculture, as well as protocols for flowers and ornamentals. A protocol for green coffee protocol will soon be completed. Its organization has also evolved from a uniquely retailer dominated to one of partnership with producers and consults regularly with consumer groups, NGOs and governments in the developments of its protocols.

EurepGap is a flexible and permits benchmarking of local schemes to EurepGap, thus extending participation under the scheme. This is seen as important in fulfilling a basic aim of facilitating trade in safe and sustainable farm production. As a business to business (B2B) scheme the Logo available to accredited farmers when supplying manufacturers or retailers. It may NOT appear at point of sale to the final consumer since it is understood that all products offered for sale comply with basic implicit requirements.

EurepGap is a quality and safety management system, or metasystem, providing tools for verifying best practices in a systematic and consistent way through the use of product protocols and compliance criteria. The EurepGap schemes are based on compliance to 4 main criteria: food safety, environment protection, occupational health and safety and animal welfare. The food safety criteria are based on the application of HACCP principles, while criteria for the environment are designed to minimize negative effects of agricultural production. While a minimal level of occupational health and safety criteria are part of EurepGap, these are not to be considered in depth audits of social conditions or SCR. All EurepGap schemes require compliance with national and international legislation.

EurepGap criteria are designated as major and minor musts and recommended actions and compliance is classified into three levels depending to the extent to which these are fulfilled. These major and minor musts are spread over product specific criteria. In the case of fruits and vegetables there are 14 basic criteria, while for integrated farm management there are 9 modules with each module having varying numbers of criteria to fulfill. Traceability, recording keeping, waste and pollution management as well as worker health and safety are part of all schemes. For a listing of the specific criteria according to product scheme, see www.eurep.org.

A farm or group of farms can be certified as EurepGap compliant process of certification can be demanding particularly if farms lack experience in record keeping and monitoring procedures or are not sufficiently integrated into the food chain system. Farmers are required to self-audit at least once a year and verifications are also done by an EurepGap auditor through at least one announced annual audit and possible unannounced audit for a 10% of farms. Audits costs are roughly between EUR 300-2000 per farm, however cooperatives or groups of farms can be audited with the fee being shared to lower costs.

EurepGap certified producers have grown substantially in the recent years. In August 2002 there were 3 889 EurepGap certified growers in 20 countries in the world; EurepGap now has 350 000 certified growers in over 60 countries (end-2005). The number of farms in developing countries is rising as are the number of benchmarked schemes.

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1. These are traceability, record keeping and internal self inspection, varieties and rootstocks, site history and site management, soil and substrate management, fertiliser use, irrigation, crop protection, harvesting, produce handling, waste and pollution management, worker health, safety and welfare, environmental issues and complaint forms.

Source: EurepGap: www.eurep.org

Which private standards schemes are being applied?

40. While Eurep has developed its own standard for primary production focussing on food safety and environmental quality, namely EurepGap, GFSI's efforts have been organized around defining criteria which the standards schemes must meet to be benchmarked with any of the three major components along

food chain, but not does develop its own standard schemes. The components are Good Agricultural Practices (GAP), Good Manufacturing Practices (GMP) and Good Distribution Practices (GDP), which taken together fully specify a complete food safety assurance system, from farm to fork. Each component defines requirements not only for ensuring food safety but also for other attributes such as the environment, or labour standards thus going beyond simple food safety issues. How important these additional factors are in implementation that varies with the retailer. Private standards schemes for each component are then benchmarked against these general or meta-level protocols.

41. The GMP code is operational through the benchmarking of four private standards schemes.¹⁸ These are: the British Retail Consortium (BRC) Standard, the International Food Standard (IFS), Dutch Haccp, the SQF 2000 (Safe Quality Food), and Dutch HACCP. The IFS and BRC schemes, the two most commonly are briefly summarized in Boxes A.1 and A.2 in Annex A. All these schemes are based on quality and safety management systems and incorporate the Codex recommended HACCP procedures. Differences between schemes arise in both the specific requirements and in the competences required of auditors. All schemes require a policy for food safety, as well as traceability systems and monitoring in line with a Codex recommended HACCP to be in place.¹⁹

42. For agricultural production, the GFSI has established a set of Good Agricultural Practices criteria against which a PVS for primary production can be benchmarked. Thus far the GFSI has officially benchmarked only SQF1000 and is in the process of benchmarking others, notably EurepGap.

43. Many of the lead retailers interviewed use either EurepGap or SQF1000, with EurepGap and Dutch Haccp dominating for supplies entering Europe and SQF for North and South America and Australia. However many have not yet obligated all suppliers to be certified by one of the benchmarked standards, though they report they wish to move towards required compliance of all suppliers. EurepGap is frequently used in sourcing from non-OECD or developing countries. Box 6 provides examples of the type of requirements these schemes require.

¹⁸ Benchmarking here means that the private standards schemes meet the requirements of the Guidance documents of the GFSI for GMP, GAP and GDP. of the GFSI.

¹⁹ The International Standards Organization has recently released a unified food safety management system, ISO 22000, based on HACCP principles. The development of yet another cooperative global food safety scheme supports the hypothesis of the growing importance of industry level collaboration in the area of private voluntary standard. Given its recent release it has not been in use for a sufficient time period to be included in our survey.

Box 6. What's in a standard?

To give a indication of the type standards that are being used in sourcing of agricultural products, a few examples from EurepGap's Checklist for Fruits and Vegetables are presented here²⁰. These are categorized as major or minor musts and recommended. A 100% of the 'major **musts**' requirements and 95% of applicable **minor musts** need to be satisfied for certification.

1. Has a recording system been established for each field, orchard or greenhouse? –**Major must**
2. Have all crop protection product applications been recorded including the product trade name and active ingredients? **Major Must**
3. Is an action plan in place in the event that an MRL is being exceeded? **Major must**
4. Has a hygiene risk analysis been performed for the harvest and pre-farm gate transport process? **Major must**
5. Do harvest workers have access to hand washing equipment in the vicinity of their work? **Major must**
6. Is protective clothing and equipment stored separately from crop protection? **Major must**
7. If the choice of crop protection products is made by advisers or the farmer can competence and knowledge be demonstrated? **Major must**
8. Is a member of management clearly identifiable as responsible for worker health, safety and welfare issues? **Minor must**
9. Has a conservation management plan been established (either individually or on a regional basis)? **Minor must**
10. Have all applications of soil and foliar fertilizers, both organic and inorganic been recorded including method of application, operator details, including field, orchard or greenhouse reference? **Minor must**
11. Does each farmer have a management of wildlife and conservation policy plan for his/her enterprise? **Minor must**
12. Do farms with more than 5 workers have a full health and safety policy based upon a full, written risk assessment? **Minor must**
13. Is all health and safety information provided and / or displayed in a language that is appropriate to the nationality of the worker employed/spoken by the worker? **Minor must**

44. These agricultural production schemes have been formulated in response to consumer concerns for food safety and to their increasing awareness of the effects of agricultural production on the environment as well as of social/labour conditions in the sector. EurepGap and SQF1000 represent farm assurance management schemes that have placed particular emphasis on food safety. However, they also include other product process attributes as well, such as environment, animal welfare and some worker safety and health standards. Box A.3 very briefly describes the general framework SQF1000.

The retailer view of private standards

45. The Secretariat interviewed directors of quality and food safety of 16 leading food retailers. These were supplemented with interviews of four standards owners. Most interviews were done by

²⁰ EurepGap Checklist for Produce, Version 2.1, October 2004

telephone, but 7 were done in person. A brief survey of retailers' practices was also undertaken to elicit complementary information on their use of private standards, but the response rate was only about 60%. The list of firms participating in the study, as well as the questionnaires used, can be found in Appendix C.

46. The retailers interviewed use the GFSI recognised benchmarked standards, and depending on the suppliers, often a combination of them. For primary production GAP and frequently GMP criteria apply.²¹ Though EurepGap is not officially benchmarked it is perhaps the most frequently required PVS for fruits and vegetables in European market, but not all use PVS. Most reported that they often add on firm specific standards, which seems somewhat contradictory to the original set of goals. Brand name manufacturers have their own firm specific standards and audit systems and are responsible for any negative outcomes from their products.

47. The aim of the interviews was to understand, in qualitative terms, (1) the incentives for private standards; (2) which standards are the most important and why; (3) the private sector's view of the role of government and possible public-private collaborations, and (4) the retailer view on the evolution of standards. The following section summarizes these results.

What are the main economic incentives for standards?

48. The response of all retailers and food companies could be summarized in one word: reputation.

49. Providing consumers with products that meet consistent quality and safety standards that go beyond the minimum requirements was seen as essential to building reputation, the key to current and future earnings flows. The use of private standards was seen as a way to maintain and possibly enhance firm reputation. The legal liability system was considered to have stimulated the growth and stringency of standards in over 70% of retailers interviewed. But some also considered the liability issue a part of any business activity and not more constraining for the food sector. This supports the general economic explanations offered in Part II.

Which attributes are the most important?

50. The two most important attributes were food safety and quality, though food safety was considered by far the most important and a main reason for the founding of the GFSI. Food safety is seen to result from a well-defined set of 'good practices', covering agriculture, manufacturing or retailing. Food safety failures were viewed as highly damaging to reputation and could have significant negative effects on consumer confidence, on sales and thus on earnings. Ensuring food safety is considered a basic requirement to doing business in the food sector. Over 85% of the retailers reported that their required standard is higher than that of the government and about half, reported that they were significantly higher (see Table 2). This result is attributed to both the safety and quality management protocols adopted and the additional firm specific requirements applied. The latter may include expanded lists of possible allergens, contaminants, packaging materials and care in transport, storage and distribution procedures.

²¹ All products leaving the farm if they are packaged, boxed, washed, or trimmed fall under the GMP scheme. Agricultural quality management schemes deal only with the products at the farm level.

Table 2. How retailers' required standards compare to Government standards (%)

| | significantly lower | slightly lower | the same as | slightly higher | Significantly higher |
|----------------|---------------------|----------------|-------------|-----------------|----------------------|
| Food safety | | | 12 | 44 | 44 |
| Environmental | | | 22 | 33 | 45 |
| Animal welfare | | | 11 | 56 | 33 |
| Labour | | | 50 | 38 | 12 |

Source: OECD questionnaire.

--Food safety

51. For all firms, zero tolerance in food safety failure is the aim. Should failure occur then what matters is rapid and complete recall. In this optic, traceability was considered vital to the operation of the system. Most firms had instituted traceability requirements for main food categories prior to any legislation, although not necessarily at 100% levels for all foods. Several retailers however did have a 100% traceability system for all main product categories, that is, meat, dairy and processed foods for which there are greater risks compared to produce.

52. Most retailers reported that they required certification from EurepGap or SQF1000 when sourcing from developing countries. Less than 25% of products are sourced from developing countries and this covers only off-season or tropical products. Several firms source no meat or meat products or processed foods from developing countries, in large measure due to food safety reasons.

--Traditional Quality Standards

53. Taste, smell, texture and other gustative attributes as well as appearance and integrity of variety, were also very important to reputation as food safety. Firms apply specific criteria for each of these and clearly trade-offs might be made between them. To satisfy increasing expectations in this area a number of firms have developed high quality product lines for which higher than average firm private standards are applied. Specific standards schemes are applied for these products, but are not discussed here. Quality standards are generally monitored by in-house as well as by 3rd party certifiers.

--Social and Labour Standards

54. All firms reported that social and labour standards were the most important standard after food safety and quality. Consumers in recent years have become more aware and interested in the way retailers conduct their business, both at home and overseas. The role of NGOs in monitoring firms has made social standards a rising issue on their agendas, as fears of their finding irregularities rises. It is however most difficult to enforce standards outside the home country, even among European countries. The firms interviewed felt it difficult to try enforcing them beyond the minimum legal requirements. Even one step back up the chain was considered difficult. Dealing with labour conditions in developing countries is most difficult because fewer domestic labour laws exist and are often not enforced. From our survey, 50% reported meeting the minimum standard and 50% doing better than the minimum (see Table 2). The issue of harmonisation in the use of labour standards was viewed as important but it is often difficult to determine specific criteria unanimously.

--Other standards of importance: Animal Welfare, Environment

55. These standards are currently less important to retailers than food safety, quality and labour conditions. However substantial differences exist between countries. In spite of this, most retailers reported that their animal welfare requirements are higher than those of the national legislation. Our limited survey shows that about 33% have requirements that are significantly higher and 50% slightly higher than

government regulations (see Table 2). Several firms reported that they had developed animal welfare schemes that were later adopted into national legislation, however it was difficult to document such statements. This supports the possible importance that firms may have in formulating legislation, whether these are implemented in anticipation of government rules or to influence them.

56. The environmental standards required by retailers are applied through the farm practices schemes, such as SQF1000 or EurepGap. Environmental standards however, also include manufacturing processes and packaging, which are part of GMP or GDP. According to our survey 78% suggested their standards were higher than the minimum with 45% being significantly higher (see Table 2). In the interviews most firms placed a very high value on environmental concerns. Two retailers reported that their programme for agriculture and the environment was adopted in modified form by their national governments subsequent to their development for retailing, but again unverified. These results attest at least anecdotally to the importance of such standards in the regulatory framework as well as on the market.

The role of Government and the legal system

57. All firms agreed that governments should be responsible for setting the minimum standards in food safety. Codex is highly regarded and is used where, lacking legislation, it is the only available science based standard for products. Since governments have decided to reduce budgets in numerous areas of food inspection and monitoring, certain tasks have been taken over by the industry, both manufacturers and retailers. All firms reported being more capable and better equipped to manage food safety and to respond faster to failures than regulatory authorities. But a number felt that monitoring food safety placed an extra burden on retailers, particularly given the potential legal liabilities. And most felt that government needs to maintain or increase its activities in this area. A number of retailers noted that confidence in government capacities to manage risk have decreased, at least in Europe. The question is how it can regain lost confidence and trust to exercise its proper role in the food system.

58. The legal liability framework has had a significant influence on the structure and implementation of food safety procedures. Third party certification is required of suppliers in response to the risk of civil or criminal responsibility. Several expressed their opinion on the topic by asking, 'What would be considered acceptable proof in a court of law that we have undertaken all possible precautions to ensure food safety?' As a precautionary move, many firms have extended their list of food safety requirements, including possible allergens, food contaminants, handling and processing procedures and the like so as to insure themselves against legal procedures.

59. All reported a willingness to be more involved with governments in collaborative schemes in ensuring food safety and even to move beyond to other attributes. Some felt there was substantial opportunity for private-public partnerships in formulating guiding principles that would promote efficiency of the system. They considered that governments are often too cautious, cumbersome and not very efficient when problems arise which need to be resolved urgently. One of the most important benefits of a collective food safety standard is that it would provide for uniformity in a recognized level of food safety. Standards could do the same for other attributes but the problem lies in defining appropriate criteria and setting operational levels. Operating in global markets has increased the needs for standards but also for their harmonization. Firms expressed the view that governments must recognise the need for industry input into this area of decision making both at local and international levels as well as understanding how the food system operates, physically and economically, from the initial stages to the retail level.

Auditing and Compliance

60. To verify compliance with a given standard, retailers use a combination of in-house and 3rd party audits. How compliance to a given standard is audited and enforced is essential to the credibility of the

standards. While food safety management protocols are well known and documented, they often require specialised personnel for a given product. This renders certification and auditing difficult outside the home country, and in general in countries without long-term experience in this area. For the newer areas such as environment, animal welfare and social conditions the problems of certification are amplified.

61. Most retailers use a variety of the benchmarked schemes for certifying food products. The most widely used standards appear to be BRC, IFS, SQF2000/1000 and EurepGap. Approved auditors must do the certification, and EurepGap and SQF1000 are often used for this. The aim of most retailers interviewed is to have 90% of all food products certified over the next 2-5 years. This is at present already reported to be required of almost all products from developing countries, but not yet from local producers according to many retailers. The two main reasons given for the lower certification level for local producers is their long term satisfactory relationships with the local suppliers and the lower risk nature of the products. For about half of retailers interviewed it was found that 75% of fruits and vegetables and dairy are certified, while 88% of meats and processed foods are certified. Certified suppliers of produce to many European retailers have increased substantially in the recent period both from domestic and foreign markets.

62. Looking forward, two main issues need to be considered: 1) the evolution of specific standards categories and 2) the harmonization of private standards. In general, all firms interviewed, even manufacturers, expected standards to become more stringent with more precisely identified processes and control mechanisms. A general view was also that standards would extend more to non-food areas such as social and labour conditions, environment and even health. They also expected there to be a push for harmonization across standards schemes, but most realised that this would be much more difficult than for food safety.

The Evolution of Private Standards

--Food Safety

63. Food safety standards will only increase in function of technology's capacity to identify risks and the evolution of pathogens. Future changes are not expected to be as significant as those experienced in past years. The overall sentiment was that when all suppliers fully comply with the present set of private food safety standards, the food safety risks will be controllable, but no system is infallible.

--Quality

64. Quality defined by the organo-leptic and physical characteristics of products will continue to be an extremely important factor in sourcing decisions by retailers as it permits implementation of product line differentiation strategies.

--Social and Labour Conditions

65. Despite difficulties in labour standard enforcement, this is considered to be the next key private standards challenge for retailers as well as manufacturers. Going beyond the ILO standards would be difficult, but new approaches could be tried. Manufacturers and retailers' labour policies in developing countries will be more closely monitored by NGOs, given society's concern for these issues. Given the reputation effects for failure in this area, these are to be given special attention in the future.

--Environment and Animal Welfare

66. Environmental standards both at the primary producer and manufacturing levels are expected to gain substantial importance in the future as consumers become more committed to sustainable development. The application of these will likely affect certain farming practices and may require new

forms of monitoring. Environmental standards are also expected to affect manufacturing practices in energy and water use as well as in packaging and distribution. Animal welfare standards are also expected to increase in general, however there will likely remain significant differences between countries.²² Whether the future of these standards will focus on more stringent use of existing types of standards, new standards or extend to different species is uncertain.

Harmonization of standards: towards one global standard?

67. Most retailers would prefer to have one global standard for food safety. This would decrease certification costs for suppliers, relieving them of the need to have separate certifications for each buyer. It could also permit retailers to switch suppliers and source across the globe more easily. With global sourcing likely to increase over the medium term, harmonizing of standards systems could facilitate the trade and increase efficiency in the food system. The GFSI was a first attempt at this, but only benchmarking of standards was achieved and even this remains difficult in practice for all retailers. Harmonizing process attributes such as labour standards, environment and animal welfare, having retailer minimum standard for these may be desirable. The difficulties lie in identifying the level that balances efficiency gains with the objectives of the standard. What is the appropriate level in these somewhat value-laden areas? Given difficulties in achieving agreement even in areas as 'scientific' as food safety, how can one suppose any convergence in standards such as for environmental and animal welfare attributes?

68. Certification procedures and auditor certification is another area where there was an expressed pressing need to harmonize what is certified and how this is done. It is important that what an auditor certifies in country A would be certified in the same way in country B. This is not always the case. For some, this is as important an issue as defining the standard, since it is at the operational level that conformity with a standard is assessed.

IV Producer Experiences with Private Voluntary Standards

69. The focus of the study thus far has been on retailers and private standards incentives. But what are the views of those who must implement them? To shed light on this question, a survey of producer organizations was undertaken by the Secretariat. It attempts to identify what standards are being actually demanded, their importance for doing business with specific marketing channels as well as their effects on variables such as revenues, efficiency, competitiveness, employment, worker safety and market access. Attempts were made to supplement the survey as well as to clarify responses through telephone discussions. The survey did permit organizations to comment on all aspects of private standards or their implementation. The questionnaires and list of producer associations responding are found in Annex D. These survey results are best considered as approximate, qualitative indications of the importance of private standards for doing business and their possible impacts on the sector participants.²³ (See Box 5 for selection criteria).

²² One UK supermarket chain already has an animal welfare protocol for striped tiger prawns imported from Thailand, which calls for use particular procedures in reproductive stimulus methods.

²³ Country case studies including well structured farmer interviews for a few diverse private standards schemes might have provided the basis for a more robust assessment of their impact. An alternative approach would have been to send the survey out to all farmer organizations in member countries.

Box 5. Selection Criteria for Producer Associations

The criteria for selecting representative farmer associations were established in collaboration with the IFAP Secretariat in Paris. This approach ensured that the most representative associations were contacted. As in the case of retailers, confidentiality was assured. Many of the producer organizations in IFAP are umbrella organizations covering a wide range of smaller or more specialized producer organizations. Thus, the organization responding to the questionnaire may have been one of these specific organizations and this may have introduced some bias into the results. Such an approach can only give approximate, qualitative answers on the 'producers' view' of private standards and it is not clear that these are representative of suppliers in those sectors where private standards are extremely important, such as fruits and vegetables or of the entire sector. It does however take a broad view of private standards use in the food system, including manufacturers, processors as well as retailers and can signal where selected producer concerns regarding PVS might be.

Survey results

70. The response rate was about 70%, or 22 responses out of 29. Not all questions were answered by all associations and for some countries there were two respondents, notably for, France, Sweden, and Canada. Some respondents found some questions irrelevant or simply did not have the information to respond. Supplementary comments to questions helped to clarify answers. The overall importance of private standards varied substantially across countries. Almost 50% of respondents reported that PVS schemes were important for more than 75% of their output of which 6% noted their importance for over 90% of output. These latter associations were from Ireland, Australia and Denmark. Four associations found these to be relatively unimportant, being applied to less than 25% of output specifically Japan, Mexico, Sweden and Switzerland. For 3 associations over 50% of output but less than 75% of output was affected by private standards and another 3 found that only 30 to 50% of output was affected by these standards.

Importance of specific types of PVS schemes for access to marketing channels

71. In spite of sometimes limited application of private standards to output, most respondents viewed private standards to be essential or very important for entering retailer and manufacturers markets, but the relative importance of specific attributes varied between associations. Table 3 summarizes the results of these questionnaires. The generic nature of the categories provides substantial leeway for interpretation, and thus responses will not necessarily have the same meaning. Food safety followed by traceability and quality top the list of PVS schemes that are seen as essential for doing business with retailers and/or manufacturers. The relatively low ranking of quality is surprising. This is likely because the organo-leptic and visual characteristics of products are less likely to be part of a standards scheme but part of product specifications or simply because quality is fundamental to doing business and the other standards are add-ons.

**Table 3. Producer Association Views on PVS requirements
(in %: number of responses 22)**

| | Food Safety | Traceability | Quality | Animal Welfare | Environmental/ GAP | Social/labour |
|-----------------------------------|-------------|--------------|---------|----------------|-----------------------|---------------|
| RETAILERS | | | | | | |
| -Essential | 55 | 41 | 32 | 18 | 18 | 5 |
| -Very imp/imp | 27 | 3 | 5 | 32 | 22 | 27 |
| -Not important | 0 | 0 | 0 | 9 | 32 | 41 |
| Do not know /non-response | 18 | 23 | 18 | 41 | 27 | 27 |
| Manufacturers – Processors | | | | | | |
| -Essential | 55 | 36 | 36 | 18 | 14 | 0 |
| -Very imp/imp | 23 | 41 | 45 | 36 | 23 | 23 |
| Not important | 0 | 0 | 5 | 14 | 23 | 45 |
| Do not know /non-response | 23 | 23 | 14 | 32 | 41 | 23 |

72. Social and labour standards are perceived as the least important PVS for both the retailers and manufacturers, but this may be due to firms only requiring current national regulatory requirements. Animal welfare as well as environmental and good agricultural practices (GAP) fall in the middle, but non-responses and don't know answers limit the drawing of any conclusions. The importance of PVS according to type of firms that is, retailers or manufacturers does not differ greatly.

Impacts of PVS schemes

73. To comply with private standards whether for retailers or manufacturers is costly in money and time. A key issue is whether compliance with standards provides benefits to producers or not. More specifically, does compliance with PVS increase revenues, efficiency and firm competitiveness? Table 4 summarizes the responses to these questions.

Table 4. Summary table for impacts of private standards

| Producer effects | Yes | No |
|---------------------------------|-----|----|
| Increased Revenues | 7 | 10 |
| Increased Efficiency-farm level | 9 | 9 |
| Increased competitiveness | 8 | 10 |
| Market access | 9 | 8 |
| Non-farm effects | | |
| Improved Environmental care | 10 | 5 |
| Local Employment | 3 | 15 |
| Improved worker safety | 3 | 14 |
| | | |

74. The impact of PVS on economic variables of interest to producers gives rather mixed results. Of those associations responding, less than half find that PVS compliance increased revenues; these include those from Japan, Mexico, United States, Switzerland, Sweden, Denmark and Austria. Firm efficiency was improved for about 50%, which can reflect the fact that audit reports often provide valuable information on operating practices that could be streamlined and improved. This benefit was reported by associations from Sweden (2), Australia, Mexico, France, Canada, Denmark, Finland and Spain. Increased competitiveness was perceived to be, at least in part, attributable to compliance with PVS. It is not possible to know if the positive responses are linked to PVS schemes developed in close collaboration with industry (quasi-producer standards) or those dominated by buyers. This could be important for understanding what farm strategies might be best adapted to the changing food system.

75. Market access concerned both domestic and foreign markets. In Austria, Belgium and Ireland compliance with standards was thought to improve access both to domestic and to export markets, while for Finland, France and the US only domestic market access was improved. With respect to export markets few producer associations found that private standards impeded their access. In fact, where products did not meet PVS of a given manufacturer or retailer for access to the domestic market, the export market was considered a marketing channel option. Failure to comply with specific standards has not generally meant that products are not sold at all. They are sold in a variety of other marketing channels, from supermarkets without own standards schemes (Austria), to wholesale and local markets (Ireland, Belgium, Austria), open market and exports (United States). In the case of New Zealand, products that do not meet the high standards of New Zealand are not exported and in Canada PVS schemes were not seen to be a constraining factor either for the domestic or export market.

Small holder/cooperative impacts

76. Though quite limited, a section of the producer survey attempted to inquire about how PVS were possibly affecting small holders or co-operatives. This is important in understanding what role, if any; private standards may have in shaping the food chain through inclusion or exclusion of different actors. About half of the respondents (9/20) noted that compliance with private standards is too difficult for small farmers or cooperatives. The reasons for this stem from the fact that the investments required to meet the standards were too costly given the size of operations and that expected revenue and efficiency gains did not compensate these costs. It would be important to identify which of the constraints facing small holders are most binding and how these might be relaxed. Possible constraints include: physical equipment or buildings, audit and certification costs, record keeping or managerial skills. In certain instances, downstream processors and/or retailers have assisted small farms and cooperatives in meeting their required standards. But there may also be a role for government assistance in training and technology transfer.

Non-farm specific impacts

77. A majority of responding producer associations tends to view PVS as contributing positively to environmental improvements, but here there is substantial leeway for interpretation of what is really meant by this term. It was also thought that employment and worker safety conditions were not improved through compliance with the PVS. However respondents in Mexico, Belgium and Ireland reported positive effects for employment and worker safety was considered improved by use of PVS for Austria, Spain, Finland, Sweden, Belgium and Mexico. These responses, though qualitative in nature, can indicate areas for further work to understanding how these standards may operate in countries of differing institutional and economic settings.

78. Other concerns and issues in PVS schemes arising from the survey were the following:

- PVS schemes were considered more stringent than those of government, particularly for food safety, traceability and environment/GAP;
- PVS schemes were not considered too difficult to meet in general, though significant investments and training might be required which could constrain access for small farmers/cooperatives;
- Audit costs and frequency of audits differ substantially across sectors and countries with examples ranging from EUR 100 to EUR 1 000 per audit;
- Multiplication of PVS schemes, some of which often satisfy the same criteria and the need for multiple audits and certifications was considered costly and inefficient for the system as a whole.

Role for government

79. About three-quarters of respondents reported a positive role for the public sector to assist farmers in meeting new requirements. Additional comments focused on how this might be done. Suggestions included providing information and R&D and better infrastructures (Belgium), assisting producers in implementing private standards and adapting to the changing demands of the food system (the US, Austria, France). Most of the assistance pertains to institutional infrastructure issues that would facilitate producer compliance with the PVS of buyers. Setting minimum standards in the areas of food safety, labour and social standards, environment and animal welfare was thought to be the task of governments.

80. This survey has provided some information on producers' views of standards. Knowledge of country specific agricultural systems, producer associations and sectors most affected by private standards is required for a more in depth analysis of the impacts of private voluntary standards on producers. While this is outside the scope of the present report, the survey has nevertheless provided access to views of a range of producer associations on private standards used across the board in the agricultural sector.

V. Private standards and their impacts on the behaviour and organization of the food system

81. Based on qualitative information from surveys and interviews and the economic analysis in Section I, this section attempts to analyse the influence of retailer driven PVS schemes on the developments in the global agro-food system. Two of these possible influences are briefly discussed: (1) the diffusion of the supermarket model and procurement systems and standards, and (2) the growth of market share and collective standards.

82. For PVS schemes to have a substantial influence in shaping the agro-food system, these must be widely used by the principal actors in the system. Retailers, who are increasingly dominating the agro-food landscape may use specific PVS both in their fresh product sourcing and manufacturing via private labels and thus may be important in shaping the agro-food chain.²⁴ But do they? There are essentially two schools of thought on this issue: the Reardon vision of the 'Supermarketization of global food markets' and the counter view of coexistence of diverse forms of food retailing channels (Farina *et al.*, 2005; Giraud-Heraud *et al.*, 2006).

83. The 'supermarketization' view of the world contends that the supermarket format of food retailing is the dominant one in OECD members and that food markets across the world are adopting this model. This has already occurred in a large number of Central and South American countries as well as in Asia and North Africa. In many of these countries it has taken place over a much shorter span of time than in the majority of OECD members.²⁵ For instance in Brazil in 1990 supermarket sales accounted for about 20% of food sales and now account for 60% with similar stories for other countries such as Costa Rica, Philippines, Chile, Mexico, and Argentina (Reardon *et al.*, 2003, Reardon and Berdegué, 2002; Reardon and Farina, 2002, Reardon and Timmer, 2004; Farina *et al.* 2005, Reardon, 2005).

84. The procurement organization and operations used by this dominant set of players become a key link to the diffusion of private standards. Supermarket chains are now well known for having centralized procurement centres, dedicated wholesalers (those dealing only with one supermarket chain or product set)

²⁴ For the moment we ignore the possible tension between lead manufacturers and retailers in sourcing of products which adds another twist to the story if the former do not abide by the same types of PVS schemes.

²⁵ In fact it may not be the supermarket model itself which determinant but a specific type of supermarket, such as hypermarkets, or large, leading supermarkets and not small, independent retailers or chains.

and preferred supplier arrangements, whose entry fee is compliance with PVS.²⁶ Capacity to comply with PVS often requires substantial investment and training, which are not necessarily remunerated through price premiums. This situation may exclude sets of producers unable to meet standards without additional investments, which may often not be economically feasible without the ability to exploit economies of scale. The costs of this transformation of the food system may bear more heavily on small producers in both OECD and non-OECD countries.

85. Where does non-PVS compliant produce go? Do these producers stop producing and exit or do they find alternative markets? In fact, these ‘non-compliers’ continue to exist and even the ‘anecdotal’ survey results presented here found such producers had a variety of alternative marketing channels, even in highly ‘supermarketized’ countries such as the United States.

86. An alternative vision to ‘supermarketization of food markets’ does exist (Chen, 2003; Farina *et al.*, 2004, 2005; Giraud-Heraud, 2006). There is evidence that independent retailers and retail chains are growing and their market share may even be increasing (Chen, 2003; Farina *et al.*, 2005). The procurement process of this set of retailers’ permits diversity in product attributes and in the levels of quality and safety, thereby providing a market channel for non-PVS scheme conforming products. The reason for the resilience of these ‘fringe’ retailers is the heterogeneity of consumers in income, which makes for differing expectations and preferences in retailing formats and their products. As a result, two types of markets can exist: one corresponding to the public, minimum standard for the independents and one for the PVS products from leading retailers. One might expect such a configuration to exist across a wide number of countries, and these may even dominate in many areas of the world.

87. Is the market configuration described above a stable one over time? This is likely to depend on the extent to which the PVS schemes of leading retailers diffuse to other retailing formats and also force a ratcheting-up of these standards across the system. But given the underlying economics of the persistence of independents competing with large, lead retail chains, two markets may continue to exist in parallel.

88. A second important development in the food system is the attempt to move towards collective private standards for specific product attributes or processes. This is exemplified in the efforts of the GFSI for food safety. The collective PVS scheme can be seen not only as a way to manage the product and process attributes but also to facilitate sourcing in global markets and to reduce transactions costs. Setting up firm specific standards is costly in terms of development and management and can reduce flexibility. Collective standards can then reduce cost of maintaining and enforcing the standard and permit wider flexibility in sourcing to meet changing demands. This move could also be advantageous for suppliers who could then be certified for one standard and sell to whoever is in the market for a particular product. In a way, this may re-establish ‘quasi-spot markets’ for products that meet PVS schemes (Giraud-Heraud *et al.*, 2006).

89. At the moment few of the lead retailers accept all the benchmarked standards as equivalent, each having a predilection for their own version of the collective standard. But the initial step for harmonization has been taken, and given increased competition among retailers, it could eventually be operational on a global level. Sheer quantities purchased by such firms and centralization of buying, such as melons for Carrefour and other retailers sourced from northeast Brazil, or the organics platform planned by Ahold to operate out of Africa, will certainly be important factors shaping the agro-food system globally.

²⁶ In many non-member economies the standard required may not be food safety but rather quality (Farina *et al.*, 2005, Reardon, 2005). Although with a rising middle class food safety and other attributes are moving up on the list.

90. Leading retailers in developing countries often play a key role in chain governance by managing supplies across the globe. They can thus essentially decide what, how, who and when much of a specific produce is shipped and at what price (Nadvi and Waltring, 2003). However, it is useful to recall the influence that national governments may have on private standard schemes of lead retailers and thus on sourcing by them. In this context, it may, for instance, well happen that the 'due diligence' clause of the UK Food Safety Act has repercussion down to Kenyan and South African farmers.

91. Although much attention has always been focussed on the implications for market access of government trade barriers, including non-tariff barriers, interest is now turning to private sector regulations for food products. In many cases the reduction or removal of trade barriers may not yield market entry for many products if these do not meet the requirements set by leading firms in industrialised economies (Gereffi, 1999; Balsevich *et al.*, 2003; Berdegué *et al.*, 2004). Lead firms may as a consequence deal only with the best and most well-established suppliers, capable of providing consistently adequate supplies and quality. This trend has been well documented in Reardon's work on supermarkets as well as by others (Thrup, 1995; Reardon *et al.*, 1999, 2003; Reardon and Berdegué, 2002; Reardon and Timmer, 2004; Berdegué *et al.*, 2004; Weatherspoon and Reardon, 2003; Reardon, 2005).

92. Given the expected evolution of PVS schemes it may be important to consider these developments in the widely debated market access issue. As most of the poorer developing countries are labour abundant and capital scarce, this means they have comparative advantage in those sectors using labour intensively, such as fruits and vegetables or simple processed foods (Dolan and Humphrey, 2000; Schmitz and Knorringa, 2000). These are sectors that are dominated by global buyers, linked to major retail chains. If access to markets of industrialised countries requires being linked to leading firms in the sector, such as Tesco, Ahold, Wal-Mart, Del-Haize or Carrefour, then these issues may well be worth pursuing. The study of impacts of PVS schemes on selected developing countries is currently underway.

VI. Defining the Policy Questions

93. The interviews and surveys reported here have sought to improve the understanding of the role of private standard schemes in the operation of the agro-food system. Private voluntary standards schemes were found to be one of key tools for the governance of the food chain by lead retailers. Their growth was seen in part as a response to increased consumer demands for food safety assurance and in part as a response to government policies and regulations. Furthermore, the trend is towards an increasing stringency of PVS schemes and expansion into areas previously the domain of government regulation, such as labour, environment and animal welfare. Whether their aim is to comply with existing regulation, to influence future policies or simply to differentiate among product lines, these PVS schemes can affect the organisation and behaviour of the agro-food chain.

94. While private voluntary standards schemes will likely improve the efficiency with which the system can deliver and ensure specific product and process attributes at reasonable cost to consumers, they may also be exclusionary for certain producers. Compliance with these schemes may exclude those producers who, due to lack of potential scale economies or otherwise can not easily meet the requirements and remain economically viable. This may be the case for small and medium sized farmers in OECD countries. The issue may potentially be more important for small holders in developing countries, which must also contend oftentimes with a lack of well functioning institutional and physical infrastructures and services. This development is not however exclusively due to PVS schemes, but is likely to be part of general economic trends in competition, economies of scale and concentration as well as new ways of doing business which have occurred or are occurring in all sectors of the economy.

95. The increasing use of PVS raise policy issues concerning the boundaries between private standards and government regulations. Key questions are:

- What issues should be left for the private sector to determine and what needs oversight or intervention by governments? In which areas is there a need for collaboration to meet the needs of food industry/retailers and government responsibilities towards society? And how might this be done efficiently and equitably?

96. Another issue is that of the role for government in dealing with exclusionary impacts of the modern agro-food system both domestically and internationally. Key questions here are:

- How exclusionary are the PVS schemes for small and medium producers both in OECD and non-OECD countries?
- Is there a role for governments to assist producers in developing alternative marketing strategies in the medium term or to assist their integration into the mainstream supply channels?

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ANNEX A

Box A.1. International Food Standard (IFS)

The IFS was devised as a safety and quality management system for auditing retailer and wholesaler branded food products, developed by retailers in 2001 with the aim of reducing costs and bringing transparency to the supply chain. It is a quality management system to determine whether a supplier is capable of supplying a safe product according to the specification and in conformity with the legislation (International Food Standard, January 2004).

The IFS is organised into 5 parts: quality system management, management responsibility, resource management, product realisation and measurements, analyses and improvements. Four critical tasks are HACCP analysis, management commitment, general traceability and corrective action plan.

The IFS system is in matrix format, with two levels and four compliance classifications. The levels are defined as foundation and higher level. The foundation level covers minimum requirements for the international food industry (156 points) and the higher level (64 points) whose criteria are considered as a 'high level' standard in the food industry. The four compliance criteria rate whether the supplier's performance indicators fully comply, almost fully comply, minimally comply or do not comply with the IFS standards. Certificates are issued according to their total score. A foundation level certificate requires that between 75% and 90% of the 156 be satisfied while for a higher level certificate more than 90% of the foundation points and 70% or more of the higher level points must be fulfilled.

Source: International Food Standard, Version 4 January.

Box A.2. British Retail Consortium Global Standard

The British Retail Consortium, representing 90% of retail trade in the UK, developed a technical standard for food beginning in 1996. It was initially motivated by the need to meet legislative requirements of the Food Safety Act, 1990. Major retailers taking a non-competitive view of food safety and believing that they could all benefit, legally, technically and commercially by sharing experiences developed the food safety standard.

The main purpose of the standard was to ensure food safety standards for private label products of major retailers, which now account for almost 40% of sales in the UK. This standard applies to post-farm gate production, but includes primary products which have undergone simple processing such as boxing, packaging, washing or trimming. Thus even bagged apples, or tomatoes sold by the kilo in boxes fall under the private label. With large volumes of imported products and raw materials from abroad, retailers wanted a system to evaluate suppliers' capacities to supply safe, quality food through some measurable means.

The five main areas of the agreed retailer responsibility are: detailed specification which are consistent with safety standards and legal requirements; assure that the supplier is competent to produce the specified product; verify his competence and evaluate the audit of suppliers; to establish and maintain a risk assessment program for product testing and to monitor and act upon customer complaints. These responsibilities condition the demands, which retailers in turn make on suppliers.

Suppliers undergo an evaluation by BRC certified auditors. The auditor issue is considered to be key factor in the reliability and robustness of the standard. These must be accredited by an appropriate accreditation body and have had 5 years experience in a specific area. A BRC standard conformity evaluation consists of a review of the supplier's HACCP and Quality Management system plans, a factory or site inspection, check back of audit trails and further verification and document checks and final overall evaluation. There are three levels of non-conformance: 1) critical: failure to comply with product safety or legal issue; 2) major: substantial failure to meet requirement so of a statement of intent or any mandatory clause of a standard or a situation, based on evidence that raises significant doubt as to the conformity of the product being supplied; 3) minor: absolute compliance to the statement of intent or required clause has not been demonstrated but on evidence of product conformity is not in doubt and 4) recommendation: failure to meet a recommendation of good practice, but this does not affect certification.

**Box A.3. SQF (Safe Quality Food)
(SQF 1000)**

SQF codes cover agricultural, processing, manufacturing, distribution and catering services sectors of the food system, respectively the SQF 1000, 2000, and 3000 codes. The SQF 1000 Code outlines the general food safety and quality system requirements for pre-farm gate production, harvesting and preparation of primary products by a primary producer.

The code is divided into three certification levels, each level indicating the stage of development of a producer's food safety and quality management system. Level 1 indicates that the Good Agricultural Practices and fundamental food safety controls have been implemented, while Level 2 incorporates all Level 1 system requirements and indicates that food safety risk analysis of a given crop has been completed and hazards identified and actions taken to prevent its occurrence. Level 3 incorporates all Level 1 and Level 2 system requirements and indicates that a food quality risk analysis of the product and its associated process has been completed including prevention of poor quality incidents.

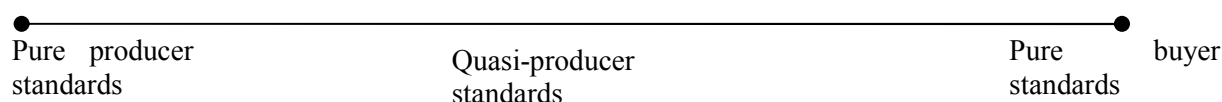
The SQF 1000 system requires commitment to food safety and quality in a policy statement, policy manual outlining the methods she will use to meet SQF codes and organizational reporting structure and an appropriate training program for personnel carrying out the tasks set out in the plans. Producers must provide documented specifications for raw materials and services purchased that may affect the product safety and quality. They must also document the means of controlling and assuring food safety as well as ensure that at time of delivery the food supplied complies with applicable legislation, in both the country of origin and destination. Internal audits to verify the effectiveness of the plans and to review the functioning of the SQF 1000 system must be done by producers. A documented product identification and traceability system must be in place.

ANNEX B. A CONTINUUM OF PRIVATE STANDARDS SCHEMES IN AGRICULTURE

97. Private standards can be organized along a continuum, according to the degree of producer's initiative in driving the standard. This is a very rough approximation but permits organizing a variety of different forms of standard schemes from producer to buyer in a graduated fashion. Pure producer standards are those developed by producers independently of downstream operators for market differentiation and segmentation purposes. These define product and production process specifications and audits can either be done by 3rd parties or can be done in house. As producer autonomy in setting the standard decreases, one has quasi-producer standards. These can involve different forms of collaborative standards though their main objective remains to differentiate products, segment markets and capture any price premium that might be forthcoming. These can be either B2B or B2C standards. Collaboration can be done with different industry players, as well as government or non-governmental organizations. Audits are usually done by 3rd parties often with additional in house inspections on the part of industry. Signalling product/process attributes to potential buyers (business or consumers) through labels, logos and branding is business strategy which is widely used not only in the food and agricultural sector but more widely to market any good. As farmer autonomy in setting standards diminishes one moves along a continuum towards buyer standards developed by retailers, processors or manufacturers, independently of producers or with minimal consultation. Each scheme can thus effectively occupy a point along the continuum which can be displaced by small movements toward either end point due to small changes in bargaining position in setting up of product requirements. Retailer determined standards for goods in a B2B context, with limited input from producers, fall into this category. Here the standard is not communicated to consumers and does not serve a direct marketing objective, but is imposed on suppliers to reduce food safety risks, to ensure quality and avoid reputational risks.²⁷ These can be done by single buyers or collectively. In addition, buyers may also use private standard schemes to differentiate products offered for sale. These can be retailer high end market quality products, with the aim to capture a price premium or increase variety of offerings.

²⁷ These latter risks can arise from contaminated or low quality products entering their product assortment of the retailer.

Continuum of private voluntary standards
ordered by degree of producer autonomy



98. Some examples of what is meant by the above discussion are presented below. The different categories of schemes may be formulated under substantial differences in the degree of producer autonomy.

Pure producer schemes

Tasty Tom, Netherlands, tomatoes, www.tastytom.nl.

Parimigiano Reggiano, Italy consortium of 650 small artisan dairies, who in turn represent 10 000 dairy farmers. It defines the production process and controls production and marketing of Parmigiano-Reggiano cheese. It also benefits from the EU's Protected Designation of Origin (P.D.O.) and cheese is produced according to the rules it sets out in its production regulation. url: www.parmigiano-reggiano.it.

Quasi-Producer standards

Loué poultry, France, brand name developed by producers and industry. Poultry is produced through partnerships among "Fermiers de Loué" and the slaughterhouses and retailers. Used in B2C context. url: www.loue.fr.

SQC, Scotland's Safe Quality grains quality standard developed by producers and industry through Scottish grains council. Used only in a B2B context.

Graincare, Australia Grain council standard for grain quality, developed by industry in close collaboration with producers. It is used in a B2B context.

IKB, Netherlands, intensive livestock production based on partnership between farmers, industry and unions. It is a farm assurance scheme used in B2B context

SQF 1000(Safe Quality Food) international food safety and quality management system was first initiated in Australia by producers who worked with retailers, processors and food safety experts. It was then taken over by a private firm, the food marketing institute and is now more closely linked to retailers.

Buyer standard schemes

EurepGap, food safety and farm assurance schemes developed by leading European retailers in consultation with farmers used in a B2B context.

Retailer private label standards

These are standards schemes which focus not only on farm assurance type attributes but include additional quality or specific attributes which can be marketed at premium and the level of producer involvement varies substantially. To ensure sufficient supplies some form of collaboration and reward is necessary. Examples might include Carrefour: Filière Qualité Carrefour, Tesco's: Nature's Choice, and Loblaw's: President's Choice

ANNEX C

Firms interviewed for the OECD project on private standards: Food Retailers

Ahold

Auchan

DelHaize

Carrefour

Coop Suisse

ICA

Krogers

Loblaws

Metro

Migros

Sainsbury

Superquinn

Tesco

Wal-mart

Woolworths South Africa

Woolworths Australia

Food Manufacturers

Kraft

Nestle

Orkla

Unilever

Standards Owners

British Retail Consortium standard

International Food Standard

SQF 1000/2000

EurepGap

Interview questions and survey

Introduction

99. Recent trends in globalisation and growing competitiveness in world food markets have also been accompanied by an increased number of private voluntary standards. These standards encompass a wide set of product and process food attributes and are not unique to the food sector. Their use should be considered as part of the general evolution of in supply management for products whose characteristics are costly for the consumer to verify. The scope and depth of private voluntary standards as well as their interface with public regulations will affect players in the food supply chain. Some suggest the use of standards is part of the strategy to reduce transactions costs and differentiate products and yet others maintain it is driven by consumer preferences. This project has a threefold objective: to understand economic motivations behind the surge of private standards; and to examine the trends in their use and likely evolution and to identify main economic effects and policy issues emerging in food markets. The project takes standards as given and does not seek to evaluate standards per se.

Proposed collaboration with Retailers and CIEES:

100. The OECD Secretariat would like to interview leading firms in the food retailing industry regarding the implementation of private voluntary standards. Responses will be strictly confidential, thus no names of individuals or firms will be identified with specific responses.

101. The project on private voluntary standards is 1) to identify the main economic, legal and institutional incentives for standards adoption; 2) to characterize the scope and the depth of the types of standards; 3) to consider the likely evolution of standards over the medium-term; 4) to examine economic effects for players in the food chain including consumers and 5) to analyse the policy implications arising from the interface of private and public standards in the food system.

Thematic sample questions:

1. What are the main economic, legal and institutional incentives for standards?
2. What are the key product and process standards for the food system overall? for specific product categories? What are some of the firm specific standards in areas other than food safety? How important are these standards to your operations?
3. How do your private standards differ from those of government? Do you look to government for guidance in setting different standards? As retailers do you feel you are taking the lead in key areas of standard setting in the food chain. If so, why?
4. Do you expect food safety standards to increase in scope and stringency over the next 5-10 years? Will similar standards be applied across all supplying countries and firms? From developing countries? In what other areas, such as environment, labour and ethics is there likely to be an increased role for standards?
5. Does your firm personally monitor suppliers or do you rely uniquely on certifiers? How is compliance enforced in the short and long run? How often are standards changed?
6. Do suppliers adapt quickly to meet the standard or do supply bottlenecks arise? Do certified suppliers have preferential access to your market? Do you have greater or less flexibility in monitoring standards when sourcing outside Europe/ OECD-countries?

7. In sourcing products from emerging or developing countries, how important are private standards compared to government standards? Over the medium term, do you envision enforcing the same set of standards in sourcing regardless of the country?

RETAILER SURVEY - QUESTIONNAIRE

FOOD STANDARDS QUESTIONNAIRE

This survey is to complement the interview on private voluntary standards. All responses will be strictly confidential.

Product and Process Standards

1) Do you require suppliers to meet your specific standards in any of the following categories?

| Quality | Food Safety* | Animal Welfare | Environment | Labour | Other (please specify) |
|---------|--------------|----------------|-------------|--------|------------------------|
| Yes/ no | Yes/no | Yes/no | Yes/no | Yes/no | |

Food safety* requirements beyond those specified by law.

2) How do you verify product standards from suppliers? (*You can select multiple boxes.*)

Certified government agencies

In-house monitoring

Third party certification

Other (*please specify*)

3) How do your required standards compare to those of the government?

| | significantly lower | slightly lower | the same as | slightly higher | significantly higher |
|----------------|---------------------|----------------|-------------|-----------------|----------------------|
| Food Safety | | | | | |
| Environment | | | | | |
| Animal Welfare | | | | | |
| Labour | | | | | |

4). Do you require certification for any of the following product groups according to the following standards? (You may apply more than one standard to a product group)

| | Fruits | Vegetables | Meat | Processed Foods | Dairy |
|-----------------|--------|------------|------|-----------------|-------|
| BRC | | | | | |
| Eifis | | | | | |
| EurepGap | | | | | |
| Haccp-nl | | | | | |
| IFS | | | | | |
| SQF1000 | | | | | |
| SQF2000 | | | | | |
| In house | | | | | |

5) What percentage of the following products is certified under one or more of the above standards (tick one box in each row where applicable)

| | 0% | 1%-25% | 25%-49% | 50%-74% | 75%-99% | 100% |
|-----------------|----|--------|---------|---------|---------|------|
| Fruits | | | | | | |
| Vegetables | | | | | | |
| Meat | | | | | | |
| Processed foods | | | | | | |
| Dairy | | | | | | |
| Total | | | | | | |

6) Are any of these product categories subject to multiple certification/verification requirements? If so please specify which type?

| | Multiple Certification-Verifications | Type of verification-(e.g. in house & BRC) |
|-----------------|--------------------------------------|--|
| Fruits | Yes/no | |
| Vegetables | Yes/no | |
| Meats | Yes/no | |
| Processed foods | Yes/no | |
| Dairy | Yes/no | |

7) What percentage of the following product categories was traceable before any legislation was applicable?

(Please tick box one per product category)

| | 0% | 1%-25% | 25%-49% | 50%-74% | 75%-99% | 100% |
|-----------------|----|--------|---------|---------|---------|------|
| Fruits | | | | | | |
| Vegetables | | | | | | |
| Meat | | | | | | |
| Processed foods | | | | | | |
| Dairy | | | | | | |

Sourcing from non-OECD²⁸ countries

8) What percentage of the following products is sourced from non-OECD countries? *(Please tick one box in each row where applicable)*

| | 0% | 1%-25% | 25%-49% | 50%-74% | 75%-99% | 100% |
|-----------------|----|--------|---------|---------|---------|------|
| Fruits | | | | | | |
| Vegetables | | | | | | |
| Processed foods | | | | | | |
| Meats | | | | | | |

²⁸

OECD countries: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

9) How is their conformity to your standards certified/verified?

10) What are the specific problems or bottlenecks most frequently encountered with respect to standards when sourcing from non-OECD countries? (e.g. government food safety inspections, etc.)

**ANNEX D.
LIST OF PRODUCER ASSOCIATIONS**

| <i>Country</i> | <i>Name</i> |
|-----------------------------|---|
| EU | |
| Austria | Präsidentenkonferenz der Landwirtschaftskammern Österreichs (Austrian Chamber of Agriculture) |
| Scotland, UK | NFU Scotland |
| Ireland | Irish Farmers Association |
| Sweden | Sigill Kvalitetssystem AB (Seal Quality Assurance Ltd) |
| Spain | Confederación de Cooperativas Agrarias de España (CCAEE) |
| Denmark | Danish Agricultural Council |
| The Netherlands | LTO Netherlands |
| Belgium | Boerenbond |
| France | Coop de France |
| France | Fédération Nationale des Syndicats d'Exploitants Agricoles (FNSEA) |
| Finland | Central Union of Agricultural Producers and Forest Owners (MTK) |
| Non EU | |
| Australia | Grains Council of Australia |
| Japan | Ja Zenchu |
| Canada | Union des Producteurs Agricoles |
| USA | Illinois Farm Bureau |
| New Zealand | Federated Farmers of New Zealand (Inc) |
| Switzerland | Swiss Farmers Union |
| Fruit and Vegetables | |
| Canada | Keystone Vegetable Producers Association |
| Sweden | Gron Produktion |
| Mexico | Grupo La Nortanita |
| South Africa | Tomato Producers Organisation |
| South Africa | Tru-Cape Fruit Marketing |

OECD SURVEY ON PRIVATE VOLUNTARY STANDARDS IN AGRICULTURE

102. The Organization for Economic Development and Cooperation (OECD) is soliciting your participation in a study on the use of private voluntary standards in food and agriculture. Private voluntary standards are those product or production process attributes required by private firms. While these cover include government regulations, they also include additional product and process criteria.

103. The private standards we are concerned about in this survey are those standards schemes which may be applied by a variety of downstream firms as well as those set by or for specific retailers or manufacturers. The former include initiatives such as EurepGap, SQF1000, ISO 14000, *etc...* and the latter those of specific retailers and manufacturers, such as Tesco, Walmart, Ahold, Unilever, *etc*. The purpose of the survey is to better inform policy makers on the possible impacts of private voluntary standards on the food and agricultural sector and farmers.

104. The information will remain confidential: no identification of responses with individual organizations will be made without the express permission of those concerned. The results of the survey information will be synthesized in an OECD report for member governments and will be made available to participants of the survey when released.

Please feel free to provide additional comments on private standards in agriculture.
Thank you for your co-operation!

For further clarification or information do not hesitate to contact Linda by telephone or e-mail.

Please return this completed questionnaire to
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PRODUCER ORGANISATION SURVEY - QUESTIONS FOR INTERVIEW

Part A

I. Background Information

1 -Name of Organization and contact person (e-mail address and telephone):

2 -Type of organization i.e. cooperative, association...: _____

3 -Country: _____

4 -Number of members: _____

5 -Average size of farms: Sales _____
Area _____

6 -Is the distribution of farms by sales fairly uniform?
Or are there a few very large farms and the rest small or medium sized?

7 -Do your members outsource their production to growers who are members of your organization?

8 -Main Products: _____

9 -Main Exports if any and country or countries of destination

II. Marketing Channels

This section explores the marketing channels available to producers.

1. What are the main marketing channels of your members' production?

- a- Direct Retailer Sales
- b- Direct Manufacturer/Processor Sales
- c- Spot markets
- d- Packers/Shippers
- e- Distribution Centers
- f - Other intermediaries

2- Could you indicate the percentage share of output going through each marketing channel?

- | | |
|---|--|
| Directly to Retailers | Directly to Manufacturers/Processors |
| <input type="checkbox"/> a- approximately 90% | <input type="checkbox"/> a- approximately 90% |
| <input type="checkbox"/> b- approximately 75% | <input type="checkbox"/> b- approximately 75% |
| <input type="checkbox"/> c- approximately 50% | <input type="checkbox"/> c- approximately 50% |
| <input type="checkbox"/> d- approximately 25% | <input type="checkbox"/> d- approximately 25 % |
| <input type="checkbox"/> e- don't know | <input type="checkbox"/> e- don't know |

- Spot markets
- a- approximately 90%
 - b- approximately 75%
 - c- approximately 50%
 - d- approximately 25%
 - e- don't know

- Packers and shippers
- a- approximately 90%
 - b- approximately 75%
 - c- approximately 50%
 - d- approximately 25 %
 - e- don't know

Distribution centers

- a- approximately 90%
- b- approximately 75%
- c- approximately 50%
- d- approximately 25%
- e- don't know

Other intermediaries

- a- approximately 90%
- b- approximately 75%
- c- approximately 50%
- d- approximately 25 %
- e- don't know

3- Could you indicate, when possible, what share of output is sold under some form of contractual agreement to each of the following marketing channels?

- Retailers _____
- Processors/Manufacturers _____
- Shipper/Packers _____
- Distribution Centers _____
- Other intermediaries _____

Part B: Private voluntary standards: identification and implementation, certification and economic effects

Private voluntary standards are those product and/or process requirements set by private firms. These may refer to product characteristics such as appearance, taste, safety, and/or production processes attributes such as chemical use, agronomic practices, harvesting, handling and shipping hygiene requirements as well as labour/social, environmental or animal welfare standards...

Place a tick or x in or next to the appropriate box or boxes. {To check the box—place cursor on the box and right click, -properties and then check the checked box}.

I. Definition and implementation of private standards.

1-What portion of sales requires some form of adherence to private voluntary standards?

- a- More than 90 %
- b- More than 75%
- c- More than 50%
- d- More than 30%
- e- Less than 25%

2- What are the private standards schemes most frequently required?

You may check more than one box if applicable

- a- EurepGap
- b- Safe Quality Food-SQF1000
- c- ISO 9001
- d- SA 8000
- e- ISO 14000

Please name any other private standards schemes required to do business:

3 –Which of the following private standards are generally required by each of the following marketing options? Check more than one if applicable

Retailers

Manufacturers/Processors

- | | |
|---|---|
| <input type="checkbox"/> a- Food safety | <input type="checkbox"/> a- Food safety |
| <input type="checkbox"/> b- Good Agricultural Practices | <input type="checkbox"/> b- Good Agricultural Practices |
| <input type="checkbox"/> c- Quality | <input type="checkbox"/> c-Quality |
| <input type="checkbox"/> d- Traceability | <input type="checkbox"/> d-Traceability |
| <input type="checkbox"/> e- Environmental standards | <input type="checkbox"/> e- Environmental standards |
| <input type="checkbox"/> f- Labour/social standards | <input type="checkbox"/> f- Labour/social standards |
| <input type="checkbox"/> g- Animal welfare | <input type="checkbox"/> g- Animal welfare |

Packers and Shippers

Other intermediaries-specify what type (i.e. Distribution Centers)

- | | |
|---|---|
| <input type="checkbox"/> a- Food safety | <input type="checkbox"/> a- Food safety |
| <input type="checkbox"/> b- Good Agricultural Practices | <input type="checkbox"/> b- Good Agricultural Practices |
| <input type="checkbox"/> c-Quality | <input type="checkbox"/> c-Quality |
| <input type="checkbox"/> d-Traceability | <input type="checkbox"/> d-Traceability |
| <input type="checkbox"/> e- Environmental standards | <input type="checkbox"/> e- Environmental standards |
| <input type="checkbox"/> f- Labour/social standards | <input type="checkbox"/> f- Labour/social standards |
| <input type="checkbox"/> g- Animal welfare | <input type="checkbox"/> g- Animal welfare |

4 a - How important are food safety standards for doing business with the following?

- a- Essential
- a- Essential

II. Information and standard settings

1. Were producer organizations consulted about setting the level of private standards?

-YES -NO -DON'T KNOW

If so, how was this done?

2. Were producer organizations consulted about how these standards are to be implemented and verified?

-YES -NO -DON'T KNOW

If so, how was this done?

3- How are your producers informed of changes in private standards?

4-Does your organization contribute to keeping producers informed about changes in the different private standards schemes?

If yes, how is this done and how regularly?

5-Does your organization contribute to informing producers on changes in national and export market government regulations?

If yes, how is this done?

6- Are changes in private standards perceived to be too frequent?

-YES -NO -DON'T KNOW

7-Has the number of standards schemes to which farmers must comply increased in the past 5 years?

a- Significantly (+100%)

b- Moderately (+ 50%)

c- Slightly (+ 25%)

8- Would farmers prefer to have one global standard for each of the categories - food safety, environment, labour, animal welfare?

-YES -NO -DON'T KNOW

9- Supply chain logistics often require minimum quantity deliveries at specific times. How important are these?

Quantities -very important -important -not important

Timing of Delivery -very important -important -not important

Please feel free to express your views on any of the above private standards issues or others not mentioned here

III. Compliance assessments: Certification and audits

1-Who audits or certifies that producers for compliance with private standards?

a- Auto-certification

b- 3rd party audit

c- Firm level inspectors

2.-How frequently are farms audited?

a- twice a year

b- once a year

c- once every 2 or 3 years

d- other- please indicate

3- Are group certificates available for cooperatives?

-YES -NO -DON'T KNOW

If Yes, for which standard schemes or firms?

4- Who pays for the audit and certification and what is the average cost?

5 a - On average, how many DIFFERENT Audits/Certifications are required by farmers to do business with downstream firms?

a- One

b- Two

c- Three or more

5b – Do these multiple audit or certifications define similar qualities/processes?

-YES -NO -DON'T KNOW

IV. Effects of private standards

1a-What have been the overall economic impacts of private standards on producers?

a- Increased revenues -Yes - NO

b- Increased efficiency -Yes - NO

c- Increased competitiveness -Yes - NO

d- Improved contractual agreements -Yes - NO

e- Better market access -Yes - NO

1 b- Have there been other impacts on producers not listed above? If so, please explain.

2-Has the use of private standards had a positive impact on the local economy:

a- Employment -Yes - NO

b- Safety conditions for workers -Yes - NO

c- Environment -Yes - NO

3- What investments in physical equipment, technical skills or management capacity are producers required to make to meet these standards? Can you indicate what these include?

4-Have some producers been obliged to exit the sector because of failure to meet private standards?

-YES -NO -DON'T KNOW

V Export Markets

1a-For what percentage of your producers have private standards been an obstacle for accessing export markets?

a- For more than 70% (of your members)

b- For more than 50%

c- For **less** than 35%

1 b-If so, to which destination—country /countries?

2. For what percentage of your producers have private standards provided an opportunity for accessing export markets?

a- For more than 70% (of your members)

b- For more than 50%

c- For **less** than 35%

3a - Are products ever rejected at destination for failure to meet standards?

-YES -NO -DON'T KNOW

3 b – Failure to meet which standards was most likely to be a reason for rejection?

- a– Food safety
 B- Environmental standards
 C- Labour/social standards
 D- Animal welfare
 e - Traceability
 F- Quality

4 – Where are products failing to meet private standards for export markets sold?

5 - Have some of your producers dropped out of the export market because of failure to meet private standards?

-YES -NO -DON'T KNOW

6 -Which type of importing firm is most demanding?

- a- Retailer
 b- Manufacturer/Processor
 d- Wholesalers

Small farms / small cooperatives

1a - Are small farms or cooperatives more likely to be excluded from the export market for failure to meet private standards than larger farms/cooperatives?

-YES -NO -DON'T KNOW

1 b - What have been the main benefits for small farmers in meeting private standards ?

- a- Increased revenues -Yes - NO
b- Increased efficiency -Yes - NO
c- Increased competitiveness -Yes - NO
d- Improved contractual arrangements -Yes - NO

2 a - Do your producers feel that private standards schemes are generally too difficult for small farms/ small co-operatives to meet?

-YES -NO -DON'T KNOW

2 b-If Yes, can you identify which standards are most difficult for them to meet and explain why?

- a– Food safety
 b- Environmental standards
 c- Labour/social standards
 d- Animal welfare
 e– Traceability
 f– Quality

3 - What are the main constraints facing small farms and cooperatives in meeting private voluntary standards?

- Physical equipment and buildings -YES -NO -DON'T KNOW
-Communication/Information flow -YES -NO -DON'T KNOW
-Audit and certification costs -YES -NO -DON'T KNOW
-Technology availability -YES -NO -DON'T KNOW
-Record Keeping -YES -NO -DON'T KNOW
-Managerial skills -YES -NO -DON'T KNOW

4a - Have importing firms helped small farms and small cooperatives to meet private standards?

-YES -NO -DON'T KNOW

4b- If yes, how have they done this?

Technical Assistance -Yes - NO

Financial Assistance -Yes - NO

Contractual Agreements -Yes - NO

5- Should they assist small producers and cooperatives in meeting their standards?

-YES -NO -DON'T KNOW

6a- Have domestic commercial firms helped small farms/small cooperatives to meet their private standards?

-YES -NO -DON'T KNOW

6 b- If yes, how have they done this?

Technical Assistance -Yes - NO

Financial Assistance -Yes - NO

Contractual Agreements -Yes - NO

7a - Are the supply logistics for export markets – traceability, quantity and delivery timing - a constraint for small farms and small cooperatives than for medium sized ones?

-YES -NO -DON'T KNOW

7 b - Can this be remedied in the short run? -YES -NO -DON'T KNOW

7 c -Can these be remedied in medium term -YES -NO -DON'T KNOW

7 d- What is needed to do so?

Government participation

14- Is there a role for the governments to assist producers to meet private standards?

-YES -NO -DON'T KNOW

If Yes, Please explain how you might see this being done?

15. Is there a role for government in setting minimum standards for food safety, good agricultural practices, labour /social standards, environment, and animal welfare?

-YES -NO -DON'T KNOW

If yes please explain

Please feel to elaborate on any of the issues in this survey or other issues not touched upon. Your responses are of great importance to the success of our project on examining private voluntary standards in shaping the agro-food system

Please return this completed questionnaire to

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