



...at Secondary Retailer Standards

***The regulatory environment for food production in EU is one of the most stringent in the world ***

A producer is complying with all legal requirements, it means the food produced is of quality and safe for consumers.

BUT

Several retailers have developed (private) secondary standards, and in many cases these are linked to the use of plant protection products.

The development of such secondary private standards for the agricultural producers results in a second layer of requirements for producers to comply with

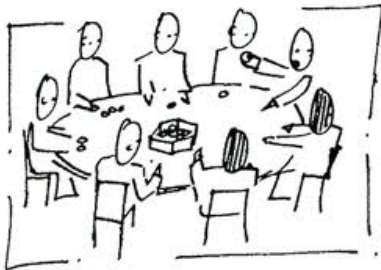
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Analyses undertaken

Step 1

Political context

Analysing the political discussions around SRS



Step 2

Legal analysis

EU and WTO law compliance



Step 3

Meta Study on Socio – Economic impacts

Analysing existing studies on the impacts of secondary retailer standards



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Desk Study analysing the wider political context, notably the political discussion around secondary standards

Over the last decade, the market power of large retail chains has increased.

In some EU countries, the top 5 supermarkets have a market share of around 70%. Further concentration is expected.

So called private secondary standards, comprise many different schemes - quality and certification schemes, protocols etc.

These are developed by different stakeholder groups including retailers and several of these standards relate to the use of PPPs.

There has been a proliferation of private retailer standards since 90s, and on these the analyses are focussing on.

The issue of private secondary standards is well know both in the EU and international fora

**Private standards discussed in different EU political context
i.e. competitiveness of agri-food chain, quality of agricultural products**

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Desk Study analysing the wider political context, notably the political discussion around secondary standards

Private secondary standards are discussed in political context

Recognition of standards

Positive:

- enforce competition and consumers demands
- support implementation of EU rules in developing countries
- help suppliers comply with national and international standards when SRS prescribes how those standards should be met
- promote best practices and improved productivity
- give brands a better reputation and help suppliers have access to markets
- help address emerging risks in a rapid manner, filling gaps, and make it easier for international standards to eventually be adopted

Negative:

- can restrict market access or lead to market foreclosure
- are not always based on science
- deviate from international standards or go beyond official governmental requirements (ex. MRLs)
- pose disproportionate burdens on small- and medium-sized producers and exporters in developing countries

The EU Commission does not intend to legislate on private standards, INSTEAD EU Commission developed best practice guidelines for voluntary certification schemes for agricultural products and foodstuffs: recommendations – to be followed on voluntary basis

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Legal analysis of secondary standards



WTO Law principles

- no direct effect of WTO law
- WTO law is not extending normally to national and EU laws unless transformed accordingly

SPS Agreement

- scope covering private standards in principle
- complaints voiced by developing countries
- some argue that the WTO member is liable if private standard contrary to SPS requirements (i.e. science-based, transparency, based on existing international standards)
- But, there is a disagreement in regards to interpretation
- WTO members decision to enhance enforcement and promote existing international standards (e.g. Codex Alimentarius)

WTO Law does not prevent private standards to go beyond the requirements Prescribed by WTO agreements in place

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Legal analysis of secondary standards (cont.)

Compliance with EU laws

EU Laws in general:

- overall application of the principle *pacta sunt servanda* (ie. agreements need to be kept)
- there is no specific legislation addressing private standards
- however EU Food Law is not preventing to go beyond its' requirements (MRL regulation, Sustainable Use Directive) by a private contract
- free movement of goods not applicable to standards undertaken by private entities (unless emanation of state)

EU competition law:

- private standards may not lead to an abuse of dominant position or affect the internal market
- however, EU competition rules are not designed to address unfair-trading practices & contractual imbalances (use national contractual or commercial law)
- private standards may not lead to an abuse of market power (retailer to have a significant market power) or foreclosure of competition if it discriminates the consumer AND no justified reasons

EU Law does not prevent private standards to go beyond the requirements prescribed by EU law.

No abuse of dominant position that discriminates the consumer can be proven

No EU institution sees the need in principle for further legislation to specifically address certification schemes on these issues. BUT the European Commission has published December 2010, EU best practice guidelines for voluntary certification schemes for agricultural products and foodstuffs

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Impacts of reduced PPP on FARMS

Limitations of production

- PPP absence or limited use will lead to yield depression
- too many limitations may lead to endangering of or collapse of IPM systems
- a restriction in PPP use might prevent the farmer to use the best solution, so the second best pest control approach is used instead and that might be less effective or more costly
- difficulties in meeting quality standards – fresh produce markets
- a problem of increased resistance due to limited solutions

Increasing costs

- certification costs are mainly “delegated” from the retailer to the producer as a condition of sustained market access (certification costs might be quite high and occur no matter the size and location of the farm)
- additional management costs
- increased use of other inputs
- costs cannot be passed on, so farmers have to absorb costs without increase in price (at least short term)

Fruit and Vegetable markets influenced more than others
Increase in per unit costs of production

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IMPACTS on FARMS



Positive:

- long term benefits for farmers complying with SRS are a preferential long lasting market access due to upgraded product quality and an enhanced corporate image of the participating stakeholders
- act as catalyst and can have incentives functions for smallholders
- facilitate knowledge, transfer technologies and improve management particularly in developing countries
- serve as a driver for change and foster managerial efficiency



Negative:

- out selection of farmers not being able to comply (particularly in respect of their working force)
- lower income per capita due to limitations of production
- price premiums are not considered a potential outcome for the farmers complying with SRS
- creation of confusion due to wide spectrum of standards



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IMPACTS on FARMS

Few positive impacts to smallholders are expected to happen; only if major costs associated with certification and other requirements of SRS are (partly) covered by a system to share and combat associated risks

Impacts are more negative in short term and if producers can not comply; impacts more positive in long term if farmers can meet SRS

Exclusion of the weaker and rent distribution towards remaining actors

Redistribution of income among farmers becomes the dominant long term effect

Private standards pose major challenges for small scale producers in markets for high value crops, they might be excluded from market due to limited resources and increasing costs

Marginalised producers face more limitations than benefits using SRS and are more likely to become less competitive (in particular in the developing countries)

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IMPACTS on DOWNSTREAM CHANNELS AND TRADE



Positive:

- a driver for a changing competitiveness
- a benefit for third party certifiers
- a catalyst for providing incentives for improving smallholder efficiency
- enhancing capacity and investment which leads to new global market opportunities and increasing trade flows
- a mean of facilitating trade

Negative:

- act as trade barrier due to compliance costs
- leaving small businesses behind and leading to a further concentration of market of power
- entrance of newly developing exporters is more difficult

Overall changes in trade are not significant and not systematic at least not in terms of trading countries

Impact of secondary standards: focus on distribution of trade and associated welfare, but not on the overall level

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IMPACTS on SUPERMARKETS

Positive:

- an effective tool of supply chain management
- allow benefits from price premiums and product differentiation
- enable costs gains
 - by outsourcing of risks and costs associated with standards to suppliers
 - by reducing transaction costs due to centralised purchasing and vertical chain relations
- economic benefits from brand protection, business and efficiency improvement
- an instrument that prevents losses from market reputation
- supermarkets (indirectly) support governments, mainly in developing countries, in improving processes; which these could only do at much higher costs without private standards
- Enable “institutional rents” – new opportunities to work with governments

Negative:

- multitude of standards and their increasing number lead to:
 - confusing situation on the market
 - higher coordination costs
 - risk of supply/trading relationships being hampered in case of further proliferation
- risk of potential market shortage if overall quantities not ensured due to an inability to cope with all the different standards
- particularly for fruits & vegetable sector, inability to comply with consumer demands for “cosmetic standards” (e.g. perfect skin)

There may in the future be the need to further harmonise standards to tackle the negative effects

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IMPACTS on CONSUMERS

Positive:

- take-up of consumer concerns
- a subjectively felt quality upgrade - perceived increased wellbeing - of individual consumers, however it is a question of comfort rather than information knowledge
- price competition will be minimised, the consumers choice would be based on quality
- spill over effects on domestic markets mainly in developing countries - supply surplus for exports flows into domestic markets (however also the reverse effect is possible, when increasing quality gaps can be observed in the different market segments)

Negative:

- it leads to the situation where the consumer is told what is better and he is not choosing for himself
- the consumer is ultimately the one paying for the implementation and management of a particular standard
- confusion due to too many standards and likely increase of
- possible introduction of new sources of risks i.e. pest/diseases/toxins
- increasing quality gaps in different market segments (domestically vs. exported food – in the developing countries)
- risk for the poorer that costs will be carried over to food prices

The consumer would be discriminated if less food available, of lower quality, with little choice or more expensive BUT this has not been proven in practice. Different consumer effects depend on individual risk perception leading to increase in individually felt wellbeing or otherwise just negative -costs

META STUDY CONCLUDING REMARKS

- All the stakeholders of the food supply chain will be affected one way or another
- Picture in regards to impact is diverse
- Each stakeholder group faces negative and positive impacts
- Farmers (and particularly smallholders) are especially effected in the short term
- In long term, SRS may lead to considerable adjustments in the agricultural sector
- Complying farmers sustain in the market and economically speaking gain, while others are marginalised
- Supermarkets and retailers setting the standards can be considered the main beneficiary of SRS
- Consumers are likely to support SRS, however not based on their sound knowledge, but rather on their individual risk perception
- SRS do not necessarily ensure a better product or market price
- The benefits of complying stakeholders are accompanied by an out selection of farmers who are not able to comply
- While some companies in some countries struggle to comply, others flourish in a new standard environment so whether SRS is considered as distorting or enhancing the trade it remains and unanswered question



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Thank you for your attention