UNCTAD Expert Meeting

"Enabling small commodity producers in developing countries to reach global markets"

Organized by UNCTAD Commodities Branch
Email: leonela.santana-boado@unctad.org, Web: http://r0.unctad.org/commodities/

11 - 13 December 2006

Private Standards and Developing Country Market Access: Initial Findings from 4 case studies

by

Ms. Linda Fulponi
Senior Economist,
Organisation for Economic Co-operation and Development (OECD)

The views expressed are those of the author and do not necessarily reflect the views of the UNCTAD Secretariat, nor do they imply the expression of any opinion whatsoever on the part of the secretariat of UNCTAD concerning the legal status of any country, territory, city or area, or of this authorities or concerning the definition of its frontiers or boundaries.
Private Standards and Developing Country Market Access: Initial Findings from 4 case studies

Linda Fulponi*
Unctad Expert Meeting, 11-13, December, 2006
Enabling small commodity producers in developing Countries to reach markets

* OECD, Paris, does not necessarily reflect the opinion of OECD or its member states
Main themes

• Evolving Economic Environment
• Rise of private voluntary standards
• Implications for producers and exporters of developing countries
• Small producer challenge
Evolving economic environment:

- Increased consumer demands: quality, safety and other non-price attributes
- Global sourcing and selling
- Increased buyer power:
  - Capacity to bargain for concessions
  - Product / process specifications
  - Commercial requirements volumes, supply logistics, reliability
  - Cost minimizing solutions
Evolving economic environment

• More stringent demands on product and process attributes due to:
  – Regulatory measures
  – Legal Liability framework
  – Risks to reputation
Private standards: governing the food chain

• Shifting quality and coordination costs up the chain
• Tighter control at all stages of the chain
• Increasing breadth and depth of private standards
  — Labour, Environment, CSR, Animal welfare
• OECD Final report on private voluntary standards and the shaping of the agro-food system
Retailer coalitions to standard setting

- Global Food Safety Initiative - GFSI:
  - Meta standards defined for: GAP, GMP, GDP
  - Benchmark standards that meet criteria of each
    - GAP - SQF1000;
    - GMP - BRC; SQF100, IFS
- European Retailers Produce Working Group - EUREP
  - EurepGap: for primary production
    - good agricultural practices + traceability + recordkeeping + simple Haccp
Trade -- Strategy

• Model: Trade and growth-- via savings and capital accumulation
  – rise in productivity, real wage, etc…

• Trade in goods in which use intensively the abundant resource
Trade strategy

- Labour abundant-capital poor countries: agriculture dominant sector frequently
  - Small farmers often capital poor but labour abundant
  - Promote production in products which are labour intensive and high in value
  - Fruits and vegetable sector
  - Compensation for liberalisation: trade assistance
Can developing country producers meet the challenge of evolving markets

- Increasing importance of private standards
- Increasing importance of commercial requirements
- Rising minimum standards: quality, regulatory and private sector
  - Racheting up of the window of opportunity makes market entry and success more difficult
Global trade in Food: F&V

• F&V sector is increasingly capital and knowledge intensive in terms of:
  – Supply logistics technologies
  – Traceability systems etc..
  – Information and physical management intensive
  – Varietal development---new products through R&D

• PVS to extend to other areas and increase in stringency
OECD study: Impacts of PVS on developing country exports

• Are PVS driving factor for market access?
• Are small producers/exporters being excluded?
• What can be learned from successful developing country experiences
OECD study: Impacts of PVS on developing country exports

- Method
- Case study approach: Peru, Ghana, South Africa and Chile
- Different income and development
- Common questionnaires to exporters and producers
- Fruit and vegetable sectors exporting with private standards:
  - selection bias
## Product coverage for case studies

<table>
<thead>
<tr>
<th>Country</th>
<th>Product 1</th>
<th>Product 2</th>
<th>Product 3</th>
<th>Product 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>Table grapes</td>
<td>Table Grapes</td>
<td>Asparagus</td>
<td>Pineapple</td>
</tr>
<tr>
<td>South Africa</td>
<td>Apples &amp; Pears</td>
<td>Mango</td>
<td>Mango</td>
<td>Papaya</td>
</tr>
<tr>
<td>Peru</td>
<td>Citrus</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Main Findings

• Multiple private standards increase costs of compliance
• Exporters’ role fundamental in managing the producers--out-growers
• Domestic infrastructure and services key to enabling integration to global supply chains
• Associative initiatives essential to success
• Private-Public sector cooperation improves export market outcomes
• Small holders face external constraints common to all +
• PLUS internal firm constraints due to lack of physical and human capital
# Main PVS schemes applied

<table>
<thead>
<tr>
<th>Farm level PVS</th>
<th>Chile</th>
<th>South Africa</th>
<th>Peru Mango</th>
<th>Peru Asparagus</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>EurepGap</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%-EU</td>
<td>Eurep Gap</td>
</tr>
<tr>
<td>SQF1000</td>
<td>some</td>
<td>8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prosafe</td>
<td>some↑</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gap-USA</td>
<td></td>
<td></td>
<td></td>
<td>100%-US</td>
<td></td>
</tr>
<tr>
<td>ChileGap</td>
<td>75%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Other schemes:**

- Nature’s choice

- Some ↑
Costs of Compliance: Depends on initial conditions

- Costs of complying with a standard(s): investment and recurrent costs
  - Investment costs: function of the firm/farms initial situation
    - How far from the requirement?
  - Recurrent costs: audits, certification and maintenance
  - OECD findings: costs vary substantially across countries and firms/farms
    - Good estimates were lacking
    - Definitions vary across studies/countries
Examples of costs of compliance: not be quoted!

<table>
<thead>
<tr>
<th></th>
<th>Chile</th>
<th>South Africa</th>
<th>Peru</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurrent costs: % of sales</td>
<td>&lt;1%</td>
<td>~4%</td>
<td>4-15% of Farm gate price</td>
<td>&lt; 3%</td>
</tr>
<tr>
<td>Investment to Upgrade</td>
<td>22000$ to 250000$ farm size</td>
<td>NA</td>
<td>NA</td>
<td>400-500$/8ha. Holding to 10000 $ / 720 ha farm</td>
</tr>
</tbody>
</table>
Country experiences: What was learned
Chile and South Africa

- Good infrastructure and services available
- Accumulated social, physical and financial capital--simply know-how in the sector
- Significant role of associations
- Cooperation between state and private sector
  - Marketing: ChileGap, Capescan, Fedefrutta,
  - Information: offices in import mkts
  - Research and Development: University and specialized centres
Chile and small holder experiences

- What is small and viable? Which products?
  - More than 8 hectares for temperate fruits
  - 3-4 hectares for: other fruits berries, avocados, nuts, honey

- INDAP story: with 3000 producers, 500 certified
  - Assistance for these to integrate to Global value chains but not very successful
  - Without continual supervision and assistance:
    - Record keeping and chemical application
    - Reversion to old habits + low education
    - Uncertain outcome once programme terminates
South Africa and new comer--small holder experience

- Farms not viable with less than 8 hectares
- New comers face similar difficulties due to lack of resources---Black new farmers
  - Lack management and agronomic skills,
  - Unable to meet record keeping constraints
  - Rely on government and donor assistance
  - Lack long term capital sources
  - Cannot compete with those already in the system
Peru- asparagus success story

- Number one fresh asparagus exporter
- Business opportunity in a portfolio management optic
  - No small farmers minimum income 80000$
- Associative efforts to overcome infrastructure failings: government initial seed money and leader
  - Aereo Frio, IPEH
  - Peruvian Asparagus technical standard
- Record keeping at plot level—difficult and costly but necessary to market objective
Peru-Mango from local to global markets

• Small producer, traditional local product
  – Low level education makes recording keeping difficult
  – Lack ‘market orientation’
  – Lack associative incentives
  – Float in and out of export market
  – Certification problematic,
  – Do not see benefits in price but only in costs to
• What long run solution?
  – Joint certificates? New forms of cooperatives– new generation cooperatives
  – Focus on local markets
Ghana: can producers meet the challenge?

- Lack of basic functioning infrastructure
- Lack operational institutional structure
- No R&D and no support with producer and exporter associations.
- Low levels of education, low skills, low market orientation,
- Unwilling investment by producers:
  - variable quality means low price and payment system slow
- Some success through outside donors but limited experience
- General incapacity to organize and enter into market vision.
Trade and small producers: role of exporters

• Exporters key link in:
  – Organizing and managing production, harvest and post harvest procedures
  – Certifying small producers individually or in groups
  – Links to importers/buyers

• Management of many small producers means high transactions costs: effort, time and money.
• MAJOR transaction cost is record keeping and traceability where farmers do not have capabilities
Small producers and Global supply chains

• Constraints of small producers: internal
  – Low literacy and numeracy, low agronomic knowledge, poor hygiene cultural habits, little or no capital, lack market mindset,

• Constraints of small producers: external
  – Physical infrastructure and services
  – R& D for varieties techniques
Impacts of Rising Private Standards on Agro-food system

• Likely to restrict the set of potential suppliers by increasing entry costs of standards compliance

• Market access available to those producers who can meet standards and supply logistics.

• Increased divergence across countries/producers or both?
What alternatives?

• Upgrade infrastructure and services to meet market demands
• Foster greater associative initiatives Increased south – south trade-lower south south barriers
• Select product strategy: identify products
• Select a market strategy
• Select potentially successful market participants
• Upgrade infrastructure and services to meet market demands