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New Look at Competition Issues: the Rise of Norms and Standards

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1. Private standards
- Not communicated to consumers

Each large agri-food firm has their own food safety and environmental standard to assure their (long term) reputation.

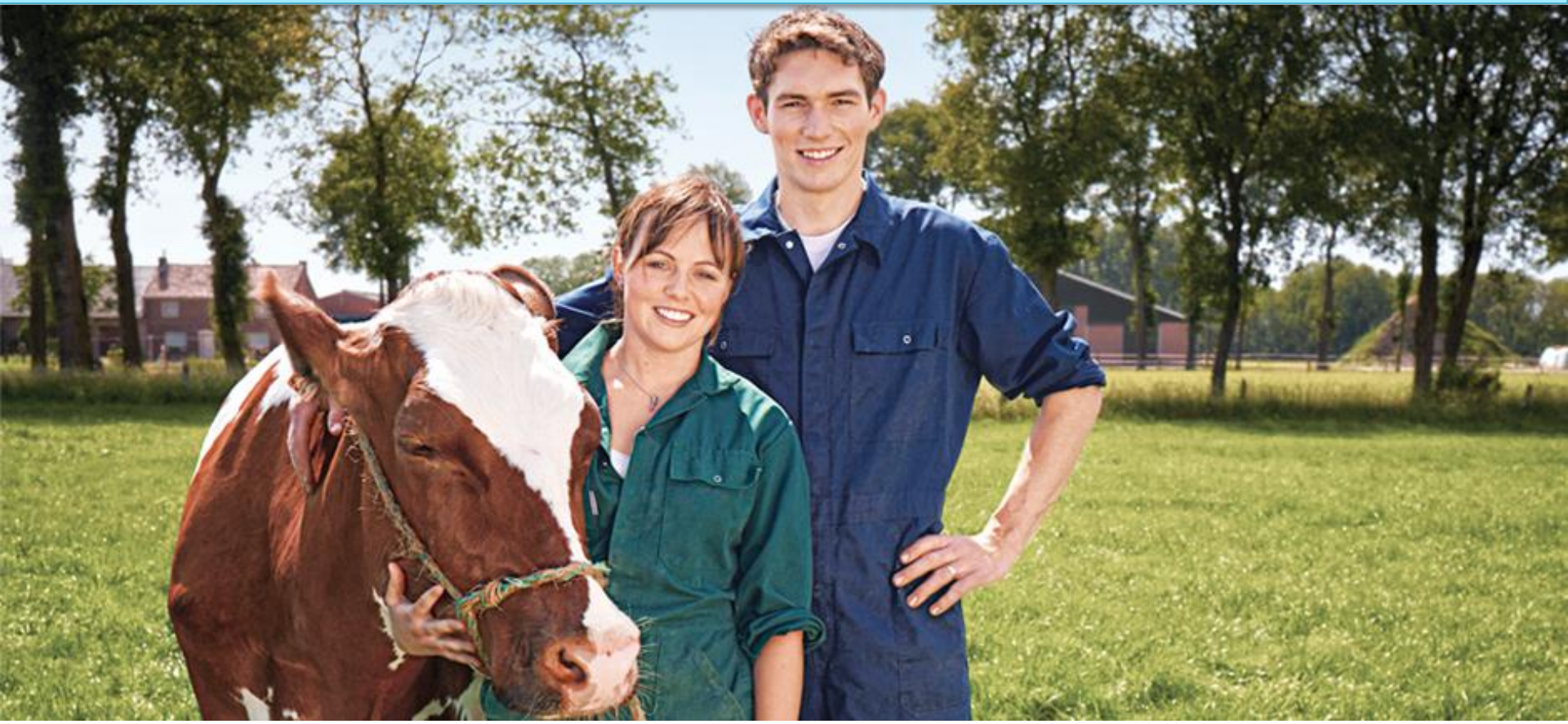
DANONE DQSE « Danone Quality Security Environment »

NESTLE « Quality Management Sytem »

Unilever USQS « Unilever Supplier Qualification System »

Mc Donald's « Supplier Quality Management System»

“Acteurs pour un lait durable” - creating a sustainable supply chain in collaboration with milk producers



“ Florence Chambon, Milk Director at Danone Dairy France, explains how Danone in France works on securing a milk supply chain that is beneficial in economic, environmental and quality terms, both for the company and for the milk producers it works with. And guess what? The key word here is collaboration.”

http://downtoearth.danone.com/2013/04/08/acteurs-pour-un-lait-durable-co-building-a-sustainable-supply-chain-with-milk-producers/

2. Private standards
- Communicated to consumers

The large retailers signals higher standards to consumers through premium private labels

« Engagement Qualité **Carrefour** »,
France 2010: 20 000 producers, 80 products, 230 supply chains.
Monde: 25 000 producers, 664 supply chains(source: carrefour.fr)

Tesco's brand for sustainability: Reduction of pesticides in fruits and vegetables, fair trade.

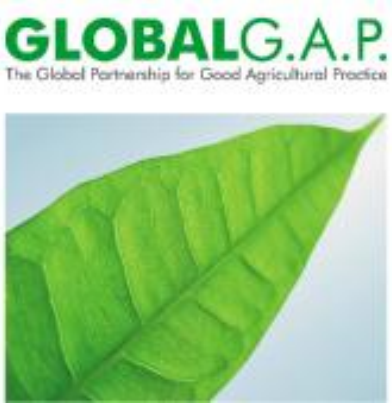
Auchan's umbrella brand concerning food safety and sustanability (environmental and social aspects).

3. Joint private standards

In 2002 **Danone, Nestlé** and **Unilever**, created the SAI (**Sustainable Agriculture Initiative**). Since 2009 Danone, in collaboration with SAI, FAO (Food and Agriculture Organisation) and IDF (International Dairy Federation), participate in the '**Global Dairy Agenda for Action on Climate Change**' which objectives are to develop good agricultural practices and to reduce the emissions of methane.

FAMI-QS is the **Quality and Safety System for Specialty Feed Ingredients and their Mixtures**. Since 2004, representatives of the industry have worked together to develop FAMI-QS, the first code for the animal feed industry.

Standard of « Global Aquaculture Alliance »
Social responsibility, food safety, animal welfare, and traceability.



GlobalGAP (since 1997/2007): Standards for different product groups (fruits & vegetables, crops, meat, fish, coffee, flowers, cotton, …) established in collaboration between several large European retailers (*Tesco*, *Ahold*, *Sainsbury*, *Monoprix*, *Aldi, …).*

- Good agricultural practices
- Traceability and HACCP (Hasard Analysis Critical Control Point)
- Rules mainly related to food safety but also to environmental and social aspects
- Third party certification
- B2B

Members of GlobalG.A.P - downstream



Members of GlobalG.A.P – upstream suppliers



‘Global Food Safety Initiative’
(established in 2000)

GFSI
Global Food Safety Initiative

international food standard
IFS

- France : Carrefour, Casino, Monoprix, Picard, E.Leclerc, Auchan, Intermarché, …
- Germany : Rewe, Metro, Edeka, Aldi, Kaiser’s Tenglemann, AVA, Lidl, Tegut, Norma, Cora
- US : Wal-Mart
- Swizerland : Migros
- Austria : Billa

BRC FOOD CERTIFICATED

United Kingdom

-The Co-operative
- Iceland
-Waitrose
- Sainsbury's
- Tesco,
-Marks & Spencer

SQF INSTITUTE
One world. One standard.

CERTIFIED BY SQF 2000 HACCP QUALITY CERTIFIED SUPPLIER NSF INTERNATIONAL 10265

- Wal-Mart,
- Supervalu
- Harris Teeter
- Food Lion
- Publix Super Markets
- Safeway
- Wegmans Food Markets

A little litterature review….

Incentives to implement private standards

Reardon, T., Farina E. (2002). The rise of private food quality and safety standards: illustrations from Brazil, International Food and Agribusiness Management Review.

Henson, S., Reardon, T. (2005). Private agri-food standards: Implications for food policy and the agri-food system; Food Policy.

Fulponi, L. (2006). Private voluntary standards in the food system: The perspective of major food retailers in OECD countries ; Food Policy.

Cost of compliance and certification for farmers and exclusion

Dolan, C., Humphrey, J. (2000). Governance and Trade in Fresh Vegetables: The Impact of UK Supermarkets on the African Horticulture Industry. Journal of Development Studies

Otsuki, T., Wilson, J. S., Sewadeh, M. (2001). Saving two in a billion: quantifying the trade effect of European food safety standards on African exports ; Food Policy

Garcia Martinez M., Poole N., (2004). The development of private fresh produce safety standards: implications for developing Mediterranean exporting countries. *Food Policy*.

Okello J., Narrod C. A., Roy D., (2011). Export standards, market institutions and smallholder farmer exclusion from fresh export vegetable high value chains: Experiences from Ethiopia, Kenya and Zambia. *Journal of Agricultural Science*

Asfaw S., Mithöfer D., Waibel H., (2010a). Agrifood supply chain, private-sector standards, and farmers' health: evidence from Kenya. *Agricultural Economics*

Price premium

Ouma S., (2010). Global standards, local realities: Private agrifood governance and the restructuring of the Kenyan horticulture industry. *Economic Geography*,

Thiagarajan D., Busch L., Frahm M. (2005). The relationship of third party certification (TPC) to sanitary/phytosanitary (SPS) measures and the international agrifood trade. Case study: EUREPGAP. Washington, DC

Irregularity and low price premium

Kariuki I. M., Loy J. P., Herzfeld, T., (2012). Farmgate private standards and price premium: Evidence from the GlobalGap scheme in Kenya's french beans marketing. *Agribusiness*.

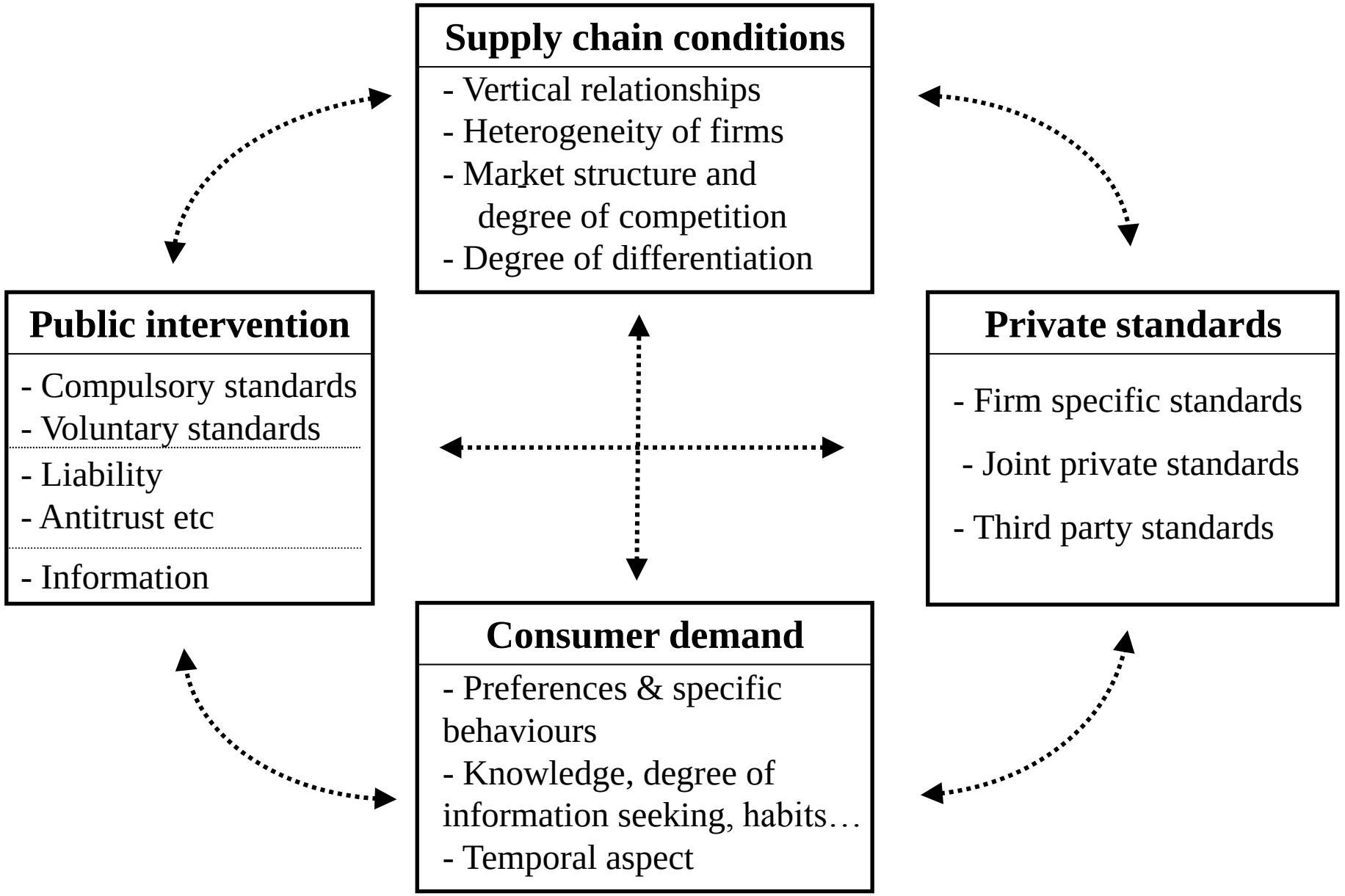
Subervie and Vagneron (2013). A Drop of Water in the Indian Ocean? The Impact of GlobalGap Certification on Lychee Farmers in Madagascar, World Development

Improved market access

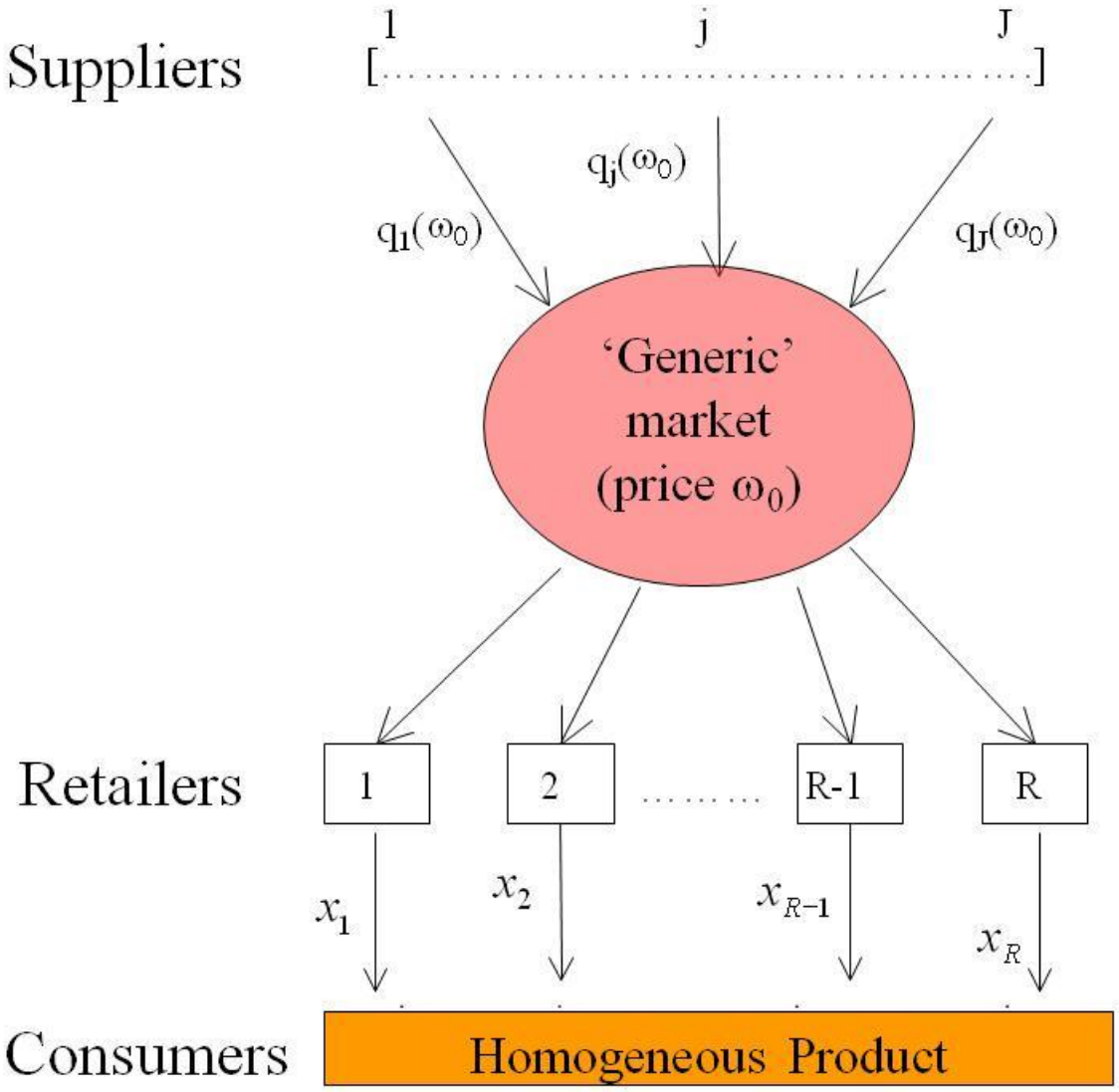
Minten B., Randrianarison L., Swinnen, J. F., (2009). Global retail chains and poor farmers: Evidence from Madagascar ; World Development

Maertens, M., Swinnen, J. (2009). Trade, Standards, and Poverty: Evidence from Senegal. World Development .

Explaining the emergence and consequences of standards

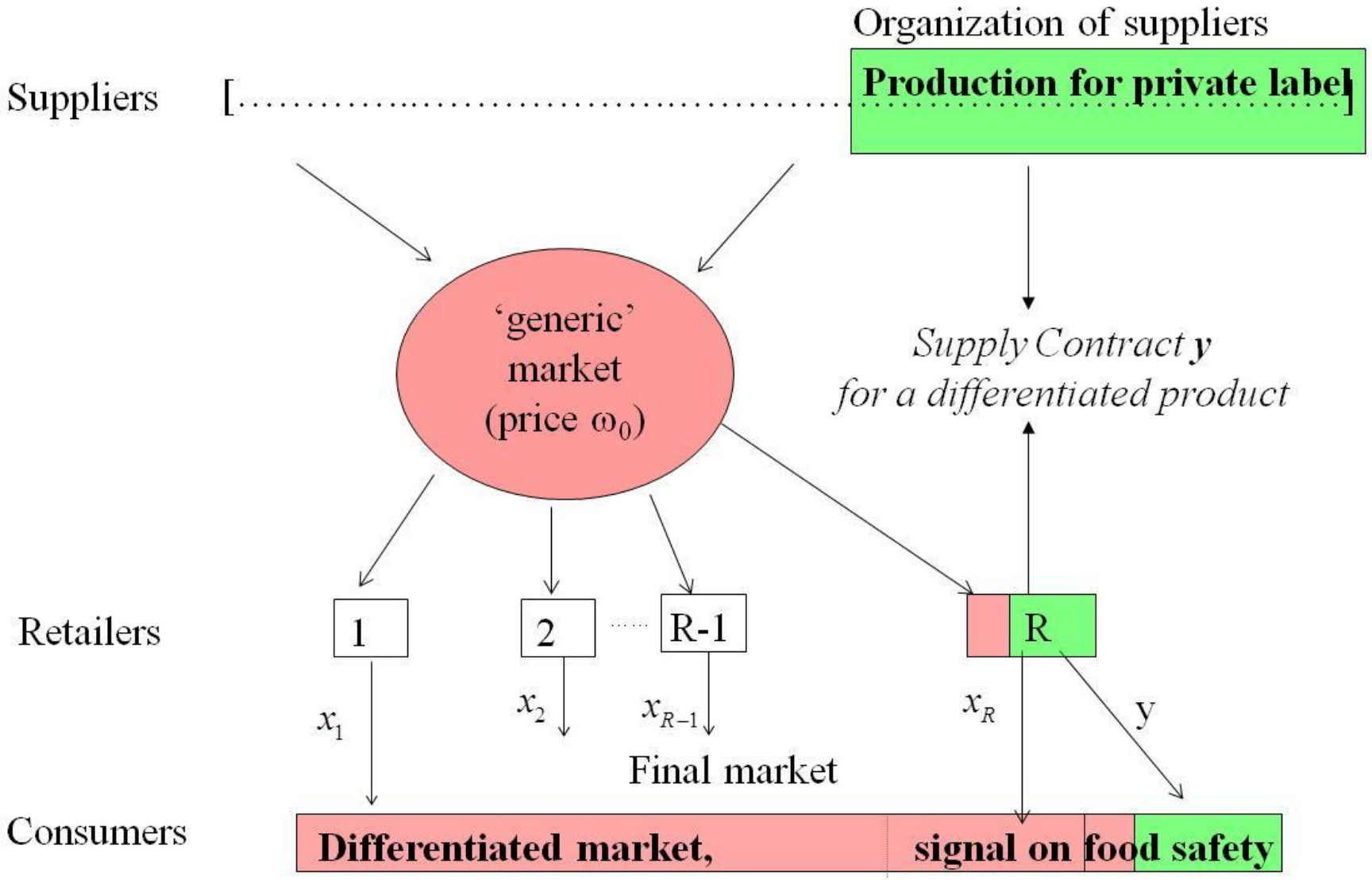


Vertical relationships
suppliers/producers – retailers – consumers



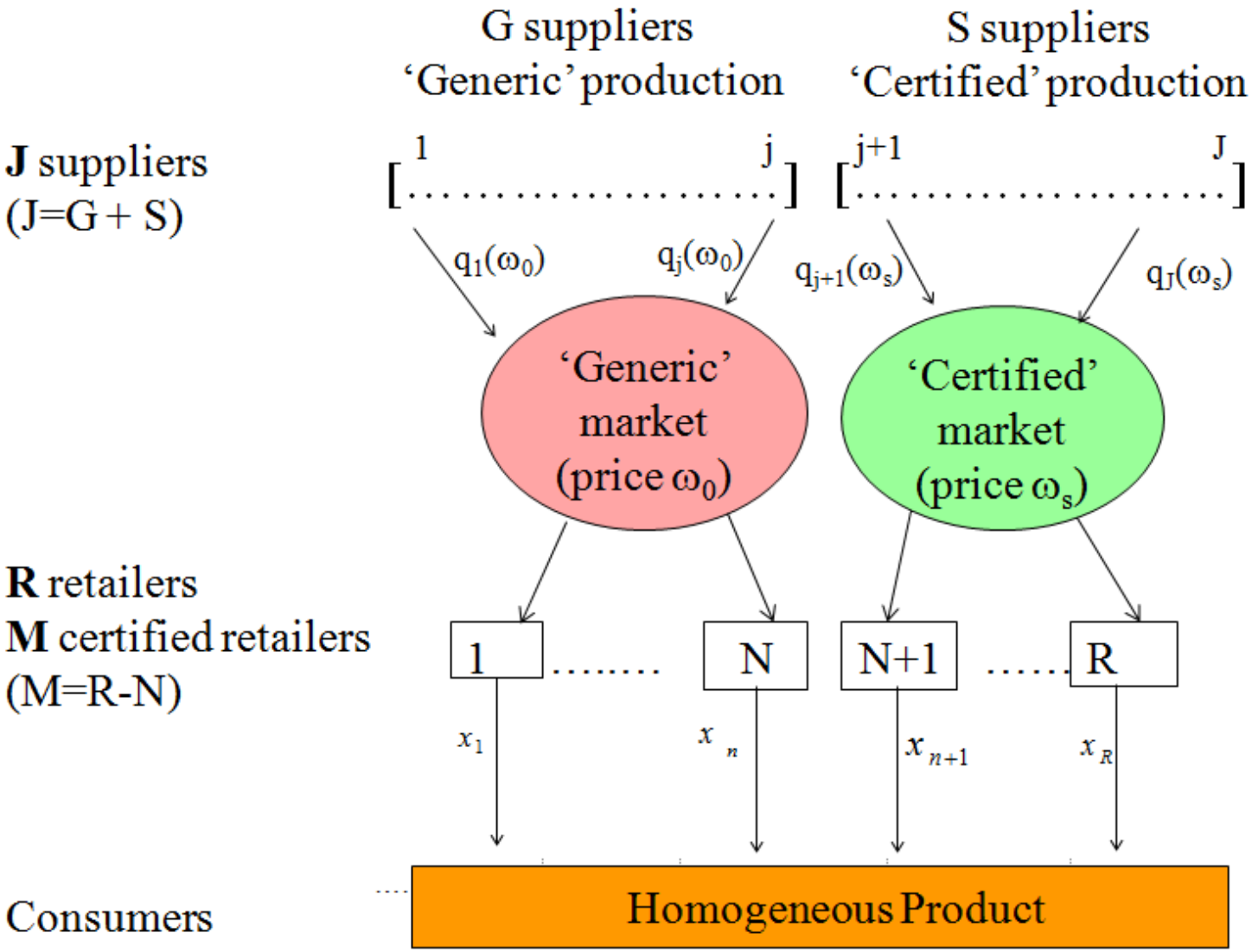
Vertical relationships with product differentiation

Giraud-Héraud, Rouached, Soler, (2006) "Minimum Quality Standards and Premium Private Labels", Quantitative Marketing and Economics

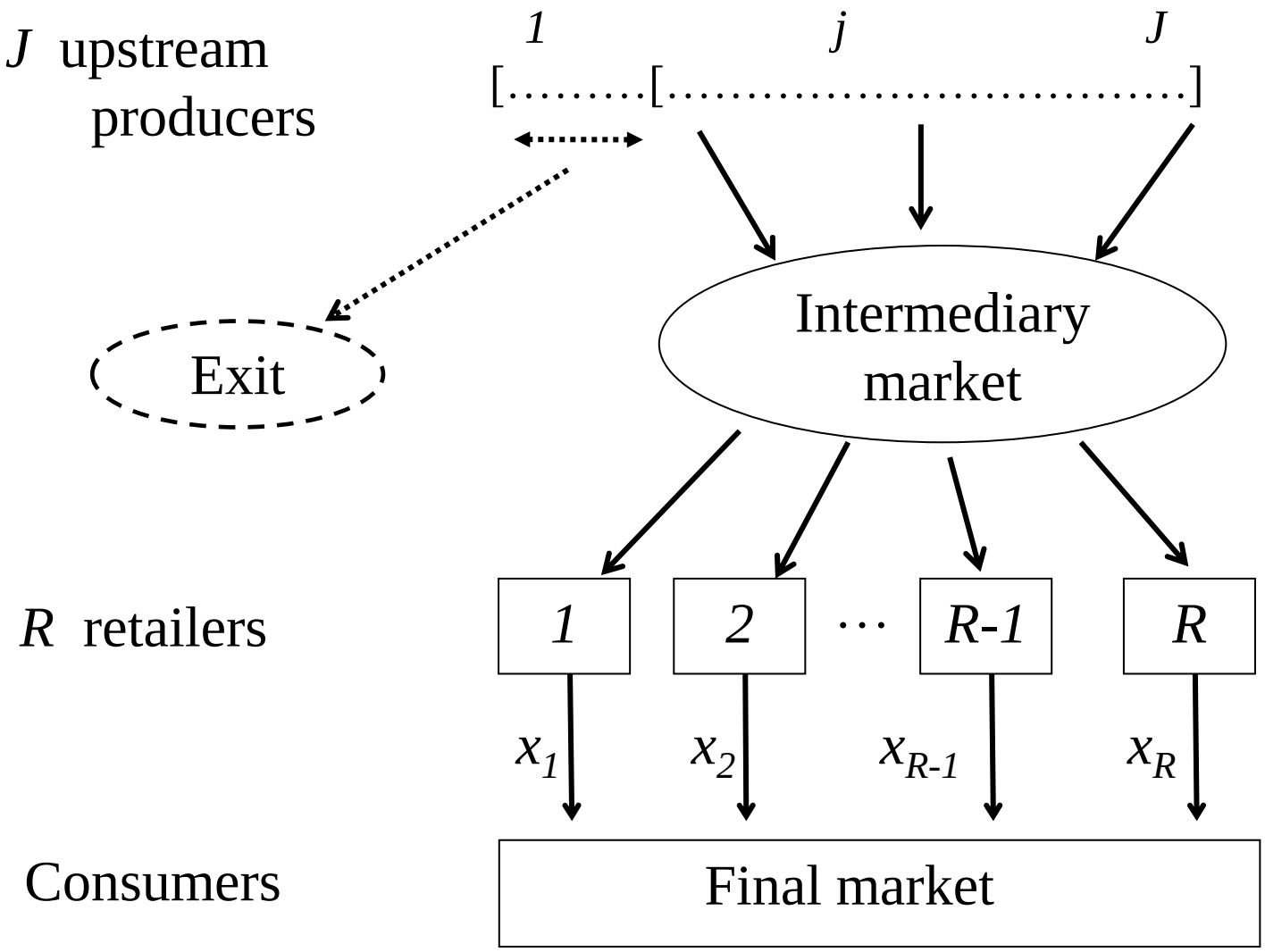


Vertical relationships: A “certified” and a “generic” market

Giraud-Héraud, Hammoudi, Hoffmann, Soler (2012) “Joint Private Safety Standards and Vertical Relationships in Food Retailing”, Journal of Economics & Management Strategy.



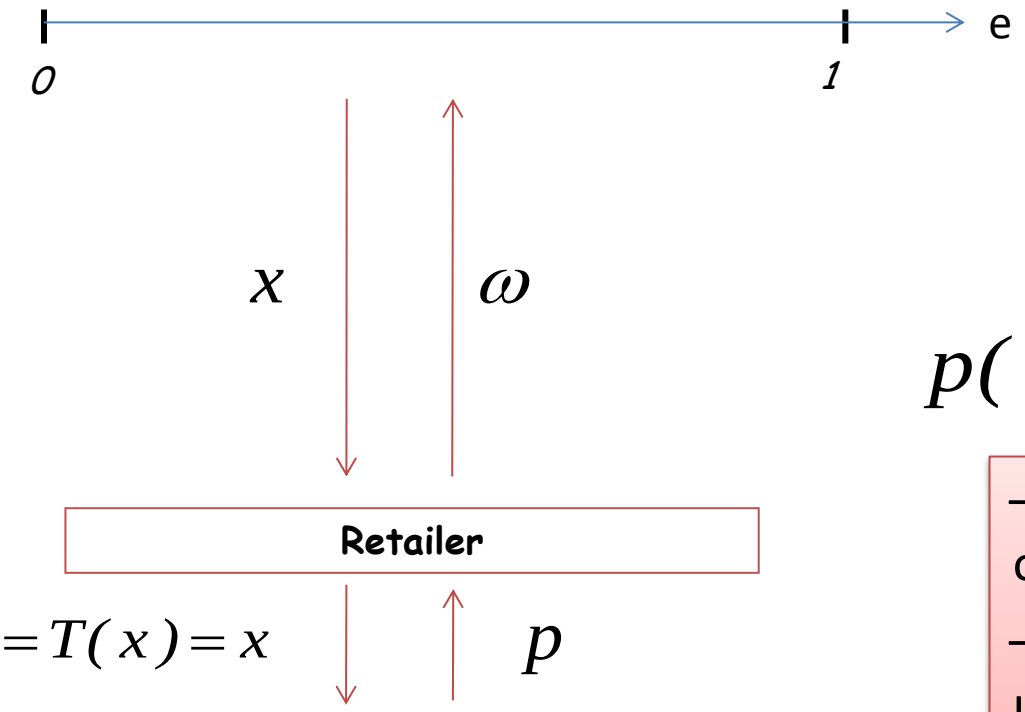
Vertical relationship:
With only one "certified" market & exclusion



Vertical relationships and consumer misperception

Giraud-Héraud, Grazia, Hammoudi, (2013), "The Effectiveness of Private Safety Standards: The Case of Food Supply Chains", Ecole Polytechnique, working paper

Large number of heterogeneous producers:
*One parameter **e** representing the level of equipment [0,1]*



Consumers with risk misperception

Consumers' Demand

$$p(x) = \alpha - \xi\sigma(x) - x$$

– If $\xi > 1$ consumers overestimate the risk

– If $\xi < 1$ consumers underestimate the risk

– If $\xi = 1$ consumers correctly perceive the actual risk.

Effectiveness of proactive standards

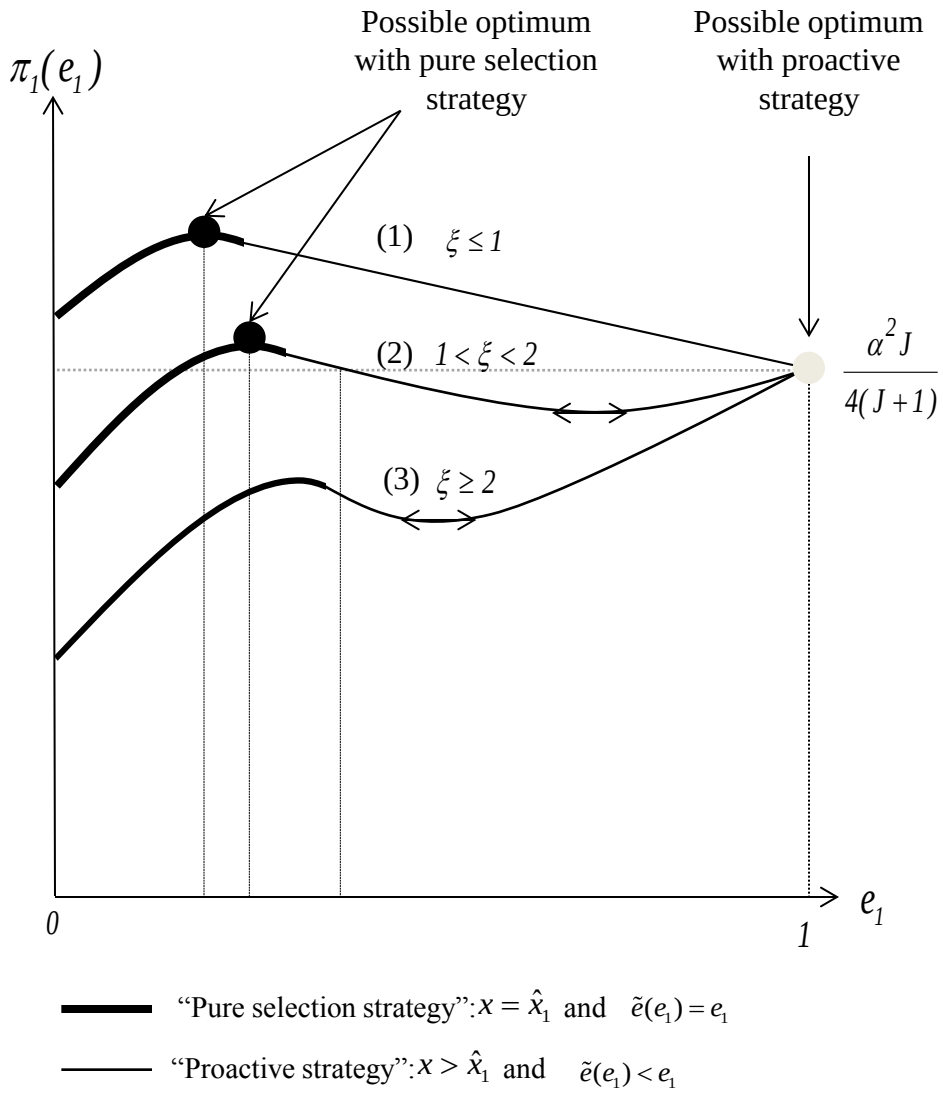
Standard with pure selection strategy: selection of producers that already comply with public minimum quality standards (MQS)

→ Substantial exclusion of upstream producers
Consumer price increase due to reduction in supply

Standard with proactive strategy: selection of producers that already comply with MQS + producers that need to invest in order to fulfill the requirement of the standard

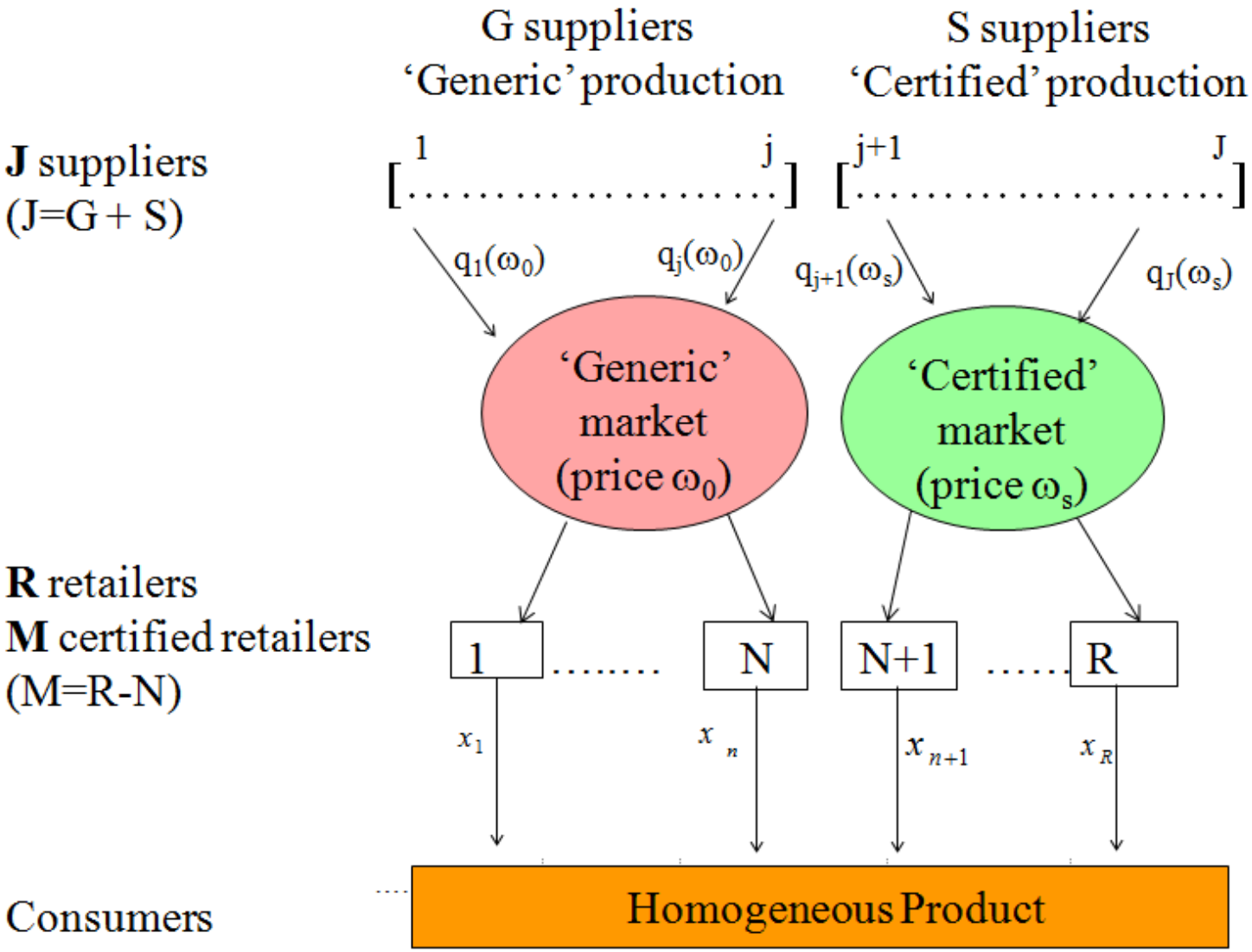
→ Possibilities of efficiency vis-à-vis consumer surplus, profits of stakeholders, actual sanitary risk and reduction of exclusion

Retailer profit for different levels of consumer misperception

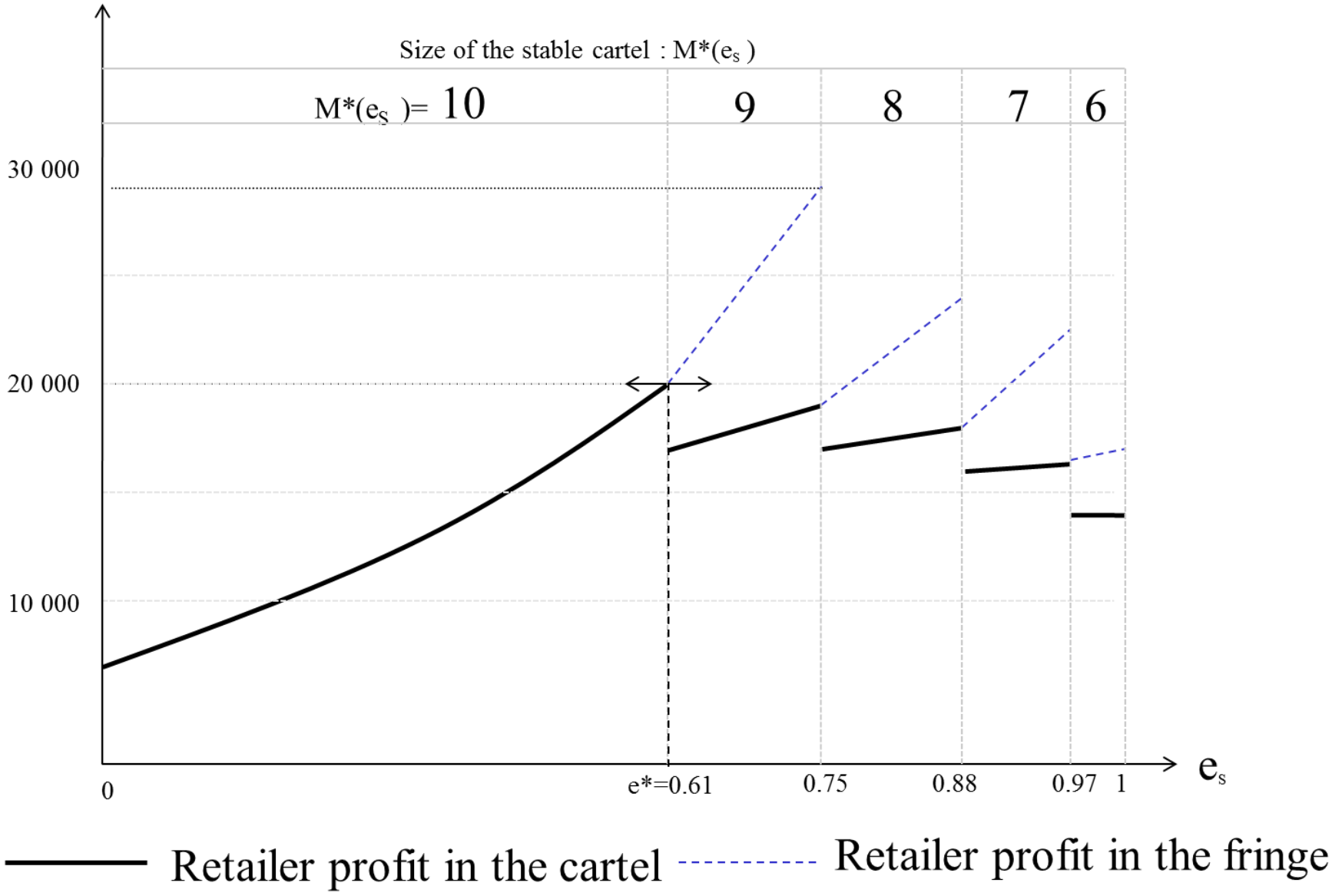


Vertical relationships: A "certified" and a "generic" market

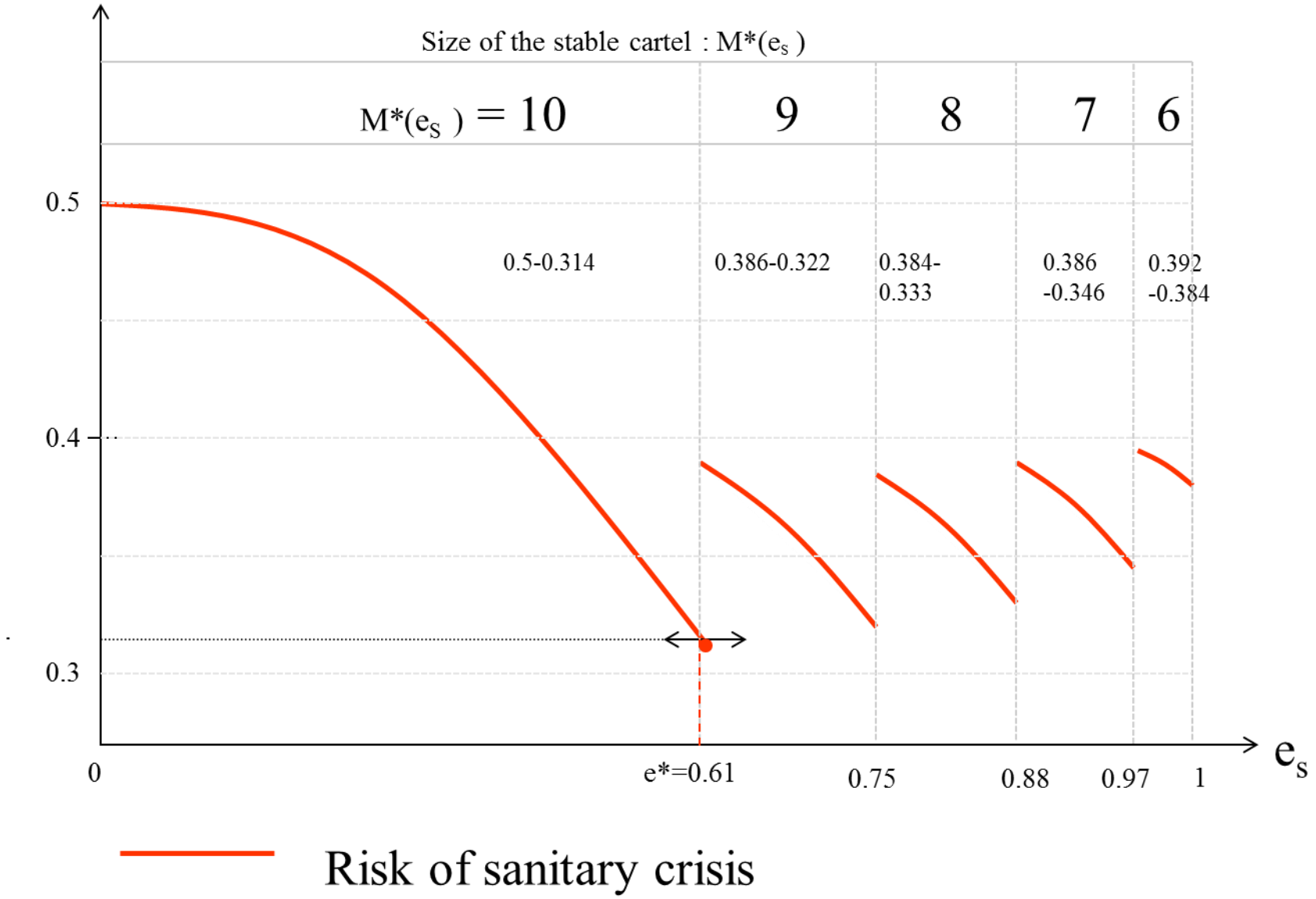
Giraud-Héraud, Hammoudi, Hoffmann, and Soler, (2012), "Joint Private Safety Standards and Vertical Relationships in Food Retailing", Journal of Economics & Management Strategy.



Increase stringency of the standard or number of cartel members?



Reducing the risk?



It is not…

… because of a more stringent standard
that the food safety improves

(Trade-off between the how many producers adopt the standard and the effort required by these producers in order to adopt the standard)

… because of improved food safety
that the profits of the stake-holders increase

(Trade-off between an increase in consumer prices and the compensatory payments in the intermediary markets)

… sufficient from a public point of view
that a standard can assure food safety

(Competition policy, collusive behaviour, economic dependence, exclusion,…)

Grazie per l'attenzione



Merci pour l'attention

Tack för uppmärksamheten