

Cost/ Benefit Analysis for Compliance Processes with Food Quality Standards

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Background of the presentation

- **Background papers of the presentation:**
 - **Quality Standards for Food Products – A Particular Burden for Small Producers in Developing Countries?**
 - Chemnitz, Grethe, Kleinwechter, 2007
 - **The Compliance Process of Food Quality Standards on Primary Producer Level: A Case Study of the EUREPGAP Standard in the Moroccan Tomato Sector**
 - Chemnitz, 2007



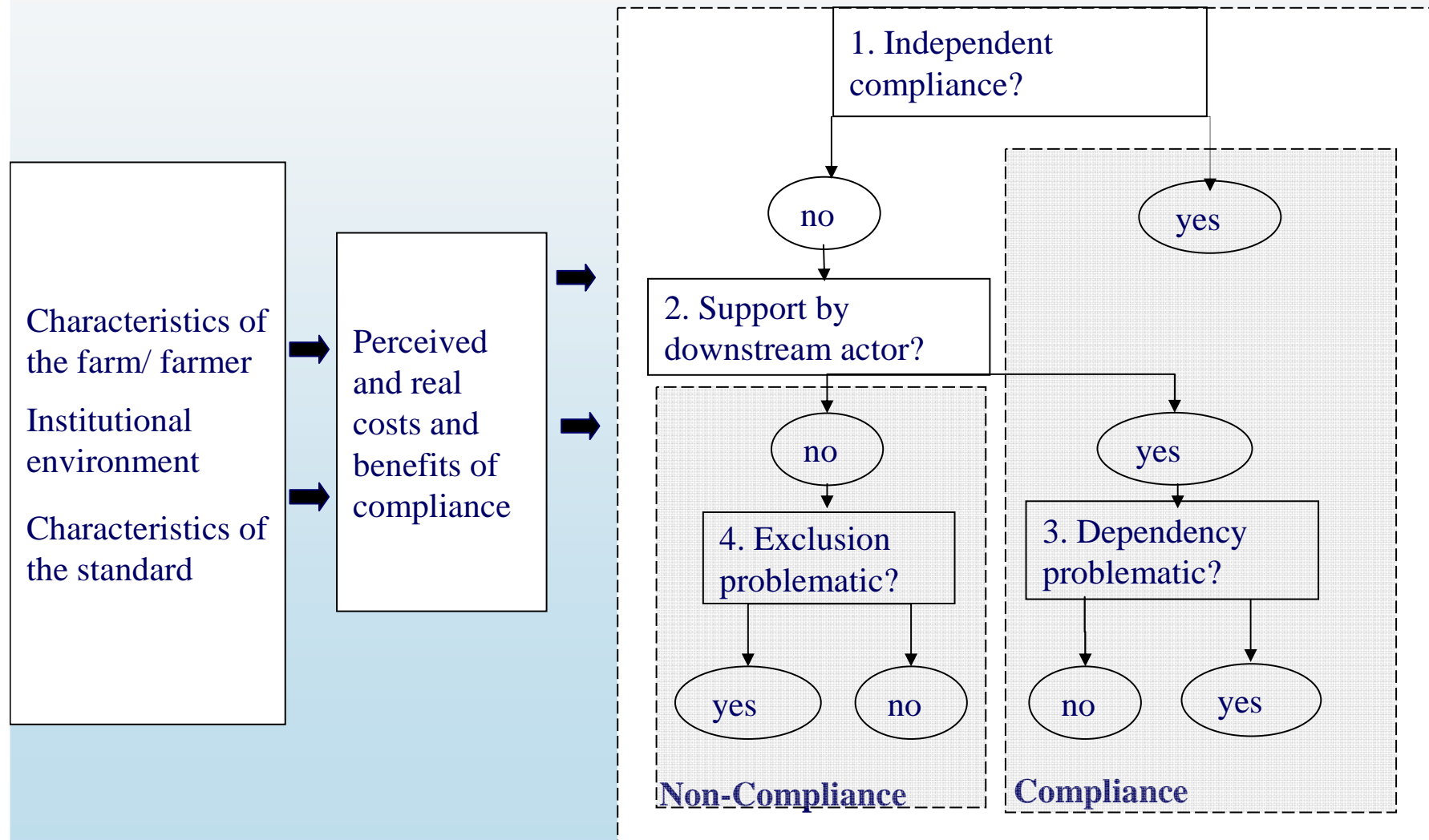
1. Introduction and Background

Background of both papers:

- **Frequent assertion that small producers in developing countries are disadvantaged in coping with increasing prevalence of standards because of:**
 - **Higher per unit costs of compliance**
 - Because of economies of scale (World Bank, 2005)
 - Because of farm characteristics such as illiteracy or illiquidity of small farmers (Aloui and Kenny, 2005; Jaffee and Henson, 2004; Willems et al., 2005)
 - **Transaction costs for other chain participants may be higher in the case of smaller farms (Pingali et al., 2005; Swinnen, 2005)**



2. Structure of the Problem



3.1 Costs and Benefits of Compliance

Definition:

The costs of compliance include all costs resulting from upgrading the production process as well as money spent to maintain the level of compliance.



3.2. Costs and Benefits of Compliance

Categories	Components	Non-recurrent		Recurrent	
		Capital	Labour	Capital	Labour
Physical upgrading	Equipment	●	●	● (maintenance)	● (maintenance)
	Certification	●	●	● (maintenance)	● (maintenance)
Human capital upgrading	Training of employees	●	●	●	●
Management	Own information	●	○	●	○
	Coordination with trading partners	●	○	●	○
Higher variable production cost	More intermediate inputs	-	-	●	●
Lower yields		-			X
Social costs		X			X



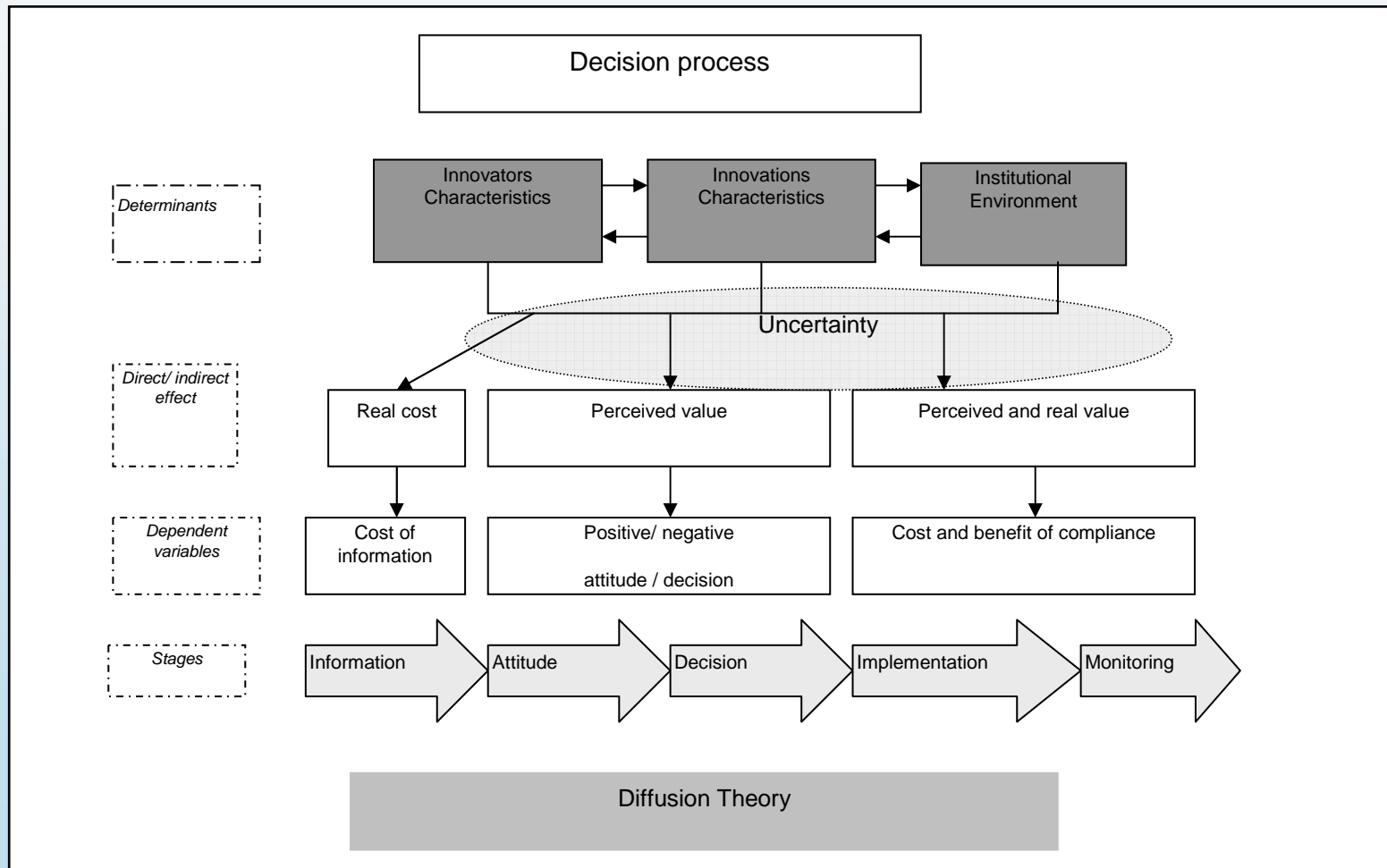
3.3 Costs and Benefits of Compliance

Benefit of compliance at producer level

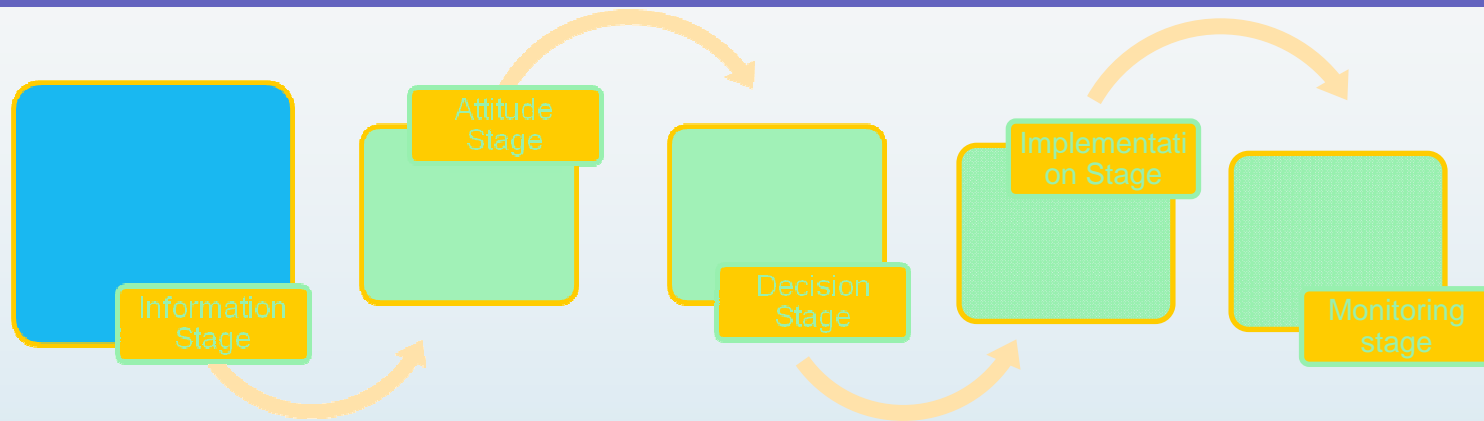
- **less risk of being excluded from the market requiring the standard;**
- **the option to sell a larger quantity on the market requiring the standard;**
- **higher product prices;**
- **cost reduction through optimized input use/technological change;**
- **higher yields through optimized input use/technological change.**



4. Importance of the Perceived Cost and Benefit

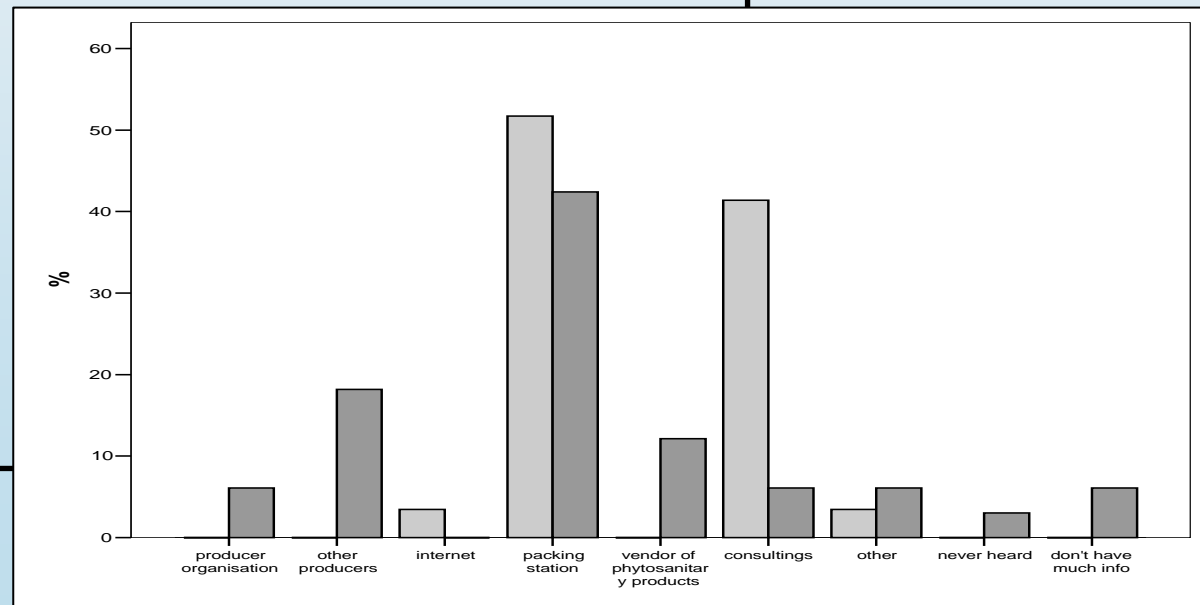


5. 1. Experiences of the Moroccan Tomato Sector

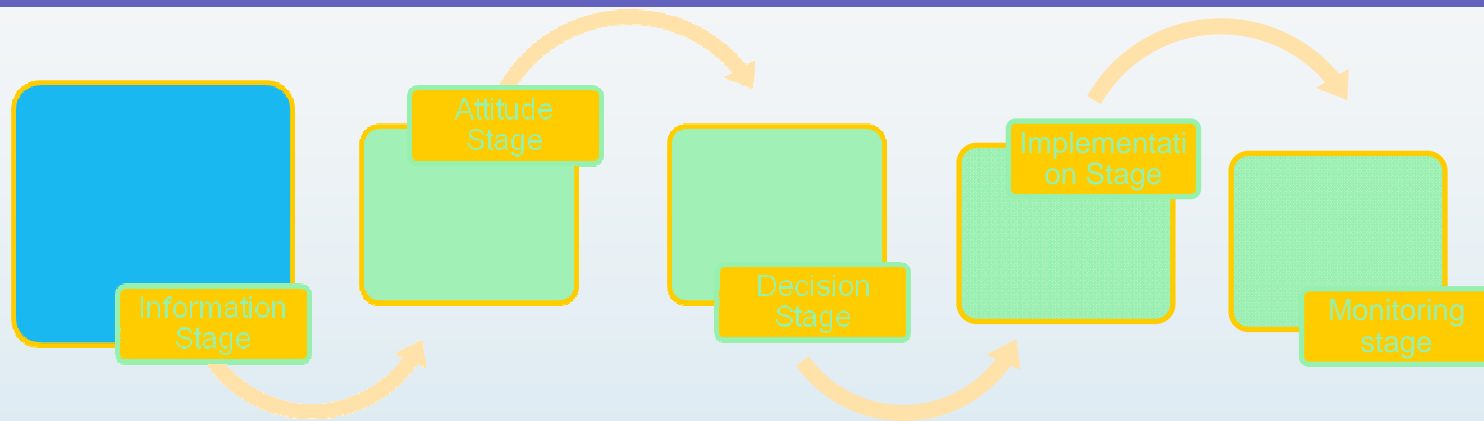


Information Stage:

Figure:
Main Source of
Information on
EUREPGAP



5. 1. Experiences of the Moroccan Tomato Sector



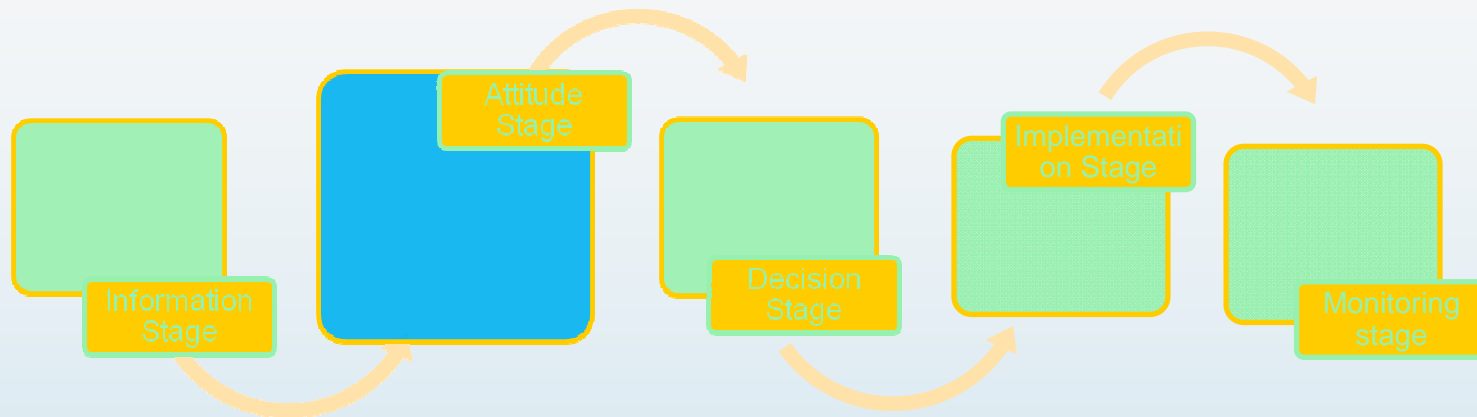
Information Stage:

Table:
Level of Vertical
Integration

	Owner of a station	Not the owner of a station	Total
Certified	22	8	30
Non-certified	6	27	33
Total	28	35	63



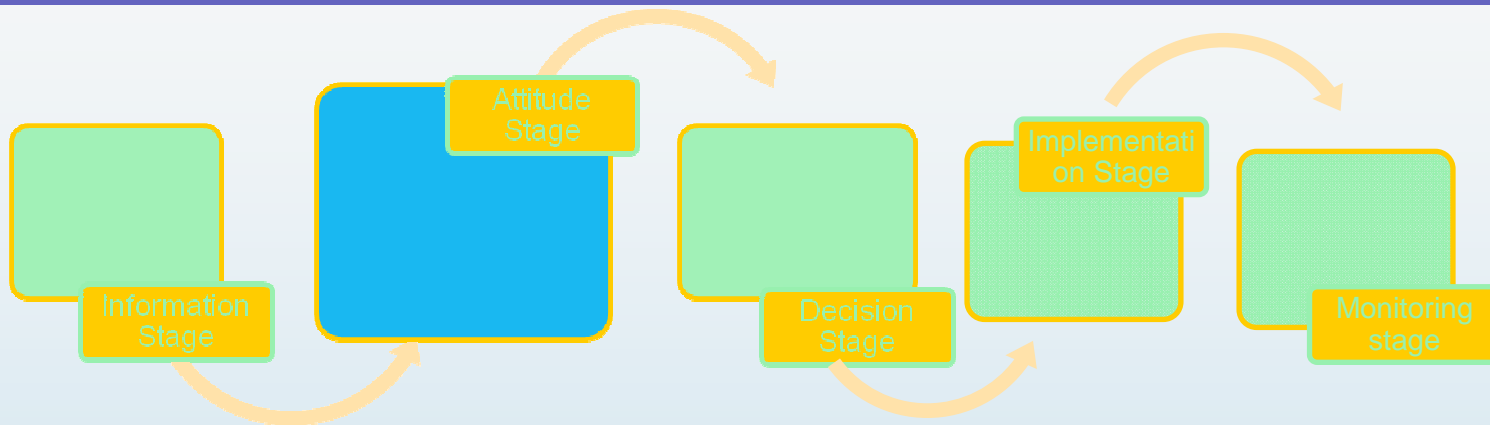
5.2. Experiences of the Moroccan Tomato Sector



Attitude Stage:

Benefit of EUREPGAP	Number of responses
Better prices	3
Preferential supplier status	0
Better commercialization	6
Other benefits	2
No known producer with a direct benefit	22

5.3. Experiences of the Moroccan Tomato Sector

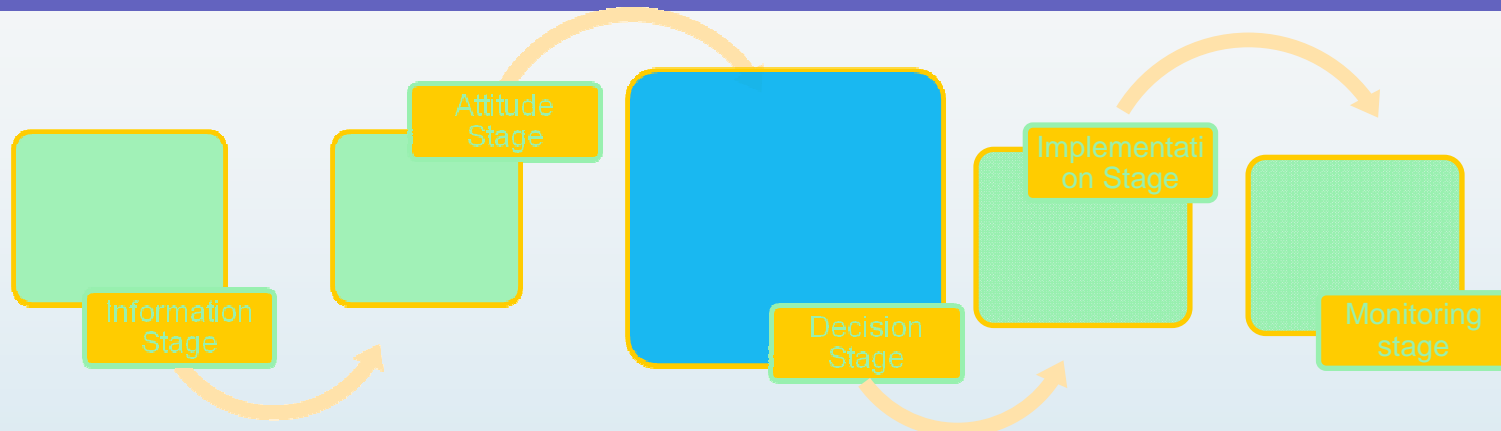


Attitude Stage:

Table:
Sanctions in
Case of
non - compliance

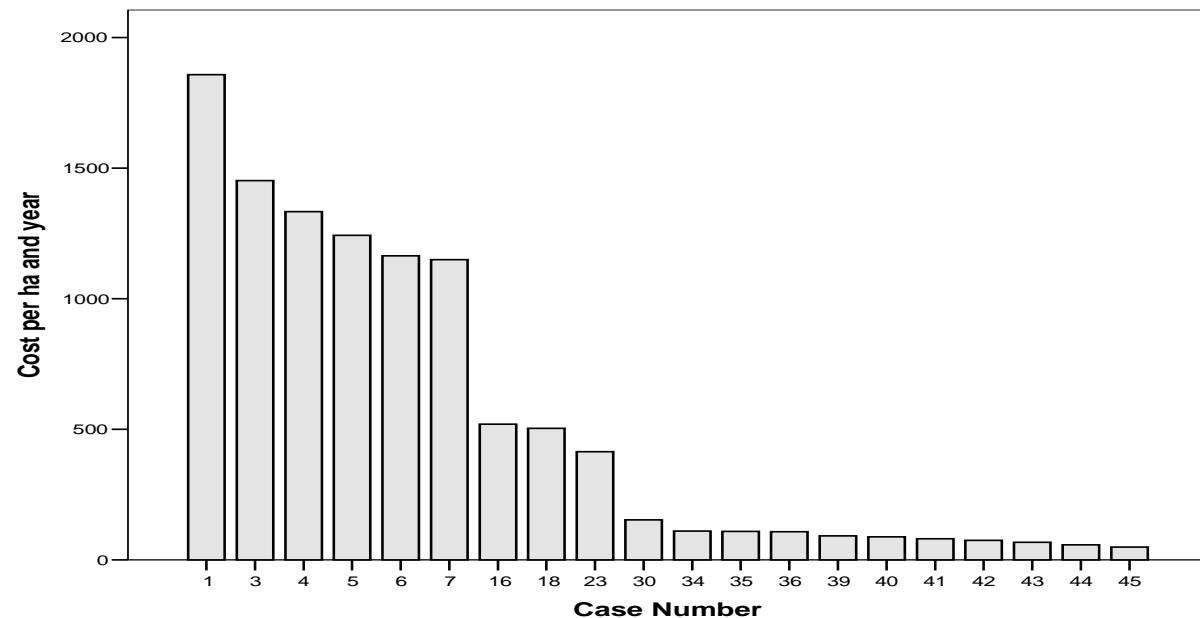
	Changing the producer	Better prices	No sanctions	No answer	Total
Certified	22	0	7	1	30
Non- certified	2	1	29	1	33
Total	24	1	36	2	63

5.4. Experiences of the Moroccan Tomato Sector

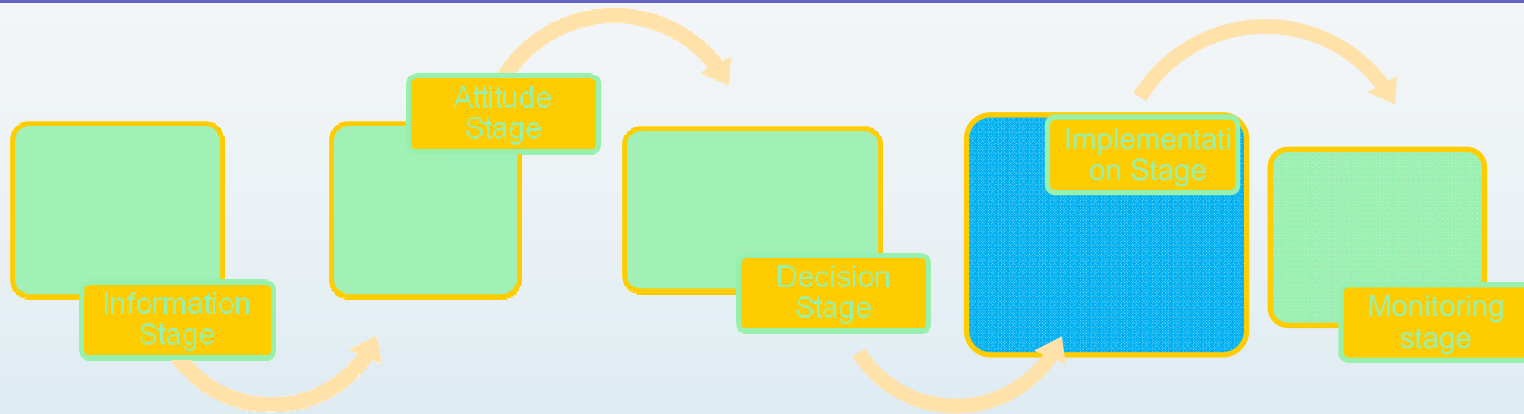


Decision Stage:

Figure:
Perceived Cost of
Compliance

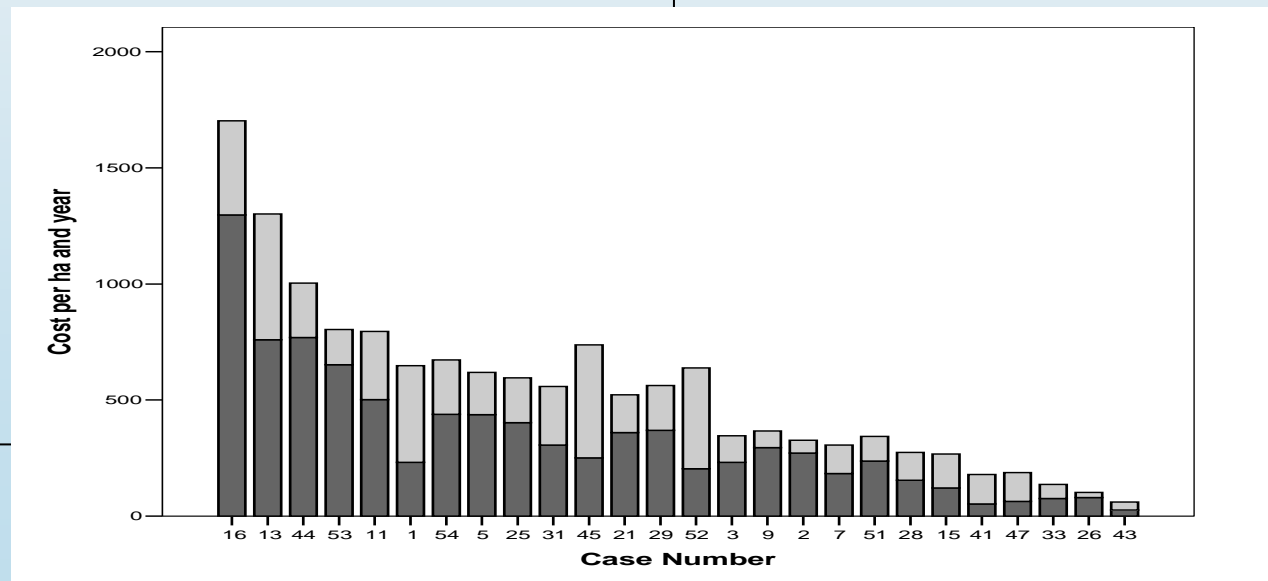


5.5. Experiences of the Moroccan Tomato Sector

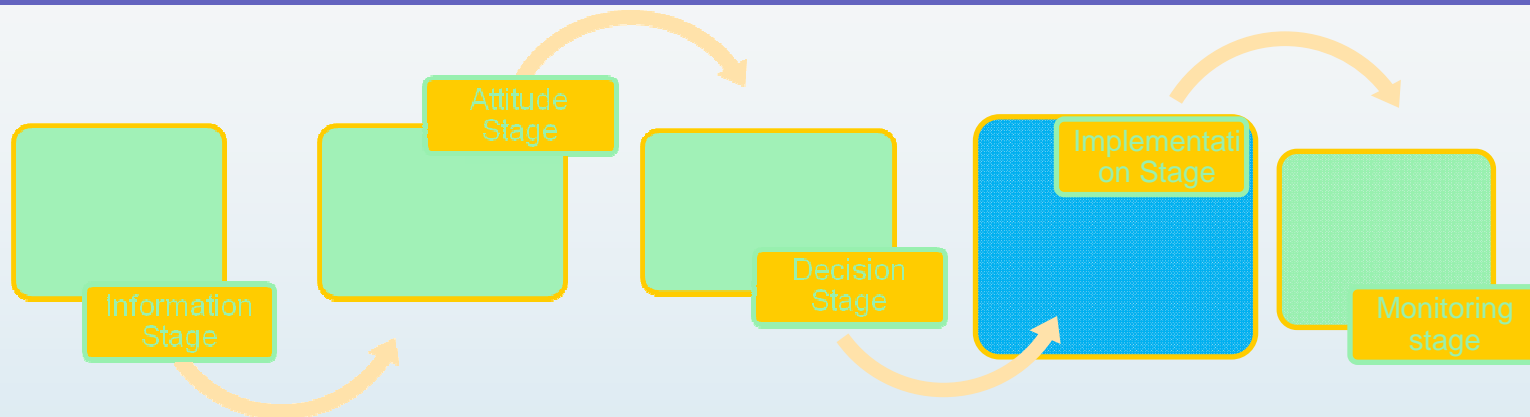


Implementation Stage:

Figure:
Cost of Compliance



5.6. Experiences of the Moroccan Tomato Sector



Implementation Stage:

Table:
Benefit of
Compliance

Benefits of certified producers	Responses	
	Nr.	Percent
Better prices	2	3.7%
Better marketing conditions	13	24.1%
Better market access	7	13.0%
Better prices in future	1	1.9%
New market access in future	9	16.7%
EUREPGAP minimizes the risk of losing market share	22	40.7%
Total	54	100.0%

Conclusions of the Survey

- **Large farms are certified to a larger extent than small and medium sized farms.**
- **Diverse picture for medium and small farms:**
 - **Certified farms show a higher level of vertical integration**
 - **Certified producers cooperate with certified packing stations.**
 - **Certified producers have seen their market share develop positively over the last five years.**



6. Overall Conclusions

- **Cost / Benefit analysis is important to understand the decision und the compliance process**
- **Difficult to get detailed data – a lot of uncertain variables**
 - **Esp. With regard to the perceived value of compliance**



Thank you for your attention

