



Tropentag 2009

University of Hamburg, October 6-8, 2009

"Biophysical and Socio-economic Frame Conditions for the Sustainable Management of Natural Resources"

---

## **Governance Relations on the Global Value Chain of Northeast Brazil's Grapes and Mangoes: The influence of private standards on local bargaining competencies**

Gustavo Henrique de Souza Dias<sup>a</sup>

<sup>a</sup> Humboldt Universität zu Berlin, Department für Agrarökonomie, Ökonomik der Gärtnerischen Produktion, Philippstr. 13, House 12a, 10117 Berlin, Germany. Email: . gustavo@daad-alumni.de

### **Abstract**

Authors engaged with the study object of Global Value Chains (GVC) and globalisation of agriculture stress that the institution of grades and standards as groundwork of market regulation and coordination is a central feature of the globalisation process, being the former a fundamental entryway for the international market. The extent to which compliance to international market standards enable the capture of more value-added activities in global market is a major trait of developmental processes on global value chains nowadays. But the degree to which it promotes actual competitiveness of local players is, however, not so clear. A study project on a producing region of fresh grapes and mangoes in northeast Brazil illustrate the case of local actors involved in a strong agribusiness sector on irrigated fruit production which for some years has lived the process of overarching productive restructuring to comply with demands of main international consumer markets for mangoes and table grapes. Although in preliminary phase, the study project is already supported by data collected in exploratory interviews with fresh fruit and vegetables (FFV) GVC's key actors and the outlines of a longer research conducted by the Globalisation of Agriculture Research Group in the Federal University of Pernambuco on the aimed research region, the San Francisco Valley in Pernambuco, Brazil. The work seeks to illuminate on the dilemma of the vulnerability of local actors in the attempt to cope with quality perceptions and arrangements structured by international players. According to collected data quality standards are an increasingly important framework which influences productive parameters, local rhythms and strategic possibilities for economic development and social change, promoting particular advancements in food safety, social and environmental responsibility at the same time that enforce the reproduction of power asymmetries and the shrinking of actors' bargain competencies upstream. The latter point to the necessity of investigating the build up of competencies related to the structuring of market coordination instruments and quality assessment.

Keywords: Bargaining competencies, global value chains, globalisation, private standards

### **Introduction**

The international integration of markets has brought analytical challenges for researchers in different disciplinary fields. Different approaches direct attention and efforts seeking to grasp the content and dimension of specific aspects of related social and economic processes experienced worldwide. Therefore distinct emphases are given to the various levels by which the integration of world economies transforms the conditions for countries to participate in it and the capacity of societies to address demands and promote social change. One of the possible available concepts

to address the study of this phenomenon is that of global chains. According to Gibbon et al (2008, 329), despite theoretical difficulties due the enormous interdisciplinarity of this stream, *“the fruitfulness of the chain metaphor is that it allows a highly abstract idea (economic globalization) to be grasped concretely, in terms of a series of relations organized around the economy’s most tangible entities (commodities or goods)”*.

A major feature for grasping the conformances of international chains of products is that of value-adding activities, whereby *“technology is combined with material and labor inputs”* (Gereffi et al, 2005, 79) engendering a sequel of processes by which actors, objects and labor are organized from local to global arenas. Authors engaged with the study object of Global Value Chains (GVC) in agri-food systems and globalization of agriculture, stress that the institutionalization of grades and standards as groundwork of market regulation and coordination is a central feature to understand governance structures in chains for specific products (Busch and Bain 2004; Humphrey and Memedovic 2006; Humphrey 2008). Compliance to international market standards may enable the capture of more value-added activities in global market but the degree to which this process promotes actual competitiveness of local players is, however must be more densely investigated. A study project on a producing region of fresh grapes and mangoes in northeast Brazil illustrate the case of local actors involved in a strong agribusiness sector on irrigated fruit production which for some years has lived the process of overarching productive restructuring to comply with demands of main international consumer markets for mangoes and table grapes.

## **Materials and Methods**

In preliminary phase the study project is already supported by data collected in exploratory interviews with fresh fruit and vegetables (FFV) GVC's key actors and the outlines of a longer research conducted by the Globalization of Agriculture Research Group in the Federal University of Pernambuco on the aimed research region, the San Francisco Valley in Pernambuco, Brazil. Besides analysis of produced literatures of processes at work in the region, most of the data was collected through semi-structured interviews with key informers (producers, professionals in public and private agencies involved in a variety of functions related to support services) of the productive region. Also, exploratory interviews were conducted with key informers of other GVC's central links during the occasion of FRUITLOGISTICA 2009, in Berlin.

## **Results and Discussion**

The fresh fruit productive region of the Sao Francisco River Valley (VSF) in northeast Brazil can be regarded as the outcome of governmental intervention through the San Francisco River Valley Development Agency (CODEVASF). CODEVASF is an entity mainly dedicated to the promotion of agricultural and industrial development in the region through a technology-intensive pack of investments, in harmony, according to Cavalcanti (2002), to the public policies model of "conservative modernization", which pressed for the strengthening of an export agribusiness sector. Still, according with to Cavalcanti (2002), the investments in technology and work, intensive infrastructure for the production of high value-added crops combined with the overall characteristic climatic stability of the northeastern dry lands - with considerable low rainfall levels and extensive sunlight availability during the whole year - allowed the region to reach important market windows in central international markets mostly in Europe and USA.

Following prior experience of failures in trust building for assuring market space on the value chain of papaya to Europe (Locke, 2003), the public development entities encouraged and supported the creation of producer associations. For some (Giuliani et al 2005; Gomes, 2004) this proved to be a central feature for the structuring of regional network and competencies, and its further launching in global export chains for fresh grapes and mangoes, the lead crops of the region. Whereas first associations had been strongly directed by the larger stakeholders, which

grew in number with the concentration process facilitated by the downfall of most small growers due the intense requirements of productive capabilities on export crops, the last 5 years have seen the mobilization of associative initiatives from small and medium size growers that were able to develop more sophisticated production capabilities – adaptation or adjustment of producing systems according to the strict quality demands derived from external target markets, on a variety of issues ranging from food safety to environmental and social sustainability.

One of the central trends on the “*standards environment for agribusiness*” relevant “*for the structuring of value chains*” as observed by Humphrey and Memedovic (2006, 15) is “*the increasing importance of collective private standards*”. Expressed in the key principles of the European Food Safety Authority - Regulation (EC) No 178/2002 (Humphrey, 2008, 14-5) - the tightening of public- mandatory standards related to food safety and the higher emphasis given to liabilities of food business operators has seen an increased participation of corporate retailers in the shaping of regulative instruments. As informs the literature on this topic, the latter took place through direct engagement of these firms in the deployment of different strategies in different institutional environments and political contexts. By direct counseling of public bodies in the setting of technical mandatory parameters for food safety in the case of specific countries (see Marsden 2008). Through the implementation of sophisticated quality control systems composing dominant strategies of particular firms on non-price competition – by means of promoting product differentiation and market segmentation through private labels, brands or firms codes of conduct (Busch and Bain 2004, 329-330; Humphrey and Memedovic, 2006, 19). Or by the formation of broader private consortiums with the final objective of devising stronger sectoral general business-to-business standards directed at “*lower the cost of coordination*”; “*transfer the cost along the supply chain*” by enforcing compliance through certification. The system is supported by a change of emphasis on safety control from product attributes to process parameters; and, together with the later, “*transfer liabilities arising out of the changing legal framework for food*” (Humphrey, 2008, 28).

Moreover, as a result of the later processes, an even broader effect is pointed out as underlying the network of subjects, artifacts and productive practices that constitute agri-food systems. According to convention theorists customary terms of transaction agreed upon by rules of practice are what “*determine the content and the form of the production and circulation of commodities*” (Wilkinson, 1997, 317). This means, therefore, that the devices by which mechanisms used on the coordination of human interactions are structured, -given their social nature in the sense that in the last instance they must be grounded on justifiable social values-, should in itself be aim of academic investigation.

## **Conclusions and Outlook**

With the objective of laying the normative groundwork for globalized trade between nations preventing a “*race to the bottom*” and at the same time improving “*co-ordination of complex global value chains*” (Nadvi and Wältring, 2002, 34-5) the WTO sanctioned the Sanitary and Phytosanitary Agreement (SPS) which instituted the determinations of the Codex Alimentarius Committee (CAC), together with the International Plant Protection Convention, and the Office Internationale des Epizooties, as the normative framework for (public or private) standard setting (Busch and Bain, 2004, 326; Humphrey, 2008, 17-23). Although, initial objectives, reiterated by the Uruguay round (Nadvi and Wältring, 2002, 35) were to ground the limits of non-tariff barriers - lack of genuine fundamentals in grades and standards - by technic-scientific parameters, due “*the need for more specified regulation of products and processes*” by complex global chains (Nadvi and Wältring, 2002, 34-5), the opening of national economies has seen the strong proliferation of private global standards providing “*an opportunity for the private sector to reorganize aspects of the market to better suit its needs*” (Busch and Bain, 2004, 322).

The commitment of global buyers in supporting the enhancement of local capabilities to cope with the stringent demands on horticultural products is pointed out by the literature in FFVs GVCs as lower compared to other chains (Giuliani et al 2005, 563-4). Damiani (2003) discusses how enhanced perception of market requirements facilitated advancements on labor conditions at workers unions in a short period of time in comparison to other agricultural productions in Brazil. Nevertheless, typical social inequalities increased by the export restructuring process of producing regions, like what Lara (1998) called cultural 'minorization' where gender or age based professional qualifications for field work on production, harvesting, packaging or quality control, continues unaddressed by conventional labor demands or new private standards' auditing parameters on social issues. Cavalcanti and Marsden (2001) reflecting on social processes taking place in the VSF area highlight, therefore how growing 'quality' concerns for food products and their production practices actually affect the realities of local and regional development. Global market demands are now more clearly embedded in the daily lives of all those who work in agro-food systems. According to this in the farms, working places and in the producer associations, the grounding and power of the rules and regulations of retailers and distributors meddle with labor, local organization and environmental practices driving the sense of perceptions and transformations. Work and productive strategies to attend the requirements of certification bodies and intervention of State agencies, are shaped to address issues conceived in global forums instead of on concrete local contingencies.

The strong influence of such coordination mechanisms overcomes the authority of national agencies that regulate grading and standardization. For instance, the regional implementation of the integrated fruit production program, not having been incorporated by benchmarking protocols, has achieved no recognition in the certification process of current private standards demanded for these localities. The director of the Brazilian National Institute of Grading, Standardization and Industrial Quality, Alfredo Carlos Lobo in the magazine *AgroAnalysis* on October 2007 reports a number of unsuccessful attempts to consolidate partnerships between (then) EurepGAP technical committees for applying of standard protocols in Brazilian regions. Despite of such failed collaborative efforts an informant on GlobalGAP organization, one of the widely adopted standards by global buyers explained that conceptualizing and incorporating contingent local issues is the work of National Technical Working Groups (NTWGs), a team designed by the organization to investigate such localities. The incorporation of specific parameters identified in each locality seems then to be a form of legitimizing the practice of global auditing. In the same sense, as reported by other informants of the organization, and available in their website for scrutiny, the entity just developed a project supported by independent donors to assure the transparency of processes and outcomes, for assessing an overview on the perspectives that small stakeholders have on obstacles and difficulties for adapting and conforming to GlobalGAP certifications. It seems that one of the entity's central goals is to assure continuous development of consensus building on their implementation mechanisms. The recent launch of the smallholder project seems to demonstrate the degree of assimilation of progress on global debates and perceptions of issues regarding social and environmental sustainability.

Also, it remains unaddressed the degree to which such global coordination mechanisms strengthens a model of relations that submit productive regions and actors to a condition of captivity, intensifying their vulnerability by means of tapering bargain strategies of upstream actors. The different levels in which this can be felt on production sites should be focus of a research agenda committed to this topic. The statement of an informant from the VSF region gives a hint from where to trace the mechanisms by which actors are maintained under control of dominant perceptions of quality productive.

“What’s heavy are the periodic parameters’ reformulations which always imply some level of restructuring... Is like a protective net that you’re not allowed to use

anymore, different product or product levels... These things keep adding up the costs"<sup>1</sup>

The vulnerability can be better perceived in the moment of product pricing where the strength of bargaining competencies of each actors involved on the GVC is put to the test. Quality standards are an increasingly important framework which influences productive parameters, local rhythms and strategic possibilities for economic development and social change, promoting advancements in food safety, social and environmental responsibility at the same time that enforce the reproduction of power asymmetries and the shrinking of actors' bargain competencies upstream. Some ground for analysis of the concrete achievements accomplished by this new "buyer-driven" mode of governance on social change can be brought to light with the issue of labor conditions in the VSF area but further research is needed in order to unravel central factors for this debate.

## References

- BUSCH, L. and BAIN, C. (2004) 'New! Improved? The Transformation of the Global Agrifood System.' *Rural Sociology* 69 (3): 321-346
- CAVALCANTI, J. S. B. . Impactos Socioambientais da Agricultura Irrigada. In: Eliano Sérgio Azevedo Lopes, Dalva Maria da Mota, Tânia Magno da Silva. (Org.). *Ensaio: Desenvolvimento Rural e Transformações na Agricultura*. Aracaju: Embrapa, 2002, v. , p. 101-132.
- CAVALCANTI, Josefa Salete Barbosa e MARSDEN, Terry K. (2001). Globalization, sustainability and the new agrarian regions: food, labor and environmental values. In: *Cadernos de Ciência & Tecnologia*. Brasília, DF: Empresa Brasileira de Pesquisa Agropecuária. V.18, n1/3. P.39-69.
- DAMIANI, Octavio (2003). Effects on Employment, Wages, and Labor Standards of Non-Traditional Export Crops in Northeast Brazil. *Latin American Research Review*, Vol. 38, No. 1, February 2003
- GEREFFI, Gary, HUMPHREY, John and STURGEON, Timothy (2005). "The Governance of Global Value Chains". *Review of International Political Economy*. 12(1): 78-104
- GIBBON, Peter, BAIR, Jennifer and PONTE, Stefano (2008): Governing global value chains: an introduction. In: *Economy and Society* 37 (3), 315-338.
- GIULIANI E., PIETROBELLI C. and RABELLOTTI R. (2005) "Upgrading in global value chains: lessons from Latin America clusters", *World Development*, 33, 4: 549-73
- GOMES, Raquel (2004). Upgrading without Exclusion: Lessons from SMEs in fresh fruit clusters in Brazil. WP15/2004. Available at <[http://www2.dse.unibo.it/prin/prin2003/wpaper/WP15\\_2004.pdf](http://www2.dse.unibo.it/prin/prin2003/wpaper/WP15_2004.pdf)>
- HUMPHREY, J. (2008) "Private Standards, Small Farmers and Donor Policy: EUREPGAP in Kenya" Institute of Development Studies, Brighton
- HUMPHREY J. and MEMEDOVIC O., (2006), "Global Value Chains in the Agrifood Sector", UNIDO, Vienna: United Nations.
- LARA, Sara Maria Flores (1998). *Nuevas Experiencias Productivas y Nuevas Formas de Organización del Trabajo en la Agricultura Mexicana*. México: Juan Pablo Editor
- LOCKE, Richard M. (2003). Construindo Confiança. *Econômica*, v.3, n.2, p.253-281, setembro 2003.
- MARSDEN, Terry (1998). *Consuming Interests: retailers, regulation and the social provision of food choices*. Cardiff: University of Sheffield
- NADVI, K. and WÄLTRING, F., (2002). 'Making Sense of Global Standards'. INEF-Report, No 58, Duisburg: Institute for Development and Peace
- WILKINSON, John (1997). A new paradigm for economic analysis? *Economy and Society*, 26(3): 305-339.

---

<sup>1</sup> Exploratory interview with VSF producer during the FRUITLOGISTICA 2009, Berlin.