Lecture 2

Voluntary Standards

During the second lecture you will learn which mandatory, voluntary or company specific standards exist, you will better understand the differences between the various types of standards and you will get to know how they may impact your business.

Start learning now!



The world of standards

Which standards are relevant to international trade?

Standards affect actors all along supply chains



- **Producers**/Companies: Producers and companies based in exporting countries need to comply with local and national laws to sell their products or services in their target export markets. In order to export, producers and companies need to comply with requirements imposed by the public authorities in their target markets, as well as with the rules and guidelines set by their potential buyers.
- **Retailers/Buyers**: Private companies and retailers based in the importing country, need to ensure that the products and services sold to their clients meet the "mandatory" requirements imposed by public regulations. They also need to ensure that any additional voluntary requirements demanded by their consumers are considered. These requirements may extender beyond the safety and quality to include, for example, considerations as to the environmental impact of the production of a product, or the working conditions of its producers.
- **Governments**: Public organizations in exporting countries assist exporters comply with an array of requirements to which their products or services need to comply to. They also need to help producers and exporters identify and understand the market access requirements of the public and private sector in the importing market. Governments in the importing markets, meanwhile, need to ensure that the products and services imported in their country comply with the particular safety and quality measures in place.
- **Consumers**: Consumers rely on the safety and quality standards and regulations set by their governments. These measures aim to ensure consumers' well-being and general satisfaction. Consumers may also have additional demands to ensure that the products or services they consume have been produced and processed in a sustainable way.
- **Logistics**: Strict rules are in place during the processing, packaging and transportation stages to ensure that the products and services traded remain safe and keep their quality attributes.

The standards pyramid



Exporters need to comply with multiple requirements at three different levels.

The success of a trade transaction may depend on compliance with these requirements.

- Company-specific codes
  - Typically developed by the private sector
  - Usually take the form of "codes of conduct" for suppliers of given brands
  - Used to communicate to consumers the quality attributes of a company's product that are not directly observable
  - "Passports" required to become and accepted suppliers for given brands
- Voluntary standards
  - Typically developed by the private sector and civil society, they address issues not covered by mandatory standards
  - Not legally required: voluntary by nature, but may be required by private buyers
  - Additional requirements to mandatory/regulatory requirements
  - Provide access to high value markets and act as market differentiators
- Mandatory/regulatory standards
  - Minimum requirements to trade internationally
  - Compliance is mandatory; in case of non-compliance, the product will not be accepted in the importing market
  - Developed and set by public institutions, they ensure product and service safety and quality
  - Can take the form of technical regulations, sanitary or phytosanitary standards required by law, etc.

Mandatory/regulatory standards

Certain standards are required by public authorities for products and services to be commercialized in that market.

These standards take the form of technical regulations or sanitary and phytosanitary measures. Such standards include product specifications, labelling requirements, quality controls, rules of origin and health and safety regulations.

Mandatory standards differ depending on the product and the country of export and import. Non-compliance with these requirements may lead to quarantining or product rejection by the importing countries.

Examples:

- Rules of origin and certificate of origin
- Labelling requirements
- Phytosanitary certificate
- Maximum residue levels

Voluntary standards

In addition to the mandatory/regulatory standards that products or services need to comply with, there may also be other standards that, although not required by law, might be requested, suggested or looked for by manufacturers, retailers or consumers. Like mandatory standards, they can refer to product characteristics, process requirements or production methods. The compliance to these standards can be communicated through seals or labels.

Examples:

- International Standard Organization (ISO) Quality
- Bird friendly coffee
- Good agricultural practices
- Organic certification EU

Company-specific codes/standards

Manufacturers and retailers can add specific requirement that may go above and beyond mandatory standards. Most of these requirements are also added to existing voluntary standards and may be used for risk management (for example in sanitation requirements) or for product differentiation (for example in all "all natural ingredients" type of certification). They may have their own certifying seal/brand, or simply included as part of a supplier's code of conduct.

Examples:

- Tesco's Nurture
- Marks & Spencer's field to fork
- Apple iPhone accessories standards
- IKEA's supplier code

Why "company-specific codes/standards"?

- Consumers: Consumers are sensitive to the social and environmental conditions prevailing in countries which are part of the supply chains of the products they buy.
- Corporate image: The past few years have seen increased scrutiny over severe breaches of workers' and human rights, as well as cases of environmental degradation. As these tragic events also have negative impact on corporate image, companies have increased motivation to ensure that they are not repeated.
- Social responsibility: The private sector and its Corporate Social Responsibility policies plays a key role in international supply chains.
- International norms: Companies are also worried that national governments may not have the ability to enforce some of the national and international norms and regulations currently active.
- Mechanisms: Standards are used as instruments of risk and supply chain management, as well as mechanisms to gain marketing and competitive advantages over rivals.

What standards have in common

Distinguishing whether a standard is mandatory, voluntary or company-specific is not always easy. One thing is for sure though, exporters need to make sure that their product or services comply with all relevant requirements set by the importing countries' public authorities and any additional requirements demanded by their buyer – otherwise a trade transaction may fail. They all have:

- A set of principals about a desired outcome
- Criteria or technical specifications which need to be met in order to achieve a principle
- Control points or indicators which measure state and allow the assessment of whether or not associated criteria are being met
- Specific means of verification to demonstrate that the required state is being realized
- Some general guidance and documents to establish for compliance
- General regulations regarding standard governance.