

**RESTRUCTURING THE VALUE CHAIN
GOVERNANCE: THE IMPACT OF FOOD
SAFETY REGIME ON FISHERY SECTOR OF
KERALA, INDIA**

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Scheme of Presentation

- Introduction, Hypothesis, Aim
- Value Chain concepts: Literature review
- Value Chain dynamics-1950s to 1990s
- Value Chain dynamics-Food safety regime
- General summary & Policy implications

Introduction

- Proliferation & stringency of standards
- SPS, HACCP, Compliance-Developing nations
- Significant economic & social consequences
- **Issue:** Marine product export from India
- **Hypothesis:** Evolving food safety standards cause restructuring of the value chain

Aims of the study

- Analyze the evolution of seafood export value chain governance in Kerala, India
- Analyze the impact of food safety regime on governance, characteristics and activities of the seafood export chain

GVC Concept: A Review

- Reorientation- Gereffi, 1994
- Producer driven & Buyer driven- Gereffi, 1996
- Industrial organization- Sturgeon, 2002
- Theory of governance structure-Gereffi *et al*, 2005

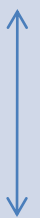
GVC-Empirics

- Upgrading and exclusion- Gibbon, 2001; Dollan, 2002
- Power relation in coffee chain- Ponte, 2002
- Class structure & local power- Phyne, 2003
- Vertical coordination- Humphrey, 2006
- Retail power in cashew- Harilal, 2006
- Social embeddedness- Rammohan, 2003

Methodology

- Visualizing through lens of GVC theory
- Analyzing past
- Field study-two districts
- Multi stakeholders- Respondents
- Focus group discussion
- In-depth informal discussion

Dynamics of GVC governance

Governance type	Complexity of transactions	Ability to codify transactions	Capabilities in the supply base	Power asymmetry
Market	Low	High	High	 <p>Low</p> <p>High</p>
Modular	High	High	High	
Relational	High	Low	High	
Captive	High	High	Low	
Hierarchy	High	Low	Low	

GVC dynamics-1950-late 1960s

- Financial, technological know how-USA
- Rupee depreciation-1966
- Letter of credit-Assured supply
- Meager state assistance
- No of exporters rapidly increased
- Patron-Client relationship

GVC governance type-1950-late 1960s

- Inadequate supplier capability
- Complex product specifications
- Dominance of lead firm intervention
- Dependence in transactions
- Vertical integration-Upstream end
- Captive form of governance

Number of exporters and market share, 1950-70

Year	No of exporters	Market share (%)	
		USA	Japan
1957	4	100	--
1962	8	92	3
1966	27	78	14
1970	53	47	30

Source: MPEDA statistics various issues

GVC dynamics-1970s to 1990s

- Increase in supplier capability
- Diversified export markets
- Consignment system to Outright sale system
- Liberal credit market
- No of firms-53 (1970) to 224 (1982)
- Scarcity of raw material-Competition

GVC dynamics-new players

- Top 10 exporters-55% share (1985)
- Emergence of large business establishments
- Entry of MNCs & small scale processors
- Strong barrier to entry-Political clout
- Disintegrated production and division of labor
- Governance type shifted to modular

Food safety regime-Downstream end

- Food scandals in EU-BSE, Salmonella threat
- WTA-SPS measures
- Response-HACCP, labeling, stringency
- National agency-EU importers
- Private standards- BRC COP, EurepGAP
- Product/price discrimination
- Large retailers-power-consolidation
- 15 retailers- 80% of the fresh produce in EU

Impact-upstream end of the chain

- Consignment rejections
- Institutional support- positive
- Compliance, upgradation- market access
- Integrated pre-processing sector
- Average compliance cost- USD 0.40 million
- Exit route for many
- Proactive early movers- successful
- Consolidation and concentration

Price spread in the chain

Value chain node	Activity	Price (INR/kg)	Proportion of retail price (%)
Landing site	Price paid to the fisherman/boat owner	140.50	23.35
Auction agent	Price paid to the peeling shed owner/commission agent	146.50	24.35
Pre-processing hub	Price paid by the exporter/agent	156.00	25.93
Exporter	Exporters margin	25.90	4.30
Importer/Agent	Price paid to the exporter	228.40	37.96
	Importer's margin	38.60	6.41
Re-processor	Price paid to the import agent	289.40	48.10
	Re-processor's margin	70.10	11.65
Supermarkets	Price paid to the re-processor	391.60	65.08
	Supermarket's margin	150.00	24.93
Consumer	Price paid at retail outlet	601.70	100.00

Source: Field survey

Governance structure- Power relations

- Product and process standards
- Higher cost of monitoring
- Buyer switch over to competent supplier
- Marginalization of small players

Change in concentration of export firms

Year	Total no of firms	Industry (USD million)	Average turnover/firm (USD million)
2002-03	216	215	1.00
2003-04	178	243	1.37
2004-05	161	257	1.60
2005-06	146	285	1.95
2006-07	140	339	2.42
2007-08	138	360	2.61
2008-09	132	396	3.00

Externalities: upstream end

- Non SPS measures
- Social and environmental standards
- Multiple co-ordination at upstream end
- Varying from relational to vertical integration
- Governance type- buyer driven/directed network

Summary

- Evolution of governance structure
- Nascent stage-Captivated chain
- Developing stage-Modular governance
- Food safety regime-Buyer driven
- Multiple coordination
- Multi level impact
- Restructured value chain

Conclusions & policy options

- Demonstrates possible sectoral impacts of international policy changes
- Closure of pre-processing hubs: Socio-economic issue
- Proactive upgrading of national system for testing, certification and laboratory accreditation in tune with the international trade regulatory safety parameters.
- it is important to focus on proactive capacity building activities in the entire seafood value chain of the country.

Thank You Very Much