Product and Process Standards

Governments and other organizations such as industry associations can be involved in the development of product and process standards, depending on the institutional relationships in a particular country. Product and process standards specify that a product must have certain characteristics or that certain processes must be followed in the manufacture of that product in order to qualify for import and sale. A product or process standard may be covered in labeling laws, packaging laws, standards of identity, certification and inspection rules, and food safety regulations.

A standard of identity is an example of a product standard. Standards of identity require products to be what they claim to be, such as peanut butter having to be made from peanuts. Other examples of standards of identity include the Italian pasta purity laws and the German beer purity law, which strictly regulated the permissible ingredients in these products. Formerly in Germany, beer could only be made from wheat and barley. Now, any other ingredient, such as corn, would make it illegal for import and sale. The beer purity law is now mostly voided as far as trade is concerned, but it stood as a product standard for more than 450 years.

Examples of process standards would include a ban on goods made with prison labor or a law against the production or trade in goods containing ozone-depleting gases, such as Freon. Environmental standards provide many examples of process standards. A country may decide for reasons of environmental policy that certain production processes be employed when making the product. The regulation may not relate to the character of the product, but instead only allow for sale products that were produced under specified processes.

...And Affect Decisions in Food Markets

Product and process standards can affect a firm’s decision to export or invest in foreign production. In a foreign market, information about product and process standards may not be readily available or may change frequently or without notice, making exporting risky. Some firms are quite protective of proprietary technology and formulations that a foreign government may require to be disclosed as part of a product or process standard in order to be eligible for import. As an example of an improper use of a product or process standard, a country may specify a minimum share of local content for a particular food item, which encourages domestic processing and the use of domestic materials in production.

These difficulties in meeting product and process standards for imports can lead a firm to buy manufacturing facilities in the foreign market rather than to attempt to export into the foreign market. In 1994, economists with USDA’s Economic Research Service and their counterparts in Agriculture and AgriFoods Canada surveyed multinational food firms’ decisions to export versus producing in the foreign market. Firms most frequently cited the benefits of large-scale production and delivery costs relative to the value of the product as decisive factors in these decisions. However, firms also mentioned inspection and certification requirements, which are part of product and process standards, as influencing their decision to export rather than producing in the foreign country.

Even though most of the burden of complying with product and process standards falls on food manufacturers, farmers also are affected. For example, farmers whose products are exported to many countries may not wish to use pesticides that are beneficial in the farming operation if the pesticide leaves a residue that an importing country regards as harmful to consumers. The farmer would then bear the cost of using an alternative pest control method that may not be as effective or may cost more.