

# Trade and Environment Briefings: Sustainability Standards for Consumer Goods



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## Introduction

Sustainability standards have emerged in the marketplace for food, textiles and a wide range of consumer goods and services over the last 25 years, and their role continues to grow, particularly in emerging markets. Standards provide consumers with information and assurance about the environmental impact of production and so help build value into certified goods and services. By providing information on environmental benefits otherwise not priced in the value chain, sustainability standards and certification have a key role to play in helping developing countries transition to a green economy. However, many developing countries are concerned that these standards can be potential non-tariff barriers to trade.

## Background

Consumer demand for information on social and environmental practices in production, processing and trading of products continues to drive the development of sustainability standards.<sup>1</sup>

In response, standards have been developed by a wide range of state and non-state actors, including non-governmental organisations (NGOs), multi-stakeholder coalitions, business associations, governments, intergovernmental organisations and companies.

The markets governed by sustainability standards have shown double digit growth rates over the last decade, albeit from small bases. Market shares are expected to continue rising for three reasons:

- (i) Sustainability standards are increasingly in demand in emerging economies;
- (ii) Multinational companies are committed to sustainable sourcing practices and the use of sustainability standards; and
- (iii) There is political support for the standards.

The creation of many sustainability standards is driven by NGOs and the private sector looking to differentiate their products and services in the marketplace. Differentiation relates to standards' emphasis on specific features, their targeting of different groups of adopters and their positioning as baseline or premium solutions. There are few incentives for harmonisation of sustainability standards. Equally, mutual recognition or the granting of equivalency between standards is rare. However, the United States (US) and the European Union (EU) recently

<sup>1</sup> Sustainability standards are "predefined rules, procedures, and methods to systematically assess, measure, audit and/or communicate the social and environmental behaviour and/or performance of firms."

agreed to accept each other's organic regulations as "equivalent".

The lack of harmonisation and equivalence between standards is increasing the potential for them to become non-tariff barriers to trade. This problem is more acute for exporters in developing countries who have less capacity to carry out multiple conformity assessments for different markets.

These standards are increasingly important in South-South trade. This is due to the growing wealth and changing consumer preferences in developing countries and the growth of cross-border trade (facilitated by regional economic communities).

## Opportunities

Sustainability standards provide new opportunities to participate in trade where they improve competitiveness of exporters. They can enhance competitiveness through improving product quality, production efficiency and access to finance. Sustainability standards are also considered an important tool in implementing sustainable procurement strategies developed by the public sector (e.g. the European Commission (EC) and national governments). Public procurement officers use criteria from standards to draft technical specifications, verify compliance through labels or their equivalents, and

benchmark offers (to achieve social and environmental goals). Compliance with sustainability standards is crucial for selling to these buyers. For example, the EC identified seven sustainability standards that biofuels used in the EU have to comply with - whether locally produced or imported - if they are to count towards mandatory national renewable energy targets.

Sustainability standards are also used in sourcing by corporations. To date, 42 multinational companies have made public commitments to strengthen environmental sustainability. In the food sector, this includes major players like Unilever and Nestlé. IKEA, the world's largest furniture retailer, uses the two major sustainability standards in forestry to meet the due diligence requirements of the EU timber regulation.

Requirements in standards to implement good agricultural practices and soil conservation, as well as improving traceability systems, have resulted in productivity gains in quality and yield and reduced human exposure to pesticides.

Sustainability standards have also been found to have a positive impact on the producer communities. Higher incomes resulting from price premiums have been used to build wells, roads, schools and health care facilities, and to support women-led projects.

**Figure 1: Companies and sustainability standards operating in sectors (adopted from Signed, Sealed... Delivered? Report by SustainAbility 2011).**

Sector	Examples of companies in the sector	Examples of sustainability standards applied in the sector
Apparel	Adidas Nike Richemont VF Corporation	Global Organic Textile Standard Better Cotton Initiative Cotton Made in Africa Ethical Trading Initiative
Electronics	Apple LG Panasonic Samsung	Energy Star EPEAT International Council of Toy Industries Social Accountability 8000
Food & beverage	Coca-Cola Kraft Nestlé Unilever	Fairtrade Marine Stewardship Council Organic Rainforest Alliance UTZ Certified
Pulp and paper	International Paper Nippon Paper Oji Paper Stora Enso	Forest Stewardship Council (FSC) Programme for the Endorsement of Forest Certification (PEFC) Sustainable Green Ecosystem Council

Research also highlights that exporters compliant with sustainability standards have increased credit opportunities and access to technical assistance, enhanced market visibility and reduced uncertainty about market conditions. Finally, engaging in sustainability standards in global value chains can translate into beneficial long-term trade relations and secure market access to 'preferred buyers'.

There is a paucity of data on the market penetration of sustainability standards. However, in some sectors such as coffee, cocoa, tea and forestry, it is possible to present an indication of market trends.

The world market share of sustainable coffees has grown rapidly in the past few years. Most of the world's largest coffee roasters have developed strategic alliances with those that have produced sustainability standards, such as Fairtrade, Rainforest Alliance or UTZ Certified, or developed their own coffee standards. In 2010, about 16 percent of global coffee production was certified or verified. Sales of sustainable coffee have grown to 12 million bags worldwide, or 9 percent of total consumption.

The Tropical Commodity Coalition (TCC) has estimated that at the end of 2011, certified or verified tea accounted for 13 percent of world production. Other organisations have estimated that sustainable banana sales accounted for approximately 20 percent of world exports in 2009, and that the land area covered by global sustainable forestry initiatives (FSC and PEFC) accounted for 18 percent of global managed forests (nearly 9 percent of global forested land) by the end of 2009.

Overall, market shares of certified or verified products and commodities remain relatively small. But they have seen high double digit growth over the past decade and are expected to continue growing at a fast pace. Standards for agricultural products have been leading the way as their value chains are less complex compared to many industrial goods with value chains spanning the globe.

## Challenges

Producers and exporters have expressed concerns that sustainability standards are non-tariff barriers. These include the following:

- (i) Standards have complex requirements that require know-how, skills, equipment or investment and exclude smaller and less sophisticated producers and thus marginalise these groups;
- (ii) Small-scale producers, especially from developing countries, are often left outside of the standard-setting process, leading to concerns that their views and particular production conditions are not reflected;
- (iii) Producers cannot meet the costs of implementing a sustainability standard. Also, certified produce cannot always be sold as such, meaning that the producer takes a risk in complying with a standard without having a buyer and a guaranteed price premium; and
- (iv) Standards gradually become a de facto market access condition. That also means that price premiums are eventually eroded in the market place.

## What's next?

Sustainability standards create opportunities for exporters in the green economy, but more can be done to realise the full potential of the trade. Future initiatives in this field need to consider the following:

- Harmonisation and equivalence of standards is required to reduce potential barriers to trade for developing countries;
- Sharing of best practices in the application and improvement of sustainability standards and auditing;
- Cost-sharing solutions need to be developed to take the financial burden off producers and to share compliance costs more evenly along supply chains;
- Greater participation by developing countries in standard-setting; and
- Stronger integration of the sustainability agenda in South-South trade.

## Resources

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