



Can Advocacy-Led Certification Systems Transform Global Corporate Practices?

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Seemingly Improbable Recent Events

Who would have guessed that Greenpeace, the Natural Resources Defense Council, and other environmental groups would share the podium in June 1998 with the top executives of MacMillan Bloedel, the giant Vancouver-based timber and paper company, and would encourage consumers to give preference to "MacBlo" products? The environmental groups had long pilloried MacMillan Bloedel for its clear-cutting forest practices in Clayoquot Sound on Vancouver Island and elsewhere on the British Columbia coast. On that day, however, MacMillan Bloedel announced that it would cease clear-cutting practices in its British Columbia logging operations and that it would seek broader certification of its forest management under the principles of the Forest Stewardship Council. Commenting on this announcement, Lester Brown noted:

Under the leadership of a new chief executive, Tom Stevens, the company affirmed that clear-cutting will be replaced by selective cutting, leaving trees to check runoff and soil erosion,

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to provide wildlife habitat, and to help regenerate the forest. In doing so, it acknowledged the growing reach of the environmental movement. MacMillan Bloedel was not only being pressured by local groups, but it also had been the primary target of a Greenpeace campaign to ban clear-cutting everywhere. . . .

Among giant corporations that could once be counted on to mount a monolithic opposition to serious environmental reform, a growing number of high profile CEOs have begun to sound more like spokespersons for Greenpeace than for the bastions of global capitalism of which they are a part. . . . What in the world is going on?⁵

The Greenpeace campaign had focused on a relatively novel "markets campaign" strategy: to lobby and demonstrate against the purchasers of MacMillan Bloedel forest products, pressuring them to cancel or threaten to cancel orders unless the firm implemented improved environmental practices.

A second seemingly improbable event occurred on October 8, 1999, when the Rainforest Action Network (RAN) published a full-page paid advertisement in *The New York Times* urging consumers to shop at Home Depot, Inc. The ad was unlikely for many reasons. RAN had campaigned actively against Home Depot for more than two years, orchestrating more than 700 demonstrations against the company's purchasing policies. RAN had organized activists

dressed in bear costumes and using megaphones in the rafters of Home Depot stores; it had draped the Home Depot headquarters building with 5-story banners, and it had filled billboards across the street from shareholder meetings with images of forest clear-cutting allegedly linked to Home Depot's wood purchases. RAN also was alleged to have been behind other, less traditional means of placing pressure on the firm, including a somewhat scurrilous website. The paid advertisement in the *Times* resulted from a decision by Home Depot, announced on August 26, 1999, to end all purchases of wood products coming from "old growth" forests and to give preference in its purchases to products certified as arising from sustainable forest practices, such as under the standards of the Forest Stewardship Council.

A third event of this sort occurred on April 13th, 2000, when Global Exchange, a social activist organization in Oakland, California, turned threatened demonstrations against the Starbucks coffee chain in 30 U.S. cities into demonstrations in praise of its coffee purchasing practices. Starbucks is the largest chain of coffee houses in the U.S., accounting for more than 20 percent of the total. Global Exchange had spent more than a year orchestrating a campaign against Starbucks, because the firm refused to introduce the sale of certified coffee that would provide higher prices and better conditions for small-scale coffee producers worldwide. This effort was part of a much longer, multi-year strategy to improve the benefits from trade for producers in the global South through various mechanisms including a certified "fair trade" system. Four days before the planned demonstrations, Starbucks executives signed a letter of intent with TransFair USA, a fair-trade certification organization, to offer certified coffee in all 2700 Starbucks outlets in the U.S. On October 4th, 2000, certified fair trade coffee began to be sold at Starbucks.⁹

Basic Concepts

What are the certification systems that have triggered these improbable events? Definitions in the literature vary. According to the International Standards Organization:

Certification is a procedure by which a third party gives written assurance that a product,

process or service conforms to specified requirements. . . . It is distinct from the other systems of proof of conformity such as supplier declarations, laboratory test reports or inspection body reports. Certification is based on the results of tests, inspections and audits and gives confidence to the customer on account of the systematic intervention of a competent third body.¹⁰

According to the World Bank:

Product certification involves written documentation that a product meets detailed technical specifications. Governments and consumers are increasingly demanding such certifications of goods in international commerce. Certification involves testing a product against either a voluntary, de facto, or regulatory standard and is often carried out [by] organizations that are independent of any link to the manufacturer or purchaser. After testing, a certificate is issued that attests to the fact that a product meets a set standard.¹¹

As applied to forest management, Upton and Bass have defined certification as "an economic market-based instrument which aims to raise awareness and provide incentives for both producers and consumers towards a more responsible use of forests."¹²

Certification as analyzed here is a market-driven process designed to encourage and reward firms that choose to produce or trade in products that use the highest social and environmental standards in their production. Rather than requiring those standards by law (which is often politically difficult to achieve), and rather than trying to block the importation of products that do not meet the standards (which is not allowed under WTO rules), certification offers a positive alternative system designed to encourage compliance with voluntary standards and to reward those who do comply by offering increased market share and, at times, market price premiums.

In theory, certification requires little more than an independent assessment of management practices. In reality, the creation of a credible certification system requires the development of standards by a diverse set of stakeholders in an inclusive process designed to build consensus. Without an agreed-upon set of standards, the meanings of certification would vary widely.

There is a need, therefore, to establish a set of certifiers who are independent of the outcome of the certification process, as well as an accreditation system for the certifiers that assures the integrity of their application of the standards.

The Forest Stewardship Council

The Forest Stewardship Council (FSC), a non-profit organization created by an international assembly of about 300 people in Toronto in 1993, has created a certification system whose aim is to transform the \$50 billion worldwide timber industry. The FSC opened its offices in 1994 in Oaxaca, Mexico, partly because it wanted to be based in the global South, and partly because of the personal preferences of its first Executive Director. From that original base, the FSC has grown to have operations in 50 countries; and its international headquarters will be moved to Europe in 2002.

The governance of the FSC is structured around three "chambers": an environmental chamber, an economic chamber, and a social chamber. Each chamber represents a group that has a vested interest in—or are stakeholders in—the management of forests around the world. In addition, the FSC structures all of its international activities to include balanced representation from the global North and the global South. When people run for election to the FSC board of directors, for example, they run for a position in the "social chamber from the global north," or for the "economic chamber from the global south."

How does it work? The Forest Stewardship Council has developed a stakeholder-based set of forest management standards, with ample participation of all three chambers, including timber and paper industry representatives, social and environmental nongovernmental organizations (NGOs), and local community representatives. The FSC does not undertake the certification itself; rather it accredits other organizations or firms to perform the certification. It assesses candidates to make certain that they have the capability and knowledge of the field to analyze the forest management practices of applicant timber companies. It monitors the certifiers, resolves any disputes that may arise in the application of the standards, and protects the integrity of the label that it creates. The certifiers themselves determine the eligibility of firms and

other forest owners to receive certification, issue the FSC certificates, and then monitor compliance annually to assure continued eligibility.

There are two types of certificates issued by the FSC. The first is a "forest management certificate" based upon how the forest is managed; the second is a "chain-of-custody" certificate that tracks the wood from the forest to the consumer. To obtain chain-of-custody certification, a mill that is going to process certified wood is required to establish a system for keeping the certified wood separate from the non-certified wood. Only forest products derived from wood from certified forests, and processed in a certified chain-of-custody mill or factory, qualify to carry the FSC logo. . . .

The broad principles embodied in FSC standards for sustainable forest management embrace social as well as environmental characteristics. . . . Detailed dimensions of each of these standards have been developed for worldwide application, and localized standards are being created for most of the countries (and for sub-regions within countries) where FSC is operating. The social standards are intended to secure and protect long-term tenure and use rights and the rights of indigenous peoples. The ecological standards specifically call for the conservation of old-growth or primary forests and other high-priority conservation areas, a documented reduction in the use of chemicals such as herbicides, and a prohibition on the use of invasive or exotic species (including some genetically-modified species) in tree plantations. FSC standards also call for the reduction of clearcutting, and require the protection of the interests of local communities and forest-industry workers. They allow for the certification of plantations so long as they comply with the other standards. . . .

FSC Success

Since 1995, when FSC began certifying its first forests, the number of acres of forest certified around the world has grown to 60 million (as of mid-2001). To put this in context, there are approximately 1.1 billion acres (450 million hectares) of working forests worldwide. That suggests that the management of more than 5 percent of the world's working forests is now certified under the FSC standards. Similarly,

more than 1700 firms were certified for chain-of-custody as of mid-2001. . . .

Success as measured by demand is even greater. The demand for FSC products has been growing far faster than supply. Price premia are being paid for certified products, although this fact rarely is acknowledged publicly. Price premia of 4% to 12% on softwoods in European markets are admitted by one of the largest European certified forest products firms. Premia of 100% on certified teak have been paid to Malaysian exporters. One of Canada's largest forest products manufacturers has offered a 30 percent premium on FSC-certified timber delivered to its mills, even though its own forest lands are not yet certified. Documenting these market characteristics is difficult because it is in the interest of neither buyer nor seller to publicize the information. Buyers would prefer that sellers not expect a premium. Sellers receiving a premium have no interest in stimulating increases in supply by others, lest they lose their premium prices.

The demand is not driven directly by consumers of forest products who seek certified wood products in stores. It is driven, in fact, by the commitments of major producers of forest products and by major retailers of forest products in response to their own internal culture of social and environmental responsibility, a culture that is strongly encouraged by the pressure brought to bear by the advocacy networks' market campaigns. One indicator of these corporate commitments is the surging membership in the Global Forest and Trade Network (GFTN) and its U.S. member, the Certified Forest Products Council. More than 700 companies have now joined the GFTN, thereby formally expressing a preference for forest products certified under the FSC standards. The members include all five of the largest Do-it-Yourself retail chains in the United States, as well as major forest product manufacturers such as Andersen Windows. The network also includes forest product business consumers such as Nike (for paper and cardboard), The Gap (for flooring and shelving), and Kinko's (the largest photocopying chain in the U.S.).

The FSC also has major opponents. They are clustered in three rival forest management certification schemes in the global North. The first is an industry-created set of standards fashioned by the American Forest and Paper Association,

the principal industry association of timber and paper companies in the United States. Its program, the Sustainable Forestry Initiative (SFI),¹⁴ claims to encompass 94 million acres of forests in the United States and Canada. In Europe, where most large forests are now certified under FSC, small-scale forest owners have set up a Pan-European Forest Certification system (PEFC) which in less than a year claims to have certified compliance with its standards on more than 36 million hectares (79 million acres).¹⁵ Finally, a smaller rival certification scheme for forests is the Canadian Standards Association (CSA), a general purpose standard-setting organization with standards for more than 2000 products.¹⁶ The most complete comparative evaluation of the four systems to date reaches unambiguous conclusions. Using such criteria as transparency, stakeholder participation, and assessment procedures, the study concludes that:

[T]he Forest Stewardship Council is currently the only independent and credible certification scheme in the [forest products] market. . . . This does not mean that the FSC scheme is perfect. Continued vigilance is required to ensure that its implementation lives up to its commitments.¹⁷

The report's toughest criticism focuses on the PEFC scheme, where it was found that substantial tracts of land were certified as fulfilling PEFC requirements without ever being visited, and numerous tracts were included in the PEFC statistics without the landowner's knowledge or consent.

A further comparison of FSC and SFI has been published by the National Wildlife Federation, the Natural Resources Council of Maine, and Environmental Advocates.¹⁸ It too found the following systemic differences:

- FSC sets more stringent guidelines in many areas of environmental protection, such as maintenance of older forest and reserve areas, use of chemicals, exotic and genetically modified species, and conversion of natural forest to plantations. These guidelines promote ecologically sound forest management.
- FSC is based on mandatory standards, and a required and consistently applied third-party audit; SFI is not.

- Most FSC standards emphasize on-the-ground field performance, while few SFI standards evaluate on-the-ground results.
- FSC requires public reporting of audit results and enforceable conditions; SFI does not.
- FSC has social criteria focusing on local communities and indigenous peoples; SFI does not.
- FSC has Chain-of-Custody Certification and a product labeling system that allows processors, retailers and consumers to confidently know that their wood comes from a well-managed forest; SFI does not.

The battle will continue for the hearts and minds of consumers and retailers. The advantage rests with the FSC, however, precisely because of the strong support that it receives from social and environmental NGOs.

Transfair USA and Fairtrade Labeling Organizations International

A significantly different form of social certification is offered by the Fairtrade Labeling Organizations International (FLO) and its U.S. affiliate, Transfair USA. The FLO was born of the Max Havelaar Foundation in the Netherlands and Transfair International in Germany, two groups that separately had begun to define criteria for fair trade and to label products that met those criteria. They joined into a common organization in 1998. The standards for certified fair trade coffee are quite simple. . . . This certification system deliberately seeks to focus on improving the market conditions faced by the 50% of coffee producers who are small-scale family farmers, many of them organized in cooperatives. Approximately 80–85% of the world's coffee farmers fall into this category.¹⁹ . . .

Fair Trade Certified coffee standards require buyers to pay a fixed minimum price for coffee that was negotiated with small-scale producers in the 1990s. In mid-2001, that price was nearly twice the prevailing spot market price in a very depressed coffee market, but still less than 15 percent of the prevailing market prices for specialty coffee in Northern markets. . . . Buyers of certified fair trade coffee must make available partial payment to the farmers at the time their coffee is shipped, when requested. This differs

from the usual industry practice in which producers ship their coffee to brokers and are paid only if and when that coffee is eventually sold. The resulting delays in payments often force small-scale coffee farmers to fall back upon usurious credit systems, since they must cover all the costs of harvesting and processing the coffee months before they are paid by the brokers. Finally, certified fair trade encourages longer-term contractual relationships, discouraging one-time purchases on the spot market. . . .

Sales of Fair Trade Certified coffee in the United States have gone from virtually nothing in 1998 to an estimated 7 million pounds in 2001; global sales of the entire FLO network are expected to exceed 30 million pounds in 2001. There are now more than 100 coffee companies selling Fair Trade Certified coffee in the United States, including the pioneer companies (Equal Exchange, Peace Coffee, and Cooperative Coffees), café chains such as Starbucks, Peet's, and Tully's, food chains such as Whole Foods, Wild Oats, Andronico's, ShopRite, Stop N Shop and some Safeway stores, and even most Exxon-Mobil convenience stores in New England.

The direct impact of this upon the coffee farmers is significant, especially in times of very low spot market prices for coffee. With the current \$0.60/pound difference between the spot price in mid-2001 and the minimum price paid for Fair Trade Certified coffee, sales of this level imply annual net gains for farmers of more than \$18 million dollars per year for participating in fair trade certification. But demand in this case remains well below supply. There are more than 400,000 farmers listed on the Fair Trade worldwide coffee producer registry; and they produce an estimated 170 million pounds each year.²⁰ After growth in sales in Europe began to stagnate in the mid-1990s, growth in the U.S. markets has led the world. And the growth of sales in the U.S. has been driven, more than anywhere else, by NGO advocacy to convince companies to offer certified coffee to their customers.

[. . .]

Conclusions

Citizen-led advocacy campaigns linked to the establishment of certification systems represent a new movement that is only now gaining

major strength. The ability of advocacy groups to bring market pressures to bear upon firms offers a powerful alternative to simple invocations of corporate altruism and civic responsibility. In an increasingly privatized world, with restrictions on what the global trading system will allow local and national governments to legislate, these movements may be the *only* alternative to the competitive downgrading of social and environmental practices by firms worldwide.

There is evidence that financial markets are paying increasing attention to these dimensions of corporate practice, rewarding firms that become leaders, and punishing those that lag behind. The incentives for corporate collaboration in the creation and management of certification systems appear to be growing. Struggles between NGOs and corporations can be expected to continue, for many of the same reasons that firms also struggle against government regulations. In the 21st century, this dynamic new strategy for corporate engagement may become an important global force for "civilizing globalization," and for assuring that its environmental and social benefits exceed its costs.

Notes

This paper is based upon a talk delivered to the Political Economy Workshop at the University of Massachusetts, Amherst, on October 3, 2000. It has benefited greatly from the comments offered at that workshop. The opinions in the paper are those of the author alone; they do not necessarily reflect in any way the perspectives of the Ford Foundation.

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5. Lester R. Brown, "Crossing the threshold," *World Watch*, March/April 1999.

[...]

9. Documentation of this market campaign may be found on the Global Exchange website, <http://www.globalexchange.org/economy/coffee>. Starbucks corporate analysis of certified fair trade coffee can be found at www.starbucks.com/aboutus/fairtrade.asp.

10. Source: http://www.wssn.net/WSSN/gen_inf.htm#ca

11. http://www.worldbank.org/wbiep/trade/Standards.html#Product_standards

12. Christopher Upton, and Stephen Bass, 1995, *The Forest Certification Handbook*. (London: Earthscan Publications, Ltd.) 42.

[...]

14. <http://www.afandpa.org/forestry/sfi/menu.html>

15. <http://www.pefc.org>

16. <http://www.cssinfo.com/info/csa.html>

17. Fern, *Behind the Logo: An environmental and social assessment of forest certification schemes*, (May 2001). The conclusions of the Fern report have been endorsed by a coalition of more than 70 social and environmental advocacy groups worldwide. The report in full and the coalition endorsements are available at <http://www.fern.org>.

18. National Wildlife Federation, Natural Resources Council of Maine, and Environmental Advocates, "A Comparison of the American Forest & Paper Association's Sustainable Forestry Initiative and the Forest Stewardship Council's Certification System," (June 2001). <http://www.nwfw.org/northernforest/auditprograms.html>

19. UNCTAD International Trade Center, *Coffee: An Exporter's Guide* (Geneva, 1992).

20. Source: Transfair USA, <http://www.transfairusa.org>.