

Implications of sustainability certification schemes for the ACP

Contents

1.	Sustainability certification: An introduction	2
1.1	What is sustainable development?	2
1.2	The multiplicity of sustainable certification schemes and initiatives	2
1.3	Tracing certified products along the supply chain	2
2.	The expansion of sustainability certification and some ACP responses	3
2.1	The growth of sustainable certification schemes	3
2.2	The costs and benefits of sustainability certification	4
2.3	Proactive ACP engagement with sustainability certification schemes	5
3.	Policy dimensions of sustainability certification	5
3.1	Sustainability as part of product differentiation strategies	5
3.2	CAP ‘greening’ and distribution of costs of sustainable production	6
3.3	Is there a role for public regulation of sustainability certification schemes?	6
3.4	Developments in EU regulations on sustainable exploitation of resources	6
3.5	WTO concerns around sustainability certification	7
4.	Policy implications	7
4.1	Harmonising sustainability standards and verification processes	7
4.2	Adapting sustainability standards to producers’ needs	7
4.3	Investing in sustainability	7
4.4	Strengthening the functioning of supply chains for sustainably certified products	8
4.5	Ensuring that national sustainability schemes are not discriminatory	8
	Main sources	9

1. Sustainability certification: An introduction

1.1 What is sustainable development?

The most widely accepted definition of sustainability is that of the World Commission on Environment and Development: sustainability involves meeting “the needs of the present without compromising the ability of future generations to meet their own needs”. At the centre of the concept of ‘sustainable development’ is improving the quality of human life of the world’s poorest, within the carrying capacity of the global eco-system. There are over 100 definitions of sustainability and sustainable development, and all view the world as a single inter-connected system. Broad definitions, however, provide little practical guidance for the day-to-day conduct of sustainable economic activities. For this, more detailed schemes are required.

1.2 The multiplicity of sustainable certification schemes and initiatives

Seven broad types of sustainability schemes can be identified:

- Multi-stakeholder, internationally oriented, sector-specific schemes, (e.g. the Roundtable on Sustainable Palm Oil (RSPO));
- Internationally oriented thematic schemes (e.g. Rainforest Alliance);
- Internationally oriented schemes with a broader focus, but with sustainable development dimensions, such as Fairtrade certification;
- Internationally oriented, retailer-led sustainability certification initiatives (e.g. GLOBALGAP);
- Corporate own-brand sustainability initiatives (e.g. Starbucks’ CAFE Practices programme);
- Nationally designed, sector-focused schemes that are internationally orientated (e.g. the Netherlands covenant of June 2012 on sustainable sourcing of fresh fruits and vegetables);
- Nationally oriented sustainability certification initiatives (e.g. the Irish Food Board ‘Origin Green’ scheme).

The primary focus of these schemes varies. Some focus on poverty alleviation through strengthening farmers’ organisations and setting standards that secure price premiums (e.g. Fairtrade); some set standards which respond primarily to the environmental concerns of consumers (e.g. Rainforest Alliance and Starbucks’ CAFE Practices programme). Other schemes are primarily aimed at differentiating nationally produced products from third-country imports, to consolidate the market position of national producers.

1.3 Tracing certified products along the supply chain

Sustainability certification for some products, such as cocoa, palm oil and sugar, which are aggregated and/or processed before use, is more difficult than for products that are consumed fresh (e.g. fresh fruit and vegetables). For products such as cocoa and palm oil, two basic methods of certifying sustainable production are used, involving different degrees of traceability of the products used along the supply chain: ‘mass balance’ systems and ‘certified content in final product’ systems (see Agritrade article [‘A review of the costs and benefits of sustainable cocoa certification’](#), 27 January 2013).

Mass balance systems require no direct correlation between the purchase of sustainably produced raw materials and their use in the final product labelled as sustainably produced. Companies buy the right to the use of a specified tonnage of sustainably produced raw material, while the certifying agency guarantees that this tonnage is sourced from farms that comply with specified sustainability standards. ‘Certified content in final product’ systems, by contrast, require full segregation of the product along the value chain, thereby guaranteeing that only sustainably produced raw materials are used in products so labelled.

The method of certifying sustainability has an important bearing on the net benefit accruing to primary producers from sustainability certification, with higher average fixed ‘chain of custody’ costs associated with certified content in final product systems. In response to certification systems – which can, for example, result in consumers buying Fairtrade-labelled products that actually have no Fairtrade-certified raw materials in them (see Agritrade article [‘Demand for fair-trade cocoa continues to grow but traceability problems exist’](#), 2 December 2012) – there are suggestions that the demand for certified content in final product certification will be likely to grow. With certified content schemes often involving higher verification costs, this trend will only serve to increase the importance of the issue of the distribution of costs and benefits of sustainability certification along supply chains.

2. The expansion of sustainability certification and some ACP responses

2.1 The growth of sustainable certification schemes

There are now ‘over 400 recorded eco-labelling programmes implemented in 197 countries in 25 different industries sectors’, according to a Commonwealth Secretariat *Trade Hot Topics* paper, ‘Eco-labelling: Challenges and opportunities for small states and LDCs’. The use of sustainable certification schemes by large retailers is increasing in areas of direct export interest to the ACP, and a growing volume of trade is being subjected to sustainability certification. However, the volumes involved vary from product to product and from market to market. The State of Sustainability Initiatives Project Review of November 2010 reported that:

- certified sustainable tea production accounted for 7.7% of global production for export;
- sustainable coffee sales accounted for 8% of global exports;
- sustainable cocoa sales accounted for 1.2% of global sales (6% by 2012, according to a KPMG study for the International Cocoa Organization/ICCO);
- sustainable banana sales accounted for approximately 20% of world exports.

These figures followed 5 years of strong growth, over which there was a 433% increase in sales of sustainability-certified coffee, a 2000% increase in sales of sustainability-certified tea and a 248% increase in sales of sustainability-certified cocoa (see Agritrade article [‘Trade in sustainable and organic products grows’](#), 2 May 2011). This growth has continued.

Sustainability certification of palm oil (certified by the RSPO) increased by 242% between 2009 and 2011 (from 1.4 million tonnes to 4.8 million tonnes), accounting for 14% of global crude palm oil production by 2012, with further exponential growth anticipated (see Agritrade article [‘Sustainable palm oil set for expansion if challenges can be overcome’](#), 9 December 2012). In the cocoa sector, on the basis of existing corporate procurement commitments from Hershey, Ferrero, Mars and major retailers like UK supermarket chain Sainsbury’s, sustainability

certification is on the verge of becoming mainstream. Sustainability certification is expected to account for 22% of total tea exports by 2013, 25% of worldwide sales of coffee by 2015, and 10–15% of EU imports of soya by 2015.

In the fruit and vegetable sector, the GLOBALGAP agricultural production standards, which include sustainability criteria, are increasingly becoming the industry norm for products sold through multiple retailers. Indicative of this growing trend was the announcement in the Netherlands in June 2012 of a covenant signed by all major supermarkets, trading companies and NGOs to ensure that ‘all fresh fruits and vegetables in Dutch supermarkets are sustainably produced’ by 2020. The covenant sets targets for sustainable procurement of 30% by 2014, 50% by 2015 and 100% by 2020. The agreement covers virtually the entire fruit and vegetable sector, representing more than 90% of the retail volume of fruit and vegetable sales in the Netherlands.

Given the role of Dutch ports in the fruit and vegetable trade serving northern Europe, ACP governments and producer organisations, in association with importers and retailers, will need to rapidly set in place systems for promoting cost-effective compliance with the required sustainability standards. A dialogue will also need to be initiated on the distribution of the costs and benefits of sustainability certification along the supply chain (see Agritrade article [‘Sustainability concerns go mainstream in Dutch fruit and vegetable sector’](#), 29 July 2012).

While the pace of change varies sector by sector, and market by market, the trend towards a growing multiplication of sustainability certification initiatives, covering a growing volume of ACP trade with OECD countries, is clear.

2.2 The costs and benefits of sustainability certification

Sustainability certification can improve returns to primary producers, through improving yields and returns on marketed production, as a result of the price premiums available in some sectors under some sustainability certification schemes. However, this is by no means guaranteed, with a study conducted by Blackman and Rivera suggesting that only in the minority of cases do net benefits accrue. This requires careful assessment not only of the net benefits of different certification schemes, but active identification of the flanking measures required to realise net benefits (see Agritrade article [‘Trade in sustainable and organic products grows’](#), 2 May 2011).

In October 2012, the ICCO published a commissioned study by KPMG on the advantages and disadvantages of cocoa sustainability certification, and found the greatest net benefits to farmers were gained under Fairtrade certification, due to the minimum price guarantees and set fair-trade premiums. These net benefits were strongly affected by the type of certification system applied, since the Rainforest Alliance ‘certified content in final product’ scheme carried far greater traceability costs. However, there have been criticisms of the methodology used in the KPMG study, considering that it relied too heavily on data from certifiers and NGOs with a vested interest in the schemes reviewed. Other studies suggest that only a minority of such schemes bring net benefits to primary producers.

These findings reinforce the need for careful assessment of the net benefits of specific certification schemes, which can also change over time. Constant attention therefore needs to be paid to the distribution of the costs and benefits of sustainability certification along supply chains.

Securing the financial benefits of sustainability certification for developing country producers can require the adoption of complementary initiatives: e.g., improved marketing strategies, better labelling regulations in the consumer markets, and initiatives to strengthen the functioning of supply chains for sustainably produced products.

2.3 Proactive ACP engagement with sustainability certification schemes

Two successful areas of ACP engagement with sustainability certification schemes are particularly worthy of note. The first is the Kenyan initiative to translate GLOBALGAP standards into locally relevant standards, without compromising the underlying standards. This gave rise to KENYAGAP, which is now being extended regionally through the creation of the East Africa Good Agricultural Practice (EAGAP) standards. The initiative is expected to both boost exports to the EU and increase intra-regional trade. The EAGAP programme highlights the importance of establishing targeted dialogues on the application of increasingly complex producer standards (see Agritrade article [‘GLOBALGAP standards to be translated into locally relevant standards in East Africa’](#), 6 September 2011).

The second initiative is the Sustainability Initiative of South Africa (SIZA), which aims to replace numerous standards and audits with a single audit and certification process, by promoting mutual recognition of audits among international and local retailers. The Global Social Compliance Programme (GSCP), which coordinates the initiative, is supported by various retailers, including Tesco, Walmart, Ahold, Migros, Coop Switzerland, Delhaize, Carrefour and the South Africa retailer Pick n Pay (see Agritrade article [‘South Africa establishes single ethical trade standard’](#), 4 January 2013).

3. Policy dimensions of sustainability certification

3.1 Sustainability as part of product differentiation strategies

While the expansion of sustainability certification schemes is taking place in part in response to consumer environmental and social concerns, it also occurs as part of increased product differentiation strategies, designed to gain commercial advantages over competitors. In the EU, sustainability certification cannot be entirely divorced from the EU's broader agricultural product quality policy, which is itself an integral part of the process of common agricultural policy (CAP) reform and a clearly articulated policy response to processes of agricultural trade liberalisation (see Agritrade articles [‘Communication on agricultural product quality policy released’](#), 1 July 2009 and [‘EC “quality package” tabled’](#), 3 February 2011, and Agritrade Executive Briefs [‘Product differentiation’](#), July 2012 and [‘EU Common Agricultural Policy reform: Implications for the ACP’](#), March 2010).

In Ireland, Bord Bia, the Irish Food Board, launched a labelling scheme, ‘Origin Green’ in September 2012. The scheme sets out a series of sustainable business practices with which companies need to comply in order to be awarded the Origin Green label. Each company has to develop its own sustainability plan, which is independently verified. Bord Bia aims to have three-quarters of Irish food exporters signed up to the scheme by 2014. The Origin Green initiative includes carbon footprinting of farms. The CEO of Bord Bia commented at the time of the launch that the harmonised sustainability standards scheme would “consolidate the position of Irish producers in response to growing demand” for sustainably produced food products (see Agritrade article [‘Irish Food Board introduces new quality labelling scheme’](#), 16 December 2012).

The Irish Food Board initiative is one of a number of similar national initiatives aimed at tapping into growing consumer environmental concerns. Such schemes are explicitly designed to differentiate nationally produced food and drink products from third-country products, with a view to influencing consumer choices and, in some cases, attracting a price premium.

To a certain extent, this makes the process of public policy formulation a contested area, with different interest groups using sustainability certification as a vehicle for promoting their own commercial interests, while at the same time contributing to more sustainable patterns of

production and trade. The public policy dimensions of sustainability certification are thus complicated, and have given rise to fears of ‘eco-protectionism’.

3.2 CAP ‘greening’ and distribution of costs of sustainable production

While European food processors and retailers are increasingly setting targets for the procurement of sustainably produced raw materials, little consideration is being given to the distribution of costs of more sustainable farming practices along the supply chain. With proposals to meet part of the costs of implementing more sustainable farming practices in the EU through publicly financed support programmes, there is a danger that CAP ‘greening’ measures could generate the expectation among EU food processors and retailers that more sustainable farming practices can be achieved without incurring significant additional costs for their enterprises.

In developing country sectors where sustainable production standards become the industry norm (e.g. horticulture and palm oil), this could lead to the financial burden of implementing more sustainable farming practices falling largely on primary producers.

3.3 Is there a role for public regulation of sustainability certification schemes?

Under the WTO Agreement on Technical Barriers to Trade, governments are required to promote “some level of oversight of the design and implementation of private eco-labelling schemes”, with a similar commitment under the work programme of the Doha Development Round. Despite this, most sustainability certification schemes are not subject to any regulatory oversight. Indeed, little systematic thought is being given to the export interests of developing countries when elaborating eco-labelling schemes. This links to policy issues related to the clarity and integrity of sustainability claims and ensuring informed consumer choice. Many consumers assume that issues of economic and social sustainability are an integral part of all sustainability schemes, but this is by no means the case. The questions arise: what role is there for government regulation of sustainability labelling claims? And is there a public sector responsibility to ensure that sustainability claims are based on science and do not mislead consumers?

Greater clarity is needed on the basis for sustainability claims, so that consumers can make informed decisions in the light of growing environmental and social concerns, in order to avoid genuine environmental concerns becoming embroiled in protectionist initiatives.

3.4 Developments in EU regulations on sustainable exploitation of resources

The most far-reaching development in the EU regulatory framework for the promotion of sustainable production in third countries is taking place in the fisheries sector. In September 2012, the European Parliament (EP) voted in favour of a European Commission (EC) proposal for a new regulation on “measures in relation to countries allowing non-sustainable fishing for the purpose of the conservation of fish stocks”. This proposal calls for import restrictions to be imposed on third-country fisheries products, where fisheries activities are allowed that jeopardise the sustainability of these resources. It was argued that the EU “cannot afford to let a few irresponsible people nullify our industry's efforts and our conservation work”.

The nominal aim of the new legislation is to create a level playing field between EU fishers and third-country fishers. This is a common concern in the EU across all agro-food products (see Agritrade article ‘[EP votes for trade measures against countries allowing non-sustainable fishing](#)’, 8 October 2012). The EC is currently undertaking the legal work required to allow the application of this type of trade instrument. Once the legal basis for the application of such production-

process-related trade instruments is in place, the scope of application of such tools could be broadened considerably.

This trend could well represent a more serious area of development linked to sustainability certification than the more commonly voiced concern over the possible use of border adjustment taxes linked to sustainability practices.

3.5 WTO concerns around sustainability certification

There is growing interest in the WTO in the competition implications of sustainability certification schemes and the costs and market impact of multiple schemes for developing country exporters. Particular concerns arise over the absence of a uniform methodology for measuring sustainability and assessing sustainability claims; the potential non-neutrality of carbon footprinting; and the risks of discrimination on the basis of non-product-related processes and production methods.

However, given the current impasse in the WTO negotiations it is unclear whether the WTO offers the most appropriate forum for dealing with current effects of the rapidly evolving network of sustainability certification schemes.

4. Policy implications

4.1 Harmonising sustainability standards and verification processes

A critical issue is the need for harmonisation of standards and verification processes under the many sustainability certification schemes in existence. This is one means of reducing inspection and certification costs for the primary producer.

4.2 Adapting sustainability standards to producers' needs

In order to prevent “sustainability criteria from becoming new technical barriers to trade..., standards must be adapted to producers' needs”. Furthermore, “additional measures such as the transfer of knowledge or financial support to cover the costs of implementing these standards are needed”. These will facilitate the entry of smallholder producers into such schemes and address the criticism that, because of the initial investment costs, only the “less small farmers” can benefit from such schemes.

4.3 Investing in sustainability

ACP governments need to facilitate investment in developing and implementing sustainability standards that will assist domestic producers in maintaining and expanding their position in this increasingly important market component. Consideration needs to be given to:

- establishing support programmes to assist ACP producers in better serving sustainability-certified market components;
- supporting the engagement of ACP producer organisations with sustainable trade initiatives, so that issues of economic sustainability for primary producers are adequately addressed;
- supporting analysis of which sustainability labels provide the best net returns to local producers.

4.4 Strengthening the functioning of supply chains for sustainably certified products

Where sustainable standards become the industry norm, there are concerns that costs can be imposed on ACP producers without any corresponding price benefits. This can see smaller-scale producers progressively pushed out of supplying sustainability-certified market components. A case can be made for extending the EC's proposed retailer code of practice, as well as recent EC policy initiatives to strengthen the functioning of supply chains, to the international level.

The need for such initiatives is illustrated by the situation on the UK banana market. Here, the progressively higher environmental and social standards being applied by retailers to a larger and larger component of the market are being introduced without any corresponding increase of prices in line with increasing costs (see Agritrade article '[Trends in the UK and European banana markets](#)', 11 February 2013).

4.5 Ensuring that national sustainability schemes are not discriminatory

Given the different motives behind sustainability certification schemes and growing fears of eco-protectionism, ACP governments need to effectively engage with sustainable certification processes to ensure that such schemes do not systematically discriminate against ACP products that meet the same underlying sustainability standards.

Main sources

1. Commonwealth Secretariat, 'Eco-labelling: Challenges and opportunities for small states and LDCs', by M. Haynes, *Trade Hot Topics* Issue no. 95, 2012
http://www.thecommonwealth.org/document/181889/34293/227379/251358/trade_hot_topics_issue_95.htm
2. *Foodnavigator.com*, 'Bord Bia sustainability scheme underlines Ireland's "green and natural" image', 12 September 2012
<http://www.foodnavigator.com/Financial-Industry/Bord-Bia-sustainability-scheme-underlines-Ireland-s-green-and-natural-image>
3. *Foodnavigator.com*, 'Nestlé UK goes Fairtrade with Kit Kat two-finger', 26 October 2012
<http://www.confectionerynews.com/Markets/Nestle-UK-goes-Fairtrade-with-Kit-Kat-two-finger>
4. *Mongabay.com*, 'RSPO-certified palm oil production jumps, generates \$21M in premiums for producers', 8 March 2012
http://news.mongabay.com/2012/0308-rspo_production.html
5. Roundtable on Sustainable Palm Oil (RSPO), Milestones, web page
<http://www.rspo.org/en/milestones>
6. International Centre for Trade and Sustainable Development (ICTSD), 'Private voluntary standards: The instruments for a lasting trade policy in Africa?', *Bridges Africa Review*, Volume 1, Number 3, 4 July 2012
<http://ictsd.org/i/news/bridges-africa-review/137484/>
7. IDH (Sustainable Trade Initiative), website
<http://www.idhsustainabletrade.com/>
8. ICCO/KPMG, 'Study on the costs, advantages and disadvantages of cocoa certification', October 2012
http://www.icco.org/about-us/international-cocoa-agreements/cat_view/30-related-documents/37-fair-trade-organic-cocoa.html
9. State of Sustainability Initiatives Project (joint initiative of International Institute for Sustainable Development, International Institute for Environment and Development, Aidenvironment, the United Nations Conference on Trade and Development and ENTWINED), 'The state of sustainability initiatives review 2010: Sustainability and transparency', November 2010
http://www.iisd.org/pdf/2010/ssi_sustainability_review_2010.pdf
10. Resources for the Future, 'The evidence base for environmental and socioeconomic impacts of "sustainable" certification', A. Blackman and J. Rivera, March 2010
<http://www.rff.org/documents/RFF-DP-10-17.pdf>



The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint ACP—EU institution active in agricultural and rural development in African, Caribbean and Pacific (ACP) countries. Its mission is to advance food and nutritional security, increase prosperity and encourage sound natural resource management.

It does this by providing access to information and knowledge, facilitating policy dialogue and strengthening the capacity of agricultural and rural development institutions and communities in ACP countries.

Technical Centre for Agricultural and Rural Cooperation (ACP—EU)
PO Box 380
6700 AJ Wageningen
The Netherlands
Tel: +31 (0) 317 467 100
E-mail: cta@cta.int - www.cta.int