

Voluntary sustainability standards in international trade

Courses on key issues on the international economic agenda

27th April 2023

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1. Introduction to VSS

“Standards specifying requirements that producers, traders, manufacturers, retailers or service providers may be asked to meet, relating to a wide range of sustainability metrics, including respect for basic human rights, worker health and safety, the environmental impacts of production, community relations, land use planning and others.”



Seal-of-approval



Market access



Effective marketing tool



Price Premium

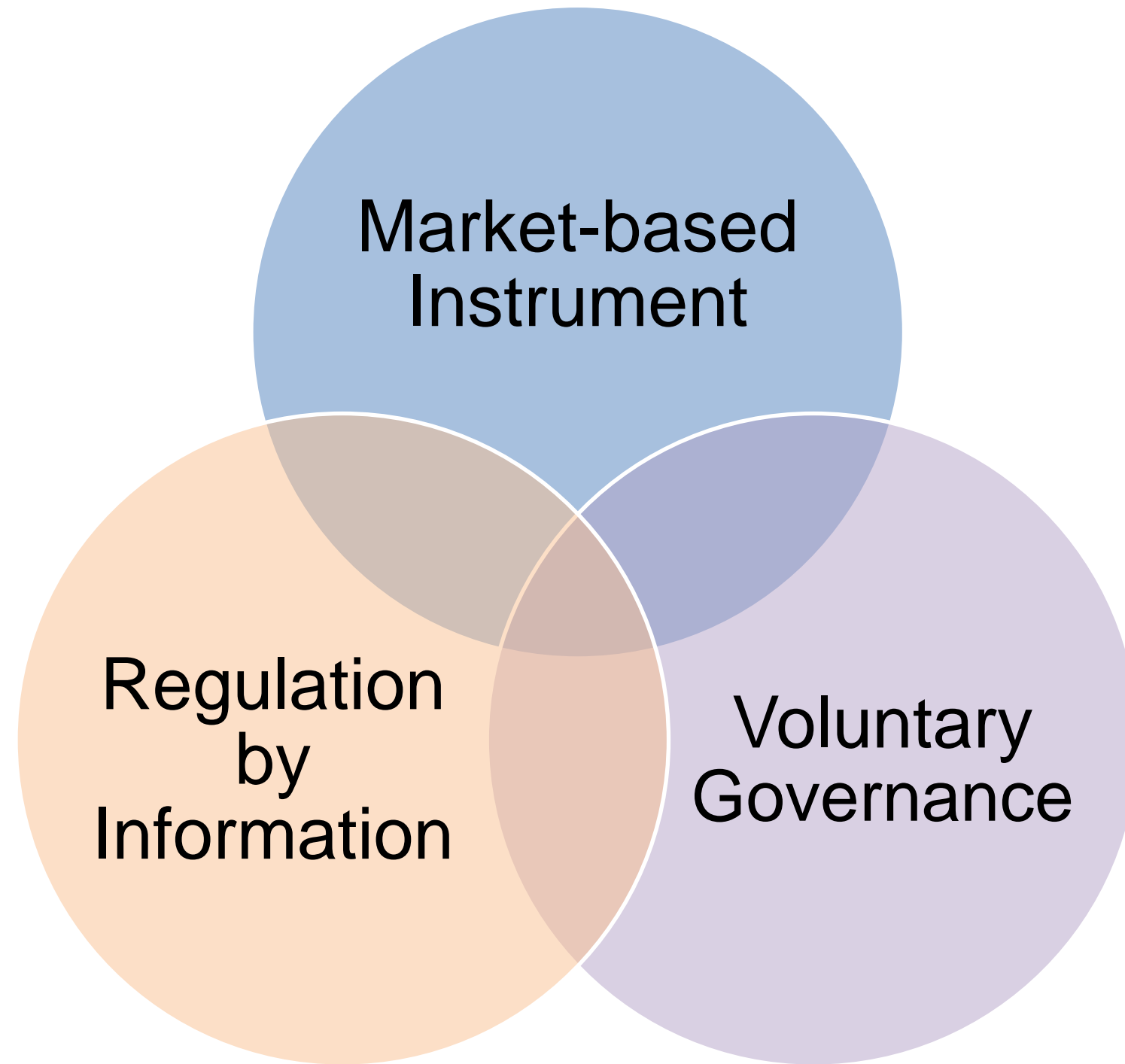


66 % of consumers
are willing to pay a
premium for
sustainable products
(Nielsen survey)

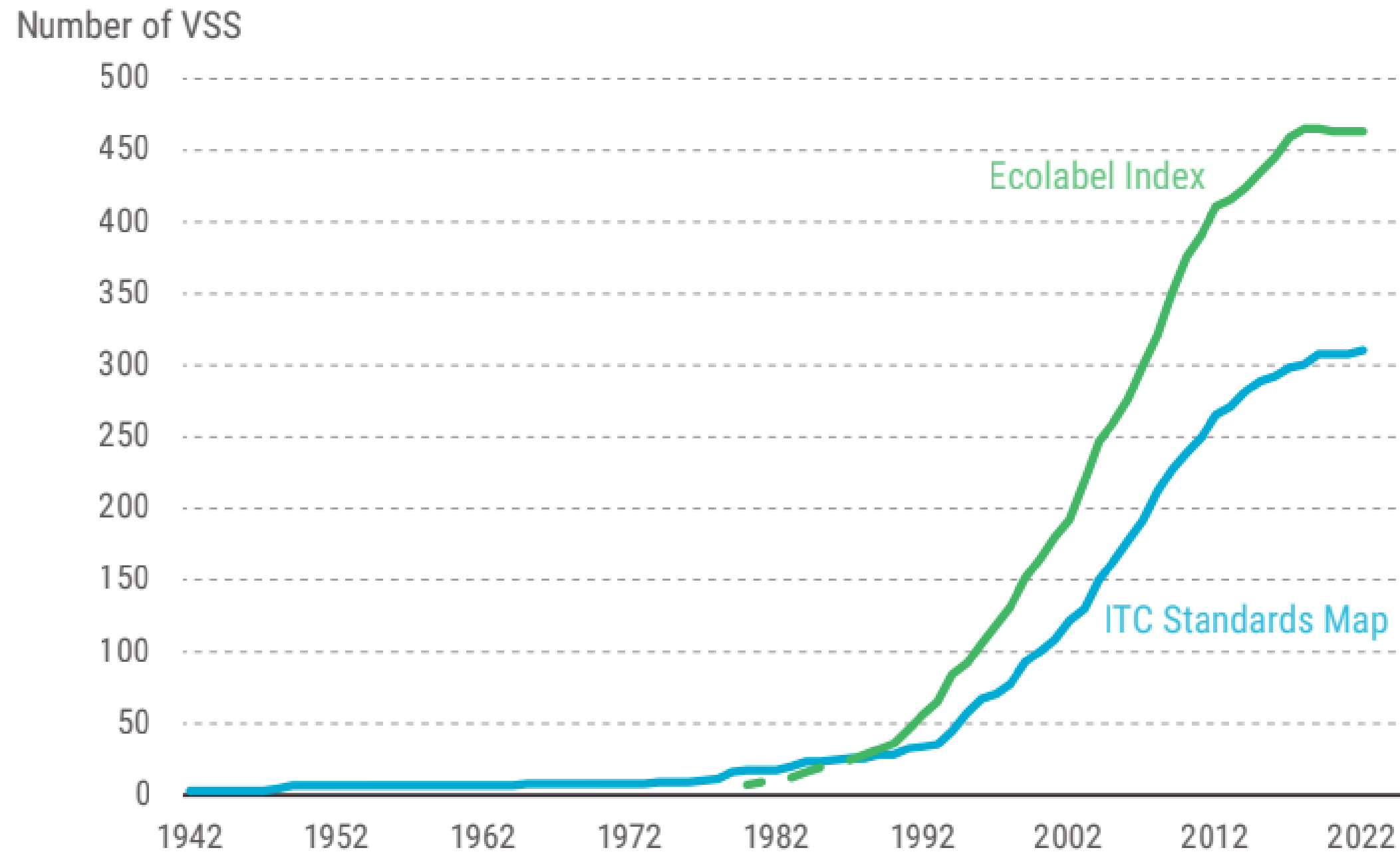




New Regulatory Form



A Market Reality



Evolution in the number of VSS

Why?



GROWING CONSUMER AWARENESS OF SOCIAL AND ENVIRONMENTAL ISSUES



FIRMS' MOTIVATIONS, SUCH AS BRAND PROTECTION, PRICE PREMIUM AND MARKET ACCESS



REACTION TO THE EMERGENCE OF OTHER VSS



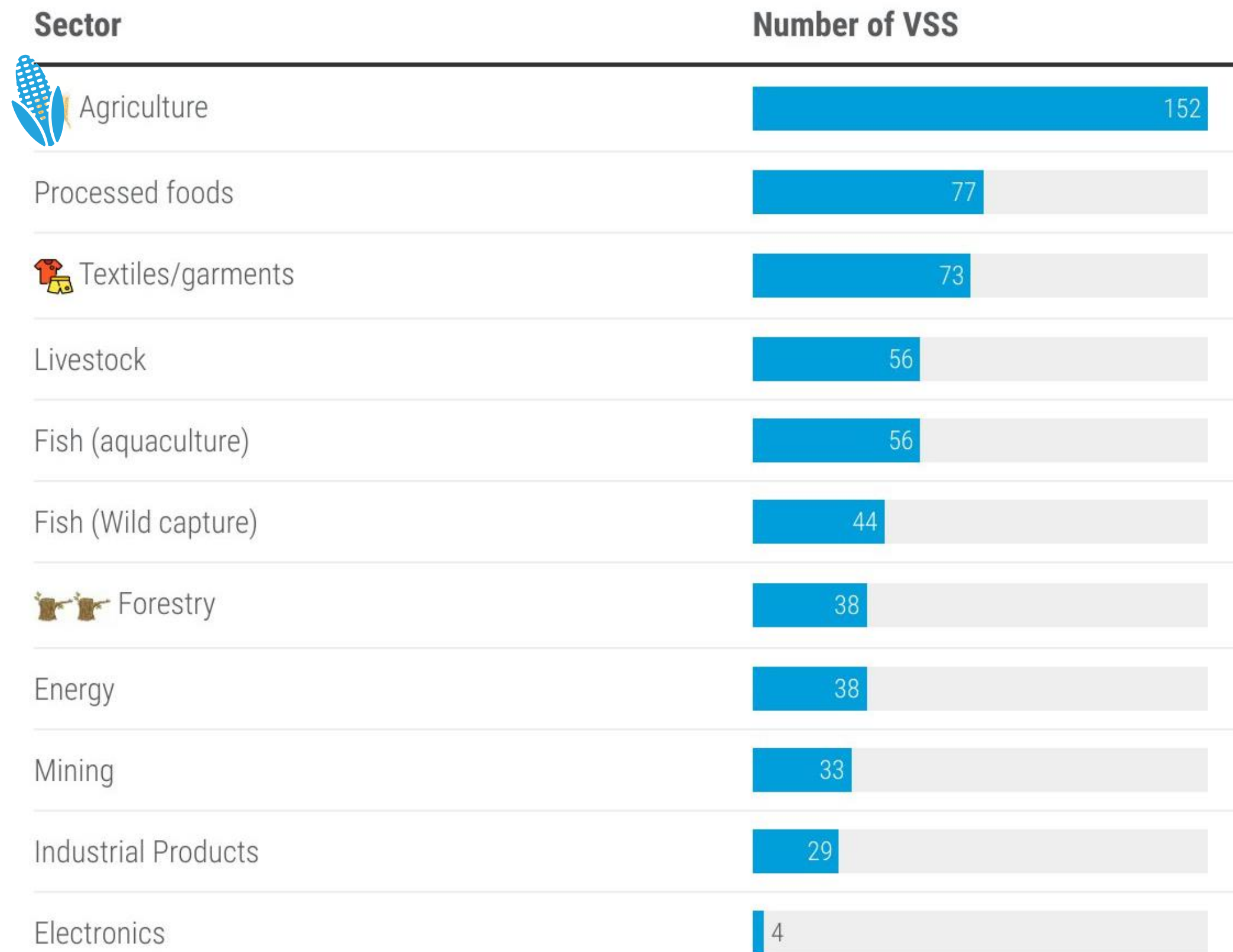
REACTION TO FAILURES OF MULTILATERAL REGULATORY EFFORTS



GOVERNMENTS' ENGAGEMENT WITH VSS



Stagnation in the growth of VSS

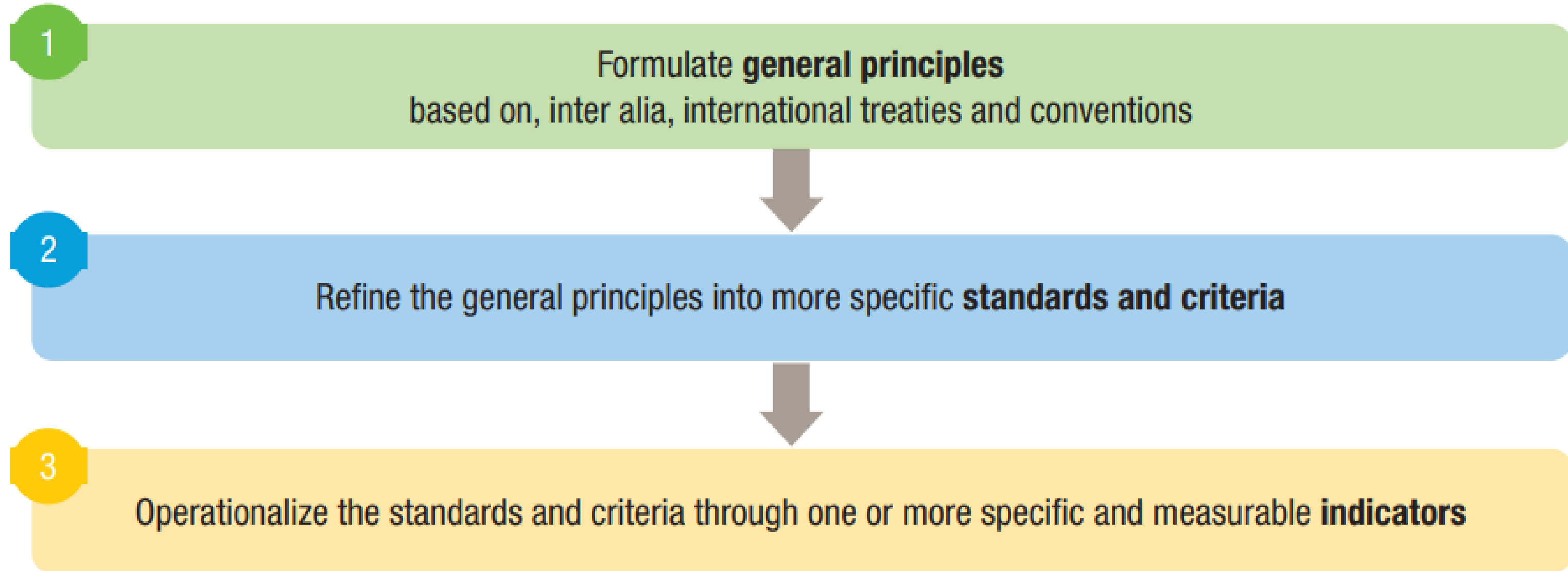


Existing VSS are concentrated in a limited number of sectors, including agricultural and food commodities, and textiles and forestry.

Source: UNCTAD Report: Voluntary Sustainability Standards in International Trade



2. How do VSS work

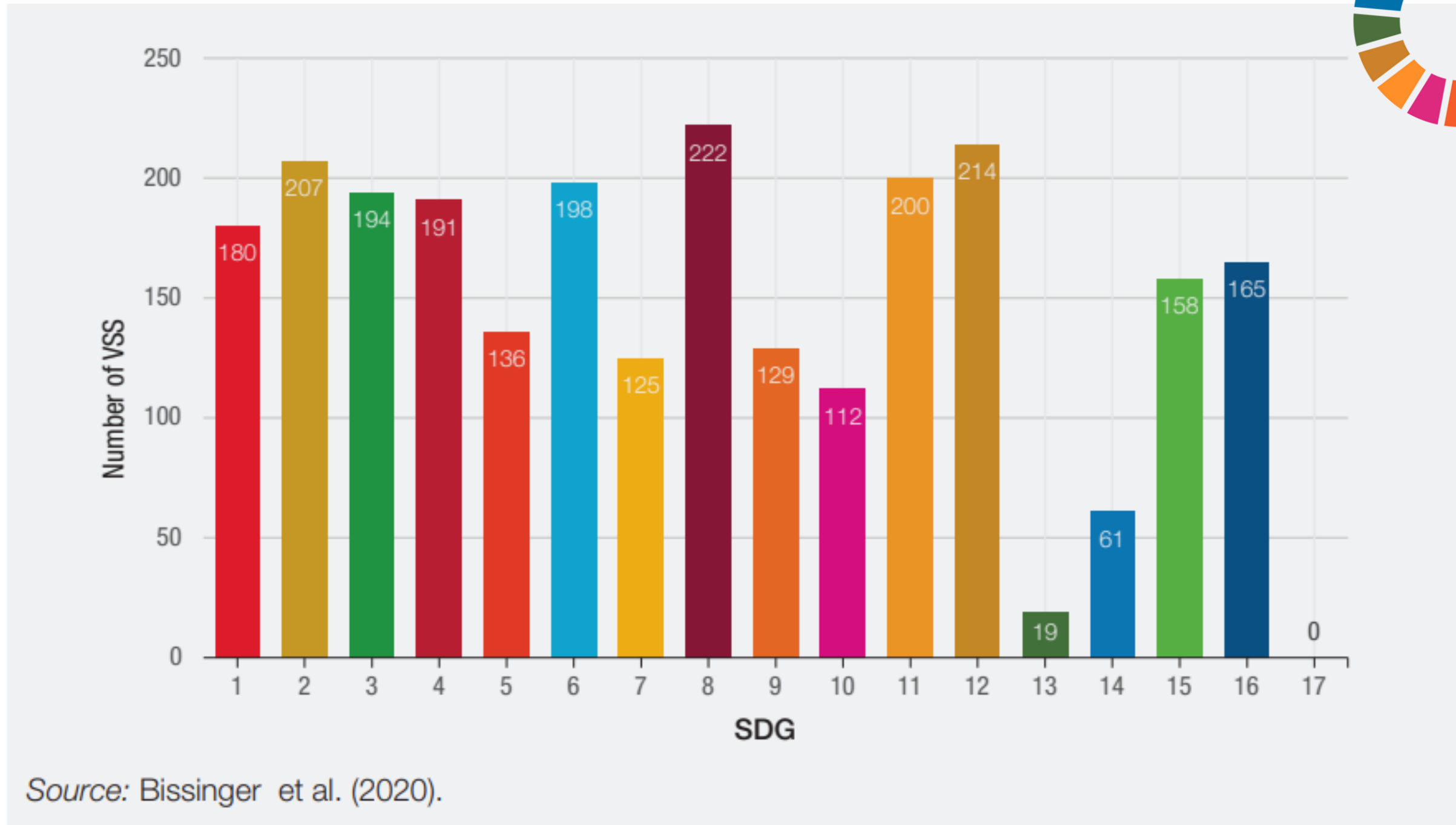


Setting sustainability Standards





VSS and SDGs



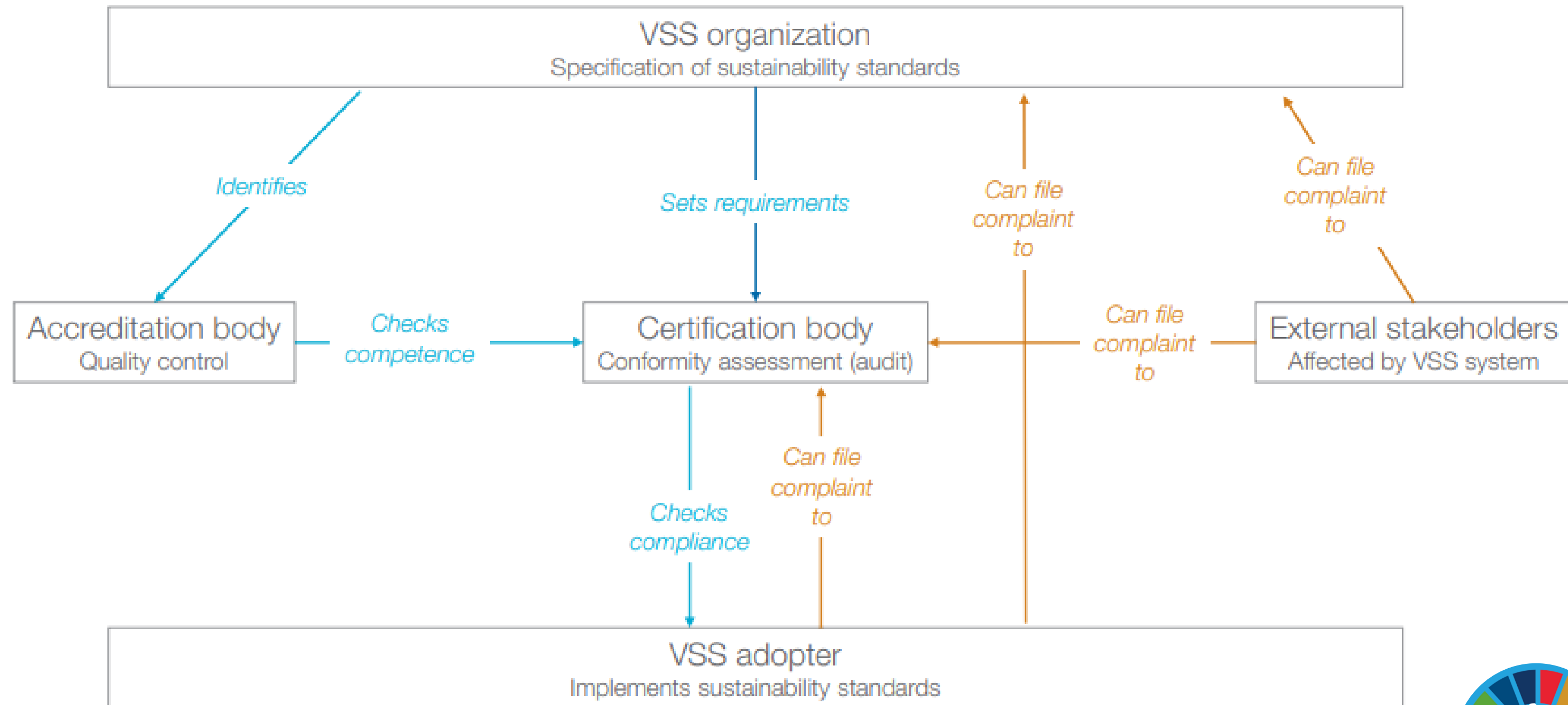
Links between VSS requirements and SDG targets



Ensuring compliance with VSS

Top-down (ex ante) compliance assessment

Bottom-up (ex post) compliance assessment



Top-down and bottom-up compliance assessments



Top-down conformity assessment

Three steps:

1. Applicant to VSS invites an auditor to do a feasibility study.
2. Genuine certification audit is conducted. The non-conformities are pointed out that need to be rectified to get a certificate. Corrective actions might be suggested and timeline to meet these is also specified.
3. Again an assessment is done by the auditors.

Based on this, more corrective actions may be demanded or a certificate is issued.

Drawbacks of audits:

1. Selective about the issues they address.
2. Questionable quality of the information that is collected in these audits.
3. Do not take into account sufficiently the amount of complexity of value chains in some sectors.
4. Bias might be there are the certification bodies that audit are chosen by the standard adopters and paid by them.
5. In case of COVID?



Bottom-down conformity assessment

Type of complaints that can be registered:

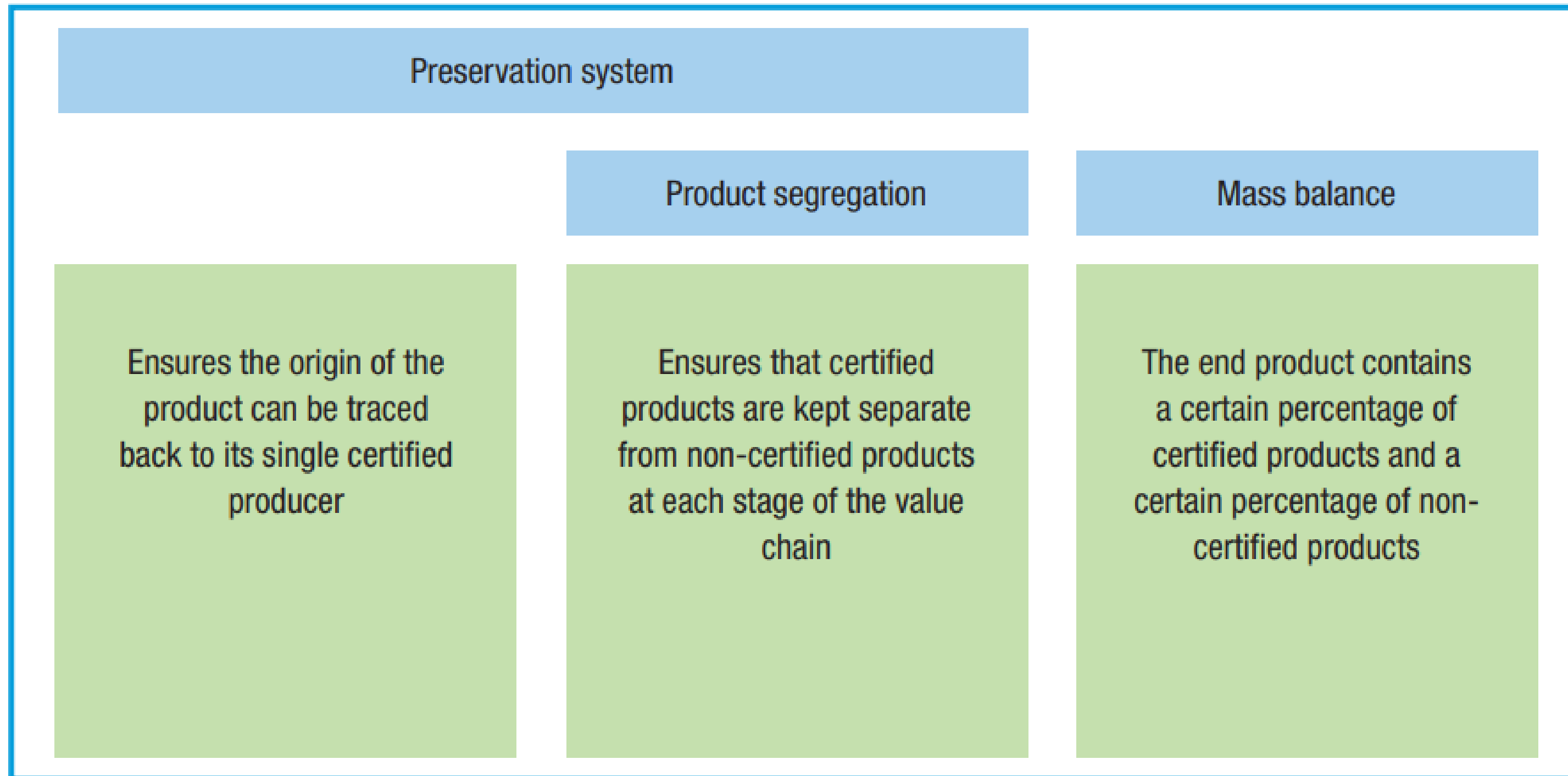
1. How VSS organization operates: how standards are set, who is involved, etc.
2. How a certification body conducts the audits.
3. On the certification decision: if the reasons for non-compliance (and possibly non issue of the certificate) are clear.

However, not all VSS systems have a complaint system in place.

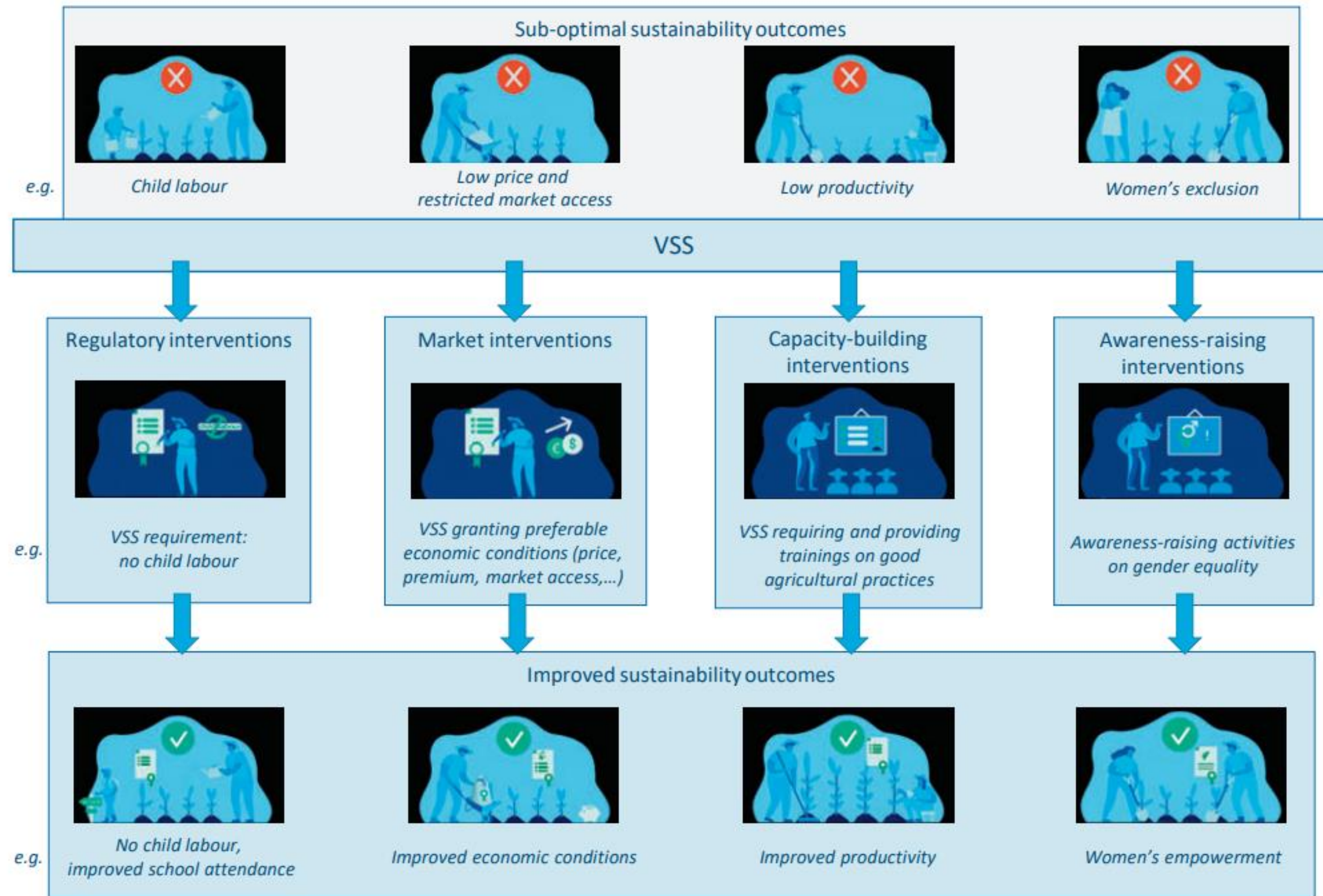
Lastly, the design of a complaint system can vary. VSS vary in terms of what is considered as a complaint. Further, not all VSS allow everyone to file a complaint and most of them only allow members or identified stakeholders to lodge a complaint.



Supply Chain tracking: VSS Traceability systems



3. Effectiveness of VSS



Pathways for VSS impact

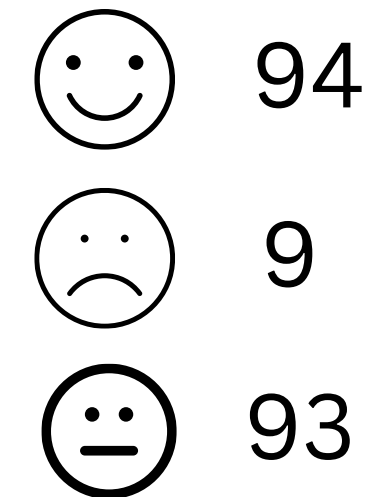


VSS sustainability impacts: Empirical evidence

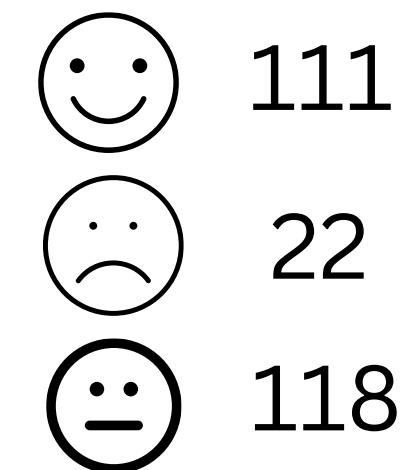
- Overall, the evidence on the impacts of VSS on different sustainability dimensions is mixed.
- Literature highlights that VSS impacts are highly context specific. More research is warranted to understand the conditions under which the standards generate positive impacts, particularly in relation to the institutional design of VSS.
- In addition, trade-offs between sustainability dimensions can occur when evaluating VSS impacts.



Environment

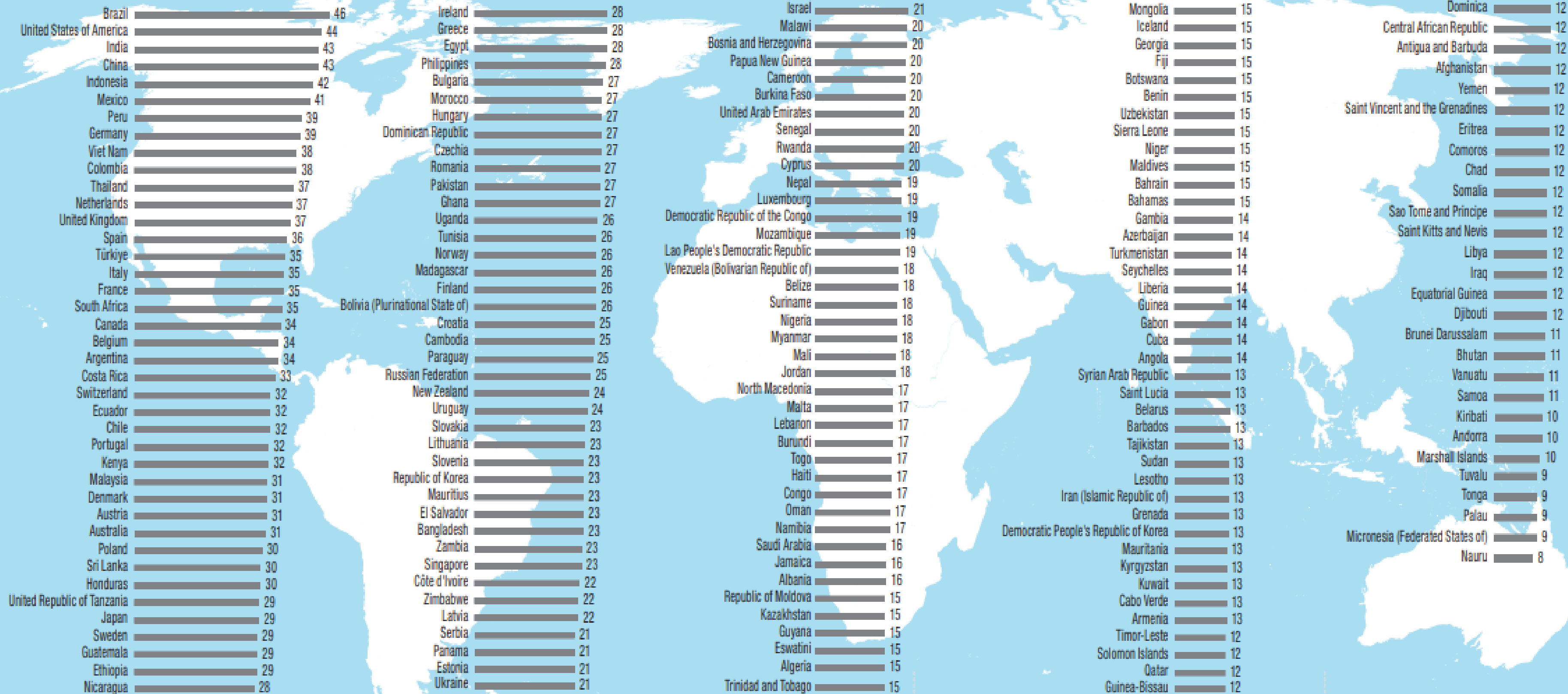


Socioeconomic

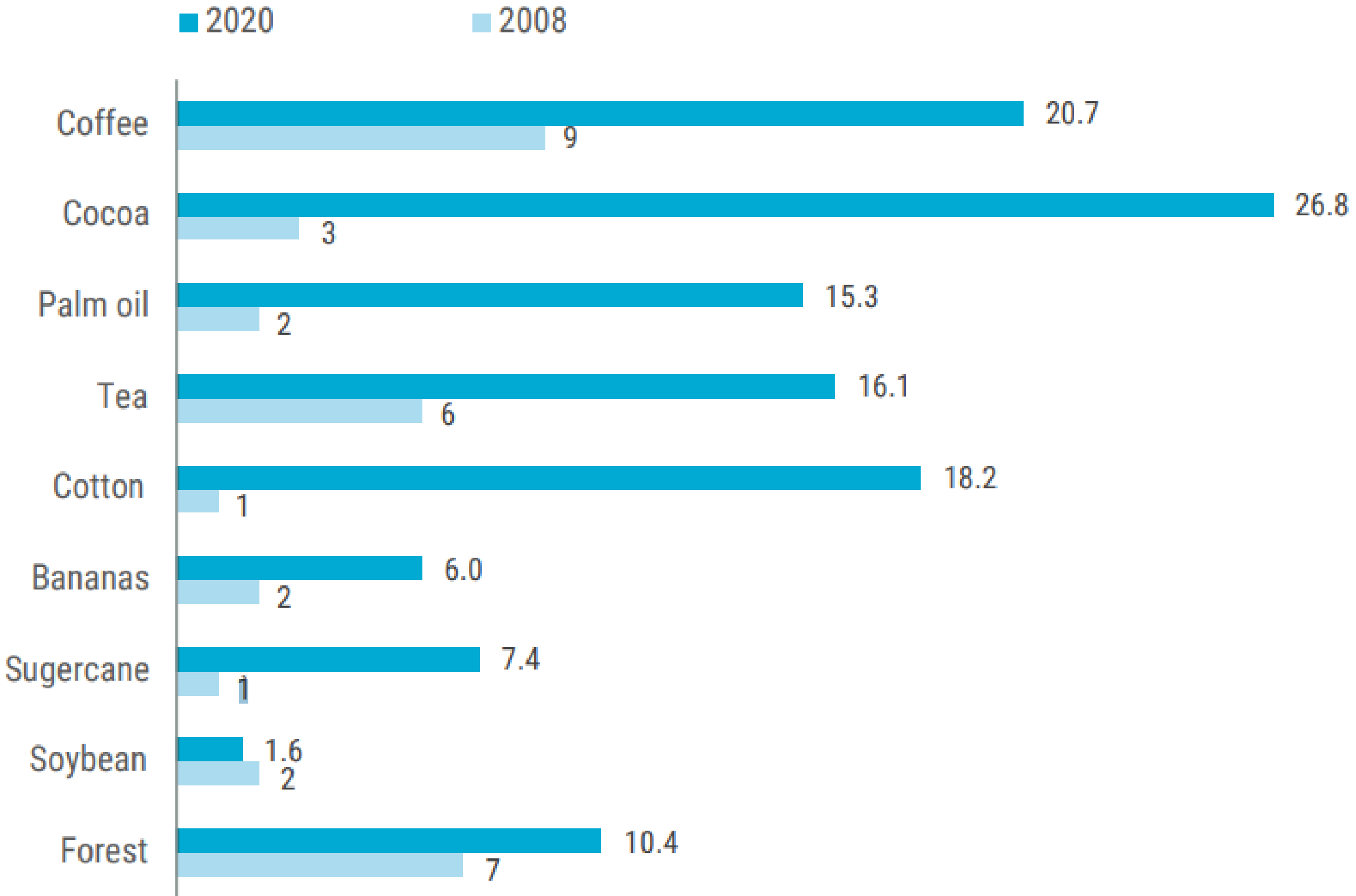




Uptake of VSS



Uptake of VSS



Share of certified commodity production in total commodity production, 2008 and 2020



Barriers to VSS adoption



4. VSS and Public Policy



Market access requirements

- VSS are increasingly used in market access regulations or are incorporated by reference to them in the regulations that determine which products can access a market or not. The VSS then become a mandatory market access requirement
- The Republic of Korea's Act on the Sustainable Use of Timbers (2017) explicitly recognizes VSS as proof of compliance with legality requirements. Another interesting example where VSS play a role in market access regulations is the European Union's Renewable Energy Directive (RED). Another interesting example where VSS play a role in market access regulations is the European Union's Renewable Energy Directive (RED).
- However, the European Court of Auditors (2016) found that the European Union's assessment procedures for the recognition of VSS did not adequately take into account a number of critical aspects regarding the sustainability of biofuels. It found that some recognized VSS did not sufficiently address socioeconomic issues such as forced labour, child labour and land tenure conflicts. In addition, it found that some VSS organizations were insufficiently transparent.
- Thus, there are still some challenges that emerge when integrating VSS into market access regulations.

2 Trade policy FTAs and PTAs

3 Public procurement



- VSS can also play a role in trade policy, more specifically through two trade instruments: free trade agreements (FTAs) and preferential trade agreements (PTAs).
- The UNFSS 4th Flagship report notes that at least 19 FTAs refer to VSS in a promotional way to encourage information exchange and cooperation on implementation and follow-up of VSS. In exceptional cases, VSS might feature more prominently in an FTA. For example, in the new FTA between the European Free Trade Area (EFTA) and Indonesia, VSS-certified palm oil products are assigned lower tariffs – or taxes – than non-certified palm oil products in order to promote sustainable palm oil production.
- VSS can also be integrated into generalized systems of preferences (GSPs). VSS and GSP schemes aim to foster sustainable development and good governance. For example, in the European Union’s special incentive arrangement for sustainable development and good governance (GSP+), a country which commits to ratifying and implementing 27 international conventions concerning human and labour rights, environmental protection and good governance can benefit from additional tariff preferences.
- Further, VSS play a specific – and increasingly significant – role since they are often involved in the operationalization of sustainable public procurement practices.
- In the majority of legal frameworks for public procurement, the principle of equal treatment and non-discrimination prevents contracting authorities from referring to any specific VSS organization or label in public procurement tenders

- A fourth area of public policy in which VSS can play a role is so-called due diligence regulations, and, more specifically, human rights due diligence legislation
- In order to comply with different steps of due diligence, several companies are incorporating VSS into their due diligence plans and management systems, which allow them to identify and address possible adverse sustainability effects through monitoring and complaint systems.
- Governments also engage with VSS to spur economic development through export promotion measures, especially if they can help increase access to export markets.
- No data are available on the number and nature of measures which integrate VSS into export promotion, but there are several examples of countries that seek to promote their main export products through adoption of VSS. An example of this would be Gabon, which aims to increase its wood exports through certification .



What is proposed

- VSS offer potential for the transnational governance of GVCs and trade to foster sustainable development.
- But there are also challenges, especially for producers in developing countries.
- This report has highlighted some of the challenges relating to financial and technical capacity to comply with standards and to advancing an understanding of the role of VSS in governing GVCs.
- Addressing these challenges is a collective responsibility. Several actors, including international organizations, can play a proactive role in addressing the challenges by providing technical and financial support for VSS adoption and building capacity for compliance with sustainability standards



Thank you!



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Voluntary sustainability standards and developing countries

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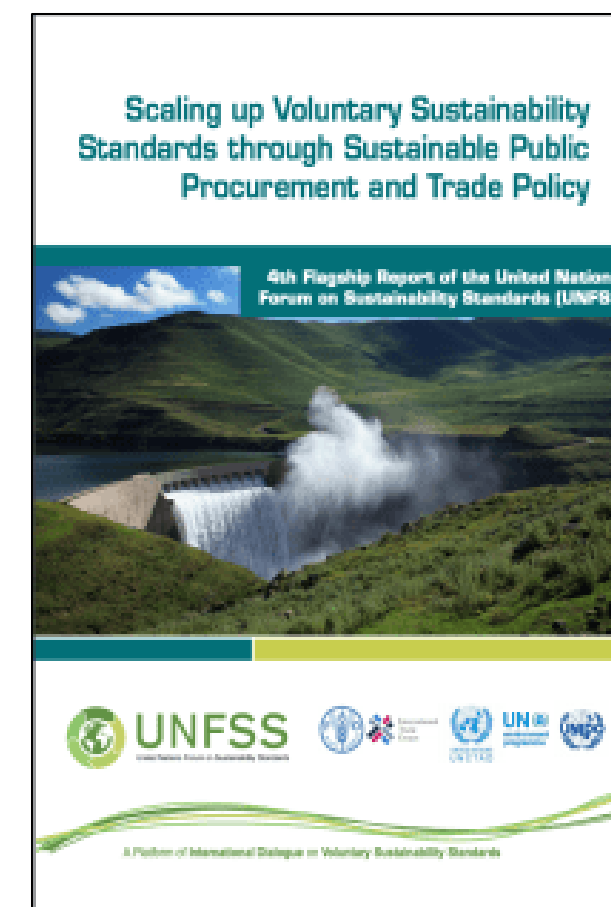
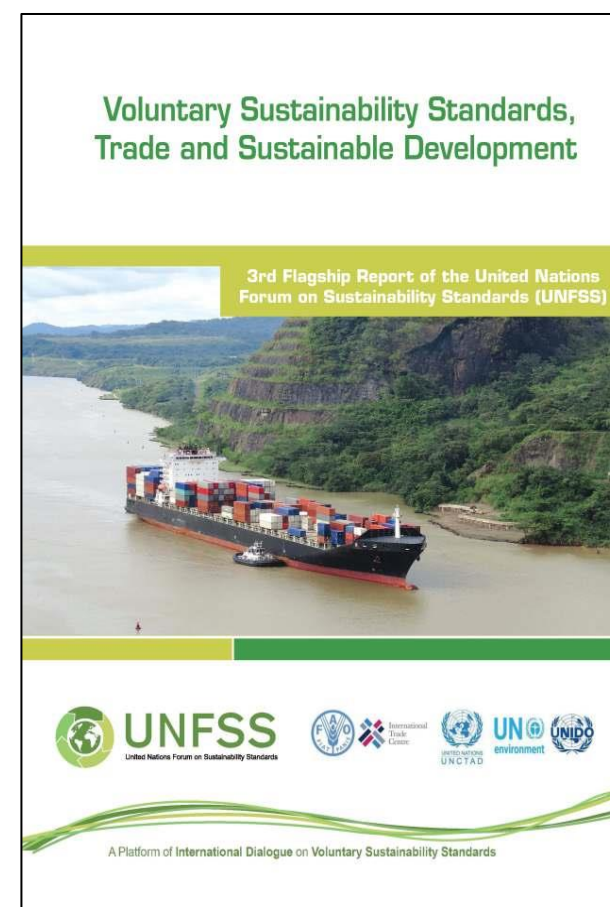
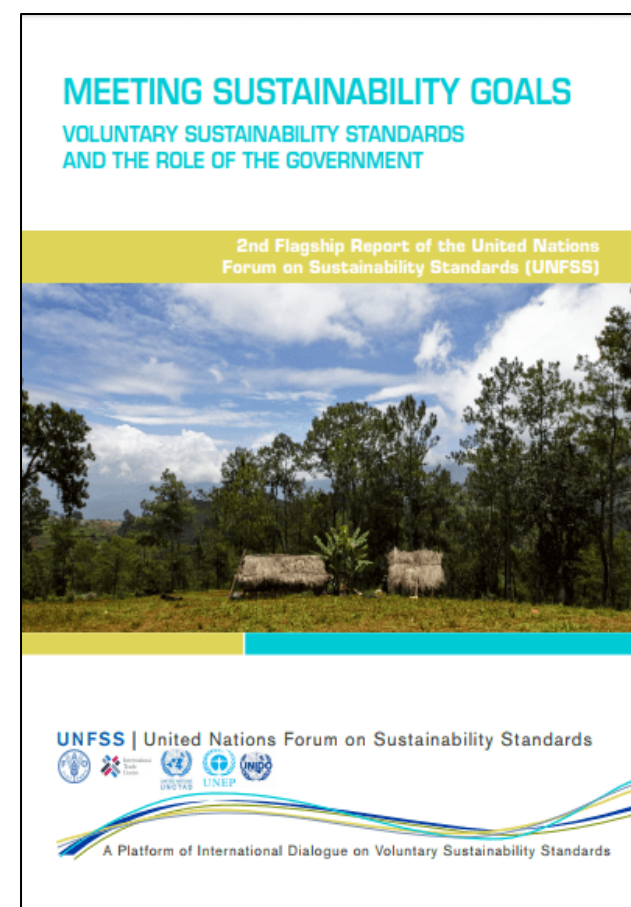
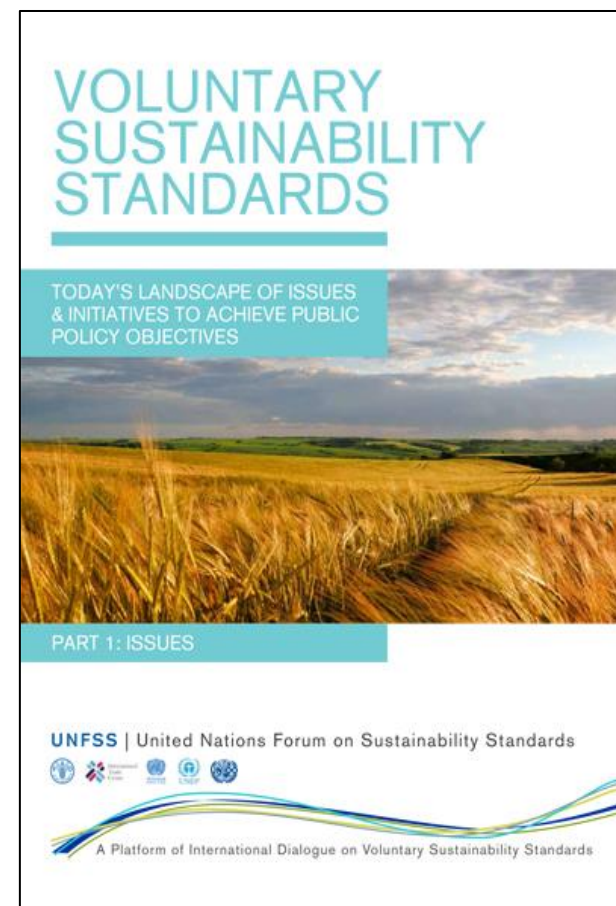


UNFSS

United Nations Forum on Sustainability Standards
a joint initiative of FAO, ITC, UNCTAD, UNECE, UN Environment and UNIDO

Flagship Publications

- The United Nations Forum on Sustainability Standards (UNFSS) publish once in every 2 years flagship report on VSS.



- Flagship 1- Public policy issues
- Flagship 2 – Role of governments
- Flagship 3- Trade and Sustainable Development
- Flagship 4 – Public Procurement and Trade policy



5TH FLAGSHIP REPORT LAUNCH

Voluntary
Sustainability
Standards

Sustainability
Trade Agenda

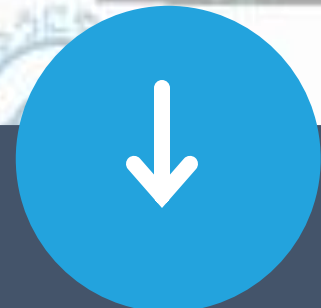
Developing
Countries



**UNFSS 5th Flagship report:
Voluntary Sustainability Standards, Sustainability Agenda and
Developing Countries: Opportunities and Challenges**

Aims and objectives of the Report

- Study the opportunities VSS offer for developing countries and their roles in advancing their sustainability agenda.
- Evidence on sustainability impact of VSS and on how VSS foster compliance
- Discuss challenges developing countries face vis-à-vis VSS
- Explore the role of VSS in broader regulatory approaches (national initiatives, due diligence, policy mixes)
- Based on the above, provide policy implications that contribute to both policymakers and researchers



VSS: Increasing importance and Relevance for Developing Countries



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1. VSS Uptake in Developing Countries

Development level effect

- Access to markets and GVC integration
- Reduced information asymmetries and transaction costs
- Increase in income through premium, trade opportunities, productivity gains
- Contribute to achieving SDGs

Barriers to VSS uptake

- Cost of certification and compliance
- Lack of incentives
- Socio-political resistance to VSS
- Lack of inclusion of developing countries in VSS governance structures

Enabling VSS uptake in developing countries



2. VSS Impacts and Opportunities for Sustainability

Sustainability dimensions under study

Environmental	<ul style="list-style-type: none">• Biodiversity• Climate change• Deforestation
Social	<ul style="list-style-type: none">• Monetary impacts: farm productivity, income and poverty reduction• Non-monetary impacts: health, child schooling, and gender
Economic	<ul style="list-style-type: none">• Trade volumes and value and demand• Transaction costs



Environmental Impacts

Authors	Outcome variable	Certification/ programme	Result: Impact of certification on the environment	Main outcome(s)
Miteva et al. (2015)	Deforestation, air pollution	FSC	Mixed	<p>Studies the performance of the FSC Forest Management certification programme in Kalimantan, Indonesia.</p> <p>It uses a causal triple difference approach to evaluate the performance of FSC-certified timber concessions compared to non-certified logging concessions.</p> <p>It finds a reduction in deforestation by 5 percentage points and air pollution by 31 per cent. However, there is no significant impact on fire incidence and an increase in forest perforation.</p>
Carlson et al. (2018)	Deforestation	RSPO	Positive	<p>Evaluates the impact of RSPO certification on deforestation in Indonesia.</p> <p>It finds that certification reduces deforestation in high tree cover areas and primary forests compared to non-certified plantations. Also, there is a 33 per cent reduction in deforestation due to RSPO certification.</p>
Tritsch et al. (2020)	Deforestation	FSC	Positive	<p>Studies the FMP along with FSC in the Congo Basin, which has made logging concessions mandatory.</p> <p>It finds that logging concessions with FSC certificates are more likely to implement their FMP. It estimates that FMP concessions lower the rate of deforestation by 74 per cent, but finds no statistically significant difference in deforestation between concessions with and without FSC certificates.</p>
Blackman et al. (2022)	Use of pesticide, fertilizer and herbicides	Organic coffee certification	Positive	<p>Studies coffee farms in Central Costa Rica to estimate the impact of organic coffee certification. It uses propensity score matching to estimate the causal impact.</p> <p>It finds that certification reduces use of pesticides, chemical fertilizers and herbicides, and increases adoption of environmentally friendly management practices</p>
Blackman et al. (2018)	Deforestation	FSC	No impact	<p>Studies FSC certification in Mexico.</p> <p>It uses a matched difference-in-differences approach to identify the effect.</p> <p>It finds no significant impact of FSC certification on deforestation.</p>
Norden et al. (2015)	Conservation	FSC	No impact	<p>Studies the effects of FSC and PEFC certification, respectively, in Sweden.</p> <p>It uses fixed effect regression and propensity score matching to evaluate the impact.</p> <p>It finds no impact of either of the programmes on reducing non-compliance with regulations in high conservation value areas in Sweden.</p>
Panlasigui et al. (2018)	Deforestation	FSC	No impact	<p>Studies the impact of FSC certification in Cameroon using the Global Forest Change dataset .</p> <p>It uses panel regressions to evaluate the impact.</p> <p>It shows that, to date, FSC certification has had little effect in terms of additional reduction of forest loss rates, compared with the uncertified concessions.</p>

Social Impacts

Monetary impacts

Authors	Country / region	VSS	Main finding
Akoyi and Maertens (2018); Vanderhaeghen et al. (2018)	Eastern Uganda	Fairtrade- Organic	<ul style="list-style-type: none"> Higher producer prices Decline in land and labour productivity No effect on farm income and poverty
		UTZ-Rainforest Alliance-4C	<ul style="list-style-type: none"> Increase in land and labour productivity Increase in farm income Reduction in poverty
Chiputwa et al. (2015); Meemken et al. (2017)	Central Uganda	Fairtrade-UTZ	<ul style="list-style-type: none"> Positive effect on household consumption expenditures Negative effect on poverty
		Organic-UTZ	<ul style="list-style-type: none"> Positive effect on household consumption expenditures No impact on poverty
		UTZ	<ul style="list-style-type: none"> No impact on poverty
Mitiku et al. (2017)	Ethiopia	Fairtrade-Organic and Rainforest Alliance	<ul style="list-style-type: none"> Higher producer prices Positive effect on income
		Fairtrade	<ul style="list-style-type: none"> No effect on income
		Organic	<ul style="list-style-type: none"> Negative effect on income
Beuchelt and Zeller (2011)	Nicaragua	Organic and Organic- Fairtrade	<ul style="list-style-type: none"> Higher producer price No effect on farm income No effect on poverty
Ruben and Zuniga (2011)	Nicaragua	Fairtrade	<ul style="list-style-type: none"> Higher producer prices
		Rainforest Alliance and Café Practices	<ul style="list-style-type: none"> Higher yields

Non-monetary impacts

Authors	Type of study	VSS	Country	Crop	Main finding
Asfaw et al. (2010)	Case study	GlobalG.A.P.	Kenya	Horticulture	Improved farmer health
Akoyi et al. (2020)	Case study	Fairtrade	Uganda and Ethiopia	Coffee	Increase in child schooling
		Rainforest Alliance			No impact on child schooling
Chiputwa and Qaim (2016)	Case study	Fairtrade	Uganda	Coffee	Positive effect on women's empowerment
Schleifer and Sun (2020)	Literature Review	various	various	various	Positive but weak impact on food security
Sellare et al. (2020)	Case study	Fairtrade	Côte d'Ivoire	Cocoa	Improved farmer health

Drivers of uptake

Drivers of compliance	Associated hypotheses	Enforcement	Capacities	Legitimacy
Price premium	<i>H1: Producers who benefit from certification-related premiums are more likely to comply with certification regulations.</i>	X		
Certification strictness	<i>H2: Producers are more likely to comply with certification regulations that are strictly enforced.</i>	X		
Training for producers	<i>H3: Producers who receive training are more likely to have internalized information about the rules, and will therefore be more compliant.</i>		X	
Help from certification bodies	<i>H4: Producers who receive assistance from the certification bodies are more likely to comply, since the presence of those bodies increases their reputation.</i>		X	
Help from cooperatives	<i>H5/6: Producers who receive help from cooperatives are more likely to comply.</i>		X	
Services from cooperatives	<i>H6: Producers who receive services (e.g. loans, financial support for education, technical support, subsidies for agricultural inputs) from cooperative are more likely to comply.</i>		X	
Trust in certifications	<i>H7: Producers who trust certifications are more likely to comply.</i>			X
Participation in the certification process	<i>H8: Producers who participated more during the certification process tend to comply more.</i>			X
Reason for joining certification (voluntarily, or other reasons)	<i>H9: The reason for joining the certification affects compliance rates: a producer who joins voluntarily will comply more than those who joined for other reasons.</i>			X
Satisfaction with certification	<i>H10: Producers who are more satisfied with certification are likely to comply more than those who are less satisfied.</i>			X

3. VSS challenges and developments for developing countries

Governance Gap

- Regulatory governance context in which VSS operate influences VSS adoption and effectiveness
- VSS can also 'overcome' or reduce the governance gap

National and international standards

- A case study: RSPO vs MSPO and ISPO
- Complements or competitors?
- Multiplicity of standards
- Harmonization and mutual recognition

Due diligence as a new regulatory approach

- Strong increase in sustainability due diligence initiatives in developed countries
- Little evidence of developing countries moving towards legislation requiring mandatory DD
- Explore link and complementarity between DD and VSS

VSS in policy mixes

- Governments can play a key role in creating enabling conditions for VSS to be widely adopted and effectively implemented.
- Governments and VSS interact in different ways: governments can support or control VSS or VSS can support government policies
- Each of these interactions would result in different forms of public-private policy mixes.



Developing countries VSS

Case Study: RSPO and ISPO/MSPO

	Private certification scheme (RSPO)	Public certification schemes (ISPO/MSPO)
Years of inception and revision	2007, 2013, 2018	2011, 2020(ISPO), 2013, 2021(MSPO)
Dynamics	Raise the bar	Raise the floor
Business context	Promotes segregated certified oil	Promotes all growers
Major market(s)	Developed countries (Europe, United States and other Western markets)	China, India and other emerging markets
Membership requirement	Membership required	No membership required (ISPO/MSPO); all growers/mills participate (MSPO)
Membership fees	€2 000 per year per premise	Free (MSPO and ISPO)
Import charges	\$1 per ton	Free (MSPO)
Average cost of certification	€1 000 per auditor-day	
€600 per auditor-day (MSPO)		
Requirement	Voluntary, no penalty for not being certified, but time-bound plan required from members.	Mandatory, penalty for not being certified
Scheme owner	Not-for-profit organization	Public sector (ISPO); working with the Government (MSPO)
Driver	Market-driven	Producer-based
Characteristics of members	Tend to be producers owned by listed companies, although the non-listed can also participate.	All mills and growers, including small-scale producers (ISPO 2020, MSPO after 2018)
Sustainability focus	Various aspects, but more emphasis on the environment and climate change	Various aspects, but more emphasis on poverty reduction/equitable development
Premium	Supply and demand (\$10~\$50)	Supply and demand
Standards	7 principles and 40 criteria	7 principles and 28 criteria (ISPO)
7 principles and 33 criteria (MSPO)		
Supply chain certification	Yes	Yes (MSPO); No (ISPO)
Certified area	2.1 million ha (Indonesia), 1.2 million ha (Malaysia) as of 2019	6.6 million ha (MSPO) as of April 2022
No. of certified mills	237 (Indonesia), 140 (Malaysia) as of April 2022	460 (MSPO) as of April 2022

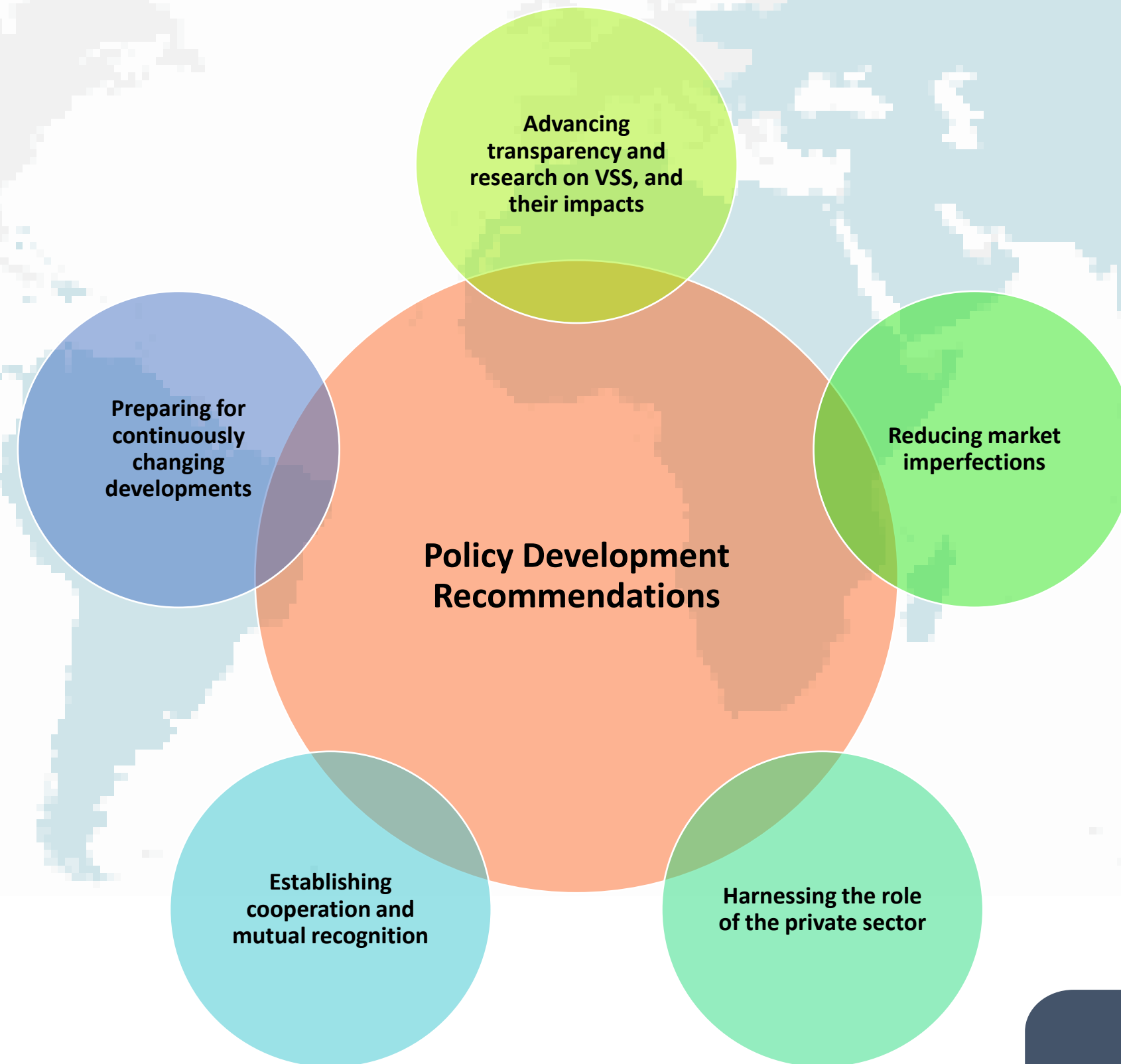
Source: Author, based on RSPO (2020); WWF (2012); Michida (2022); RSPO and MSPO homepages (<https://rspo.org/>, and <https://www.mpocc.org.my/about-mspo>) .

4. Conclusionary Remarks

-  Developing countries continue to face significant challenges to engaging in certification
-  Evidence of the environmental, social and economic impacts of VSS is mixed and case-specific
-  VSS can play a significant role in public policies and new policy developments



4. Conclusionary Remarks



Thank you!

www.unfss.org

<https://unctad.org/topic/trade-analysis/voluntary-sustainability-standards> -



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