

# Voluntary Sustainability Standards, Trade and Sustainable Development

3rd Flagship Report of the United Nations  
Forum on Sustainability Standards (UNFSS)



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A Platform of International Dialogue on Voluntary Sustainability Standards



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## About the UN Forum on Sustainability Standards (UNFSS)

The United Nations Forum on Sustainability Standards (UNFSS) is a platform created to analyze voluntary sustainability standards (VSS) and disseminate information about them.

UNFSS is rooted in existing mandates and activities of participating United Nations agencies. Its value lies in pooling resources, synchronizing efforts and assuring policy coherence, coordination and collaboration, in line with the “One UN” concept. UNFSS is coordinated by a steering committee consisting of Food and Agriculture Organization (FAO), International Trade Centre (ITC), United Nations Conference on Trade and Development (UNCTAD), United Nations Environment Programme (UN Environment) and United Nations Industrial Development Organization (UNIDO). UNFSS works in partnership with VSS experts representing civil society, producer associations, processors and traders, standard-setting organizations and certifiers, trade negotiators, consumers, and researchers.

UNFSS facilitates dialogue and knowledge exchange, providing a forum for intergovernmental actors to communicate with each other and their target groups to address information needs and influence concerned stakeholders.

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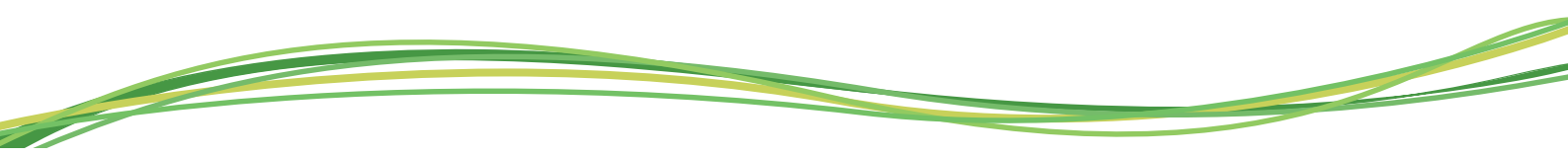
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# EXECUTIVE SUMMARY

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The 3rd UNFSS Flagship is set to impart an agenda surrounding Voluntary Sustainability Standards (thereafter known as VSS) and its relation to trade issues, in particular the impact of VSS on market access. Where traditional trade theory is concerned, the focus has been mainly tied to tariffs and non-tariff measures. Given the increasing influence of VSS over export opportunities in recent years, the objective of this report is to provide an in-depth understanding of VSS from trade policy perspective and explore how trade can shape the influence of VSS on developing countries' market access. The key questions of this report include:

- What are the impacts of VSS from the trade policy perspective?
- What sustainability concerns do VSS address?
- Do VSS have significant impact upon developing countries trade success and in their achievements of the Sustainable Development Goals (SDGs)?
- What can public actors do to support VSS' contribution to trade opportunities?
- What can potentially be the stipulated roles of global governance?

The relationship between VSS, trade and sustainable development are among the most pronounced concepts sought-after the realm of green global value chains. The intent of the 3rd UNFSS flagship aims to address these topics in two chapters. The first chapter analyzes the effects of VSS in the global economy by identifying the direct and indirect effects of VSS on sustainable development and trade, providing benchmarking analysis with reference to the 2030 SDG agenda, determining the indirect effects of VSS as either a market access enabler or barrier, that eventually ensues policy considerations in the effort to strengthen VSS through public governance. The second chapter complements the first chapter with a focus on the National VSS Multi-Stakeholder approaches, which predominantly sees the evolution of VSS taking shape in developing countries, followed by the national platform establishment experiences and knowledge-sharing contributions provided by Brazil, China and India as pilots of this initiative.

In summary, Chapter 1 serves to identify the main pathways through which VSS can contribute to sustainable development and examines trade-relevant dimensions that constitutes VSS either as facilitators or barriers to trade. While VSS systems are generally non-governmental private standards, it is important to note that public actors can play a crucial role in engaging VSS through several support mechanisms and/or use their convening power to enable the creation of new VSS. This chapter also addresses the concerns regarding the increasing multiplicity of VSS that has been argued to amplify barriers to trade. To ascertain the effects of VSS in the global economy, the key findings in this report includes:

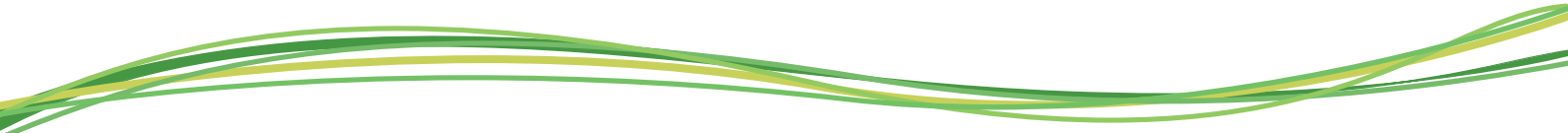
- **VSS as catalyst of sustainable development** – Using the Sustainability Map database which covers 241 VSS applicable to more than 80 sectors and 180 countries, the direct channel through which VSS can contribute to sustainable development can be measured by the empirical links between VSS and the SDGs. Benchmarking 10 selected SDGs against the requirements of the 122 VSS in the sample, the analysis reveals a significant potential to create institutional complementarities between VSS and the SDGs. In particular, in areas such as decent work (SDG 8), responsible production and consumption (SDG 12), and life on land (SDG 15), there are strong overlaps between the content of VSS and the SDG targets.
- **Suitability (effectiveness) of VSS crucially depends on the institutional design factors of VSS systems** – The “credibility” of VSS systems that concerns rigorous standard-setting, monitoring and verification procedures are apparently not universal. Therefore, whether VSS can be an effective implementation tool, especially with regard to the SDGs, very much depends on how the governments (and companies) pursue the system at national level.

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- **Relationship between VSS and trade** – Especially in the effort to reduce the burden on developing country producers, VSS should do more to actively support suppliers (especially smallholders in developing countries). Increasing transparency is a way to help reduce transaction costs.
  - **Proliferation of VSS** – While the number of VSS has greatly increased globally, the significant variation in the number of active VSS across different country-product-markets suggests that problems with duplication and overlap between standards (and the increased compliance costs on suppliers) are likely to differ across markets.

Extending from the idea that VSS, trade and sustainable development are intertwining concepts either as facilitators or barriers to trade, Chapter 2 stems on the involvement of multi-stakeholder approaches through the national platform initiatives. It primarily focuses on the increasing interest of VSS implementation in developing countries while addressing the opportunities and risks VSS might pose on the domestic economy and exports. Complementary to the empirical analysis, the succeeding part will draw actual experiences and forward plans of the national platforms from contributions of Brazil, China and India. Key findings composed in this chapter includes:

- **Positive reception of VSS through multi-stakeholder forums** - Despite the initial rejections of standards conceived in developed countries perceived to serve the interests of foreign corporations and introducing further “unnecessary” barriers to trade, developing countries are now increasingly motivated to participate in shaping the evolution of VSS thanks to the establishment of multi-stakeholder forums organized at the national level.
- **International schemes** – VSS are no longer seen from the perspective of individual corporations but rather, as instruments to serve the macro-economic objectives of transformation and sustainable development of the nation’s globally connected economy.
- **Challenges for VSS platforms** – Challenges discussed in this report covers the lacking capacities of national endorsement schemes, concerns around localisation of standards and the need to support MSMEs.
- **Multilateral organizations as solutions to fair representation of interests** – Observers from developing countries also speak out for putting multilateral organizations in charge regarding cases where regulatory action rather than voluntary effort is called for. The idea is mainly to allow governments from developing countries to be in a better bargaining position.

With all due respect, it is evident that VSS are perceived to bring positive outcomes for trade-induced economic growth, environmental sustainability and social development, but the shortcomings concerning market access barriers that are brought to light by the utilization of VSS must not be overlooked, as the second chapter rightly positions the crucial role of the public actors at national level.



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# CHAPTER I

## VSS, Trade and Sustainable Development

### Introduction

Over the last two decades, voluntary sustainability standards (VSS) have emerged as a new instrument of transnational trade governance (Cashore et al., 2004; Fiorini et al., 2016; Marx et al., 2015). Beginning in the 1990s, the first VSS with global reach were launched in the fields of agriculture, forestry, as well as in the fair-trade arena. Prominent examples are the Forest Stewardship Council, the Rainforest Alliance, and Fairtrade International. The rapid proliferation of these programs is part and parcel of a broader trend in global sustainability politics – a shift from a system of state-centered governance toward a system in which governance has multiple (often private) sources. Scholars have described this shift as a “Cambrian explosion” of new governance initiatives (Abbott, 2012).

As a new regulatory form, VSS set social and environmental standards for transnational production, and they often operate certification programs to verify compliance in global value chains. The Sustainability Map ([www.sustainabilitymap.org](http://www.sustainabilitymap.org)) of the International Trade Centre (ITC), an inventory of VSS, now counts over 240 programs that are active in a wide range of countries and product fields. Initiated by NGOs, firms or multi-stakeholder consortia (sometimes with the support of state actors), the proclaimed goal of VSS is to create win-win situations by reconciling environmental, social, and economic policy objectives. To this end, they use standards and often certification to reduce the negative externalities of transnational production, while promoting sustainable development through fostering green growth and trade. Increasingly popular as a tool for sustainable supply chain management, reputational risk mitigation, and the promotion of competitiveness, more and more lead





firms in global value chains adopt VSS, making their buying decisions dependent on suppliers' compliance with voluntary standards (Lee et al., 2012). Given the growing salience of sustainability issues on the international policy agenda, VSS are now also being discussed as a key instrument to help multinational corporations and governments contribute towards achieving the UN's Sustainable Development Goals (SDGs) and its 2030 targets (WWF, 2017).

However, the potential of VSS to deliver on these objectives remains uncertain and contested (FAO, 2014; Thorstensen et al., 2015). The impact of VSS on trade is subject to much debate, as developing country governments and producers continue to be wary about the costs of sustainability certification, non-transparent practices, and a lack of participation. In such settings, VSS are often seen as impeding rather than enabling sustainable development and trade. Because of these conflicts, VSS increasingly confront political challenges as well as local competition in developing countries, as government and industry actors revert to creating their own national sustainability standards (Schouten & Bitzer, 2015; UNFSS 2015: 32-25). Another important challenge facing VSS is their limited uptake in emerging markets like China and India (Schleifer, 2017; Schleifer and Sun, 2018).

More generally, little is known about the prospects for VSS to contribute to the wider SDG agenda. On the one hand, there are those who see great potential for "credible" voluntary standard systems to play an important role in this area (WWF, 2017). Others, on the other hand, are less optimistic, pointing to shortcomings and limitations of VSS as a mode of sustainability governance (Bartley, 2010; Bennet, 2018). Against this background, the main objective of this report of the United Nations Forum on Sustainability Standards (UNFSS) is to advance our collective understanding of the relationship between VSS, sustainable development, and trade – on a theoretical, empirical, and policy level.

This chapter has two main parts. Part I develops an analytical framework, identifying the main pathways through which VSS can contribute to sustainable development. Using a new dataset, the empirical analysis focuses on two aspects of this relationship. The first is the potential of VSS to serve companies and governments as tools to contribute to the SDG agenda. To this end, a mapping exercise is conducted, which benchmarks the content of voluntary standards against the main policy objectives stated in the SDGs. This is used to identify those areas in which VSS hold the greatest potential to contribute. Second, regarding the question whether VSS constitute facilitators or barriers to trade, the report examines various trade-relevant dimensions of the institutional design of VSS, including their cost sharing arrangements, transparency regimes, support instruments, and compliance systems. In addition, with a focus on key agricultural export commodities, the report analyses the proliferation of VSS in 90 country commodity markets (e.g. coffee in Brazil or tea in India). This part of the analysis directly speaks to the concerns about the increasing multiplicity of VSS, which has been argued to create problems for producers by increasing search and information costs as well as trade barriers, especially, for smallholders in developing countries (Brandi 2016). A multiplicity of VSS may also lead to confusion among consumers, undermining the credibility of VSS. Building on the results of the empirical analysis in Part I, Part II turns to implications for policy, focusing on ways to strengthen VSS through public governance. This part discusses examples of public-private interaction in this domain and presents policy options for achieving more sustainable outcomes in transnational trade governance.



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## Part I: VSS and Sustainable Development

### *Voluntary Standards as a New Regulatory Form*

Despite the growing attention surrounding VSS, there is no universally agreed definition of a voluntary standard. This is not surprising, given the great variety of NGO initiatives, industry programs, and corporate codes of conduct that are commonly subsumed under the label VSS. From an analytical perspective, however, this lack of clarity is highly problematic because it leads to concept stretching and blurs the lines between sometimes very different empirical phenomena.

Therefore, the analysis begins with a clear definition of the type of programs examined in this report. To this end, based upon the International Social and Environmental Accreditation and Labelling (ISEAL) Alliance's characterization, a working definition is developed. The ISEAL Alliance – a London based umbrella organization of leading VSS programs – uses the term “standard system” to describe “the collective of organizations responsible for the activities involved in the implementation of a [sustainability] standard, including standard-setting, capacity building,

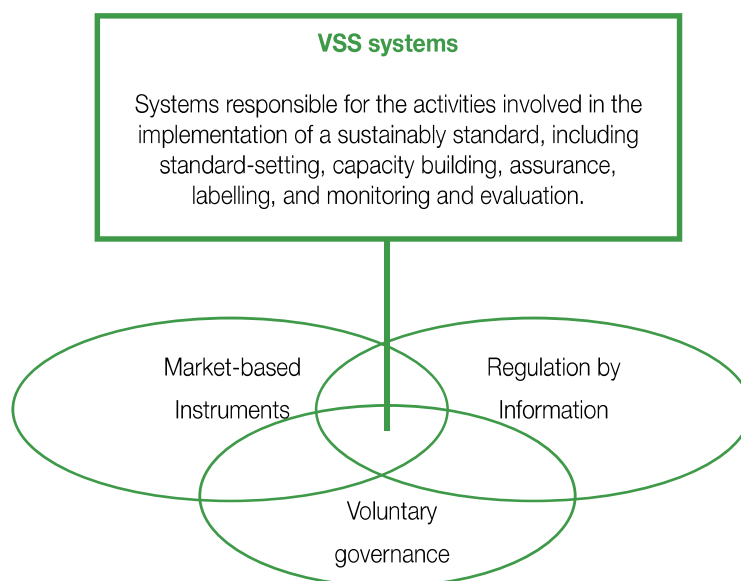
assurance, labelling, and monitoring and evaluation”.<sup>3</sup> Against this background, this report distinguishes four major attributes of VSS: (1) they have a discernible standard-setting and implementation system (i.e. they are not just a piece of paper but standard systems in the sense of the above definition); (2) they are led by private actors (NGOs and/or firms); (3) they are not corporate codes of conduct (i.e. firm-level programs); (4) they use information (typically certification/labelling) to create market incentives for sustainable production. VSS are thus conceptualized as a new regulatory form, situated at the intersection of market-based instruments, regulation by information, and voluntary private governance (see Figure 1). Moreover, given the focus on global value chains and trade, the analysis only includes transnational programs (i.e. programs that operate in more than one country).<sup>4</sup>

Most VSS systems are non-governmental and therefore fall in the category of private standards. Among this group, it is possible to distinguish between single-actor and multi-actor systems and

<sup>3</sup> ISEAL Credibility Principles, 2013. <http://www.isealalliance.org/sites/default/files/Credibility%20Principles%20v1.0%20low%20res.pdf>

<sup>4</sup> The definition and conceptualization in the present study complement the more comprehensive approach taken in the 1<sup>st</sup> UNFSS flagship report (UNFSS, 2013) where VSS are identified with the standards themselves as opposed to the related organizations.

**Figure 1: Voluntary standards as a new regulatory form**



Source: Adapted from Bartley (2010).

between different sponsorship arrangements (private sector, civil society or collaborative sponsorship). Table 1 illustrates the different types of VSS systems covered in this report, giving examples of real-world programs.

This, however, is not to suggest that public actors play no role in the field of voluntary standard-setting. To the contrary, many VSS have benefited from public engagement in one way or another. In this regard, governments and international organizations sometimes provide direct and indirect support to VSS

(e.g. funding, technical assistance, or endorsement – see Part II of this chapter for a detailed discussion). In addition, public actors can use their convening power to enable the creation of new VSS. One example is the Fair Labor Association, a leading labor rights VSS, which emerged out of an initiative of the US Department of Labor in the late 1990s. There is also a group of publicly sponsored voluntary programs. Prominent examples include USDA Organic and EU Organic Farming. In this study, however, the focus is on private VSS, such as the systems described in Table 1.

**Table 1: Types of VSS**

Type of system/ sponsorship	Single-actor system	Multi-actor system
Private sector	Firm-level codes of conduct, e.g., McDonalds Supplier Workplace Accountability Audit System; Unilever Sustainable Agriculture Code	Standard systems created by industry consortia, e.g. Program for the Endorsement of Forest Certification (PEFC); GLOBALG.A.P.
Civil society	Standards developed and administered by a single non-governmental organization, e.g. Rainforest Alliance	Standard systems created by alliances of civil society actors, e.g., Clean Clothes Campaign (CCC)
Collaborative arrangement	Not applicable	Standard systems that are jointly governed by business and civil society actors, e.g., Forest Stewardship Council (FSC); Roundtable on Sustainable Palm Oil (RSPO)

Source: Authors.

### Box 1. The ITC sustainability map

The Sustainability Map currently covers 241 VSS applicable to more than 80 sectors and 180 countries. The database contains public and private standards as well as domestic and transnational programs. The information included in the full database (not all data points are in the public domain) focuses on three dimensions of VSS: The contents of their standards, their geographical/sectoral scope, and their organizational processes (e.g. decision-making, standard-setting, verification, and dispute settlement). As described in the ITC's data protocols, data collection follows a rigorous process, including the participation of standard systems as well as external quality controls. The information contained in the database is updated in annual intervals.

In preparation of the empirical analysis, we use this definition to make a selection of VSS from the sustainability initiatives included in the ITC Sustainability Map ([www.sustainabilitymap.org](http://www.sustainabilitymap.org)). Launched in 2011, the Sustainability Map database (hereafter the database) is an inventory of VSS, including a wide range of programs and organizations in the field of sustainable production and trade (see Box 1 for details). In terms of its scope and depth, the database is one of the most comprehensive data sources currently available on VSS.<sup>5</sup> Applying the criteria defined above (private, transnational, market-based, and discernible implementation system) to the standards covered in the database, generates a sample of 122 systems for the analysis of the relationship between VSS, sustainable development, and trade.

### **VSS, Sustainable Development and Trade: A Framework of Analysis**

A clear definition of VSS permits the development of a conceptual framework that can be used as a tool to understand the potential role of VSS for sustainable development in a world with trade and global supply chains.

The answer to the question of the effects of VSS for sustainable development requires the understanding of why VSS arise in the global economy. Therefore, the first element of the framework pertains to the

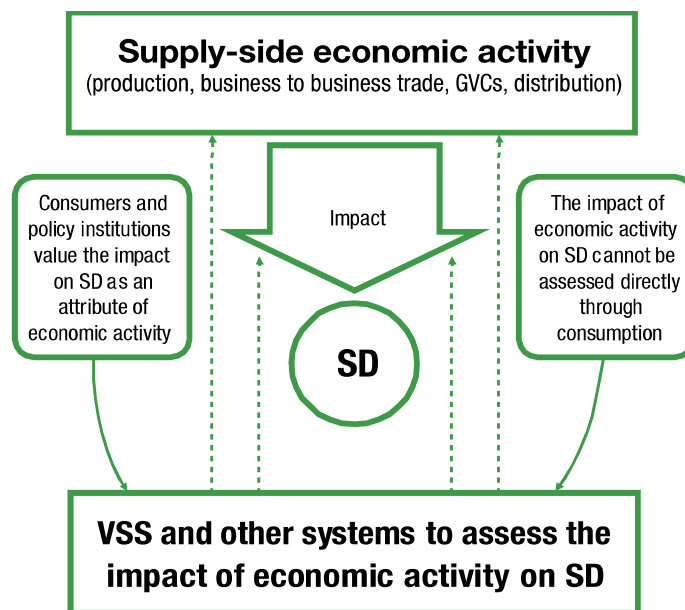
formation of VSS. The theory here builds on two simple observations. First, economic activities such as the production and distribution of a good or the performance of a service might negatively affect dimensions of sustainable development (e.g. the adoption of a production technology might not be environmentally sustainable). Second, the 2030 Agenda for Sustainable Development reveals that individuals and policy institutions positively value and promote sustainable development. The possibility that an economic activity negatively affects sustainability may be very relevant for consumers but is invisible and it cannot be verified through consumption nor through a verification process which is economically viable for consumers. VSS can act as mechanisms that consider impacts on sustainability associated with the production of goods and services and help consumers that care about dimensions of production that cause environmental harm or violate norms and social preferences to allocate their expenditures to products that do not do so (Auriol & Schilizzi, 2015; Baron, 2011; Jahn, Schramm & Spiller, 2005; Podhorsky, 2013). The latter may be idiosyncratic to a group of consumers or reflected in international conventions (ILO, human rights, etc.). A graphical representation of this rationale for VSS formation is given in Figure 2.<sup>6</sup>

VSS can be characterized as systems designed to affect supply-side economic activity in ways that impact on sustainable development. The existence and operation of VSS systems can modify the decisions of economic actors – producers,

<sup>5</sup> Another database of VSS is the Ecolabel Index ([www.ecolabelindex.com](http://www.ecolabelindex.com)). The Ecolabel Index includes a larger number of VSS than the ITC Standards Map. Partly, this is due to the fact that the Ecolabel Index includes many corporate codes of conduct, which are not covered in this report. In addition, it contains fewer data point per standard system – about 60 in comparison to about a 1,000 data points per VSS in the ITC Sustainability Map.

<sup>6</sup> The theory of VSS formation used in the present report is centered on sustainable development. An analogous rationale can be derived from quality or safety characteristics of a product which are not necessarily related to sustainability and would motivate the rise of quality and safety standards. An excellent formalization of public and private quality/safety standards is given by Swinnen et al. (2015).

Figure 2: The SD motive for VSS



Notes: SD stands for Sustainable Development; GVCs for Global Value Chains.

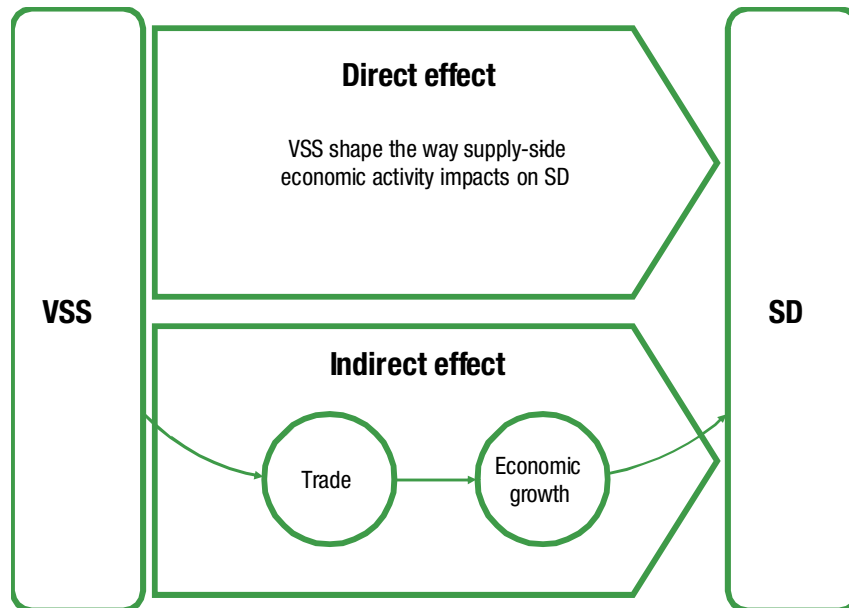
Source: Authors.

consumers and distributors – in a way that results in outcomes that enhance sustainability. Thus, for example, the information used and generated by VSS systems (typically certification/labelling) may create market incentives for the use of more sustainable production techniques. This role of VSS in affecting the decisions of economic actors will be denoted as the ‘direct effect’ of VSS on sustainable development in this report.

VSS can also have a broader impact on economic activities that go beyond their direct effect on production processes. They may also affect the structure of the market, global value chain participation and other trade-related phenomena. These can in turn have an impact on sustainable development insofar as they create incentives for other producers in other sectors to increase attention on sustainability – a demonstration or learning effect, or, through their impact on the profitability of trade, on investment incentives, productivity and economic growth. A key dimension of this ‘indirect’ channel through which VSS may influence sustainable development outcomes is through their consequences for market access: VSS may affect trade costs and create competitive advantages (or disadvantages) for firms depending on the specific features of VSS systems. Figure 3 illustrates the two channels through which VSS may have effects on sustainable development.

The direct effect of VSS on sustainable development is subject of much debate. Several authors/studies question the transformative potential of big brand sustainability and VSS (Dauvergne and Lister, 2012). Others, on the other hand, see VSS as an important instrument to promote and implement the SDG agenda in global value chains (WWF 2017). The indirect effect of VSS is also controversial (Thorstensen et al., 2015). On the one hand, the proponents of VSS argue that the use of sustainability standards facilitate access to global markets and global value chains by helping firms adopt more sustainable production techniques and obtain certification that their products and production processes meet international standards. They also point to the fact that credible VSS systems often provide developing country producers with support and assistance, including knowledge transfer (ISEAL, 2018). On the other hand, critics of voluntary standards argue that VSS can have the effect of non-tariff barriers (NTBs) to trade. One strand of the criticism is that VSS focus on environmental and social norms that do not affect the physical properties of a product. That is, VSS focus on so called nonproduct-related process and production methods that have long been a source of disagreement in the World Trade Organization (WTO). The WTO does not permit a country to make importation of products conditional on the level of attainment of sustainable development

Figure 3: The effects of VSS on SD



Notes: SD stands for Sustainable Development.

Source: Authors.

indicators or on whether an exporter has put in place specific systems that reduce negative by-product effects of production – e.g., whether workers have access to medical facilities. The rules in the WTO for product standards presume that such standards aim at ensuring the health and safety of consumers, plants and animals in the importing country and seek to prevent that such legitimate public policy goals are not used as pretext to discriminate against foreign products. Critics who argue that VSS systems act as NTBs object to VSS because they go beyond this and focus attention on behavior and economic activities in exporting countries. While they recognize that in principle VSS are voluntary, they note that if enough retailers adopt VSS this may make them a de facto requirement for accessing a market, and thus should be subject to multilateral regulation in the same way that mandatory products standards are. There is in fact some legal uncertainty about the status of voluntary standards in relation to the international trade regime, and some trade experts have taken the view that they constitute “unnecessary barriers to trade” (UNFSS, 2015). The potentially trade distorting effect of VSS has primarily been of concern for stakeholders from developing countries, although there is no single, unified “southern” position on these topics (e.g. IBEF, 2015).

The discussion that follows further develops the conceptual framework presented in Figure 3 that distinguishes between the direct and indirect effects of VSS on sustainable development and uses a new dataset of VSS to advance our empirical understanding of these issues.

### **Direct Effect**

The theoretical assessment of the direct effect of VSS on sustainable development is apparently straightforward. By construction, VSS activity should strengthen sustainability in the economic activity to which it is directed. However, sustainability is multidimensional, featuring economic, environmental and social dimensions. When assessing the effect of VSS account has to be taken on potential tensions between these different dimensions. For instance, environmental objectives might direct the operations of VSS away from the poorest areas of the planet making the systems less effective for poverty alleviation goals (Philott et al., 2008; Tayleur et al., 2018). Moreover, the political economy in the market for certification might distort the activity of VSS, resulting in certification being accessible to most productive firms, leaving poorest producers behind (Tayleur et al., 2016, 2018). Finally, the landscape and institutional design of VSS can be such that only certain dimensions of sustainability are systematically

addressed and only certain types of agents see their welfare increasing with the activity of VSS (Dragusanu & Nunn, 2018; Jena et al., 2012; van Rijsbergen et al., 2016).<sup>7</sup>

The assessment of these tensions, whether they exist, in which context and their severity is ultimately an empirical question. However, systematic empirical evidence on how VSS affect supply-side economic activity is scant (Loconto and Dankers, 2014). There are a number of impact case studies that seek to shed some light on the effects of VSS in different countries and industry sectors (FAO, 2014). One of the most rigorous and comprehensive analyses of the direct effects of sustainability certification on developing country producers is a study by the Committee on Sustainability Assessment (COSA). Using a quasi-experimental survey design, it investigates the effects of sustainability certification in 12 developing countries in the cocoa and coffee sectors (COSA, 2013). In general, however, a solid empirical basis on which an informed discussion about the direct effects of VSS could take place is currently missing. As of yet, little is known about the broader population of VSS and the usefulness of these programs to serve business and government actors as implementation mechanisms for the goals and targets set out in the 2030 Agenda for Sustainable Development.

As a first step toward a better understanding of this relationship, this report conducts a benchmarking analysis of the requirements covered in the standards of over 120 VSS and the SDGs. The objective is to inform future research and the policy discussion by identifying those dimensions of sustainable development in which VSS are best positioned to have to make a positive contribution.

<sup>7</sup> For a review of the literature reflecting on the direct effect of VSS on sustainability see Tayleur et al. (2018). Excellent formalizations and reviews of the complex effects of VSS (and of standards more generally) on the welfare of the all stakeholders are Bonroy & Constantatos (2014); Swinnen et al. (2015); Zago & Pick (2004). Finally, the literature has studied extensively the direct effect of standards on child labor. In that context, theoretical arguments and empirical evidence suggest that standards do not have an immediate nor unconditional positive effect on the eradication of child labor (Baland & Duprez, 2009; Basu et al., 2006; Chakrabarty & Grote, 2009; Chakrabarty et al., 2011; Doepke & Zilibotti, 2010).

### *Indirect Effect*

The indirect effect of VSS consists of three intermediate connections (see Figure 3):

1. the impact of VSS on trade;
2. the effect of trade on economic growth; and
3. the role of economic growth for sustainable development.

The composition of the last two connections determines the role of trade for sustainable development. This has been the object of extensive research and policy discussion. It has been recognized how trade, in its capacity to boost economic growth, is an important instrument to achieve sustainable development. The 2015 Addis Ababa Action Agenda explicitly recognizes international trade as an engine for inclusive economic growth and poverty reduction. This report will not replicate or synthesize the extensive literature on the links between trade and growth and between growth and development. Instead, the focus is on the first link in the chain: the relationships between VSS and trade.

Existing research has mostly focused on the trade effects of standards more generally. This has attracted a lot of attention across disciplines, including by trade economists. There is a lively debate, with some evidence for the view that standards can act as trade catalysts confronting both theoretical and empirical support for the contrary perspective of standards acting as trade barriers. Recent contributions and reviews of this literature include Fontagné et al. (2015), Staiger and Sykes (2011) and Swinnen et al. (2015). The main conclusion that can be drawn is that the impact of VSS on trade is conditional – it depends on relevant parameters in the economy. What these parameters are and how they shape the impact of VSS on trade makes up the final part of the conceptual framework discussed in what follows.

The framework distinguishes between two types of trade effects. First, VSS may impact on trade by changing the extant level of discrimination confronting foreign products or foreign suppliers of goods and services. This change may be either positive or negative, i.e., decreasing (increasing) effective discrimination and thus being equivalent to lowering (raising) a trade barrier. For a VSS to have a discriminatory effect there need not be any discriminatory intent, and in practice VSS generally are not designed to provide more favorable treatment of producers in one country over those in another

country. However, the application of VSS systems may be such to do so. For example, producers in different countries may not have the same access to VSS systems. Firms in different countries will generally confront different business environments. If a VSS devotes more resources to producers in a country that benefit from a better investment climate, they may inadvertently tilt the playing field more to the disadvantage of producers that are already confronted with huge challenges in selling their goods internationally.

Second, VSS can impact trade by affecting transaction costs for producers or traders. There may be a discrimination dimension here as well, but leaving that aside for the moment, the idea is that all VSS require producers to incur certain costs associated with changing their production techniques and obtaining certification for their output. At the same time, VSS also generate potential benefits – certification may expand demand (improve access to importing markets) and the shift towards greater sustainability may be associated with productivity improvements. Thus, VSS may increase or reduce trade costs. Such costs apply to all producers that have decided to adopt a VSS, domestic and foreign. Costs may be excessive in the sense of not generating benefits to producers that more than offset their investment and running costs of certification and compliance. However, VSS systems may include technical assistance that ensures there is a net benefit. What the cost effect and net benefits are depends on the design of VSS systems and on the market impact of each specific VSS. The more VSS systems exist for the same product, the higher the risk for producers of choosing a system that has little impact on market demand, the greater the incentive to adopt multiple VSS and the higher overall costs may be. From a trade perspective, the empirical question here regards the net effect of VSS on trade costs. The policy implications that arise are like those pertaining to trade facilitation: identifying measures that can lower the costs associated with the operation of VSS without undermining the realization of the sustainability objectives that motivate the VSS.

Both the potential discriminatory effects – where some dimension of a VSS is equivalent to a tariff or a subsidy in that it benefits only some producers as opposed to all firms that supply goods with very similar sustainability characteristics – and the trade cost effect have consequences for market access conditions confronting producers. Both need to be considered in assessing the net trade effect of VSS.

The relevant parameters that are likely to shape the trade effect of VSS can be organized in three broad categories:

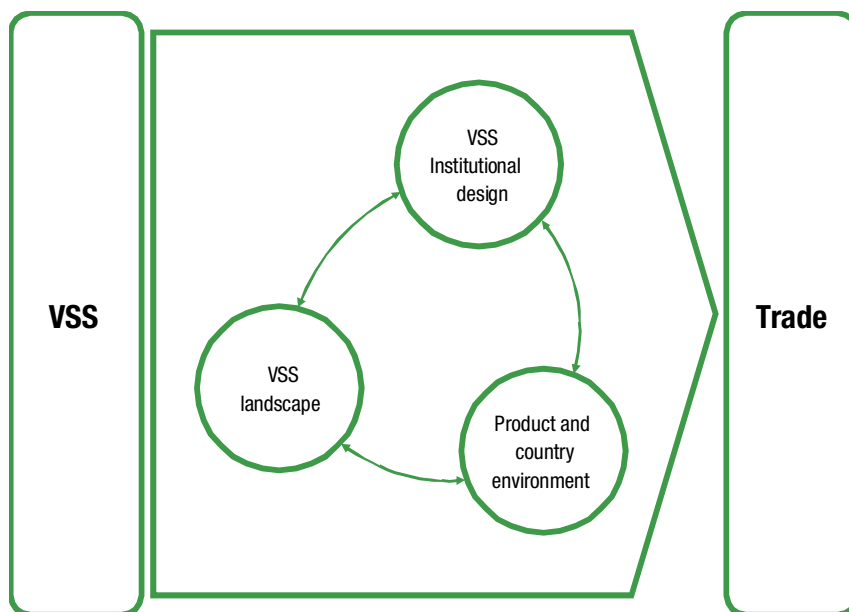
1. features of the institutional design of individual VSS systems;
2. the overall set of available VSS options for a product/sector; and
3. the market structure confronting producers.

The main elements covered under institutional design concern specific dimensions of VSS systems such as access (availability to producers in a given country), transparency practices, the substantive requirements they impose, their costs, whether they have cost-sharing mechanisms and provide assistance to producers, and more generally how they are implemented and governed, including the degree of participation of stakeholders in VSS decision making. The second category comprises the market structure ‘landscape’ that prevails regarding the number and scope of VSS systems for a given product or sector: is there a multiplicity of VSS that overlap with each other and thus competition among VSS in product and/or country-specific markets for certification? Is there coordination and cooperation among different VSS? The third category is the broadest and comprises the economic features of the market in which the relevant products compete. Factors here include market structure (the extent of market power along the value chain, the intensity of competition in different end markets and consumer preferences in major markets; features of the domestic economy such as access to credit and efficient logistics, and the quality of its governance institutions. All three categories can potentially interact with each other in shaping the effect of VSS on trade. Figure 4 offers a graphical representation.

Several hypotheses on how these parameters shape either the discriminatory or the trade-cost effect of VSS have been advanced in the literature, and, in some cases, tested with the limited available data. For instance, countries with low levels of economic development are less able to incur certification and implementation costs, pointing to a trade cost effect of standards (see Clougherty & Grajek, 2014 for the case of ISO 9000). Moreover, economic theory offers a potential explanation how the structure of the market for certification (e.g. how many VSS compete with each other, included in the second category of parameters above) can shape the way VSS affects different producers. If these effects are a function of



**Figure 4: The effect of VSS on trade**



Source: Authors.

how much information is revealed to consumers (or to economic agents located downstream the supply chain), selective revelation of the relevant information due to the exercise of market power by a VSS may reduce the potential for certification to increase market access for producers. In other words, VSS with monopoly or oligopoly power might be able to reveal very little about certified producers and this might in turn prevent certification to be an effective market access tool. Competition among certifiers might create the incentives for certifiers to acquire and reveal all information, triggering or amplifying the positive effects of VSS on trade (Lizzeri, 1999). Competition may also have negative consequences such as encouraging efforts by firms to adopt VSS that are easiest for them to comply with, but may not have the greatest effect in increasing their sales. More generally, competition among VSS regimes may increase costs for firm if they perceive a need to obtain certification by several VSS systems even through they may only need to comply with one.

In general, due to the limited availability of databases featuring both a wide proliferation of VSS and their uptake among exporters, rigorous empirical evidence is lacking on the role of parameters in the first category, i.e. pertaining to the institutional design of VSS. From a conceptual point of view – a higher support offered to producers, more participatory cost sharing arrangements where producers are not the only economic agents bearing the cost of certification/

implementation, a higher degree of transparency in VSS practices are all likely to determine higher uptake among the smallest producers in the poorest countries reducing the discriminatory and trade cost potential of VSS. The empirical exercise conducted in the following section offers a descriptive assessment of how these important parameters are distributed in a wide population of VSS.

***VSS and the 2030 Agenda: Empirical Analysis of the Direct Effect***

The 2030 Agenda on Sustainable Development was adopted at the United Nations Sustainable Development Summit in New York in September 2015. At the heart of this agenda are the 17 SDGs and their 169 targets (United Nations, 2018). Replacing the Millennium Development Goals (MDGs), which expired the same year, the SDGs are a holistic framework that define the international policy agenda. They cover a broad range of socio-economic, developmental, and environmental topics, including poverty, hunger, health, education, gender equality, water, energy, environment, economic development, and social justice.

In comparison to the MDGs, the SDGs are not only much broader in their scope, they also put a stronger emphasis on the contribution from civil society and the private sector. In this regard, former Secretary-General Ban Ki-moon stated that: “Business is a vital

partner in achieving the Sustainable Development Goals. Companies contribute through their core activities, and we ask companies everywhere to assess their impact, set ambitious goals and communicate transparently about the results” (SDG Compass, 2018). In response to these calls, for more private sector involvement, the question of how companies can best contribute towards achieving the 2030 agenda is widely discussed in policy circles and the business community (PwC, 2015). In the past, many business groups and corporations have already made ambitious sustainability commitments. One prominent example is the 2010 Zero Net Deforestation Declaration of the Consumer Goods Forum, a global industry network of over 400 leading retailers and manufacturers (CGF, 2017). Other examples are the sustainable sourcing strategies formulated by many major multinational corporations, including Unilever’s Sustainable Living Plan, Proctor and Gamble’s Sustainability Vision, and Starbuck’s Shared Planet Initiative. Clearly, there is no lack of such high-level corporate commitments. However, critical questions remain about how to scale-up these commitments and to implementing sustainability standards in the world’s global value chains (Climate Focus, 2016).

It is in this context that VSS are discussed as a possible implementation mechanism for the 2030 Agenda (DIE, 2015; IISD, 2016; UNFSS, 2016). Indeed, there are now hundreds of VSS operating in a wide range of industry sectors. As a collective, they have developed significant expertise and governance capabilities. In a recent report, WWF and ISEAL Alliance – two major players in the sustainability standards field – describe their high relevance for the SDG framework (WWF, 2017). Beyond their direct relevance to SDG 12 (Responsible Consumption and Production), they would speak to a wide range of policy targets included in the SDGs, including food security, gender equality, climate action and many others. Against this background, they argue that “credible” VSS – i.e. systems that have rigorous standard-setting, monitoring and verification procedures in place – can play an important role in helping companies contribute to the 2030 Agenda.

This directly links to ongoing academic discussions about the need to better exploit institutional complementarities between public and private sustainability governance and to close the existing “public-private engagement gap” in this area (Abbott, 2012; Abbot et al., 2015; Schleifer, 2013). However, there are also critical voices, pointing to the many gaps and loopholes in transnational trade governance and

questioning the effectiveness of VSS on the ground (Bennet, 2018; Ruyschardt and Salles, 2014). With the academic and policy debate about institutional complementarities between the SDGs and VSS now in full swing, empirical research in this area is still at a very early stage. In line with the analytical framework developed above, we aim to shed some light on the issue – specifically, the question to what extent VSS can directly contribute to sustainable development by serving as an implementation mechanism for the SDGs. To obtain a sense of the complementarities that exist between VSS and the SDGs, a systematic benchmarking analysis between the standards of the 122 VSS in the sample and the SDGs and their associated targets is provided in the next subsection. The goal is to help inform potential areas in which VSS, taken as a whole, may be best positioned to contribute to the 2030 Agenda.

### **Benchmarking Analysis**

The benchmarking analysis was developed in three steps: First, a selection of 10 out of the 17 SDGs was made, focusing the analysis on those goals to which VSS and business actors are best positioned to directly contribute. This does not mean that they cannot or should not make a contribution to the other SDGs too. For example, SDG 9 (Industry, Innovation and Infrastructure) highlights investments in infrastructure – including transport, irrigation, energy and information and communication technology – as a crucial driver of economic growth and development. There are some VSS that focus to these issues. One example is the SuRe® standard for sustainable and resilient infrastructure of the Global Infrastructure Basel Foundation (GIB, 2018). However, the SuRe® standard remains an exception and most VSS operate in the agrifood and light manufacturing sectors (Fiorini et al., 2016). In addition, VSS can also indirectly contribute to the targets stated in many of other goals of the 2030 Agenda – that is SDG 1 (No Poverty), SDG 4 (Quality of Education), SDG 7 (Affordable and Clean Energy), SDG 10 (Reduced Inequalities), SDG 11 (Sustainable Cities and Communities), and SDG 16 (Peace, Justice and Strong Institutions). However, in this section, the focus is on direct effects. Therefore, to make the analysis as comprehensive as possible, 10 out of the 17 SDGs were selected through a pre-screening exercise (see Box 2).

Second, the 10 goals and their associated targets were benchmarked against the sustainability indicators contained in ITC Sustainability Map. It contains some 800 indicators, organized in five

Box 2. Selection of SDGs



sustainability “hotspot” areas: Environment, social, economic, quality management, and ethic/integrity. Within the structure of the database, all VSS included in the database are automatically mapped against these indicators. Reviewing them, the research team identified 294 sustainability criteria that directly relate to the 10 goals and which are covered by at least one VSS from the sample of 122 trade-focused VSS.

Third, the benchmarking exercise was used to conduct a goal-to-goal comparison (which SDGs are best addressed?) and an in-depth analysis of the top three SDGs (which aspects of these goals are best addressed?). In combination, this exercise allows to clearly identify those areas in which the complementarities between VSS and the 2030 Agenda are highest.

**Results**

The goal-to-goal comparison identifies the SDGs best addressed by the VSS in the sample. For each SDG, Figure 5 shows the number of requirements (covered by at least one VSS in the sample) that directly speak to this goal and its associated targets. As can be seen from the figure, there is significant variation between goals. On the one hand, with 102 relevant requirements, the complementarity between VSS and SDG 8 is highest. There is also a high level of complementarity between the sustainability requirements covered by VSS and SDG 12 and 15. In policy terms, this means that, taken as a collective, VSS appear best positioned to contribute to the 2030 Agenda in these areas – at least in terms of the content of their standards. On the other hand, the analysis suggests that SDGs 17, 14, and 2 are

less well covered by the 122 programs in the sample. These results, however, need to be interpreted with care. For example, the low coverage of SDG 14 (life below water) does not necessarily mean that VSS cannot function as implementation mechanisms in this area too. In fact, there are several individual VSS, such as the Marine Stewardship Council or Friends of the Sea, that specifically target life below water. By using the requirement structure inherent to the ITC Sustainability Map, the benchmarking analysis does not capture the full standard content of individual VSS, and this may create a bias, especially vis-à-vis more specialized programs. Nonetheless, the analysis of a large sample of voluntary programs creates a better understanding of the broader patterns of complementarity between the population of VSS and the 2030 Agenda.

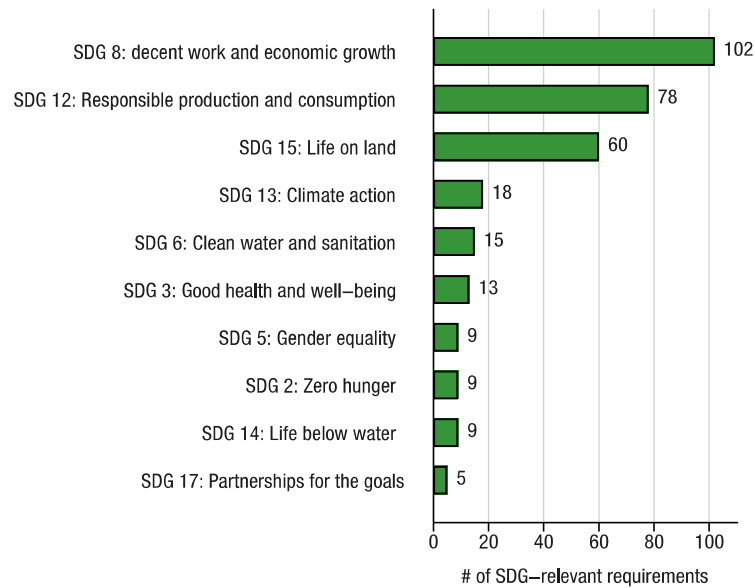
**SDG 8: Decent Work and Economic Growth**

In this and the following sections, a more in-depth analysis of the three priority areas identified above is conducted – i.e. the SDGs which came out on top in the goal-to-goal comparison. This is done in order to delineate the areas of complementarity between VSS and the 2030 Agenda even more clearly.

The overarching objective of SDG 8 is the promotion of sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. To this end, SDG 8 defines 12 concrete targets that address different dimensions of decent work and economic growth.<sup>8</sup> Through the

<sup>8</sup> A full description of these targets and their indicators can be found under the following weblink: [www.sustainabledevelopment.un.org](http://www.sustainabledevelopment.un.org).

**Figure 5: Goal-to-Goal comparison**



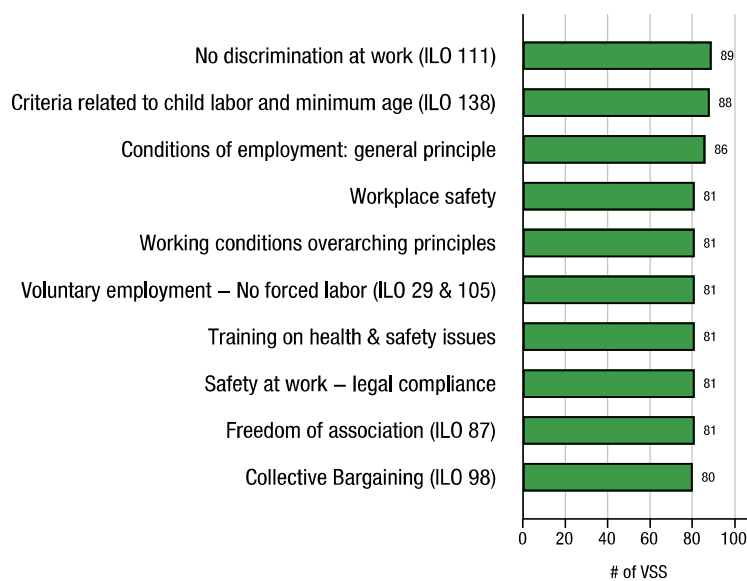
Source: Authors' calculations based on Sustainability Map.

benchmarking analysis, a total of 102 SDG 8 relevant requirements are identified. Based on this, the within-goal analysis determines the 10 requirements with the highest coverage among the 122 VSS in the sample (see Figure 6).

The figure shows that the requirements with the highest coverage all address aspects of decent

work. Interestingly, 5 out of the 10 most covered requirements for SDG 8 are directly linked to the core labor standards of the International Labour Organization (ILO). This finding reveals the existence of strong institutional complementarities between VSS and SDG 8's decent work component but also with the international labor rights regime more broadly (Marx et al., 2017). This does not mean

**Figure 6: SDG 8 – Requirements with highest VSS coverage**



Source: Authors' calculations based on Sustainability Map.

that the economic growth dimension of SDG 8 is not addressed at all by VSS and their standards. However, the decent work component clearly is more salient. This leads to the conclusion that VSS are best positioned to address SDG 8's target 8.

**Target 8.8**

*Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.*

**SDG 12: Responsible Production and Consumption**

In general, the finding that VSS are highly relevant for achieving responsible production and consumption is not surprising. But which aspects of SDG 12 are best covered? In total, SDG 12 includes 11 specific targets. The 11 targets cover a broad range of issues, ranging from sustainable resource management to the promotion of green public procurement practices. In total, in the goal-to-goal comparison, 78 SDG 12 relevant requirements were identified. Out of these, Figure 7 displays the requirements with the highest coverage among VSS.

As shown in the figure, the requirements with the highest coverage mainly address issues related to

waste management, the use of chemicals, the training of staff on sustainability issues, and the development of environmental and social management systems. Linking these requirements back to the 11 targets of SDG 12, the analysis finds a high level of complementarity between the 122 VSS in the sample and targets 12.4, 12.5, and 12.6.

**Target 12.4**

*By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment*

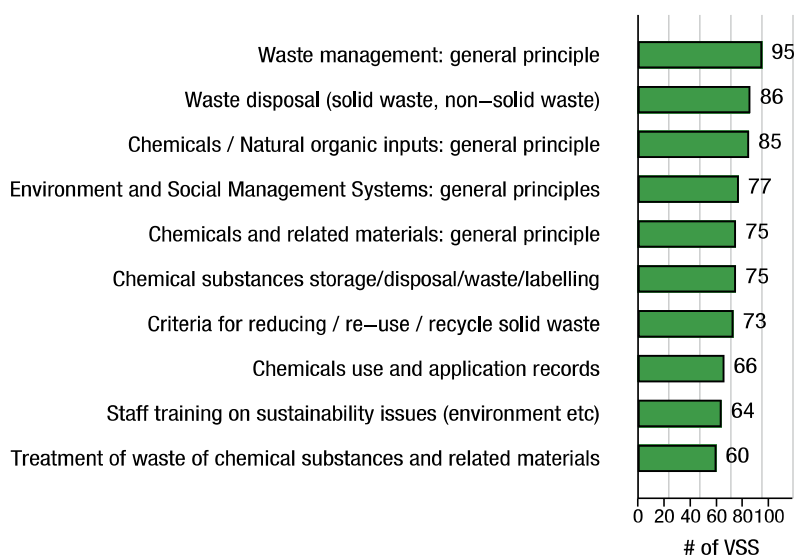
**Target 12.5**

*By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse*

**Target 12.6**

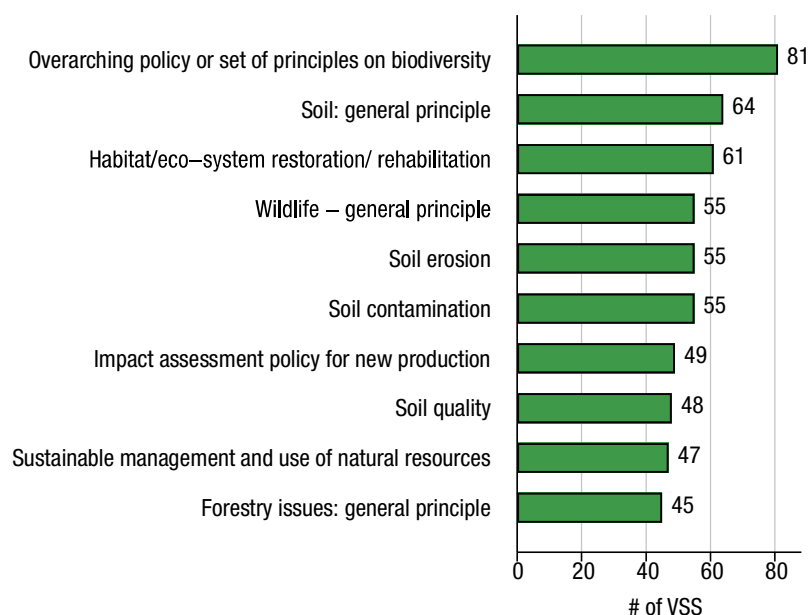
*Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle*

**Figure 7: SDG 12 – Requirements with highest VSS coverage**



Source: Authors' calculations based on Sustainability Map.

Figure 8: SDG 15 – Requirements with highest VSS coverage



Source: Authors' calculations based on Sustainability Map.

### SDG 15: Life on Land

SDG 15 aims to protect, restore, and promote sustainable use of terrestrial ecosystems, to sustainably manage forests, to combat desertification, and to halt biodiversity loss. These are indeed all aspects of sustainability on which global business activity has a direct impact. One important example is industrial agriculture. Over the last decades, the expansion of industrial agricultural has been a key driver of large-scale land use changes in the tropics, with critical consequences for rainforests and biodiversity in these countries (Baland & Duprez, 2009; Basu, Chau, & Grote, 2006; Chakrabarty & Grote, 2009; Chakrabarty, Grote, & Lüchters, 2011; Doepke & Zilibotti, 2010; Kemen et al., 2017). Such impacts are also linked to widespread environmental degradation and increasing CO<sub>2</sub> emissions, in turn creating implications for climate change, livelihoods and rural economies. Other major industries with a significant impact on life on land include the mining industry or the timber, pulp, and paper industry.

There are several well-established VSS systems that operate in these sectors such as the Forest Stewardship Council, the Roundtable on Sustainable Palm Oil, or the Alliance for Responsible Mining. However, instead of focusing on individual programs, this report is interested in the population of VSS systems and the degree of complementarity between

their standards and the sustainability issues contained in SDG 15 and its 12 associated targets. Through the benchmarking analysis, a total of 60 requirements that are directly related to SDG 15 was identified. Based on this, Figure 8 lists the 10 requirements with the highest coverage among the 122 VSS in the sample.

The analysis shows that a high number of VSS (81) includes principles and criteria related to biodiversity.<sup>9</sup> In addition, many VSS also cover requirements related to the quality, contamination, and erosion of soils. Finally, the sustainable use and management of forests and natural resources/eco-systems and the protection of wildlife are issues addressed by a larger number of programs. Against this background, the report finds that, as a group, VSS are best placed to help business actors implement SDG 15 in the following areas:

<sup>9</sup> For a recent in-depth study on VSS and biodiversity see (Potts et al. 2017): <https://www.iisd.org/sites/default/files/publications/standards-biodiversity-ssi-report.pdf>.

### Target 15.2

*By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally*

### Target 15.3

*By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world*

### Target 15.5

*Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species*

### Target 15.7

*Take urgent action to end poaching and trafficking of protected species of flora and fauna and address both demand and supply of illegal wildlife products*

## Discussion of Findings

In this section, the focus has been on whether VSS can serve business actors as a tool to implement the 2030 Agenda. In the analytical framework that has been used to guide the discussion (Figure 3) this was characterized as direct channels through which VSS can contribute to sustainable development. Although data limitations and time and space constraints make it impossible to fully trace the impact of this direct channel, the analysis contributes to a better empirical understanding of the links between VSS and the SDGs. It illustrates the existence of institutional complementarities between the standards of VSS and the individual goals and targets of the 2030 Agenda. Through the large-N benchmarking exercise, the analysis delineates areas where there is substantial overlap between VSS and the SDG Agenda. Both companies and governments could benefit from the technical knowledge and capabilities that VSS systems have developed in the areas of

overlap with specific SDGs. Integrating these VSS systems into existing public regulatory frameworks as well as business operations could support the realization of the SDGs and increase the effectiveness of transnational sustainability governance.

At the same time, however, other variables that have not been considered explicitly in the foregoing discussion will also play a key role in determining the effectiveness of VSS as an implementation mechanism for the SDGs. For example, a recent report by WWF and the ISEAL Alliance (2017) highlighted the importance of “credible” VSS systems – i.e. systems that have rigorous standard-setting, monitoring and verification procedures in place. But not all VSS systems are credible in this way. In this regard, a recent study shows that there is great variation in the institutional design of VSS system. While some systems are highly transparent and have developed strong support mechanisms many others are not (Fiorini et al., 2018). Therefore, the suitability (effectiveness) of VSS crucially depends on these and other institutional design factors and can vary greatly from system to system.

In addition, the geographic coverage of VSS is an important factor to consider. In this respect, a recent study by ITC and EUI (Fiorini et al., 2016) finds that VSS are less likely to operate in smaller and less developed economies. This could mean that VSS systems are not always operating in those areas in which they are needed most – e.g. countries in which pressures on the natural environment are high and in which public institutions are likely to lack the capacity to effectively address these problems.

Finally, whether VSS can be an effective implementation tool for the 2030 Agenda very much depends on the willingness of governments and companies to engage with these systems. While globally the proportion of voluntary standard compliant production has grown strongly in recent years, in most commodity sectors VSS systems are still far from reaching a transformative market share (Lenoud et al., 2017; Potts et al., 2014).

## **Are VSS Helping or Hindering Trade? Evidence on Indirect Effects**

This section identifies and analyses several trade-relevant dimensions of VSS’ institutional design – notably, their cost sharing arrangements, their compliance systems, their support mechanisms, and their transparency regimes. This allows to make statements about some of the trade-related

costs VSS can impose on producers and to identify ways to maximize VSS trade stimulating potential. Second, with a focus on nine key agricultural export commodities (soy, tea, coffee, palm oil, bananas, sugar, cocoa, cotton and wood products), the VSS landscape in 90 country-product-markets (e.g. soy in Brazil or tea and India) is investigated. This part of the analysis speaks to discussions about the continued proliferation of VSS, and how the resulting multiplicity of VSS creates high transaction costs and market access barriers for developing country producers – especially smallholders (FAO, 2014; Thorstensen et al., 2015). Against this background, the analysis conducted in this report provides a more fine-grained analysis of the countries and commodities sectors in which VSS multiplicity is likely to cause problems.

### VSS Institutional Design

As discussed in more detail above, the institutional design of VSS has crucial implications for their effects on trade practices. Nontransparent certification and verification procedures, for example, can greatly increase producers' transaction costs when seeking to achieve standard compliance. Similarly, VSS' cost sharing instruments, support instruments, and the design of monitoring systems are related to their effects on trade. Against this background, the analysis in this section focuses on key dimensions

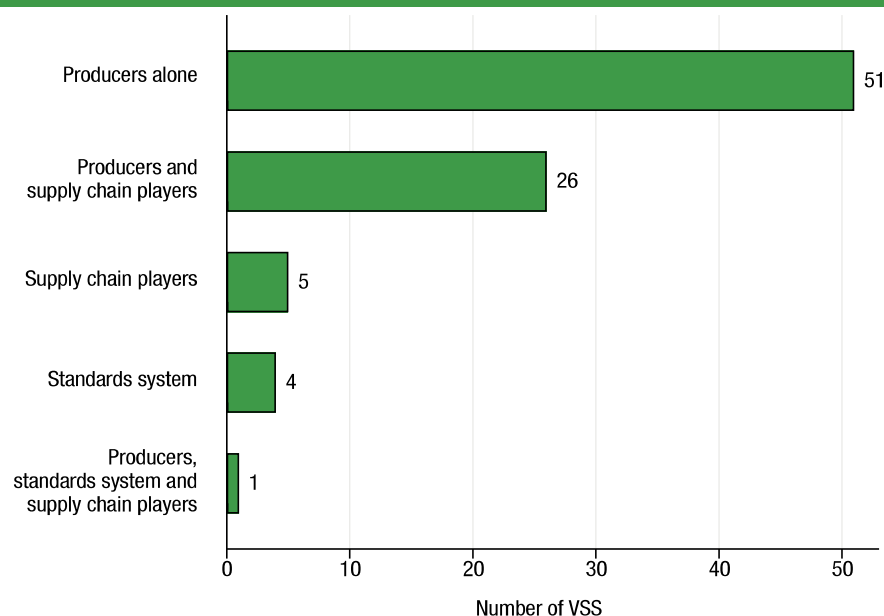
of VSS design. Using an updated data set, this part of the report and the subsequent analysis of the proliferation of VSS builds on and expands the collaborative work of the ITC, the European University Institute, and the University of Amsterdam in this area (Fiorini et al., 2016; 2017).

### Cost sharing arrangements

The first institutional design dimension considered are the cost sharing arrangements adopted by VSS. While the rhetoric surrounding sustainability standards is of that of a win-win-situation, the creation, maintenance, and compliance with VSS also creates costs. These costs need to be distributed somehow between supply chain players. Needless to say that these decisions – especially the costs related to compliance – have an important bearing on VSS' effects on trade.

On a very general level, compliance with VSS entails two types of costs: Implementation costs and certification costs. Implementation costs arise through the behavioral changes and the investments (e.g. the purchase of new equipment, transformation of conventional production systems) that are necessary to become standard compliant. Of course, the amount of these costs depends on the degree of behavioral change that is required as well as the expertise of the producer to make the necessary changes. Due to capacity limitations and lack of knowledge,

Figure 9: Implementation costs



Source: Authors' calculations based on Sustainability Map.



especially smallholders in developing country often face great difficulties in implementing private sustainability standards (Brandi et al., 2015). Next to implementation costs, the process of conformity assessment (certification), which is typically handled through a professional auditor, creates costs.

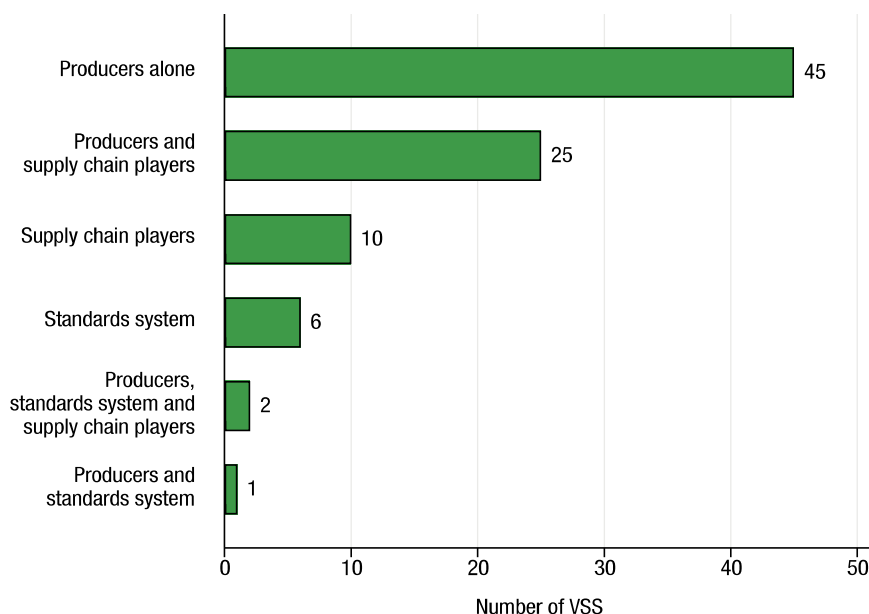
While there is no systematic data available on the amount of these costs, the database contains information on the cost sharing arrangements used by VSS. In this regard, Figure 9 describes the distribution of implementation costs. In the majority of cases (51 VSS or 58.6%) for which this information was available these costs are borne by producers alone. In addition, the analysis shows that 31% of the VSS reviewed use a model in which the implementation costs are shared between different groups of actors. In contrast, in only a very small proportion of cases are implementation costs borne by the standards system (4.6%) or other supply chain actors (5.7%), without contribution from producers.

A similar picture emerges when looked at the distribution of certification costs (Figure 10). In the majority of cases (45 VSS or 50.6%) these costs are borne by producers alone; standards that distribute the costs more equally between producers and other stakeholders are in the minority. For example, only 30.3% of VSS use a model in which certification costs are borne jointly by producers and other supply chain actors such as buyers, processing companies and

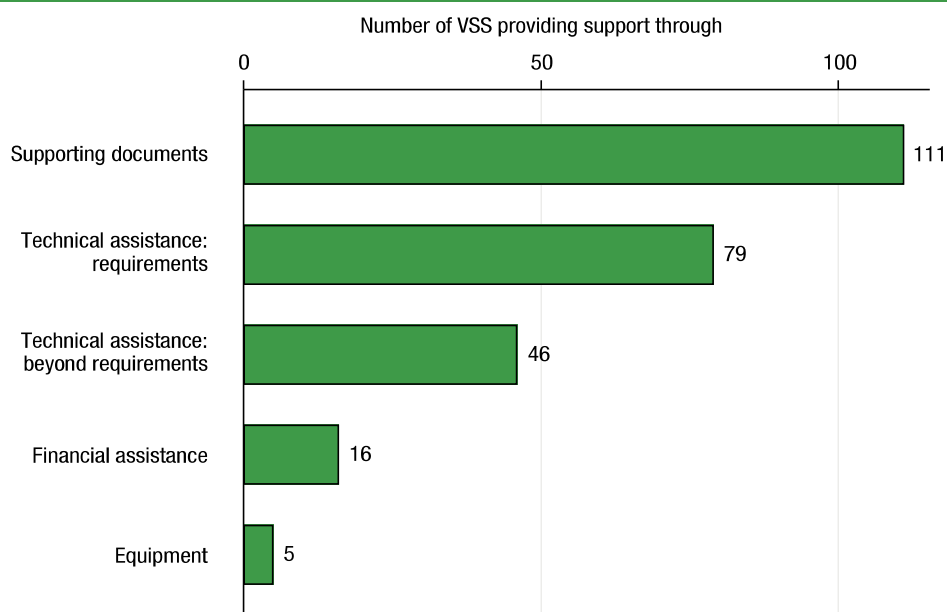
traders. Even rarer are instances in which producers do not have to pay any of the certification costs. This was the case for only 18% of the standards for which information on certification costs was available.

In sum, the analysis of VSS' cost sharing arrangements provides indicative evidence that current distribution practices are putting an overly high burden on producers. This could result in barriers to trade, especially for small-scale farmers and small and medium sized enterprises (SMEs) in developing countries, which may lack the resources necessary to pay these costs. However, these results need to be interpreted with care. For example, no information about the amount of these costs was available and whether current practices really hinder certain groups from becoming standard compliant and to gain access to global value chains. In addition, the analysis does not allow a differentiation between producers from developed and developing countries. However, interpreted in combination with the existing literature on sustainability standards and developing country producers (especially smallholders) (e.g., Brandi et al., 2015; Brandi 2016; Loconto & Dankers, 2014), the findings point to a more systematic problem in this area. There is a risk that current practices lead to an exclusion of these groups from VSS and global value chains, which, if unaddressed, could result in a negative developmental impact of these systems. At the same time, however, it also important to note that

**Figure 10: Certification costs**



Source: Authors' calculations based on Sustainability Map.

**Figure 11: Support provided to producers**

Source: Authors' calculations based on Sustainability Map.

several VSS systems have programs in place (e.g. the possibility of group certification) that seek to facilitate the inclusion of smallholders – but the challenges in this area are significant (RSPO, 2017).

### Support mechanisms

The second institutional design dimension considered are the support mechanisms of VSS. Through providing support to economic operators, VSS can actively facilitate access to global value chains and improve producers' economic performance. The database provides information on four key support mechanisms: Support through guidance documents, technical assistance to facilitate standard compliance, technical assistance that goes beyond complying with standards (e.g. productivity, market access), financial assistance, and equipment (e.g. fertilizers, tools).

As can be seen from Figure 10 the level of support provided by VSS varies significantly across these dimensions. Almost all programs in the sample for this information was available provide (91% or 111) support through guidance documents. In addition, many standards (64.6% or 79) offer technical assistance to meet standard requirements. However, significantly fewer standards (37.7% or 46) provide technical assistance to improve productivity, efficiency or market access. And only very few standards offer financial assistance (13.1%) or provide support in form of equipment (4.1%).

Looking at the cost implications of these activities, the analysis found that guidance tools and support documents are mostly provided free of charge. However, technical assistance – in particular technical assistance that goes beyond meeting standards' requirements – is often not free. The analysis also showed that many VSS systems offer their support activities in different languages. However, only a few systems adapt them to the local context, in terms of sector, firm size, and level of development.

In sum, the analysis shows that many VSS engage in support activities to help producers become standards compliant. This is important, especially if lead firms in global value chains increasingly demand suppliers to comply with the standards of these systems. At the same time, however, the results also suggest that much fewer VSS provide support activities that go beyond compliance with standards, such as helping producers increase their productivity and economic efficiency. On the one hand, it is not surprising that only few systems provide financial assistance and/or equipment. Typically, VSS are small organizations that do not possess the resources to provide material assistance on a large-scale. At the same time, however, VSS probably could and should do more to help producers (especially smallholders in developing countries) to increase productivity, efficiency, and market access.

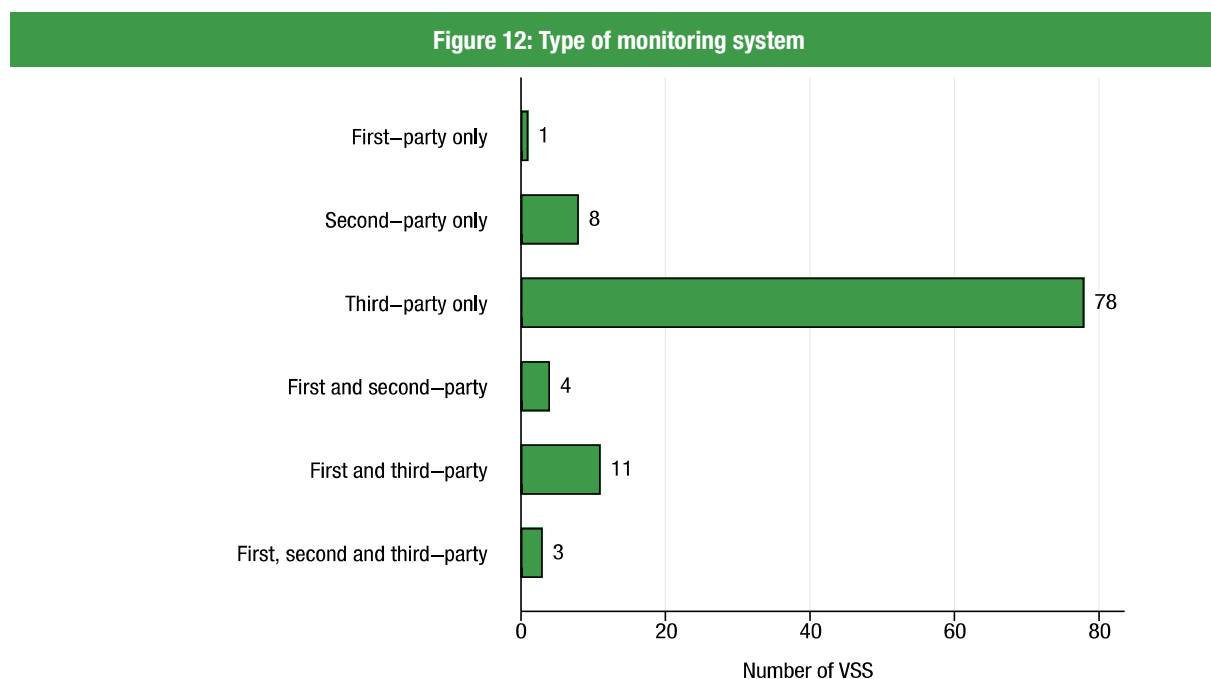
### Monitoring system

The third institutional design dimension is VSS' monitoring systems. For obvious reasons, monitoring is a key component of the certification process. While VSS systems can use support instruments to help producers implement and comply with sustainability standards, effective monitoring is at least equally important in addressing problems with non-compliance (e.g. to curb free-riding) (Prakash & Potoski, 2007). In addition, from a business perspective, credible monitoring systems are essential because they allow participating operators to send stronger signals about their sustainability performance to other market participants (e.g. corporate buyers or consumers). In this way, the design of monitoring systems has important implications for the trustworthiness of producers' sustainability claims, which can be a decisive factor in facilitating access to global markets and supply chains (Molenaar & Kessler, 2017).

On a very general level, it is possible to distinguish between three types of monitoring arrangements: first-party monitoring, second-party monitoring, and third-party monitoring. First-party monitoring is the weakest form of monitoring. It refers to systems in which monitoring and verification is organized and conducted by companies themselves. For obvious reasons, these arrangements are considered to be the least credible. The term second-party monitoring,

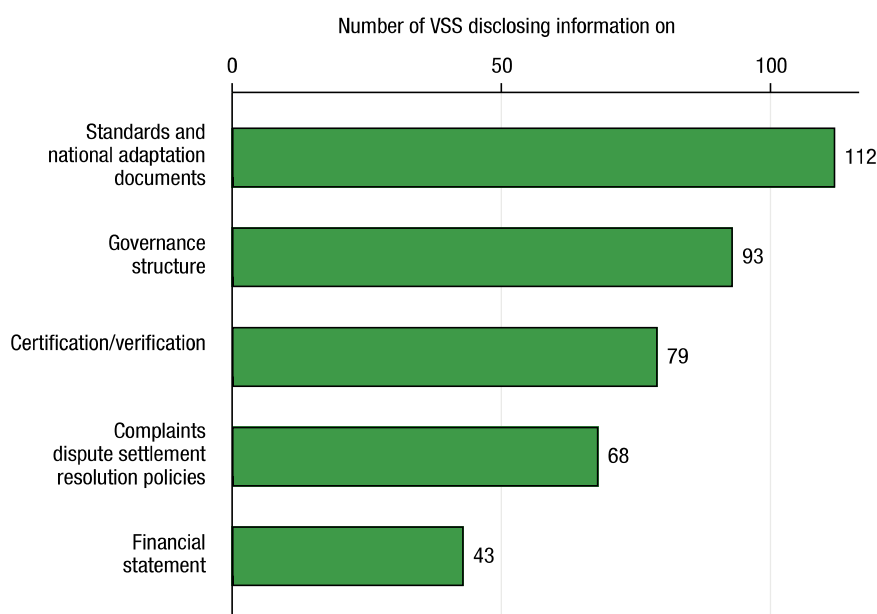
on the other hand, refers to systems in which the monitoring process is under the control of a second party (e.g. a buyer or an NGO), which, however, is also a direct party to the VSS system. Finally, there are third-party monitoring systems. In these systems, the monitoring is conducted by an independent third-party – typically, a professional auditing company. They are considered to be the most credible.

Figure 12 shows the type of monitoring arrangement used by the VSS systems in the research sample. This information was available for 102 out of the 122 systems. The Figure clearly shows that the vast majority of VSS (76%) uses third-party monitoring. Some VSS use mixed systems, which combine first, second, and third-party. In general, however, there are only few systems that exclusively rely on first and/or second-party monitoring. On the one hand, this is a positive finding. It shows that independent third-party monitoring is becoming the norm among VSS systems. On the other hand, however, one needs to be careful not to over-interpret the result. First, in the construction of the research sample for this report firm-level programs (i.e. corporate codes of conduct) were explicitly excluded from the analysis. But in the broader field of transnational trade and sustainability governance firm-level programs greatly outnumber multi-actor VSS systems (Abbott & Snidal, 2009). Today, there are thousands of firm-level sustainability programs, which almost exclusively rely on first-



Source: Authors' calculations based on Sustainability Map.

Figure 13: Transparency of VSS



Source: Authors' calculations based on Sustainability Map.

party monitoring. In other words, first-party remains the dominant mode in this governance domain. Second, the data analyzed for this report only allows for a broad distinction between different types of monitoring systems. To make statements about the quality and rigorousness of these systems, a more fine-grained analysis of the monitoring process would be necessary.

### Transparency regime

The fourth institutional design dimension investigated in this report is transparency. From a trade perspective, transparency about procedures is important because it influences the transactions costs faced by producers which seek to become certified. On the one hand, transaction costs arise as economic operators often have to choose from multiple VSS that operate in their product fields (see next section for a detailed analysis of the VSS landscape). In this context, transparency about standards and procedures can reduce their search and information costs, by making it easier to find the most suitable program. In addition, transparency facilitates the interaction between program and producer (e.g. the certification process) and in this way reduces transaction costs. The database contains detailed data about the information disclosure practices of VSS. For the purpose of this report, six areas of transparency have been identified:

- Free and unrestricted access to information on standards and national adaptation documents
- Openly available information about the governance structure
- Openly available information about the design of the certification and verification process
- Openly available information about the complaint and dispute settlement procedures
- Disclosure of financial statement

The analysis of VSS' information disclosure practices in these areas reveals significant variation between voluntary programs and areas of activity. As illustrated in Figure 11, almost all programs in our sample (91.8%) make the content of their standards and their national adaptation documents openly available. In addition, the vast majority of VSS (76.2%) disclose information about their governance structure and 79 (or 64.8%) are transparent about their certification and verification process. In contrast, transparency levels are significantly lower in the area of dispute settlement (55.7% disclose information in this area)

and only 35.2% of programs make their financial statements public.

In sum, the analysis of VSS' information disclosure practices reveal a good level of transparency in a number of important areas. Having open access to and information about standard documents, governance structures, and certification/verification procedures are of key importance for producers seeking adoption. On the other hand, however, a recent, more in-depth study into the transparency practices of VSS systems paints a less rosy picture (Schleifer et al., 2017). It shows how many VSS only engage in "shallow" transparency (i.e. transparency about formal procedures and processes), while disclosing little about the ways in which these programs really work in practice.

### VSS Landscape

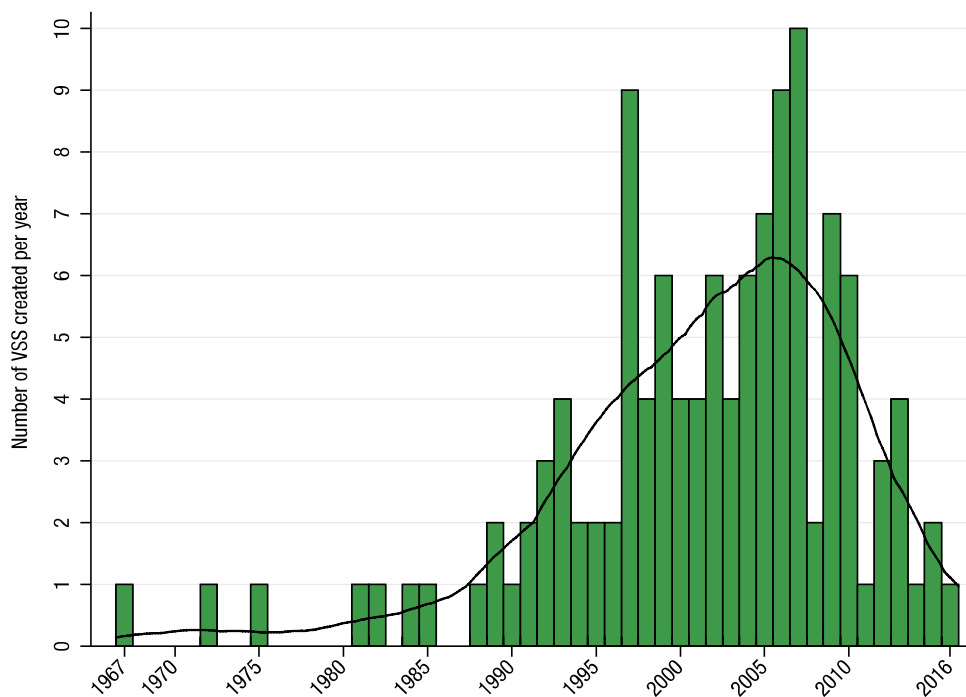
Following the theoretical framework outlined above, this subsection continues the exploration of VSS' indirect effects on sustainable development. To this end, it examines the landscape of VSS. As already mentioned in the introduction to this report, over the last two decades there has been a dramatic increase

in the number of VSS. Figure 12 illustrates the creation of new VSS over time.

Today, VSS are active in more than 80 industry sectors and 180 countries. On the one hand, this growth in the number of VSS can be interpreted as a positive sign, as it signals the increased salience and importance of sustainability issues in transnational production. On the other hand, however, the rapid growth in the number of sustainability standards is also creating problems. Today, there is a lot of overlap between standards as well as duplication in industry coverage. From a trade policy perspective, there are concerns that the rapid proliferation and growing multiplicity of VSS creates additional transaction costs and trade barriers for producers (Thorstensen et al., 2015).

Again, producers in developing countries (especially smallholders) are likely to be particularly vulnerable to these problems: First, they often lack access to information to make informed choices about which standard is best for them. Second, there is anecdotal evidence that suppliers increasingly have to comply with multiple standards as they sell their products to different markets and buyers. This can result in

Figure 14: Proliferation of VSS over time



Source: Authors' calculations based on Sustainability Map.

Figure 15: Markets with a high number of VSS



Source: Authors.

high transaction costs and a growing “audit fatigue” among producers. Third, VSS may become a de facto market access requirement for certain export markets. In the absence of harmonized standards and procedures, the added time and transaction costs entailed in complying with multiple programs could result in barriers to trade.

In addition to these concerns, the existence of multiple VSS in the same market can lead to competition between programs and allow firms to “forum shop” – i.e. to select the most lenient VSS system. In this regard, research has shown that forum shopping by firms can trigger a race-to-the-bottom dynamic between competing programs, putting downward pressure on the standards and their criteria and procedures (Fransen 2012; Marx & Wouters 2014; Schleifer 2013). Finally, the proliferation of VSS can increase consumer confusion and undermine trust. As discussed in more detail above, VSS essentially function as market signals. Through their labels and certificates they provide consumers with information about product attributes which are otherwise unobservable (e.g. that bananas have been traded “fairly”). However, in an increasingly complex VSS landscape, consumers find it more and more difficult to interpret these signals. And there are concerns that this could undermine trust in these instruments (Fiorini et al., 2017).

So far, however, the discussion about the proliferation of VSS has taken place at a fairly abstract level. From databases like the ITC Sustainability Map or the Ecolabel Index,<sup>10</sup> we know that the overall population of VSS has grown strongly in recent years – Figure 14 clearly documents this trend. But what is not known is in which countries and industry sector this has led to problems with overlap and duplication between standards.

In this part of the analysis, the data is leveraged to gain a better understanding of these issues. To this end, the VSS landscape for nine agricultural export commodities is analyzed (soy, tea, coffee, palm oil, bananas, sugar, cocoa, cotton and wood products). For each of these commodities, the 10 largest producing countries were identified, using data (volume of production) from the United Nation’s Food and Agriculture Organization (FAO) (FAOSTAT 2018).<sup>11</sup> This creates a sample of 90 country-product-markets (e.g. soy in Brazil or tea in India), and, for each of these markets, the number of “active” VSS was counted (i.e. programs that have certified at least one producer in these environments). Based on this, it is possible to

<sup>10</sup> For more information see: <http://www.ecolabelindex.com>

<sup>11</sup> Production data from 2014 (the latest year available) have been used to identify the top 10 producer countries for each commodity.

describe the characteristics of the VSS landscape in each market of these markets. Below, the findings for the country-product-markets with the highest and lowest number of VSS are reported.

### Markets with a high number of VSS

Figure 13 shows a selection of markets with a high number of active VSS. As can be seen from the figure soy in Brazil, soy in China, tea in India, coffee in Peru, and sugar in Mexico all count 10 or more active systems. As the focus in this report is on transnational programs (i.e. programs that operate in more than one country) the number of active VSS could even be higher as there may also be local systems operating in these markets.

However, a high number of active VSS does not necessarily indicate a problem. Sometimes VSS focus on different aspects of sustainability (e.g. environmental vs. social programs), operate in different parts of a country, or focus on different markets segments (e.g. premium vs. mainstream standards). In other words, there may be multiple active systems in a market but they do not necessarily overlap or duplicate one another. To the contrary, having multiple standards may even be desirable, as a single VSS is unlikely to cover all relevant aspects of sustainable development (e.g. poverty reduction, biodiversity preservation, price guarantee for producers).

In sum, additional (qualitative) research is necessary to examine whether the high number of active VSS in some markets has a negative impact on producers.

### Markets with a low number of VSS

Another key finding is that the number of active VSS varies greatly between country-product-markets. And there are many markets in which the number of active systems is low or even very low (see Figure 14). Among them are bananas in Indonesia, bananas in India, cotton in Australia, and wood products in Ethiopia.

Against this background, the analysis shows that the debate about the proliferation of VSS and its consequences requires a more fine-grained analysis. On the one hand, recent trends clearly show how globally the number of VSS has increased significantly over the last decade and a half. On the other hand, however, the more in-depth analysis reveals how locally there is great variation in the number of VSS that are active in a given market. In policy terms, this means that problems associated with duplication and overlap between VSS, such as increased compliance costs for producer or forum shopping, are likely to be an issue in some markets but not so much in others.

**Figure 16: Markets with a low number of VSS**



Source: Authors.

### Discussion of Findings

In the analytical framework developed above, trade promotion was identified as one pathway through which VSS can indirectly contribute to sustainable development. Against this background, the question posed at the outset of this section was whether these systems are helping or hindering trade. The objective in this section was to shed some light on the issue.

Given that currently no data of sufficiently high quality are available to permit quantitative analysis of the trade impacts of VSS, let alone for a large group of VSS systems, the foregoing used information drawn from the ITC Sustainability Map to explore several trade relevant dimensions of VSS systems. These included institutional design variables, including cost-sharing arrangements, support mechanisms, and transparency regimes and were complemented by an examination of the structure of the VSS 'landscape'. Taken together, the findings advance our understanding of the relationship between VSS and trade. The investigation of VSS systems institutional design identified several areas in which improvement is possible and desirable. For example, distributing the compliance costs of sustainability standards more equally among supply chain players is one concrete policy measure that would reduce the burden on developing country producers. In addition, taken as a group, VSS should do more to actively support

suppliers (especially smallholders) in developing countries. Moreover, increasing transparency is a way to help to actively reduce transaction costs. In terms of the debate about the proliferation of VSS and the problems that this creates, the results produce a more nuanced understanding of the phenomenon. While the number of VSS has greatly increased globally, the significant variation in the number of active VSS across different country-product-markets suggests that problems with duplication and overlap between standards (and the increased compliance costs this can create for suppliers), are likely to differ across markets.

Overall, several areas emerge where policies could be considered to avoid VSS systems creating "unnecessary barriers to trade" (UNFSS, 2015). The next part of this report discusses several policy options, with a focus on the coordinating role governments and international organization can play in this context.

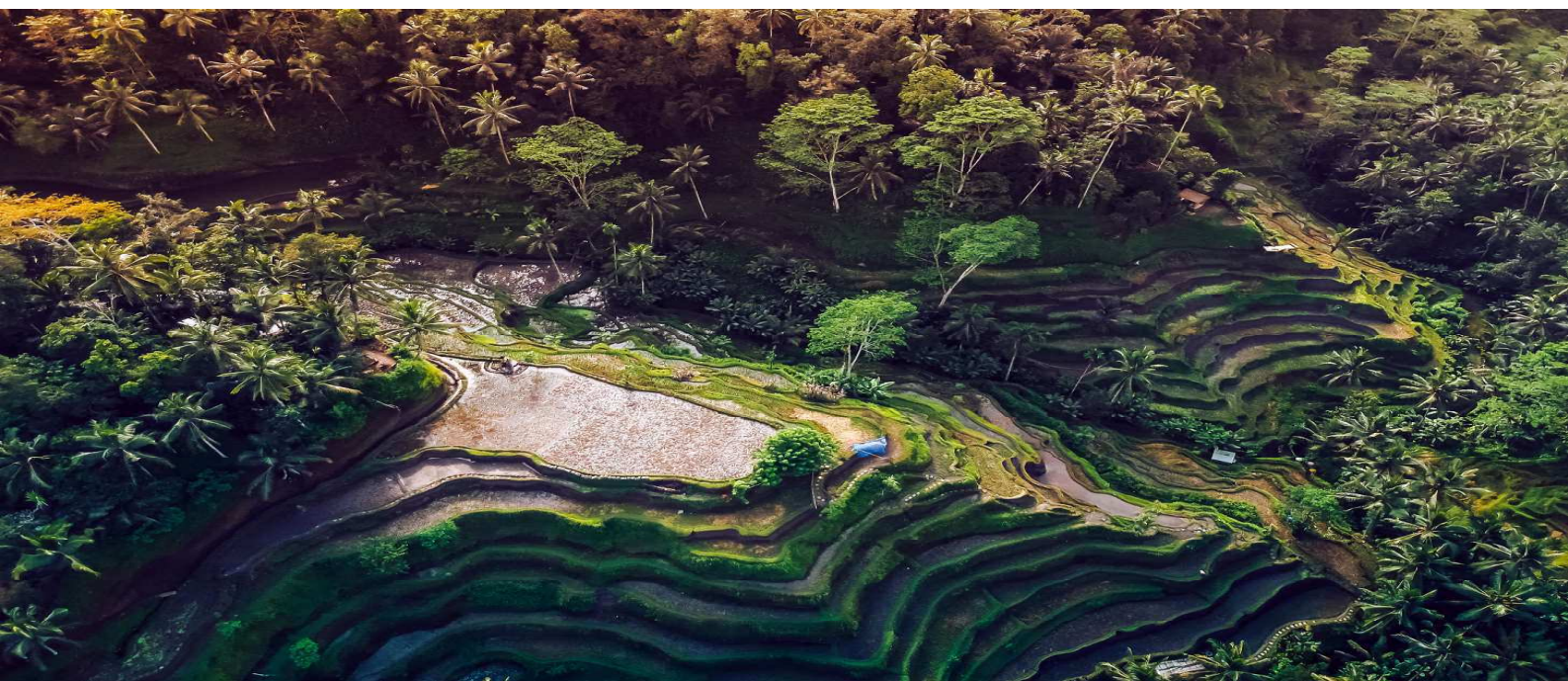


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## Part II: Policy Considerations

### **How can Public Policies Related to VSS Contribute to Sustainability and Trade?**

VSS are often described as non-state market-driven governance systems (Cashore, 2002; Gale and Haward, 2011). This means that they are “private governance systems that derive their policy-making authority not from the state, but from the manipulation of global markets and attention to customer preferences” (Cashore, 2002:504). However, this should not lead to the conclusion that governments do not play a role in the development, activities and effects of VSS.

This section will elaborate on the role of international organizations (IOs), governments, and their policy instruments. The field of VSS can best be perceived as a sphere of ‘co-regulatory governance’. This is a multi-centric form of governance, which means that “public and private policy authority coexist [...]. Public authorities co-regulate [...] private rule making, implementation, and enforcement through enabling legislation, hard law regulation, and/or soft law approaches.” (Lister, 2011:23).

As co-regulators, public authorities can contribute to the functioning of VSS, and thereby contribute to their

positive impact on sustainable development. But how can this synergy between private and public activities be created? To answer this question, a taxonomy of public policy activities is created below. After introducing the taxonomy, some empirical examples are given to illustrate how the taxonomy can be used. Finally, the feasibility and desirability of the different activities are discussed.

### **Public Governance of the VSS Landscape**

Our taxonomy of public governance of VSS by governments and IOs in terms of goals of (inter-) governmental instruments interventions follows the line of argument developed in previous sections of the report: our interest is in the contribution to sustainable development through *direct* and *indirect effects* of VSS. Hence, we specify goals in terms of their possible direct and indirect effects:

- *levels of sustainable development (direct)*, that result from producers being compliant with sustainability and economic development criteria in voluntary standards;
- *uptake of VSS (direct)*, which focuses on business adoption of standards, the degree to which this would signify broader market access, and the

- possible contribution this could make to SDGs;
- *institutional design features of VSS (indirect)*, which for the purposes of this report are focused on the degree to which VSS procedures are inclusive and transparent, offer support towards certification and possibly cost-sharing activities, thereby enhancing market access and the possible contribution VSS make to SDGs; and
  - *structure of the VSS landscape (indirect)*, which focuses on how fragmented or uniform the standards market is, and to what degree this helps or hampers VSS participation, and thereby its possible contribution to market access and SDG targets.
- *Economic instruments* involve government and IOs offer some kind of financial reward for alteration of behavior of VSS and/or their target market of businesses and/or other stakeholders. This includes tax cuts and subsidies.
  - *Legal instruments* mean that government and IOs steer VSS and/or their target market of businesses and/or other stakeholders through rules prescribing what these actors should or should not do. Examples include hard-law and soft-law efforts, such as guidelines, directives and principles.
  - *Partnering instruments* are (inter-)governmental efforts at building relationships between relevant actors involved in sustainability standard-setting, in the hope that different kinds of exchange among these actors benefits a policy objective. This includes support for multi-stakeholder forums, Public-Private Partnerships and business-to-business exchange events.

For reasons of parsimony and clarity, the focus in this report is on governmental efforts *explicitly* aimed at VSS operations. Of course, for a broader appreciation of what governments and IOs can do to affect VSS impacts on market access and sustainable development, one would need to look at a broad set of (inter-)governmental interventions in market structures. Competition policy, inclusive development policy and industrial policy may all contribute to market developments that in combination with VSS activities may help achieve SDGs. In what follows we limit attention to VSS-related policy interventions.

Governments and IOs can in a variety of ways steer the policies and practices of VSS to increase their positive contribution to achieving SDGs. Following Reinhard Steurer's (2010) work identifying different realms of government activity regarding Corporate Social Responsibility, this report distinguishes the following policy instruments:

- *Informational instruments* imply that governments and IOs provide knowledge that should persuade VSS, and/or their target market of businesses, and/or other stakeholders to behave differently. Think here of for instance government and IO reports and online instruments.

Table 2 provides a matrix that maps the direct and indirect goals (on the horizontal-axis) against the four categories of policy instruments (on the vertical axis). This taxonomy is an incomplete representation of the totality of possible governmental and inter-governmental initiatives. In practice, governmental and inter-governmental policies might mix different instruments, for instance by supporting a partnership that should produce information that persuades actors to behave differently; or by developing an instrument that both legally prescribes what businesses should do about VSS but also offers economic incentives for a quick adoption of VSS. The point of this categorization is to illustrate how policies *can* fall into each of these categories, and that each instrument has a particular logic of steering which may be more or less appropriate for the occasion and be perceived as more or less desirable by policy-makers when thinking about VSS effects on sustainable development.

Table 2: Types of policy instruments to influence VSS trade effects

		Direct effect		Indirect effect	
		Level of sustainable development	Level of uptake	Institutional design	Structuring VSS landscape
<b>Instruments</b>	<b>Information</b>	1. Promote particular policies in standards	2. Provide information on VSS and their benefits	3. Promote involvement of particular stakeholders in governance of VSS	4. Provide information for comparison across standards; conduct benchmark studies
	<b>Economic incentives</b>	5. Subsidize VSS; Benefit more/less stringent or elaborate standards by public procurement	6. Use taxes or subsidies for those getting certified with or committing to VSS; subsidize baseline standards	7. Subsidize VSS; Benefit VSS with strong procedures through public procurement	8. Subsidize baseline standards; subsidize coordination platforms among VSS
	<b>Legal</b>	9. Delegate compliance to standards; legally define requirements for VSS	10. Delegate compliance to standards	11. Public accreditation of third party monitors or VSS organizations; legally define institutional requirements for VSS	12. Delegate compliance to VSS using a baseline standard
	<b>Partnering</b>	13. Develop new VSS together with business and/or civil society; build platforms to stimulate substance of VSS	14. Develop partnerships with VSS and their stakeholders to promote insights; build partnerships for capacity building	15. Develop new VSS together with business and/or civil society; build platforms to stimulate revision of processes VSS	16. Build platforms promoting coordination among VSS

Some examples of activities by IOs and governments are discussed below. The latter are divided between activities by governments that are steering VSS because their country is predominantly a site of production of goods subject to VSS (“producer countries”), and governments steering VSS because their country is predominantly a site of consumption of goods subject to VSS (“consumer countries”).

At the global level several agencies from the United Nations family play a role (see box 1 and 2). Besides global international organizations, regional organizations can also influence the operations of VSS via the use of aforementioned informational, economic, legal and partnering instruments. Examples of regional organizations are the OECD and the European Union (see box 3).

### International Organizations

The activities of VSS are frequently inextricably linked to and structured by the work of international organizations. Not only do these organizations influence the broader regulatory, economic, discursive and material structures in which VSS operate, a wide range of international organizations also explicitly steer VSS in their endeavors to increase sustainable production.

### Box 1. UNFSS

Many International Organizations develop programmes related to VSS and assist public and private stakeholders with technical support and information regarding VSS. In the UN family alone, no less than five agencies are highly involved in supporting the positive effects of VSS. These five agencies are the Food and Agriculture Organization of the United Nations (FAO), the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD), the UN Environment Programme (UN Environment), and the United Nations Industrial Development Organization (UNIDO).

In order to pool resources, synchronize efforts and assure “policy coherence, coordination and collaboration” the five agencies work together in a cooperative effort called the United Nations Forum on Sustainability Standards (UNFSS) (UNFSS, 2018a). The UNFSS aims to advance the contributions of VSS to sustainable development in developing countries and it is “designed to become the backbone for the development of a coherent programme of public policy and private initiatives —at both standard-setting and implementation stage” (UNFSS, 2018b).

The UNFSS has clustered its work around three sorts of activities:

- 1) informed policy dialogue;
- 2) research and analysis;
- 3) support for national initiatives (UNFSS, 2018c).

Policy dialogues are set up by the UNFSS in the form of expert meetings, conferences and workshops. In this way mutual understanding is fostered and knowledge exchanged. Regarding the instruments taxonomy, these activities fall in the category of partnering instruments aimed at participation (higher uptake of standards, more developing country involvement, instrument nr. 14 in the taxonomy) as well as to institutional design (more inclusive and transparent VSS practices, instrument nr.15).

The research and analytical activities by UNFSS, such as publishing reports, discussion papers and policy briefs, are informational instruments that are also aimed at contributing to a positive effect on the participation and institutional design of VSS (instrument nr. 14 and 15). Lastly, UNFSS supports national initiatives in the form of National Platforms on VSS (see box 4 below).

### Box 2. FAO Guidelines for ecolabelling of fish and fisheries products from marine captured fish

The FAO Committee on Fisheries (COFI) is a subsidiary body of the FAO and is a global inter-governmental forum that discusses major international fisheries and aquaculture issues. It issues recommendations, and negotiates global agreements and non-binding instruments (FAO,2018).

Since the mid-1990s the FAO COFI has discussed the issue of fishery certification and labelling (Gulbrandsen, 2009:657). Concerns were raised over the transparency as well as impact of private standards. The development of a FAO-led labelling scheme was discussed, but no agreement could be reached. Instead, in 2005 it was decided to issue guidelines for the ecolabelling of fish and fisheries products.

The guidelines include general principles and definitions; minimum substantive requirements and criteria, and; procedural and institutional aspects for labelling schemes. These guidelines can be defined as soft legal instruments focused on the level of sustainable development (instrument nr. 9) as well as on the institutional design of VSS (instrument nr. 11).

In order to comply with the FAO guidelines the Marine Stewardship Council (MSC) decided to separate its standard-setting and accreditation functions and changed its procedures for receiving and responding to objections of fishery assessments (ibid.). This nicely showcases how a public intervention can affect the operations and procedures of private standards.

Box 3. EU energy directive

Over the past ten years the EU has developed a regulatory framework that supports private biofuel certification schemes. In 2009 the EU Renewable Energy Directive (EU RED) was adopted. This directive sets a 10% target for renewable energy in the transport sector. In order to secure the sustainable production of the biofuels used to reach this target, the EU RED included mandatory sustainability criteria for biofuels (EU, 2009; Schleifer, 2013).

“One way for companies to demonstrate that their biofuels comply with the criteria is to participate in voluntary schemes that have been recognised by the European Commission” (EC, 2018). Currently 16 of these private schemes have been recognised by the European Commission, including industry standards as well as multi-stakeholder initiatives.

The above example shows how the EU has delegated compliance to VSS of agro-commodities used for biofuels, such as soy, palm oil and sugar beet (instruments 9 and 10). The EU RED can be seen as a stimulus for VSS uptake. However, some are also critical about the effects of the EU RED. It is argued that the criteria do not set the bar very high regarding sustainability or institutional design of the VSS, as no requirements are included for stakeholder inclusion for example (Schouten, 2013, ISEAL, 2017).

**Producer Countries**

Governments of countries that predominantly produce goods in global value chains that are covered by VSS mostly span developing countries. Rapidly-growing, large emerging economies such as China, India, Brazil and South Africa are both relevant as suppliers of goods in global value chains and as end consumers. Emerging economies have often been skeptical towards VSS, regarding them as an encroachment of national sovereignty, and as protectionist measures as a result of being more

difficult for small and medium-sized enterprises (SMEs) to comply with (Van der Geest and Unno, 2012). There has been increasing engagement by developing country governments with VSS with a view to influencing the evolution of VSS to align them better with local priorities (Fues and Grimm, 2017). The boxes below describe two examples: the use of National Platforms that are developed to steer VSS towards the SDGs (box 4); and government support for domestic-level standard setting (box 5).



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#### Box 4. National VSS Platforms

In recent years National Multi-Stakeholder Platforms for VSS have been developed in various emerging economies. In 2016 India established the first National Platform, with the support of UNFSS (see Box 1). Brazil and China followed suit, and currently several other countries are also exploring possibilities to develop a National Platform (UNFSS, 2018d).

Through these platforms dialogue takes place between public and private stakeholders and they “facilitate an informed policy dialogue on how to pro-actively use VSS” (UNFSS, 2018e).

The Indian platform consists of a Multi-Stakeholder Assembly, a Steering Council, Sectoral Committees and a Secretariat. The latter is hosted by the Quality Council of India (QCI), a cooperative effort of the Ministry of Commerce and Trade and industry federations. In Brazil the platform is run by the Brazilian National Institute of Metrology, Quality and Technology (INMETRO), an executive agency of the Brazilian Ministry of Development, Industry and Foreign Trade. In China the secretariat is run by the Standardization Administration of China in cooperation with the China Association for Standardization.

Because the Indian platform is most mature, it will be taken as lead example here. The Indian National Platform aims to “facilitate dialogue between core public and private stakeholders on how to maximize the sustainable development benefits and market access opportunities of private sustainability standards (PSS), whilst addressing potential challenges and cost of PSS implementation, in particular for small-scale producers” (UNFSS, 2018f). To work towards this goal, the National Platform is developing the following activities:

- 1) Institution building
- 2) Knowledge creation
- 3) Knowledge sharing
- 4) Promotion of Private Sustainability Standards for achievement of SDGs
- 5) Capacity development
- 6) Harmonizing initiatives (ibid.)

Some of these activities make use of informational instruments, such as knowledge creation through research and studies, knowledge sharing through web presence, and capacity development through workshops for smallholders and producers. Other activities use partnering instruments, such as the development of the platform itself, knowledge sharing through forums, and the promotion of standards for achievement of SDGs via interaction with government and intergovernmental organizations. Lastly, the Indian platform aims to harmonize and benchmark standards by developing “standards for standards” (Fues and Grimm, 2017).

Since the platforms are still in their infancy, many instruments are currently under development. Nevertheless, they provide a clear example of how producer countries interact in various ways with VSS.

### Box 5. Government promotion of domestic-focused VSS

In the past few years, the amount of VSS designed in emerging economies and with a domestic scope has risen (ITC, 2017). Examples include labor-focused VSS in China and Thailand, sustainable palm oil focused standards in Indonesia, sustainable tea-focused VSS in India, and coffee-focused VSS in Brazil.

In many of these cases, governments and government agencies from emerging economies have contributed in some way to the evolution of these standards: sometimes as a standard-setter, sometimes as a member of a multi-stakeholder forum governing the standards (making it effectively a public-private partnership), sometimes as a funder of the standard or one of the parties governing the standard.

VSS can be designed for a variety of purposes, but it is clear that they can be used as an indirect steering mechanism by governments, also in light of ambitions to increase market access and government commitment to SDGs. Promotion of home-grown VSS means that governments offer businesses a locally contextualized standard for making production contribute to SDGs. These standards are often more basic in orientation than standards developed in OECD countries, thereby offering broader access to certification for businesses.

By promoting new standards, of course governments at first sight would appear to be making the standard market more complex. Compared to existing VSS systems that frequently originate in OECD member countries, some standards from emerging economies appear to be designed to complement existing standards. Examples include Trustea in India and Lestari in Indonesia (Langford, 2017). Global buyers that otherwise would demand certification from VSS systems such as Utz or the Rainforest Alliance accept these domestic VSS. In other cases, such as the Indonesian Palm Oil Initiative (ISPO), the relationship with existing transnational VSS such as the Roundtable for Sustainable Palm Oil) appears to be more contentious and competitive (Schouten and Bitzer, 2015).



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### Consumer Countries

Governments of countries that predominantly consume goods produced in global value chains that are covered by VSS mostly span OECD member countries. In Western Europe, governments have a long history shaping VSS in various ways. The Netherlands, Germany, the United Kingdom and the Scandinavian countries, in particular, have been active funders of VSS, supporting the activities of civil society organizations that contribute to VSS, facilitating partnerships that evolved into VSS, or contributing to the design of VSS systems. But, as recent studies have shown (Schleifer and Sun, 2018), also governments in emerging markets (e.g. China) begin to engage and shape VSS. The focus of these

countries has tended to be on electronic products, apparel, fisheries and agricultural commodities.

Generally, interventions in VSS policy-making by consumer governments are long-standing and thus predate the establishment of the SDGs. But with the SDG targets in place, governments can seek to leverage their support for VSS systems to help realize their SDG commitments. Two examples are provided in Boxes 6 and 7, pertaining to the activities of the German Development agency GIZ and an initiative by the Dutch government to promote sustainable trade. Both of these examples involve support for partnering among VSS and nongovernmental actors engaging with VSS in multi-stakeholder forums and public-private partnerships.

#### Box 6. GIZ as a promotor of standards

The German development agency GIZ (formerly GTZ) has a long track record of influencing VSS. As a funder and facilitator of multi-stakeholder forums it has focused over the years on finding common solutions for environmental and social standard-setting, including an apparel-focused roundtable, and a coffee roundtable that predated the evolution of the Common Code for the Coffee Community, now the Global Coffee Program (Fransen, 2015).

In most cases, GIZ has focused facilitation of stakeholder exchange on reduction of standard competition and its undesirable consequences, better access to certification for poorer producers, and creation of baseline criteria for what is considered sustainable production. This means that GIZ has facilitated interaction among global buying firms, supplier firms, civil society organizations, and existing VSS. Next to this, GIZ has also helped fund the development of the ISEAL Code of Good Practice that prescribes proper VSS standard-setting and governance for members of the VSS umbrella organization ISEAL Alliance. GIZ has also been a supporter of a voluntary standard comparison tool, the SSCT.



**Box 7. IDH as a promotor of standards**

IDH (Initiatief Duurzame Handel), the Sustainable Trade Initiative is a product of an agreement signed by the Dutch government, civil society organizations and industry representatives in 2008. The organization is mandated by the Dutch government and publicly financed. For the period of 2015-2020 the Dutch Ministry of Foreign affairs has granted IDH €120 million (IDH, 2018a). Other institutional donors are SECO (Switzerland), Danida (Denmark) and Norad (Norway) (ibid.). IDH's headquarter resides in the Netherlands, but it has representation in multiple countries around the world. The projects of IDH are developed in partnership with private companies in public-private partnerships and IDH's aim is to mainstream sustainability in commodity production.

IDH takes up multiple roles in supporting sustainable production, and makes use of a variety of instruments (co-funding, convening, learning and innovating). It is a convening actor that brings together companies, governments and civil society organizations to work together on specific issues. Next, it plays an important financial co-funding role. IDH matches (with a maximum of 50%) investments of its private partners. Lastly, IDH disseminates knowledge on strategic topics, on impact and new approaches (IDH, 2018b).

Commodity sectors covered by the work of IDH are amongst others cocoa, palm oil and timber. If we take the activities of IDH in the timber sector as an example, we see that IDH for the period of 2016-2020 "is to support certification of 2 million hectares of tropical forest – with FSC, PEFC or other credible standards" (IDH, 2018c). This is a specific measure aimed at increasing the uptake of VSS. In other words, it contributes to a higher level of participation, as explicated in our taxonomy. However, IDH's work on tropical timber goes beyond directly supporting certification. It also brings stakeholders together on the importing side of the supply chain, for example by founding the European Sustainable Tropical Timber Coalition (ibid.).

These examples illustrate types of activities and instruments that have been used by IOs and governments. Their impact on the SDGs and on market access has not been the subject of study – empirical research on this is very much needed to inform policymakers regarding the utility of these kinds of approaches vis-à-vis VSS. Aside from the important impact question, it is also worthwhile to consider factors that may influence the feasibility and desirability of alternative policy options and more generally actions that might be considered in working out whether and which types of policy interventions presented in Table 2 are most appropriate to pursue.

**Government Intervention in Producer Countries**

The feasibility and desirability of producer country government interventions into VSS will be determined by many factors that determine the effects of VSS, including the (global) market structure for specific products or commodities, the quality of domestic governance and institutions in producer countries, and whether there are international legal frameworks that apply to specific policy instruments and thus will affect their design or implementation. What

follows focuses on three types of policy interventions identified above that surface frequently in discussions about what producer countries could do to affect VSS: national platforms, local standards and delegated compliance. All three options can enhance the direct and indirect effects of VSS on SDGs.

Support for national platforms – sometimes called knowledge platforms – appears to be the lowest hanging fruit for governments. The basic aim here is to bring together parties that have a stake in a specific value chain to exchange views, share experiences and identify possible priorities for action on VSS from an SDG perspective. Such platforms can function as the starting point for the design and development of government programs and policies to steer VSS systems. The open-ended exchange of views and practical information may help to identify measures that can be taken to align agendas on where to go with VSS in a national context.

Necessary conditions to successfully build such platforms include non-adversarial relations among producers and traders. Insofar as there are industry associations already in place this can be beneficial as a precursor to establishing such platforms because the existing structures can serve as a mechanism

for interest-alignment among firms. Similarly, relatively open civil society structures can benefit the participation of NGOs representing workers or communities and ensure there is inclusiveness in discussions about VSS and sustainable development.

In terms of domestic governance, supportive relations between business and the government will also assist the development and operation of national platforms. There is important variation across producer countries in how state institutions govern domestic markets. The degree to which markets are regulated may differ, as may the degree to which government owns businesses, and levels of ambition in government policy-making to contribute to developmental goals. Accordingly, in some countries where the state plays a large role in the economy, government leadership in the design and operation of platforms will be appropriate, whereas in other countries this may take the form of public-private partnerships. In the case of developing countries, especially LDCs, successful platform building will depend on the availability of resources and may be supported with external assistance if deemed to be a development priority.

National Platforms can also be a mechanism through which to implement the obligation of WTO Member States to take *reasonable measures* to support the compliance of VSS with WTO agreements pertaining to product standards.<sup>12</sup> By disseminating information about the WTO rules or by financing activities that are in line with these rules, a National Platform can contribute to ensuring that actions taken towards VSS that are operating within the territory of the member state are consistent with international legal frameworks.<sup>13</sup>

One of the instruments that may emerge from national platform discussions could be new local sustainability standards that are supported by the government. These may go beyond voluntary standards and become incorporated into domestic legal regimes, applying to a sector or commodity. National standards may be a desirable tool where producer country governments have ambitions to advance sustainable development but perceive the

sustainability criteria in foreign-developed VSS to be incongruent with local conditions of production. A number of issues arise, notably whether the objective of the government is to apply the standards equally to domestic and foreign producers – as is called for by WTO agreements – or whether the aim is to enhance the consistency between productive activities in the country and attainment of SDGs. One expects that in most cases the goal is to adopt standards that promote sustainable development and seek to get these standards accepted in major import markets. The latter is critical as if importers continue to apply existing VSS (i.e., they do not accept locally developed standards as being adequate or effective), the development of a national standard will have little if any effect on market access or reducing the burden on national producers. Governments must recognize that VSS systems will continue to be used and thus that producers will still confront demands by buyers that they comply with VSS. What this suggests is that governments should engage with the VSS community in consumer countries and seek to make a compelling case that national standards are a more efficient and effective means of enhancing sustainable development goals. Market size will matter in this regard – large producer countries with a substantial share of the global market will have greater capacity to engage in such an effort, but at the end of the day they must convince consumers that the national standard does a better job than VSS. Engagement with lead firms, NGOs in consumer countries and consumer organizations, as well as the governments of consumer countries, will be needed. As the credibility of national systems are likely to be a key factor in obtaining acceptance, partnership with extant VSS systems – including potentially delegation (discussed below) – could help encourage market uptake and acceptance. Using national platforms to engage with the VSS community on issues of concern to stakeholders in the country and whether greater reliance on domestic standards would improve performance in achieving sustainable development is one way in which the needed deliberation and interactions could be organized.

Another option for governments with an interest in advancing specific sustainable development goals that match VSS criteria, but that do not yet have operational policies to advance these goals, is delegated compliance. Compliance with a VSS can then function as the equivalent of being compliant with public regulations. From a domestic governance perspective, delegated compliance saves the government the cost and effort of building

<sup>12</sup> The two most relevant agreement are the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) and the Agreement on Technical Barriers to Trade (TBT Agreement) (Purnhagen, 2015).

<sup>13</sup> Van der Zee, 2018 provides an extensive discussion of the responsibility of WTO Member States to ensure that VSS are “not more trade restrictive than necessary”.

and/or maintaining an administrative apparatus for implementation and monitoring of compliance. This is left to private parties. The desirability of this option depends on the willingness to accept a measure of de facto privatization of sustainable development governance, as development and monitoring of sustainability criteria is performed by business actors mostly. As the government is at arms-length from the process of implementation and monitoring it may not be able to quickly intervene should delegated VSS underperform in terms of effects on sustainable development. Governments also need to ensure that VSS chosen for delegation are a good match with prevailing productive conditions – otherwise domestic firms can be expected to seek to circumvent or push back on regulation.<sup>14</sup>

The political and administrative qualities of the state, and market conditions offer different opportunities and challenges for producer country governments to engage with VSS through policy-making. This means that discussions on feasibility and desirability of government instruments to influence VSS is likely to vary across countries. Some key features are however relatively clear and include market position, administrative capacity, state-business relations, and the degree of market organization.

### **Transparency, Information and Dialogue in International Fora**

A common element of many of the questions and issues that have been highlighted in the report is that much less is known about how VSS impact on sustainable development, both directly and through the trade channel, than is needed to inform policy making. An analogue to the National Platforms discussed above is needed at the international level.

<sup>14</sup> From a WTO trade law perspective, delegation (incorporation by reference into domestic law) may be very similar to issuing national standards. It will need to be established whether the VSS selected for delegation is a SPS or TBT Measure. If that is the case, the measure taken by the government is likely to fall within the scope of WTO agreements. In other words, if “a governmental measure identifies VSS [...] as “specific requirements that constitute the sole means of addressing a particular matter”, this may lead a WTO panel to conclude that the governmental measure is a technical regulation”, and as such obligations under WTO law could apply to the measure (ISEAL, 2018:13-14). Article 2 of the TBT Agreement lays down the main obligations for Member States regarding technical regulations (ISEAL, 2018:15).

There are numerous points of view, with proponents and opponents of VSS basing positions on incomplete information and relative ignorance regarding the impacts of VSS on trade and their effectiveness in promoting SDGs. There are obvious areas for analysis – e.g., the consequences of the proliferation of VSS – that require much better data to be collected. Absent of better data and targeted analysis, it is not possible to develop policy suggestions, including identifying what could or should usefully be done through organizations such as the WTO. Creating a platform for such deliberation is urgently required.

The call to eradicate information and transparency gaps is essentially fulfilled by a forum such as the UNFSS, which provides a platform for interaction between leading institutions and experts, from both the public and private sectors. UNFSS dialogues encompass decision-makers and national experts from both the developed and developing countries. It provides objective and up-to-date information on VSS, bringing together the analytical and empirical work of relevant institutions. The result of constructive two-way dialogue is to progressively build a knowledge hub and mutual understanding on VSS which helps stakeholders to develop strategies to maximize their developmental impact.

UNFSS is emerging as a prime intergovernmental forum for discussions related to VSS. It facilitates dialogues on strategic pro-active approaches on national policies, national experiences and meta-governance issues of VSS. The Forum highlights the development of a coherent program on public policy and private initiatives with respect to VSS (both at the standard-setting and the implementation stage) to:

1. achieve specific sustainability objectives of developing countries, including poverty reduction and the sustainable use of national resources and ecosystem services,
2. facilitate access to foreign markets,
3. reduce potential developmental and market access hurdles, and
4. lower compliance costs related to VSS.

## Conclusions

VSS can have direct and indirect effects on sustainable development while creating positive environmental and social impacts. Taking this as a point of departure, this chapter explored the potential and limits of VSS to serve as an implementation mechanisms for the SDGs and the 2030 Agenda. In addition, with a focus on their institutional design and the VSS landscape, this chapter also sought to shed some light on the complex relationship between private sustainability standards and trade.

There is significant potential to create institutional complementarities between VSS and the SDGs. In particular, in areas such as decent work (SDG 8), responsible production and consumption (SDG 12), and life on land (SDG 15), there are strong overlaps between the content of VSS and the SDG targets. To advance the implementation of the 2030 Agenda, governments and business actors should harness the capabilities and expertise of voluntary standards systems in these and others policy areas. However, the findings of this report also suggest that whether or not VSS can be “credible” implementation mechanisms depends on a wide range of factors, notably their institutional design.

The effects of VSS on trade remains a hotly debated topic. But the factual basis on which these debates are founded remains very limited. At this point in time, data spanning a broad cross-section of VSS programs that is of sufficient quality to allow quantification of the trade effects of VSS is not available. As a result, discussions about the relationship between VSS and trade are often driven by the politics of the day and/or ideological predispositions for or against voluntary, market-based instruments. Against this background, this report provides a data-driven perspective. Using information from the ITC Standards Map, it analyzed several trade relevant aspects of VSS. While this is only a small step towards a better understanding

of the impacts of private standards on trade, the analysis generates some interesting findings and policy implications that illustrate the value of investing greater effort to collect more detailed data on the operation of VSS.

Both the conceptual discussion and empirical case studies summarized in this chapter strongly suggest that VSS can potentially help increase market access, foster trade-led economic growth and sustainable development, create environmental improvements and deliver upon sustainable development objectives. However, VSS can also reduce market access for certain types of producers. Small scale businesses in developing countries and their governments are not always technically, financially or institutionally capable of realizing the potential trade and developmental benefits of VSS. There is also a concern regarding the increasing multiplicity of VSS, as this can amplify barriers to trade by raising costs for exporters. Given the potential offsetting effects of VSS on market access, it is important to understand which dimensions of VSS are associated with positive effects on trade. The discussion in this chapter provides a general categorization of the relevant parameters, distinguishing between country-, sector- and VSS-specific characteristics. These can guide case-by-case, in-depth assessments of the market access impacts of VSS in different markets.

The second part of chapter I discussed issues related to public policy: how to enhance the positive effects of VSS on sustainable development. Governments and international organizations can play a useful coordination role. Public actors can engage with VSS by providing different types of support mechanisms. In addition, they can use their convening power to create new VSS or to help better coordinate the activities of existing systems. Governments have an important role in amplifying both the trade and the sustainable development benefits of VSS by putting in place an enabling regulatory environment.



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# CHAPTER II

## National Multi-Stakeholder Approach

### Part I: Developing Countries Turn to Sustainability Standards

*Contribution by: **Sven Grimm, Thomas Fues, Archana Negi, Christoph Sommer and Jorge Perez Pineda** of The German Development Institute (DIE)*

#### Introduction

There is a demand side amongst consumers in advanced economies and amongst growing middle-classes around the globe, who want to act individually in a more sustainable manner. A certain segment of the consumer market is thus increasingly looking for “clean” or “green” products, be that sustainably harvested wood, fair-traded products such as cocoa and coffee, natural stone produced without child labour, seafood caught without threat to fish stocks and goods with a minimal climate footprint. Due to this growing consumer awareness and demands and growing environmental risks such as a changing climate, transnational corporations turn to voluntary sustainability standards (VSS) in order to mitigate reputational risks and differentiate their goods and services under competitive conditions. The way in which this is done and regulated (or not) affects local producers and is thus regarded as a task for a multi-stakeholder arrangement, particularly in those countries that have developed certain administrative capacities. Consequently, emerging economies – countries with the will and capacity to engage globally – aim essentially to provide a regulatory framework for enterprises in their territories. And finally, also in response to citizens’ demands, public actors not just in Europe, but also in emerging economies such as Brazil, China and India have begun to take

sustainability criteria into account in their public procurement, reflecting growing societal concerns (Stoffel & Müngersdorff, 2018). These three drivers – consumer demands, multinational risk mitigation strategies and the role of public procurement – have made more and more developing countries turn their attention to VSS. Due to their integration into global consumer markets, all three factors make VSS a particularly pertinent issue for emerging economies. These standards are instruments for domestic markets and global value chains which claim to align production and consumption patterns with certain social, environmental and ethical specifications.

The multiplicity and growing number of VSS available in the market has inevitably challenged consumers, producers, traders and public authorities to orient themselves. The Ecolabel Index (2018), which claims to be the largest global directory of this kind, tracks 463 schemes in 199 countries, and 25 industry sectors. The standards map of the International Trade Centre provides online information on 239 voluntary sustainability standards (ITC, 2017). It is difficult for all market participants to know which standards are genuine and to understand the varying dimensions of sustainability they promise, with some labels focussing on labour rights, some on a fair price for the producer, some on biodiversity conservation, etc. (ISEAL Alliance, 2018). Variation is also in the degree and level of sustainability, i.e. how the labels promise to ensure compliance and a positive impact on producers and/or the environment. The objective assessment of real impact and the comparability of competing VSS schemes are impaired by a lack of transparency and incomplete empirical evidence. Sustainability claims of individual companies which are not backed by independent third-party verification add further layers of complexity to the puzzle.



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This text focuses on the increasing interest of developing countries to address the opportunities and risks of voluntary sustainability standards for the domestic economy and exports. The first section reports on developments in Brazil, China, India, Indonesia, Mexico and South Africa and the role played by the United Nations Forum on Sustainability Standards (UNFSS). The evidence presented here draws on the experiences of the Managing Global Governance (MGG) Network in policy dialogue, knowledge creation and joint action.<sup>15</sup> The proceeding section discusses key challenges for developing countries as they face growing importance of VSS in global markets followed by the concluding remarks on global governance gaps related to VSS.

### ***Changing Attitudes in Developing Countries***

Historically, developing countries have rejected standards conceived in the industrialised world as protectionist tools which are designed to serve the interests of foreign corporations by erecting new barriers to trade. Developing countries have particularly complained about the discriminatory effects of VSS on small and medium-sized enterprises (SMEs),

<sup>15</sup> MGG is a programme of the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE). MGG facilitates multi-stakeholder forums, linking actors from the national level with international institutions.

which play an even more crucial and dominant role in less industrialised economies. The sceptical attitude in developing countries have, of late, given way to more nuanced perspectives. Increasingly, developing countries want to participate in shaping the evolution of VSS according to their domestic priorities and development needs (Pande, 2017). One piece of evidence for the fundamental change of opinion is the establishment of multi-stakeholder forums at the national level, which are specifically concerned with voluntary sustainability standards, i.e. standards that are not defined and demanded by an act of legislation or regulatory action by government.

In a remarkably short period of two years, from March 2016 to April 2018, four pilot countries namely, India, Brazil, China and Mexico established their national VSS platforms built on multi-stakeholder principles with the support of UNFSS. These are mandated to serve as clearing houses for information exchange, analytical work, collaborative action and the formulation of policy advice. In all cases, governmental or semi-public entities belong to the core of the institutional architecture. Since March 2016, the Quality Council of India (QCI), a joint institution of government (Ministry of Commerce and Industry in the lead, with other ministries participating) and industry, has acted as secretariat for the national platform. In Brazil, INMETRO, which is part of the Ministry of Industry and Foreign Trade, has taken charge with such tasks since May 2017. The Standardization Administration

of China (SAC) and the China Association for Standardization (CAS) work in tandem to coordinate the platform in their country, which was established in June 2017. In Mexico, the Ministry of Economics was the key driver in setting up the platform in early 2018. Inspired by the experiences of existing National Platforms, standards bodies in Indonesia, Badan Standardisasi (BSN) and South African Bureau of Standards (SABS) are preparing institutional steps in this direction.

National platforms are now working on policy frameworks to ensure that VSS will result in sustainable development outcomes and reconciling national priorities with the 2030 Agenda. The underlying paradigm shift can be understood as a countermeasure to the unfettered liberalisation of world trade, which has led to unfair social and ecological competition, environmental degradation and to an extremely powerful role of multinational corporations (Fues & Grimm, 2018). In developing countries, VSS are no longer seen from the perspective of individual corporations, but as instruments to serve the macro-economic objectives of economic transformation towards sustainable development of the national, globally connected economy. More and more governments want to determine the conditions under which international and national schemes are helpful in this regard (a “licence to operate” of sorts).

The rapid evolution of pro-active engagement with sustainability standards in developing countries have depended to a large extent on support from the United Nations system. In 2012, five UN agencies, FAO, ITC, UNCTAD, UN Environment and UNIDO, launched UNFSS to coordinate their activities and to provide support to interested governmental and non-state stakeholders. UNFSS facilitates exchange of experiences, analytical studies and capacity building and has played an important role in the establishment of the national VSS platforms. The new platforms in India, Brazil, China and Mexico have three functions in common: (i) facilitation of dialogue among relevant stakeholders at the national level, (ii) adaptation of external standards to domestic conditions and (iii) international networking. Endowed with meagre resources, they face significant challenges in the start-up phase.

## **Challenges for National Platforms**

### **Establishing National Endorsement Schemes and Building Capacities**

A key constraint of National VSS platforms is the lack of institutional and financial capacities to support stakeholder mobilisation, analytical studies and international networking. The small number of designated staff in national secretariats must attend to a myriad of other tasks besides their VSS work. So far, the national platforms have not been able to find adequate funding for research that could foster policy dialogue and strategy formulation. It has also proven difficult to sustain the momentum after the initial enthusiasm wanes. The platforms can hardly offer tangible benefits that could attract market players and societal groups. However, with the government’s dedicated support on VSS, the national platform may be able to alleviate these challenges in order to attract market players and societal groups to consider the uptake of VSS.

In separate developments, India and China are presently preparing national endorsement procedures for VSS (‘standard for standards’). This would define criteria based on domestic priorities which would be used in assessing existing and new VSS frameworks. While this raises some concerns with international standard setting organisations, it is a public task to create and ensure the operational framework for enterprises and to increasingly consider sustainability also in economic operations. Once put in place, public support, for example relating to SMEs and procurement, could be made conditional that a scheme meets such requirements.

### **Localization of Standards**

A second challenge refers to the adaptation of international VSS to domestic conditions. Ambitious international labels need to be complemented by low-threshold versions which allow for the gradual upgrading of domestic enterprises. In India, for example, QCI created BasicGAP for food producers as a stepping stone to the internationally recognized GlobalGAP. While this is an example of local efforts complementing international schemes, there are also different cases of direct competition between external and domestic approaches for sustainability standards. Such scenario applies to the palm oil sector of Indonesia where the government introduced



the Indonesian Sustainable Palm Oil (ISPO) certification process in response to the Roundtable on Sustainable Palm Oil (RSPO) by international actors. Based on the results of a four-year research project in Indonesia, Pieter Glasbergen argues that “(p)ivate certifications brought dynamism in the field of agricultural production in developing countries. Among others, they induced the development of public sustainability standards and certification in Indonesia and other developing countries, which have more legal enforcement power than the private ones. However, these are still less strict than the private standards...” (Glasbergen, 2018, p. 250).

Pratiwi Kartika, Hariyadi and Cerdikwan Suhendar Adiwiria (forthcoming) point out that VSS often contradict public standards and that multiple standards are always harmful for producers due to increased compliance costs, although this may not be entirely the case given that some of these multiple standards were designed for certain reasons that may not be covered in the other. They look at two internationally-recognized certifications that are available to forest concession holders, the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). The empirical findings in Indonesia underline the generic challenge of aligning international frameworks to national priorities while ensuring the effectiveness of sustainability standards, certainly a key task of National VSS Platforms.

Traditionally, sustainability standards were created by actors in developed countries. As developing countries begin to take a pro-active interest in standard-setting, more and more new schemes originate from developing countries. Prominent examples are the Indian standards for medicinal herbs and for traditional healers (QCI, 2018). VSS platforms and interested stakeholders can make use of such experiences by learning from each and jointly designing further schemes.

### *Support for MSMEs*

In many developing countries, micro, small and medium enterprises (MSMEs) account for the overwhelming majority of registered and unregistered companies as well as for a major share of GDP, employment and, as in the cases of India and China, even for export. Due to the costs of certification and compliance and the prevalent lack of technical and managerial competences, MSMEs face significant problems related to VSS. Clara Brandi (2017) raises the potential contradiction between ‘sustainable development’ and ‘inclusive development’ and emphasises the crucial importance of pro-actively including smallholders into certification schemes. Otherwise “the diffusion of standards that aim at enhancing environmental sustainability may undermine the socioeconomic situation of smallholders” (Brandi, forthcoming). In general, VSS run the risk of marginalizing small-scale producers since they reward large enterprises which can meet the requirements at minimal costs, while SMEs often lack the information and the capacities to join such schemes.

VSS platforms recognize the targeted promotion of MSMEs as an urgent task. The discussion on effective support programs can draw on the results of country studies produced for Brazil (Coelho and Nunes, 2017), China (Cao, 2017), India (Kathuria, Goldar and Jain, 2017; Jain and Ashok, 2017), Indonesia (Damuri and Santoso, 2017) and for South Africa (Draper and Ngarachu, 2017). The research presented in the case studies sheds light on the barriers as well as on the incentives for MSMEs to invest in the adoption of sustainability standards. It also points to appropriate policy actions to be considered by policymakers and stakeholders in support of SMEs. Main results and their relevance for the role of national VSS platforms are presented in box 1.

### Box 1. Drivers and constraints for SMEs in adopting sustainability standards and the role of national VSS platforms

Based on case studies of five countries conducted by local research partners in the emerging economies of Brazil, China, India, Indonesia, and South Africa, Sommer (2017) analyses the challenges and incentives that SMEs face with regard to sustainability standards and detects room for maneuver through national VSS platforms and global governance of standards as briefly depicted in the following.

#### *i) Drivers and constraints for SMEs in adopting sustainability standards*

In his comprehensive analysis of the five country cases, Sommer (2017) identifies factors that promote the adoption of sustainability standards by MSMEs and organises them into three broad categories: demand; political environment; and firms and business environment. Table 1 (below) captures the prevalence of these factors in Brazil, China, India, Indonesia and South Africa. Factors that foster standards implementation are marked with “+”, and hampering factors with “-”. If drivers or constraints have been recorded in the country case, but their relevance is limited, symbols are set in brackets: “(+)” or “(-)”. Among the incentives for standards implementation, the demand for sustainably produced goods and services is found to be the key driver. Technical and financial assistance by lead firms or government programmes and national regulations are other important aspects. However, regulations and legal enforcement are a double-edged sword as it may obstruct the implementation of standards if poorly designed and managed. The most binding constraints for standards adoption are implementation and certification costs, which are essentially fixed costs and thus weigh particularly heavy on smaller firms. Against this background, access to finance and the size and productivity of firms are also identified as relevant constraints. The studies further find lacking awareness with regard to sustainability standards, their relevance and value to businesses as well as a general lack of information on standards by MSMEs. Deficits are also apparent with clarity on the practical steps needed for adoption.

#### *(ii) The role of national VSS platforms in mitigating challenges of SMEs in standard adoption*

Sommer (2017) suggests in his policy considerations that governments, donors, standard setters, large corporations and financial institutions can all contribute to facilitating adoption of sustainability standards by SMEs. Yet, he asserts that national VSS platforms also have a crucial role to play as they address several of the challenges that SMEs face with regard to sustainability standards, most importantly awareness and information issues. National VSS platforms can raise awareness among SMEs about standards, especially when involving the chamber of industry and commerce as well as other institutions and organisations relevant to SMEs. In addition, such platforms can shape the perception of SMEs with respect to standards: by highlighting the value that standards can bring to businesses, the benefits of certification are underlined so that SMEs may perceive standards compliance as a business case rather than as purely additional costs. This has the potential to boost the willingness and desire of SMEs to adopt sustainable practices. Lastly, the platforms’ tailored information services for SMEs bridge information gaps and improve the understanding about complicated standard systems – empowering SMEs to undertake concrete measures towards standards implementation.

#### *(iii) In need of a global governance for standards?*

In his analysis of the five country cases, Sommer (2017) detects incidents that may call for a global governance of voluntary standards. The launch of new national standards, for instance, aggravates the proliferation of standards. While national regulations may introduce mandatory standards that foster environmentally and socially responsible practices, these national standards often parallel existing (more stringent), internationally

.../...

## Box 1 (continued)

Table 1: Detailed overview of drivers and constraints in the country cases

			Brazil	China	India	Indonesia	South Africa
DRIVERS	Demand	GVCs and export markets	+	+	+	(+)	+
		New domestic markets	(+)	(+)			(+)
		Public procurement	+				
	Political environment	Regulations and enforcement	+	(+)	+	+	
		Financial and technical assistance	+		+	+	(+)
	Firms and business environment	Efficiency gains	(+)		(+)		
		Awareness of entrepreneur	+		(+)		
		Access to finance				(+)	(+)
	CONSTRAINTS	Firms and business environment	Implementation and certification costs	-	-	-	-
Awareness (firms)			(-)	-	-	-	-
Information and technical gaps			-			-	-
Size			-				-
Access to finance			-	-	-		
Infrastructure				(-)		-	(-)
Political environment		Regulations and enforcement	-		(-)	-	-
		Localisation of standards		-		(-)	
Demand		Consumer awareness		-	-	-	

*Note:* If drivers or constraints have been recorded in country cases, but their relevance is limited, symbols are set in brackets: “(+)” or “(-)”.  
*Source:* Sommer (2017a).

recognized standards and thus add to the complexity of the global standards landscape.<sup>16</sup> Furthermore, Sommer (2017) theorises and expresses concern that even though organisations that develop VSS often involve multiple stakeholders (including producers), large buyers as global players may easily overwhelm smallholders and smaller producers in standards-development processes due to steep bargaining-power imbalances. There is a need for mediation and correction by strong parties such as government-led VSS platforms and intergovernmental agencies that bundle and represent the interest of SMEs.<sup>17</sup> Such parties can additionally balance the national development interests with the potentially conflicting global objective of sustainable consumption and production (SDG 12) and other commitments of the 2030 Agenda.

<sup>16</sup> Moreover, export-oriented SMEs must comply with the mandatory national standards and have to bear the costs of additionally implementing an internationally recognized standard in order to access sustainable global value chains (GVCs) and lucrative export markets.

<sup>17</sup> This may even promote the introduction of cost-sharing schemes for the implementation and certification costs associated with VSS and thus address the most binding constraint of SMEs. Sharing the financial burden of standards implementation between producers in the supply-chain (often SMEs) and large buyers is still far from common practice and leads to a asymmetrical distribution of costs, benefits and risks accruing from the adoption of sustainability standards in favor of buyers.



UN Photo by Jean-Marc Ferré

### **Global Governance Gaps for VSS**

The growing significance of VSS for global trade together with the unabated proliferation of such schemes at the national and international level points to a grave gap of global governance. It is not only international multi-stakeholder alliances which address an increasing number of categories of products and services. Partly in reaction to external schemes and partly driven by the intent to upgrade their economy, developing countries have set out to create local standards, which are meant to serve domestic priorities better. After the establishment of ISPO for palm oil, Indonesia's Ministry of Agriculture initiated a similar approach for the rubber sector. In other developing countries, the launch of ISPO has triggered the introduction of additional, potentially competing, national standards for palm oil (Brandi, 2017). In 2015, the Government of Malaysia, ranked second in terms of volume of palm oil production after Indonesia, introduced the MSPO standard. And Brazil has also introduced national schemes for palm oil and soy beans (Brandi, forthcoming). The spontaneous, uncoordinated mushrooming of sustainability standards reveals a significant gap in global economic governance. There is no multilateral organisation or mechanism which could guide the evolution in this sector and ensure a transparent and fair process, thus providing legitimacy and lowering of transaction costs.

Since the WTO treats VSS as private schemes, it considers them outside of its remit (Negi, forthcoming). The UN system, through UNFSS, plays a supportive role but has neither the authority nor adequate resources to shape the VSS architecture aligned to the global common good. It is, therefore, a positive sign that the G20, the informal club of 19 "system-relevant" countries and the European Union, has lately begun to take an interest in the sustainability standards (Fues, 2017). In a remarkably precise wording, the 'Leaders' Declaration' of the 2017 Hamburg summit refers to "fostering the implementation of labour, social and environmental standards and human rights" in global supply chains as well as "national action plans on business and human rights" (Government of Germany, 2017). This includes the commitment "to eliminate child labour by 2025, forced labour, human trafficking and all forms of modern slavery" (Government of Germany, 2017).

In a policy brief produced during the German G20 presidency, the T20 Task Force on Trade and Investment addressed the global governance gap for VSS and global value chains (T20, 2017). They called for a 'Global Pact for Sustainable Trade', which would set minimum standards for environmental protection as well as for labour conditions and human rights protection. According to the view of these scholars from developing and developed countries, governmental regulation at the national level and

individual private initiatives which often contradict and duplicate each other should be brought to the global level and be embedded in an overarching framework. The policy brief suggests that such multilateral principles should be aligned with the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, ILO core standards, the Sustainable Development Goals (SDGs) of the 2030 Agenda and other relevant international documents. The document also commends the creation of VSS platforms in developing countries: "In several G20 countries, national multi-stakeholder coordination platforms on Voluntary Sustainability Standards are currently taking shape pro-actively, supported by national governments and the UN Forum on Sustainability Standards (UNFSS). The G20 should further promote these initiatives as well as the UNFSS." (T20, 2017).

It seems advisable to find an authoritative institutional solution for the meta-governance of sustainability standards, concerning, for example, normative features and principles for the distribution of rights and obligations as well as multi-stakeholder relations. In principle, at the operational-level, however, specialized multilateral institutions should determine the technical details of individual standards, though the responsible agency may not be so clear, for example in the case of energy efficiency standards for the agricultural sector. In such cases, the institution in charge of meta-governance would need to assign primary responsibility. In the case of agricultural, forestry and seafood products this would, of course, be the FAO. With regard to sustainability aspects in tourism the United Nations World Tourism Organisation (UNWTO) together with UN Environment could be the guardian of transparent, non-discriminatory standards. The organs of UNFCCC, the climate convention, could oversee the evolution of metrics measuring the carbon content of products and services. Observers from developing countries also speak out for putting multilateral organizations in charge with regard to cases where regulatory action rather than voluntary effort is

called for. This refers to the role of the International Organization for Standardization (ISO), for example, in the design of standards for medical devices. Critical voices claim that developing countries fail to adequately represent the interests of their producers due to lack of interest or resources (Sreenivasan, 2018). This allows multi-national corporations to change the ISO rules to their advantage, side-lining small-scale producers in developing countries. The proposed multilateral solution would be to delegate health-related standard-setting to the WHO where governments from developing countries would be in a better bargaining position.

### **Conclusions**

The growing pro-active commitment of developing countries to sustainability standards is a welcome trend. Their efforts in aligning VSS to national priorities and in articulating developing countries' perspectives at the international level will enhance the contribution of such market-based instruments to the 2030 Agenda for Sustainable Development (Blankenbach, forthcoming). While the establishment of UNFSS was a strategic step to facilitate a multi-stakeholder process for sharing experiences, joint knowledge creation and policy dialogue on VSS, there is also the need for the international community to establish a global framework for VSS meta-governance which should overcome the present state of fragmentation and to promote a more sustainable trade. National VSS platforms, governments, international organizations and other stakeholders need to strengthen their efforts on sustainability standards to achieve the global sustainable development as envisaged in the 2030 Agenda. Transnational knowledge cooperation, mutual learning and collective action as practised by UNFSS and within the MGG Network can be important contributions to such global efforts.

## Part II: National Multi-Stakeholder Platform Country Contributions

### *Brazil's Challenges in the Uptake of VSS and the Role of the National Platform*

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#### Overview of Brazil global trade landscape

VSS emerged in the late 80s as an attempt to make world production more sustainable. Nevertheless, the proliferation of VSS in the global market has caused constraints in international trade, affecting particularly Small and Medium Enterprises (SMEs) in developing markets.

Today, VSS are increasingly affecting Brazilian exports, but the lack of available data makes it difficult to evaluate its impact in entirety. In response to this, Inmetro launched the Brazilian national VSS platform last year, mainly as an instrument to confront the market reality concerning VSS. The initial aim of the platform was to comprehend the consequences of VSS in Brazilian context by conducting an analysis of the sectors in which could potentially be affected by VSS, while also taking into account the export levels.

Although the government has not yet conducted any cost assessment, Inmetro estimates that the amount of Brazilian exports to countries where VSS is in demand, is around US \$100 billion dollars.<sup>18</sup> Thus, even if 0.1% to 1% of this amount is associated with VSS-related costs, it is reasonable to consider that VSS plays a significant role in reducing the competitiveness of the products Brazil exports.

<sup>18</sup> <http://www.mdic.gov.br/index.php/comercio-exterior/estatisticas-de-comercio-exterior/balanca-comercial-brasileira-mensal-2?layout=edit&id=3061> - After accessing the webpage, it is necessary to select a period: year and months; and a country or group of countries to get a file with the data. The amount considered a set of tables with data of HS with two digits (chapter). This is reflected in [Table 1](#) of the Annex section, showing 24 sectors and the values they export to the markets that are VSS oriented.

Key Brazilian economic sectors engaged with VSS are notably agri-food (soy, coffee, sugar, juices, cocoa, corn, other), forestry (wood, paper, furniture sectors), farming (bovine, swine, and chicken products), tobacco, fish, essential oils and textiles.<sup>19</sup> Inevitably, big producers comprise the majority of the exports in Brazil; nevertheless many SMEs have access to international value chains through cooperatives. According to SEBRAE Sustainability,<sup>20</sup> an organization supporting sustainable micro and small enterprises, cooperatives exported US\$5.3 billion in 2014. These small-producer cooperatives are increasingly investing in sustainable practices in order to be competitive in the international market as well as to respond to national consumers that are also becoming more aware of sustainability issues.

### Challenges of VSS in Brazil

1. *High implementation costs that leads to diminishing competitive advantage*

It is undeniable that the increasing demands of VSS adoption in global value chains, has a larger impact on small producers and MSMEs (Micro, Small-Medium Enterprises) in Brazil. These demands are becoming an increasing requirement not only for the consumers, but also the demands of international clients. However, the costs involved in complying with VSS may be the main barrier for small producers and MSMEs to access the external market, especially when there are no guarantees of the return on investment that reflects the additional costs of implementation. VSS only guarantees the access to the market, though there is the need for a deeper analysis in order to conclude whether Brazil has an advantage when compared with other countries.

<sup>19</sup> <http://www.mdic.gov.br/index.php/comercio-exterior/estatisticas-de-comercio-exterior/balanca-comercial-brasileira-mensal-2?layout=edit&id=3061>

<sup>20</sup> [http://sustentabilidade.sebrae.com.br/Sustentabilidade/Para%20sua%20empresa/Publica%C3%A7%C3%B5es/2016\\_02\\_COOPERATIVISMO-SUSTENTAVEL.pdf](http://sustentabilidade.sebrae.com.br/Sustentabilidade/Para%20sua%20empresa/Publica%C3%A7%C3%B5es/2016_02_COOPERATIVISMO-SUSTENTAVEL.pdf)

<http://sustentabilidade.sebrae.com.br/sites/Sustentabilidade/Para%E2%80%93sua%E2%80%93Empresa/Nucleo-Inteligencia/cooperativismo-sustentavel,6f95524704bdf510VgnVCM1000004c00210aRCRD>

2. *Proliferation of sustainability standards in Brazil*

A study carried out by SEBRAE Sustainability in 2016 mapped approximately thirty main VSS schemes within the Brazilian market, although it is not (yet) possible to say if the proliferation of VSS within the territory is one of the causes linked to market access barriers. A search through the Brazilian foreign trade database, a government online system of international trade analysis, showed that VSS possibly affects 44% of the total value of Brazilian exports (Table 1). This means that there might be an overprice imposed on US\$100 billion of the country's export due to these certifications.

Proliferation of standards on the other hand, may create confusions across the production and consumption channels. Consumers (and producers) may have difficulties differentiating labels, especially those with overlapping, if not entirely similar sustainability metrics. In Brazil, "The State of Sustainable Markets 2017: Statistics and Emerging Trends" pointed out that goods such as bananas, cocoa, coffee, soy, tea and cotton have several different certification schemes each. This alludes to confusion for many producers given the need to determine all possible cost-benefit impacts of each scheme in order to decide which to comply with.

3. *Stringent requirements of the standards*

VSS, most of the time, are stringent to producers and participants in the value chain as it imposes changes in accordance to the scheme guidelines on the way businesses should manage their operational and/or production processes, in addition to the costs of implementation. Moreover, some stringent requirements do not take into consideration the resource and financial reality of companies. From the production sector's perspective, their efforts to comply with the standards may be perceived as not generating the expected benefits. Therefore, the need to carry out empirical analyses with data to show the return on investment from a holistic perspective, can provide reliable information on the impacts of VSS to support there producer's decision making process.

### The perceived benefits of VSS in Brazil

The perceived benefits of VSS in Brazil can be viewed in twofold: direct and indirect impacts, particularly on the producers, the community and the economy as a whole.

The direct impact is that producers can produce more appealing products that meets consumers' demands tied to sustainability, as well as be in line with VSS' fundamental purposes. The quality of products will also improve, given the stringent compliance of international standards.

Furthermore, VSS could also be tied to several of the SDGs, which include:

- SDG 9 – Industry, Innovation and Infrastructure
- SDG 12 – Responsible Consumption and Production

Both SDGs have close relation with economic and environmental sustainability which is directly related to responsible production and consumption, as well as the efficient use and management of utilities and waste during the production processes. This effect may induce an innovative environment, in which the knowledge spill-overs from a pool of producers that have experienced (and are experiencing) improvements to their products and production processes due to sustainability implementations, will be diffused over time and in proximity of space.

VSS has also indirect impact to other VSS including:

- SDG 1 – No Poverty
- SDG 2 – Zero Hunger
- SDG 5 – Gender Equality
- SDG 8 – Decent work and economic growth
- SDG 10 – Reduced Inequalities
- SDG 16 – Peace, Justice and Strong Institutions
- SDG 17 – Partnerships for the goals

These SDGs associated are mostly related to the social pillars, although not exclusively. These impacts mostly reflect the financial or market share gains, the improvement of quality of life of the workers and producers, gender participation and economic growth.

Given that there are inevitable overlapping principles between certain VSS schemes and national public policies, it is imperative for Brazil to conduct controlled studies in order to determine the actual effects of VSS

on the mentioned SDGs. Moreover, these studies will need to be conducted over a period of time as the results are not immediate. An example would be the guiding principles (voluntary or mandatory) that addresses poor working conditions. Both VSS (voluntary) and the national work employment laws and policies (mandatory) have such measures in place, and the outcome of isolating the effects of VSS on the SDGs may not be very precise. Therefore, the need to conduct empirical and analytical studies will provide a clearer understanding of VSS and its direct and indirect correlation with the SDGs mentioned.

### Role of the National Platform

The National Platform aims to support national efforts to meet the SDGs related to VSS through establishing governance among the agencies involved.

The key objectives of the national platform include:

- Be the National focal point in the country for discussions on VSS;
- Map how VSS affect the Brazilian economy domestic market and access to foreign markets;
- Promote discussion and events surrounding the subject;
- Collect, discuss and prepare studies regarding the impact of VSS on the Brazilian economy and on Brazilian exports;
- Compile proposal for pro-active national policies on maximizing the positive economic, social and environmental effects and limit the costs and problems of VSS;
- Raise the awareness to public and private stakeholders affected by VSS in Brazil
- Mobilize stakeholders working together on initiatives developed through the Platform process;
- Analyze and compare experiences on best practices and suitable pro-active policies developed by other National Platforms.



The three main goals that reflect the above objectives are:

**1. A platform for Policy Dialogue** – The National Platform shall encourage and support the assessment of VSS.

By identifying the key stakeholders involved throughout the value chain, the National Platform aims to create and maintain the awareness of VSS through organizing regular meetings with them. This allows the stakeholders to collect relevant and reliable data and information about VSS and promote the assessment of its impacts. In addition to having adequate information about the benefits of VSS, the National Platform may also be used as a tool to inform misuses leading to unnecessary trade barriers. Ultimately, the national platform, being a subset of the government body, is an ideal platform for cooperative initiatives mainly to discuss and construct policies, and address the challenges and opportunities of VSS.

**2. Provide Trainings & Workshops** – The National Platform shall provide regular trainings and workshops as a tool to keep all stakeholders informed and a channel to promote joint initiatives.

In the essence of a multi-stakeholder approach, the National Platform offers trainings and workshops that addresses the needs and goals of each stakeholder. The platform has already developed the structure of trainings with this scope and will continue to identify ways to upscale such trainings.

**3. Research & Analysis Platform** – The continuous efforts in providing research and analysis will ensure the credibility of VSS pertinent to all stakeholders, nationally and globally, as well as other institutional and non-institutional actors.

The National Platform aims to provide reliable data on VSS, its impacts on SDGs and the best way possible to access their information, within the Brazilian context. This has been achieved through partnerships with Brazilian research institutions and in cooperation with other national platforms, where UNFSS stands in with a role to produce materials for these empirical and analytical studies.

### Way Forward

As it has only been one year since the launch of the National Platform, it is evident that the data collected to date may not be sufficient to provide a sound analysis on the impacts of VSS in correlation with the SDGs. While there are reports from different stakeholders with positive perceptions on VSS, there are also however, contradictory views in juxtaposition. Given the early stage, the platform is still in the process of building its ground, while the governing actors have yet to be set in stone. At the moment, the work of the National Platform is focused on building the ecosystem by identifying and gathering the stakeholders; analyzing the available data; identifying the appropriate sectors to carry out the first case studies; identifying possibilities for policy-makers to work in tandem with VSS in order to reach the relevant SDGs and ultimately; the need to raise funds. Then, the National Platform will proceed to bring the stakeholders together for informed dialogue sessions and capacity building activities. Through this stage, stakeholders will have a clearer understanding of the issues involving VSS, and making this as an opportunity to establish a cooperative effort on identifying solutions to those issues and the best ways possible to reap the full potential of VSS.

In order to assess the direct and indirect impacts of VSS on the SDGs, the National Platform is currently constructing a database of stakeholders to mediate the conditions. With proper mapping of the economic and social indicators related to the export products and VSS, the National Platform will be in a better position to identify and present the benefits of the platform specific to the different stakeholders – workers and producers, government officials and consumers. As of now, the role of the National Platform and its promised goals are still rather vague to the stakeholders. These misunderstandings had instead contravened the good purpose of this initiative.

Given the impact of VSS posed mostly on MSMEs, the government will work towards adopting policies to mitigate the marginalization effects faced by MSMEs. Ideally, the cooperation with UNFSS and five other international agencies, as well as the experiences shared by other national platforms in achieving the SDGs, would add value to the MSME's efforts in gaining competitiveness, improving the quality of their products and ultimately, a better access to external markets.

The broad scope of VSS in addressing the triple bottom line – economic, environmental and social-

aspects concerning sustainable development have to be convened by both VSS experts and the Brazilian government, working in tandem. In the last few years, the Brazilian government developed and invested significantly on initiatives relating to gender equality and inclusion policies, but the political and economic crisis since 2014 had instead jeopardized the advancements of such developments. Despite

the challenging situation Brazil is currently facing, the Brazilian society still projects their vested interest in embracing the importance of sustainability-oriented policies. Therefore, the need to have adequate information on VSS and its effects on the National market through the National Platform will aid policy makers to determine the most suitable policies for the country.

**Annex Table: Biggest Brazilian exporting sectors to countries where VSS are in demand**

ALICEWEB - MINISTRY OF INDUSTRY, FOREIGN TRADE AND SERVICES			01/2017 to 12/2017	
Ranking	Code SH2	HS-2 - Description Code (Chapter)	US\$ Exported Amount (2017)	US\$ Exported to OECD countries (2017)
1	12	Oil seeds & oleaginous fruits; miscellaneous grains, seeds & fruit; industrial or medicinal plants; straw & fodder	26.008.459.597	2.682.111.441
2	02	Meat and edible meat offal	13.953.384.309	2.417.928.112
3	17	Sugars and sugar confectionary	11.566.378.243	763.562.112
4	47	Pulp of wood or of other fibrous cellulosic material; waste & scrap of paper	6.355.348.889	3.278.561.064
5	23	Food industry residues & waste; prepared animal feed	5.394.735.424	2.974.050.047
6	09	Coffee, tea, mate & spices	5.010.001.847	4.254.339.773
7	10	Cereals	4.980.607.039	1.643.999.182
8	39	Plastics and articles thereof	3.656.336.665	1.296.449.796
9	44	Wood and articles of wood; wood charcoal	2.779.919.488	2.018.061.361
10	20	Preparations of vegetables, fruit, nuts or other plant parts	2.273.079.888	2.005.507.925
11	24	Tobacco and manufactured tobacco substitutes	2.092.160.511	1.098.712.332
12	48	Paper & paperboard & articles thereof; paper pulp articles	1.913.081.363	398.001.606
13	41	Raw hides and skins (other than furskins) and leather	1.899.502.335	954.625.846
14	52	Cotton, including yarn and woven fabric thereof	1.496.816.021	311.468.781
15	15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	1.440.717.414	195.319.321
16	64	Footwear, gaiters and the like and parts thereof	1.278.008.714	501.223.669
17	16	Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	1.178.009.607	937.445.706
18	21	Miscellaneous edible preparations	1.141.415.316	436.851.362
19	68	Articles of stone, plaster, cement, asbestos, mica or similar materials	1.139.026.438	940.628.167
20	22	Beverages, spirits and vinegar	972.686.565	810.062.572
21	08	Edible fruit & nuts; citrus fruit or melon peel	875.761.150	777.585.814
22	33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	864.291.620	452.177.720
23	94	Furniture; bedding, mattresses, cushions etc; other lamps & light fitting, illuminated signs and nameplates, prefabricated buildings	714.781.499	41.396.120
24	18	Cocoa and cocoa preparations	364.294.671	145.397.001
<b>Consulting Statements</b>			<b>99.348.804.613</b>	<b>31.335.466.830</b>

**Detailment: Chapter - SH 2 digits and countries and economic blocs**

**Period P1: 01/2017 to 12/2017**

## China's VSS Forward Plan with the Integration of the National Platform

Contribution by: **Xia Weijia** and **Liu Xin** of China Association for Standardization (CAS) and Standardization Administration of China (SAC)



Photo: Adobe Stock @ Lulu

### China's global trading landscape

As one of the largest exporters in the global market, China is particularly competitive in the textile, furniture, mechanical and electronic sectors. The importance of standards in international trade inevitably requires producers, farmers and all exporters from China to ensure their products meet the international standards requirements. In some occasions they are obliged to meet more than one specific standards appointed by their importers or purchasers. More often, they have to meet higher criteria and even VSS schemes at their own cost. On the other hand, with such standards in place, these products often get picked out by supermarkets to be displayed in striking areas, such as the shopfronts. Not only do these products enjoy higher customer traction, these supermarkets are also recognized to value products that respects sustainability measures.

The Belt and Road Initiative accelerates the communication between China and the other countries

along the trading route. According to statistics, goods imported by China from countries and regions along the route increased by 17.6% and exports from China increased by 5.7% in 2017.<sup>21</sup> While China is under rapid development to expand its global investments, they are also placing sustainability standards as the key element in international trade.

### Revisions of the Standardization Law in China

The amended 'China Standardization Law' was issued on 4th of November in 2017, recognizing the legal status of social organization standards in China. These social organizations with the involvement of legal actors such as associations, federations and unions, as well as the industrial technology alliances are encouraged to jointly develop standards meeting China's market demands. The "Guideline on

<sup>21</sup> Source: General Administration of Customs, China.

*Fostering and Developing Association Standards* was established to advocate the development of social organization standards. At the same time, *Association Standard Part One: "Good Approach Guideline"* and its series of national standards have been and will continue to be issued by the national standardization administration authorities to make sure the healthy and orderly development of social organization standards. Another important measure of the new China Standardization Law is to activate Enterprise Standards. The Chinese government has established a self-declaration and supervision system for enterprise product and service standards. The Platform on Enterprise Standards Information (<http://www.cpbz.gov.cn>) was established in 2017. By the end of April 2018, 659,418 standards of 153,307 enterprises have been made available on the Platform, covering 1,093,216 kinds of products.

### The Outlook of VSS in China

The compliance of VSS have been perceived to improve Chinese business operations, by having the capacity to quickly respond to unexpected risks, as well as valuing the improvements of labor conditions and environmental protection. Furthermore, multinational enterprises are also accelerating their compliance to sustainability standards across their supply chains that are operating in China. Some internationally recognized VSS schemes have made their presence in China by introducing their standards and technological tools to local farmers. While China encourages the introduction and adoption of international VSS into their market, the need to develop local VSS were better able to help certain sectors in the domestic market. Examples of local VSS are China Social Compliance "CSC9000T" which covers textiles and apparel, "Guidelines for Sustainable Development of Natural Rubber", and "Guidelines for Social Responsibility in Outbound Mining Investments". These local VSS are recognized by the international value chain to support more Chinese products be sold globally.<sup>22</sup>

<sup>22</sup> Findings determined through qualitative evaluation (interview/discussion/survey) with industries

### Challenges of VSS faced by Chinese producers

Albeit the potential boost VSS can contribute to China's export market and its realization of the SDGs, its contradiction points to where VSS unveil new barriers to trade. VSS schemes are often non-governmental systems and do not necessarily comply to principles such as transparency, openness, consensus, equivalence and scientific-based analyses. That said, small-scale enterprises in developing countries may not have the means and adequate information to implement such schemes without the involvement of public actors. More often than not, confused manufactory may be required to comply with more than one standards, which also requires the factory to go through excessive amount of inspections. Furthermore, the cost of standard adoption and certification are already a financial burden, resulting some companies especially SMEs to exit the value chain.

### The National Platform

As China values the importance of sustainable development, VSS could potentially be a tool to strengthen national initiative towards sustainability measures and achieve the intended SDGs. As a participant in the international trade, the Chinese government has decided to build a Chinese VSS National Platform as a response to the challenges of VSS, especially faced by SMEs and MSMEs. The establishment of this national level dialogue platform intends to promote VSS in China and boost the awareness of VSS to relevant stakeholders.

In collaboration with UNFSS, the National platform aims to provide professional information services, industry research and standard comparative analysis, and actively facilitate enterprises into international trade. With the guide of the General Administration of Quality Supervision, Inspection and Quarantine of China (AQSIQ) and Ministry of Commerce Of China (MOFCOM), as these departments are responsible for the platform, the Standardization Administration of China (SAC) leads the overall work of the platform, and China Association for Standardization (CAS) takes the Secretariat responsibility of the daily operations.

The platform was launched in Qingdao on June 28th, 2017, and takes the daily workflows on:

- 1. International communication**, with UNFSS and its 5 composed agencies, as well as the cooperation with other developing countries, other Standards Developing Organizations (SDOs) and agencies.
- 2. Information service**, in collaboration with ITC and other SDOs to establish a national VSS information platform, with professional service, in local language and convenient interface.
- 3. Policy advice**, focused on WTO/SPS and TBT and UN's pertinent topics, for related government departments and other agencies.
- 4. Experience exchange**, with other developing countries on operating models and other interesting areas.
- 5. Capacity building**, with workshops and training programs designed for the local market.

### Forward Plan

The National Platform shall focus on three immediate key actions:

- 1. Capacity building** - With the support of UNFSS, this function will equip multi stakeholders and especially the SMEs on VSS.
- 2. Expert committee set-up** - To explore the current situation and demands within the industry.
- 3. Establishing a data base** - In collaboration with ITC, the platform serves as an information service meant to support the local industry, in Chinese language.

## India PSS Platform: Fostering Collective Leadership in Sustainability through Standards

Contribution by: **Dr. Manish Pande** and his team, **Rudraneel Chattopadhyay** and **Urviya Hasan** of Quality Council India (QCI), under the overall leadership of **Dr. R.P. Singh**, Secretary-General (QCI).



Photo: Adobe Stock @ Sam DCruz

The India PSS<sup>23</sup> platform's origins can be traced back to the Standards Conclave 2014 of the Department of Industry Policy and Promotion, Ministry of Commerce & Industry (MoCI). Upon receiving further support from UNCTAD, UNFSS and the MoCI, the Platform was launched in March 2016 with Quality Council of India (QCI) holding the Secretariat of the Platform.

### Core work areas and values

With two years of leadership and engagement in the Indian quality ecosystem and in the international space of National VSS Platforms, the Indian Platform's

core focuses are institution-building, knowledge creation and sharing, capacity development, promotion of sustainability standards and criteria for public procurement, and harmonizing the ecosystem. The Platform aims to usher in a systematic model of meta-governance<sup>24</sup> of standards with the values of transparency, confidence, accountability, and participation among all its stakeholders. In collaboration with national and international stakeholders, the platform serves to provide knowledge, promote research, and cooperate on findings in the area.

<sup>23</sup> The India National Platform primarily focuses on voluntary sustainability standards created by private entities, and therefore, they are referred to as 'Private Sustainability Standards' or PSS. Standards created by entities which are statutorily established or are public-private bodies are not treated as PSS. While all the private standards are voluntary, not all of the voluntary standards are private standards.

<sup>24</sup> Meta-governance is a system in which formal public organizations (such as the Quality Council of India, as the Secretariat of the India PSS Platform) exercise some control over devolved and decentralized decision-making organizations (such as the various PSS-making bodies). National Platforms in developing economies are prime examples of response to the need for meta-governance in the domain of sustainability standards.

## Structure of equivalence

The Platform is institutionalized through a Charter (which entered into force on 1 January 2018) which highlights the purposes, principles, values, organs, procedures and budgetary norms of the Platform. The Charter establishes the Platform as a multi-stakeholder, member-driven, equitable, consensus-driven, governance framework for identifying and addressing issues concerning private sustainability standards in India.

Membership in the Platform is open to all organizations, firms, and individuals working in sectors impacted by sustainability standards – such as agriculture, food processing, fisheries, forestry, manufacturing, textiles, mining and jewelry, electronics & IT, etc. – and in the area of private sustainability standards or are interested stakeholders in the promotion of the work of the Platform, which/who accept the commitments contained in the Charter.

### Fundamentals of the Platform:

1. **Building resilience for transformative change** – Enabling farmers, smallholders, their communities, and MSMEs to access, connect, and compete in the Global Value Chains.
2. **Consultations and international dialogue** – An initiation of stakeholder engagement through Multi-Stakeholder Assembly.
3. **Leveraging on data-driven studies** – The Platform engages in data-driven quantitative and qualitative studies to understand the ecosystem and advocate the impact of PSS that may have on India's trade success and sustainable development.
4. **International cooperation in the V/PSS space** – Serve to share its knowledge and experiences in international forums.
5. **Harnessing governments for action** – Establishing the Government of India's paramount role in extending support to the work of the Platform.
6. **Strengthening the Secretariat** – Through encouraging its members to undergo extensive capacity development training in areas of global governance, multi-stakeholder processes, and international cooperation.
- 7.

## Way Forward

As a way forward, the Platform is in the process of identifying and undertaking harmonization, benchmarking, and national interpretation activities for standards to execute its objectives of service to producers and firms alike. The Platform is also in the process of organizing workshops to develop capacity of smallholders and producers for awareness and openness to V/PSS.

Donor agencies must be identified for promoting mechanisms, research grants and international cooperation for ironing out issues relating to sustainability standards and helping producers revamp capacities for sustainable production. These will have a positive impact on trade, exports, and integration of firms with Global Value Chains, while at the same time driving the sustainability agenda across -sectors where sustainability standards operate.

The Indian Platform also notes that an initial mapping of trade linkages with SDGs and PSS linkages with SDGs must be worked upon to identify areas which could benefit if more producers opted for sustainability certification. Standardization must also be increasingly undertaken in the context of the SDGs and multilateral organizations with domain expertise must assist in such initiatives at the policy, institutional and private sector levels.

The Indian Platform will also explore ways in which National Platforms gain mainstream recognition in the UN system to unlock more value from partnerships with UN and related agencies. This would include deemed accreditation for the National Platforms which are being established under the collaborative aegis of the UNFSS. Such a measure will encourage participation of National Platforms at the regional and global forums on sustainable development organized by the UN system.

The Indian Platform stands in commitment with the G20 2017 Leaders' Declaration on keeping markets open, noting the importance of reciprocal and mutually advantageous trade and investment frameworks, and the principle of non-discrimination. The Declaration especially recognizes in its Clauses 7 to 9 that Global Supply Chains can be an important source of job creation and balanced economic growth. The Leaders have stayed committed to foster the implementation of labor, social and environmental standards and human rights, in line with internationally recognized frameworks, such as the UN Guiding

Principles on Business and Human Rights and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. Those countries that adhere to the OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines) commit to fostering them and welcome others to follow. The G20 Leaders' Declaration further suggests that countries will work towards establishing adequate policy frameworks for business and human rights and underline the responsibility of businesses to exercise due diligence. The Indian Platform will be proactively looking at ways in which it can complement the efforts of the Indian Government to this regard.

As the largest consumer in India, the Government of India holds maximum market power to influence sustainable production and consumption in the

Indian market. With increased interest from the Government to see achievement of SDGs and in the process, increase ease of doing business with greater market access opportunities, the public procurement landscape offers tremendous playing field to the Platform for influencing measures that will specify social, economic, and environmental criteria in public tenders. The Platform is currently developing strategies in this area.

The India PSS Platform, with a robust plan of action, support from its stakeholders, and guidance from the Government of India and UNFSS, continues to be on a model of continuous exploration-engagement-action-feedback to respond to the ever-so-dynamic needs of the sustainability standards ecosystem in India.

#### Case Studies from India: Are Standards helping in Market Access and Sustainable Development?

To understand the impact of various Voluntary Sustainability Standards on sustainable development and their uses, the India PSS Platform formulated the following case studies in two of the widely contentious domains in India: timber and traditional medicines.

##### 1. **Timber** – Standards to address the issues of illegal timber logging.

Illegal logging is a global issue that has several significant negative impacts. These impacts tend to vary from economic, environmental to social consequences. In economic terms, illegal logging leads to a loss in revenue among many other foregone benefits whereas environmentally, it is often associated with deforestation, leading to climate change and loss of biodiversity.

To combat this, in October 2010, the EU adopted a new Timber Regulation to combat trade in illegally harvested timber. This is one of several actions under the 2003 EU Action Plan on Forest Law Enforcement Governance and Trade (FLEGT). The main obligation of the International Regulations was to prohibit the placing of the illegally harvested timber and products derived from such timber in the international market. Once this international regulation came into existence, the buyers started raising questions about the legality of the Indian wood. At that time, no foolproof mechanism was available to prove and validate the legality of Indian wood.

In the effort to address the challenge, VRIKSH – Timber Legality Assessment and Verification Scheme was established, with aims to ensure that all the aspects pertaining to the verification of the legal origin of the wood are covered by checking critical control points such as supplier verification, inward entry of the raw material, material balance records, segregation procedures, production procedures, conversion factors etc.

Post successful VRIKSH certification, significant changes have been observed in the internal procedures adapted by the companies to demonstrate the compliance against the requirements of their overseas buyers. This in turn, has established VRIKSH as a brand and a credible system for the acceptance of Indian Handicraft Items worldwide by institutionalizing verification check related to legality of wood. With strict compliance to the standard and robust procedures for the verification of the origin of the wood, VRIKSH has helped a lot in curbing the flow of illegal wood into the handicraft industry. This Scheme ensures that wood used in the handicraft is legally sourced that eliminates chances of illegal logging and extraction thus promoting sustainable forest management.

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Case Studies from India (continued)

**2. Traditional medicine** – Standards to ensure quality in traditional medicine.

The concept of traditional medicines in India has been around since 2500 to 500 BC and has been mentioned in various ancient scriptures like the Vedas. The Department of Indian System of Medicine and Homeopathy (ISM&H), which was created in 1995, was later renamed as Department of AYUSH, in 2003, and eventually came to be known as the Ministry of AYUSH in 2014 with the view to provide focused attention on the development of these techniques. It was their foresight to develop a voluntary mechanism to induce quality in this important sector of health and wellness.

Voluntary Certification Scheme for AYUSH Products was inaugurated to create a standard that would help maintain the quality of these natural remedies and help educate people about their importance and relevance in everyday life. The scheme has been developed and is co-owned by the QCI. The mark aims to help in achieving SDG 3- Good Health and Well-Being as well as SDG 12- Responsible Consumption and Production among others. AYUSH mark was implemented with two levels:

1. AYUSH Standard mark – which is based on compliance to domestic regulations
2. AYUSH Premium mark – which is based on GMP requirements based on WHO guidelines and product requirements with flexibility to certify against any overseas regulation provided these are stricter than the former criteria.

In the recent years, the products manufactured under this mark have found their entry into the international markets. Some of the biggest markets for AYUSH products are US, UAE, Europe, CIS Countries among many others.

Although the quality of product has been enhanced by the AYUSH mark, including the positive impact of the quality of life of the workers, there are certain steps to be taken to address the expectations of the AYUSH Mark owners:

- **Awareness of the scheme** – requires more attention as there is little visibility amongst the stakeholders. This has impacted the sales of the manufacturers as there is no such demand for the certified product. Concerns with the AYUSH Premium mark is the fact that neighboring markets are still hesitating to accept the mark.
- **Quantity of Income** – In order to meet the requirement of the scheme, there is an increased cost of production by about 10-30%, however there has been no substantial increase of income. The manufacturers while enjoy access to new markets they are unable to demand a higher price premium for their products even with the AYUSH mark certification.
- **Access to Markets** – Despite the benefits associated with entering into a foreign market, majority of the companies still face many obstacles, while others were able to gain entry into new markets with the AYUSH mark.
- **Basis for Certificate of Pharmaceutical Products (CoPP)** – The issuance of this certificate in the format recommended by WHO has taken more time than expected for the AYUSH mark scheme. CoPP, along with GMP Certifications are the necessary requirements for a manufacturer should they wish to export internationally. While GMP are ensured by the mark, CoPP has to be applied for separately, increasing significant costs imposed on these manufacturers.
- **Support from the Ministry** – Post-certification, while the Ministry of AYUSH started off with advertisement of the Scheme in television to raise awareness.

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## Case Studies from India (continued)

**What needs to be done** – Then AYUSH Premium Mark is in the domain of traditional medicines for exports as well as for sustainability impact. However, while the government is busy trying to fulfil the targets for the SDGs, it is very important that the enablers are active in trying to implement a system that is more sensitive to the needs of the stakeholders. With respect to the issues brought up by the respondents, the Platform has come up with the following recommendation:

- 1. Increase in Awareness:** The mark in itself holds significant value, however, there is needs to be more efforts to create sufficient awareness about it to cause an impact. Market, Traders, Consumers etc. are to be made aware of the AYUSH mark to create a demand.
- 2. Issuing of CoPP:** The Certificate of Pharmaceutical Products (CoPP) is a necessary requirement, along with GMP certification, if a person wishes to export their products to another country. The AYUSH premium mark may be given credence during issuance of CoPP.
- 3. Engagement with stakeholders:** A working group comprising of AYUSH, QCI, AYUSH manufacturers, exporters, medicinal plant growers needs to be established to engage the domestic and global market players for highlighting the quality improvement brought about by the scheme in terms of health and safety.
- 4. Enabling Support:** The Platform shall require working closely with AYUSH Ministry to provide support in terms of information and related paper work so that AYUSH Premium Mark is aligned and accepted to be fulfilling all the requirements of the CoPP.

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