

2 THE STANDARDS CONTEXT

Since the 1992 Rio Earth Summit and the corresponding call for greater attention to sustainable consumption and production,¹ stakeholders from all segments of the global economy have sought mechanisms for integrating sustainable development priorities into everyday economic decision making. The advent of the eco-label, and its evolution into the voluntary sustainability standard, has proven an increasingly popular and pervasive instrument for bringing transparency, consistency and efficiency into efforts to address the challenge of sustainable development.

Over the past decade we have seen rapid expansion in the development and use of voluntary sustainability standards to address key sustainability issues along specific commodity supply chains. As the number and market presence of such initiatives increases, the need for a deeper collective understanding of the strengths and weaknesses of such systems is growing. To date, initiatives have largely developed within the boundaries of specific stakeholder and commodity circles. The State of Sustainability Initiatives (SSI) project seeks to expand the horizon of strategic thinking and planning by analyzing system trends and directions while also facilitating benchmarking and cross-initiative comparison.

This section, on system indicators, is divided into three sub-chapters that discuss general aspects of voluntary sustainability standard development, implementation and conformity

assessment processes, standards governance systems, and the content of voluntary sustainability standard criteria. The list of SSI core indicators—developed by the SSI implementing partners and advisory board in coordination with the International Trade Centre (ITC)—provides the framework for the analysis. Appendix I provides an explanation of each index operating within social, environmental and economic dimensions, as well as a full list of the indicators on which they are based.

Drawing from more than 100 data points sourced from the ITC Standards Map (ITC, 2013b) as well as direct communication with standards bodies, this document provides a bird's-eye view of current development, implementation, governance and content-related trends in the world of voluntary sustainability standards across select commodity supply chains.²

While it is our intention, and belief, that such information serves a common effort of continual improvement and increased impact of such initiatives, our data is not, in and of itself, intended to measure or draw conclusions related to the specific impacts of individual initiatives.

1 Rio Declaration, Principle 8 (see United Nations, 1999).

2 The initiatives covered in this review manage standards for specific applications in the coffee, cotton, cocoa, tea, banana, soy, palm oil, sugar, forestry and biofuels sectors. Standards applying to these sectors were selected due to the high level of voluntary sustainability standard activity in these specific sectors.

2.1 THE INITIATIVES COVERED IN THIS REPORT

Currently, more than 400 consumer-facing eco-labels are operating across the globe (see Ecolabel Index, 2013). While many of these remain targeted to specific audiences defined along geographical lines, a growing number of global standards initiatives are aimed at altering the way global commodity production and trade are undertaken. Most such initiatives today focus on the agriculture and forestry sectors, which together are estimated to account for more than one-third of all human-sourced greenhouse gases.

This survey covers 16 of the most important standards initiatives currently active in the agriculture, forestry and biofuels sectors with a global reach. These 16 initiatives currently certify or verify production totalling an estimated trade value of US\$31.6 billion³ (2012), accounting for an increasingly important share of the global market in their respective sectors. In 2012, global standard-compliant production accounted for:

- 40 per cent of coffee production
- 22 per cent of cocoa production
- 15 per cent of palm oil production
- 9 per cent of forest area

In every commodity market in which they operate, these standards are growing at rates well beyond the growth rate of production and consumption within the commodity markets themselves, with many initiatives exhibiting compound annual growth rates above 50 per cent over the last five years (see Section 4 for more information). The significant market penetration and growth of the initiatives covered in this report highlight the growing importance of understanding the underlying trends related to their design and implementation.

In order to be included in the *SSI Review 2014*, an initiative had to have global presence and be operational in one or more of the following commodities: bananas, biofuels, cocoa, coffee, cotton, forestry, palm oil, soy, sugar or tea. We are deeply grateful for the support that each of the participating initiatives provided to ensure accurate and up-to-date data. The following is an overview of the initiatives included in this report.

3 This figure is the estimated trade value, not the retail value.



Founded in 2006, the 4C Association is a member-based initiative operating in the coffee sector across 22 countries. As a baseline, product-specific standard, the 4C code implementation process provides a phased-in approach toward full compliance. This phased-in approach makes it possible for producers who are either unfamiliar or not yet able to comply with more stringent certification initiatives to gain market recognition for adopting commitments to more sustainable production. One of the objectives of the 4C Association is to prepare producers for eventual compliance with other consumer-facing initiatives.

The initiative operates business to business, developing standards and verifying compliance with these standards in order to ensure sustainable coffee practices among its members. All 4C units⁴ are required to submit self-assessments and undergo subsequent verification audits by accredited third-party auditors. The 4C Association applies the identity preservation and segregation models of supply chain traceability at the unit level. The supply chain traceability model of mass balance is also used; however, the licence/certificate must be passed on with the coffee up to final buyer level. The initiative is funded primarily by membership fees.

4 “4C units” is the name 4C gives to producing entities (V. Perez, 4C Association, personal communication, December 2013).



Founded in 2008, Bonsucro is a multistakeholder initiative operating in the sugar cane sector across seven countries. Bonsucro offers a unique credit-trading scheme to provide efficient certification across a homogenous commodity. Once compliance is approved, the certified products (or credits) can be traded.

The initiative operates business to consumer, developing standards and a marketing label to ensure sustainable sugar cane practices among its members. To verify compliance throughout Bonsucro’s three-year certification validity period, all Bonsucro-compliant enterprises are required to undergo surveillance audits, with all audits performed by third-party auditors. Separate Chain of Custody certification is offered, and the initiative applies both the mass balance and book-and-claim models of supply chain traceability to its products. The initiative is funded primarily by membership fees.



Founded in 2005, the Better Cotton Initiative (BCI) is a member-based initiative operating in the cotton sector across eight countries. BCI’s Better Cotton System provides a holistic approach to building and implementing sustainability in cotton production, which is implemented by major manufacturers.

The initiative operates business to business, developing standards and verifying compliance with these standards in order to ensure sustainable cotton production practices among its members. To verify compliance throughout BCI’s one-year licence period, all BCI-compliant enterprises are required to undergo verification audits, with all verification audits performed by third-party auditors. The initiative offers a separate Chain of Custody standard and applies the mass balance model of supply chain traceability to its products. The initiative’s revenue is derived almost evenly from both recurring and non-recurring sources (BCI, 2013a).



Founded in 2005, the Cotton made in Africa (CmiA) initiative is an initiative operating in the cotton sector across six countries. CmiA is distinguished by its reliance on and use of the Demand Alliance of international textile companies in driving both market and supply chain uptake through the demand of sustainably produced cotton.

The initiative operates business to consumer, developing standards, verifying compliance with these standards, and using a marketing label to ensure sustainable cotton practices among its members. CmiA’s initial approval is based on self-declaration followed by a third-party verification audit every two years to verify compliance. Identity preservation and mass balance models of supply chain traceability are applied to all CmiA cotton products to ensure accountability of compliance claims in the marketplace. The primary source of CmiA’s revenue comes from grants and fees and services.



Founded in 1997,⁵ the Ethical Tea Partnership (ETP) is a member-based initiative operating across 16 countries within the tea sector. The ETP is a non-commercial alliance of international tea companies working together to improve the sustainability of the tea sector by improving producers' performance against the ETP Global Standard, which was formally launched in 2009. The Partnership also provides training and capacity building to enable producers to meet these standards.

ETP operates business to business, developing standards to ensure sustainable tea practices among its members. All ETP-compliant enterprises are required to submit an initial self-assessment. Feedback is provided to the producers in the form of a risk assessment, allowing the producer to identify areas for improvement and prepare for a verification audit. All ETP audits are performed by third-party auditors. The segregation model of supply chain traceability is applied to all ETP tea products to ensure accountability of compliance claims in the marketplace. The initiative is funded primarily by membership fees.

⁵ The ETP (originally the Tea Sourcing Partnership) was established in 1997 by major tea-packing companies from the United Kingdom to monitor and ensure its members' supply chains. Originally, this focused purely on the social and labour rights of workers and was measured against local and national laws. In 2009 the ETP launched its own standard, called the ETP Global Standard. The social and labour provisions are based on the Ethical Trade Initiative base code, which covers the relevant International Labour Organization core conventions. The standard also covers key environmental provisions relevant to the tea industry.

GLOBALG.A.P.

Founded in 1997, the Global Partnership for Good Agricultural Practice (GLOBALG.A.P.) is a private initiative operating in the food and agriculture sector across 110 countries. GLOBALG.A.P. acts as a benchmark for local producers to become integrated into the GLOBALG.A.P. system through local G.A.P., a stepwise improvement plan that provides a subset of less-stringent GLOBALG.A.P. checkpoints. This enables emerging growers to meet minimum requirements for food safety and hygiene at the "Foundation" level before advancing to stronger food safety criteria.

The initiative operates business to business, developing standards and offering accreditation and certification services. GLOBALG.A.P.'s certificate validity period is one year. All audits are performed by third-party auditors. GLOBALG.A.P. offers a separate Chain of Custody certification and applies the identity preservation, segregation and mass balance models of supply chain traceability to its products. The initiative is funded primarily by fees and services.



Founded in 1997, Fairtrade International is a member-based initiative operating within the food and agriculture sector across 120 countries. The initiative coordinates Fairtrade labelling at the international level. Fairtrade sets minimum pricing and premium levels as part of its commitment to poverty reduction for developing country producers.

The initiative operates business to consumer. A separate certification company, FLO-CERT, inspects producers and traders to ensure they comply with Fairtrade standards. Full re-assessment for Fairtrade's certificates is conducted every three years. Within this three-year period, yearly surveillance audits and random field checks are performed. All audits are conducted by third-party auditors. The three supply chain traceability models of identity preservation, segregation and mass balance models are applied to all Fairtrade products to ensure accountability of compliance claims in the marketplace. The initiative's primary source of revenue is from membership fees and grants.



Founded in 1993, the Forest Stewardship Council (FSC)⁶ is a member-based initiative operating within the forestry sector across 102 countries. In recognition of the local geographical and political diversity associated with forestry systems, FSC manages a series of National Standards Development Groups that adapt FSC international standards to the local context by adding country-specific indicators, verifiers and guidance.

The initiative operates business to consumer,⁷ developing standards and marketing the FSC label in order to ensure sustainable forestry practices among its members. FSC's certification validity period is every five years, during which time a minimum of one annual surveillance audit is conducted. All audits are performed by third-party auditors. FSC offers a separate Chain of Custody certification and applies identity preservation, segregation and mass balance models of supply chain traceability to all its products. The initiative is funded primarily by fees and services.⁸

⁶ For the purpose of this review, FSC references the FSC Group, which includes FSC AC with FSC IC, GD and Accreditation Services International.

⁷ Forest management standards are developed in consultation with members and other stakeholders to define requirements for sustainable forestry practices. Certification of forest management against these standards is conducted to ensure that forestry with the FSC certificate is practiced sustainably. Marketing of FSC is conducted by some FSC entities and stakeholders.

⁸ SSI correspondence with FSC.

Founded in 1972, the International Federation of Organic Agriculture Movements (IFOAM) is a member-based initiative operating in the food and agriculture sector across 116 countries. As an international umbrella organization, IFOAM sets standards and quality assurance systems for organic standards. Organic certification is typically determined by standards set at the national or regional level. Many different Organic standards may operate within a single country, which may or may not comply with IFOAM global standards. Moreover, local Organic standards are increasingly regulated by governments. IFOAM plays a special role in the organic sector as an association of standards, and the initiative unites organic stakeholders, advocates long-term social and ecological change, facilitates production and trade, assists organic development, and provides training.⁹

The initiative operates business to consumer,¹⁰ developing standards to ensure sustainable agriculture practices among its members. IFOAM-compliant enterprises are required to undergo a full assessment every year for recertification. Third-party, accredited auditors conduct all audits. The identity preservation and segregation models of supply chain traceability are applied to IFOAM's food and agriculture products. The initiative's primary source of revenue is from fees and services.¹¹

9 Throughout the systems section of this report we refer to Organic and IFOAM standards interchangeably. However, it is important to note that not all production considered Organic is actually compliant with IFOAM standards. IFOAM does, nevertheless, represent the leading global reference for defining Organic standards. Market data on Organic production and trade includes all recognized Organic production independent of whether or not the production complies with IFOAM criteria per se.

10 In addition to having a consumer-facing label, IFOAM also operates business to business (D. Gould, IFOAM, personal communication, December 2013).

11 For IFOAM, "fees and services" references "project income."



Founded in 2007, the Roundtable on Sustainable Biomaterials (RSB) is a global, member-based initiative operating in the energy sector across six countries. RSB is one of the few global commodity standards with specific performance requirements for greenhouse gas mitigation.

The initiative operates business to business, developing standards and marketing the RSB label to ensure sustainable biomaterial production. RSB units are certified case by case, with reassessment periods ranging from monthly for high-risk cases to two years for low-risk cases. Audits are conducted by third-party auditors. RSB offers a separate Chain of Custody certification and applies the identity preservation, segregation and mass balance models of supply chain traceability to its products. RSB's primary source of revenue is public and private grants.



Founded in 1999, the Programme for the Endorsement of Forest Certification Schemes (PEFC) is a member-based initiative operating in the forestry sector across 63 countries. PEFC membership consists of independent national standard-setting bodies as well as international stakeholder members. The initiative manages the PEFC Sustainability Benchmarks, which set baseline requirements for national standards initiatives to be endorsed by PEFC.

PEFC is an international umbrella organization that develops standards and provides independent assessment¹² and endorsement of national forest certification systems. The initiative operates business to consumer, developing standards and marketing the PEFC label to ensure sustainable forestry practices. PEFC Sustainable Forest Management certificates are valid for five years, with all audits conducted by third-party auditors. PEFC offers a separate Chain of Custody certification and applies the identity preservation, segregation and mass balance models of supply chain traceability to its products. The initiative is funded almost entirely by membership fees (PEFC, 2013).

12 PEFC independently assesses national standards for conformance with international requirements.



Founded in 2012, the ProTerra Foundation is a member-based, not-for-profit foundation.¹³ The ProTerra Standard is applicable to any food or agricultural product, although it is currently used primarily for soy production and soy-derived consumer products. ProTerra is the first certification program in the food and feed commodities sector to respond to the demand for both non-GMO soy and improved sustainability.

The initiative operates business to consumer, developing standards and managing and maintaining quality control over certification. The validity period of ProTerra certificates is one year, with all audits conducted by third-party auditors. Identity preservation and the segregation models of supply chain traceability are applied to all ProTerra soy products to ensure accountability of compliance claims in the marketplace.

13 ProTerra certification was under Cert ID until the ProTerra Foundation was established in January 2012.



Founded in 2004, the Roundtable on Sustainable Palm Oil (RSPO) is a member-based initiative operating in the palm oil sector across 71 countries. The initiative aims to achieve mainstream market uptake of sustainable palm oil production and processing. To this end, the Task Force on Smallholders was initiated to promote smallholder participation in the RSPO.

The initiative operates business to consumer, developing standards and providing certification services to ensure sustainable palm oil production among its members. RSPO-compliant enterprises undergo annual surveillance audits during the five-year certification period. All audits are conducted by third-party, accredited auditors. RSPO offers a separate supply chain certification and applies all four models of supply chain traceability—identity preservation, segregation, mass balance, and book-and-claim—to its products. The initiative is funded primarily by certified sustainable palm oil trading fees.



Founded in 1987, the Rainforest Alliance/Sustainable Agriculture Network (SAN/RA) is a member-based initiative operating in the food and agriculture sector across 43 countries. The Rainforest Alliance and SAN represent a unique bi-party approach to standards development, conformity assessment and marketing. SAN is a coalition of independent, mostly Southern non-profit conservation organizations that promote the social and environmental sustainability of agricultural activities by developing standards and supporting technical assistance. SAN is the sole standard-setting body for Rainforest Alliance Certified agricultural products. The Rainforest Alliance manages labelling and marketing support of SAN-compliant products.

The initiative operates business to consumer, developing standards, providing certification and marketing the Rainforest Alliance label in order to ensure sustainable agricultural practices. SAN units are certified every three years. All audits are conducted by third-party auditors. SAN offers a separate Chain of Custody certification and applies the identity preservation, segregation and mass balance models of supply chain traceability to its products. The agricultural related work of Rainforest Alliance is funded primarily by membership fees¹⁴ and public grants.

¹⁴ Included in membership fees are “certification fees” and “contributions and membership” (Rainforest Alliance, 2013).



Founded in 2006, the Round Table on Responsible Soy (RTRS) is a member-based initiative functioning as a multistakeholder platform that works toward achieving responsible soy value chains. The initiative develops and manages standards for responsible soy production and operates across 21 countries. The RTRS offers a generic set of principles and criteria explicitly designed to apply to genetically modified, conventional and organic production systems.

The initiative operates business to business. RTRS units are reassessed for certification each year. All audits are conducted by third-party, accredited auditors. RTRS offers a separate Chain of Custody certification and applies the segregation and mass balance models of supply chain traceability to its products to ensure accountability of compliance claims in the marketplace. The initiative is funded primarily by private grants and membership fees.



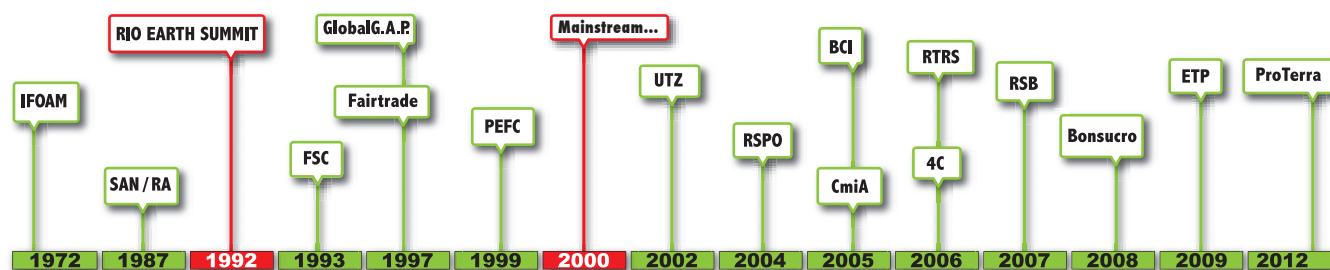
Founded in 2002, UTZ Certified is a multistakeholder initiative operating in the food and agriculture sector across 33 countries. Originally an idea of a Guatemalan coffee grower and a Dutch coffee roaster, UTZ Certified has grown into an independent, non-governmental, not-for-profit organization dedicated to creating a world where sustainable farming is the norm.

The initiative operates business to consumer, developing standards, providing certification and marketing the UTZ label through and with its partners, in order to ensure sustainable agricultural practices. All UTZ units are certified yearly, with all audits conducted by third-party auditors. UTZ also offers a separate Chain of Custody certification. The initiative applies the identity preservation and segregation models of supply chain traceability to all its products.¹⁵ Membership fees constitute the primary source of revenue for UTZ.

¹⁵ UTZ also applies the system of mass balance to cocoa, but not to coffee, tea or rooibos. The initiative also provides traceability services for other sustainability initiatives (SSI direct communication with UTZ Certified).

2.2 HISTORICAL TRENDS

FIGURE 2.1 THE START DATES OF EACH OF THE 16 STANDARDS IN RELATION TO THE RIO EARTH SUMMIT.¹⁶



¹⁶ Note that while the ETP was officially founded in 1997, the ETP standard was not promulgated until 2009.

At the launch of Agenda 21 in 1992, only two of the sixteen sustainability standards included in this review had been established. Since then, the landscape has undergone significant change, with voluntary sustainability standards moving from an initial focus on providing a platform for product differentiation based on adoption of leading practices for sustainability, toward a focus on large-scale transition in mainstream supply, with sustainability standards setting baselines for “sustainable” practice.

Early standards initiatives such as IFOAM and Fairtrade, while not restricting eligibility to a portion of the market,¹⁷ were largely inspired by movements regarded as alternatives to mainstream markets. The vast majority of newer initiatives focus directly on mainstream integration at the outset of the standards-development process, a feature that is having significant impacts on the way systems are being designed and implemented today. Notably, this trend represents a move away from that adopted by early eco-labels designed to provide market recognition to only best-in-class leaders, and is increasingly captured by an effort to ensure that

minimum baseline social and environmental norms are upheld within a context of international trade.¹⁸ Much of the data gathered for this report offer an evidence base for this storyline.

Figure 2.1 provides a visual representation of the growth of voluntary standards in commodities production and trade over the past two decades. The year 2000 roughly marks the beginning of the trend toward the development of initiatives explicitly targeting global mainstream markets.

¹⁷ Strictly speaking this is not entirely true, given that Fairtrade only sources from developing country producers.

¹⁸ The early vision of sustainability standards arguably owes its identity to the precedent of national eco-labels, which sought to allow consumers to identify products that excelled in promoting environmental sustainability. Under the eco-label model, voluntary standards were designed to allow consumers to push the bar of innovation toward environmental sustainability by choosing labelled products over their non-labelled counterparts. The logic of the eco-label, however, was designed on an understanding that the standards themselves would change on an ongoing basis to ensure that only the leaders in environmental management would receive the eco-label. As mainstream practices changed, the eco-label would adjust and select new leaders. The notion of 90 per cent market share for an eco-label would have been an oxymoron.



BOX 2.1 DEFINING THE GREEN ECONOMY: THE GROWING ROLE OF THE PRIVATE SECTOR

As a general rule, most voluntary systems today seek to involve a broad range of stakeholders somewhere in the standard-setting process. Notwithstanding this, different initiatives tend to be launched with different underlying philosophies, which the founders of the initiative typically define prior to the standard-setting process itself.

The past decade has seen the rise of greater involvement and leadership from the private sector in the development and implementation of voluntary sustainability standards. The oldest initiatives covered in this report (IFOAM, Rainforest Alliance and Fairtrade) were established principally as civil society movements seeking to exert influence on private sector activity. Over time, companies have become increasingly integrated into the standard-setting and implementation processes. Several of the standards covered in this report (UTZ Certified, 4C Association, GLOBALG.A.P. and ETP) were originally initiated

through industry-led dialogue and cooperation.¹⁹ More recently, however, a trend has appeared, loosely following the FSC model, toward use of clearly designated multistakeholder governance as a foundation for launching new standards initiatives (RSPO, RTRS and Bonsucro).

Regardless of their origins, all of the initiatives in this report currently operate as non-profit organizations, with most including some degree of multistakeholder representation in their implementation process.

¹⁹ Note the 4C Association was launched through a public-private partnership between the German Coffee Association and GLZ. A multistakeholder steering committee guided the 4C Association's initial standard-development process. UTZ Certified was initially launched in 1997 as a coffee standard emanating from a coffee project run by Ahold in Guatemala under the name UTZ Kapeh, or "Good Coffee." The organization became an independent non-profit in 2002.

TABLE 2.1 FOUNDING STAKEHOLDERS, BY INITIATIVE.

Initiative (from date of establishment)	Stakeholder groups that established the initiative			
	Civil society	Producers	Private sector	Public sector
IFOAM	✓			
SAN/RA	✓			
FSC	✓	✓	✓	
ETP			✓	
Fairtrade	✓			
GLOBALG.A.P.			✓	
PEFC		✓		
UTZ Certified		✓	✓	
RSPO	✓	✓	✓	
BCI	✓	✓	✓	
CmiA	✓	✓	✓	✓
4C Association			✓	✓
RTRS	✓	✓	✓	
RSB	✓	✓	✓	
Bonsucro	✓	✓	✓	
ProTerra	✓		✓	

2.3 SETTING THE CONTEXT

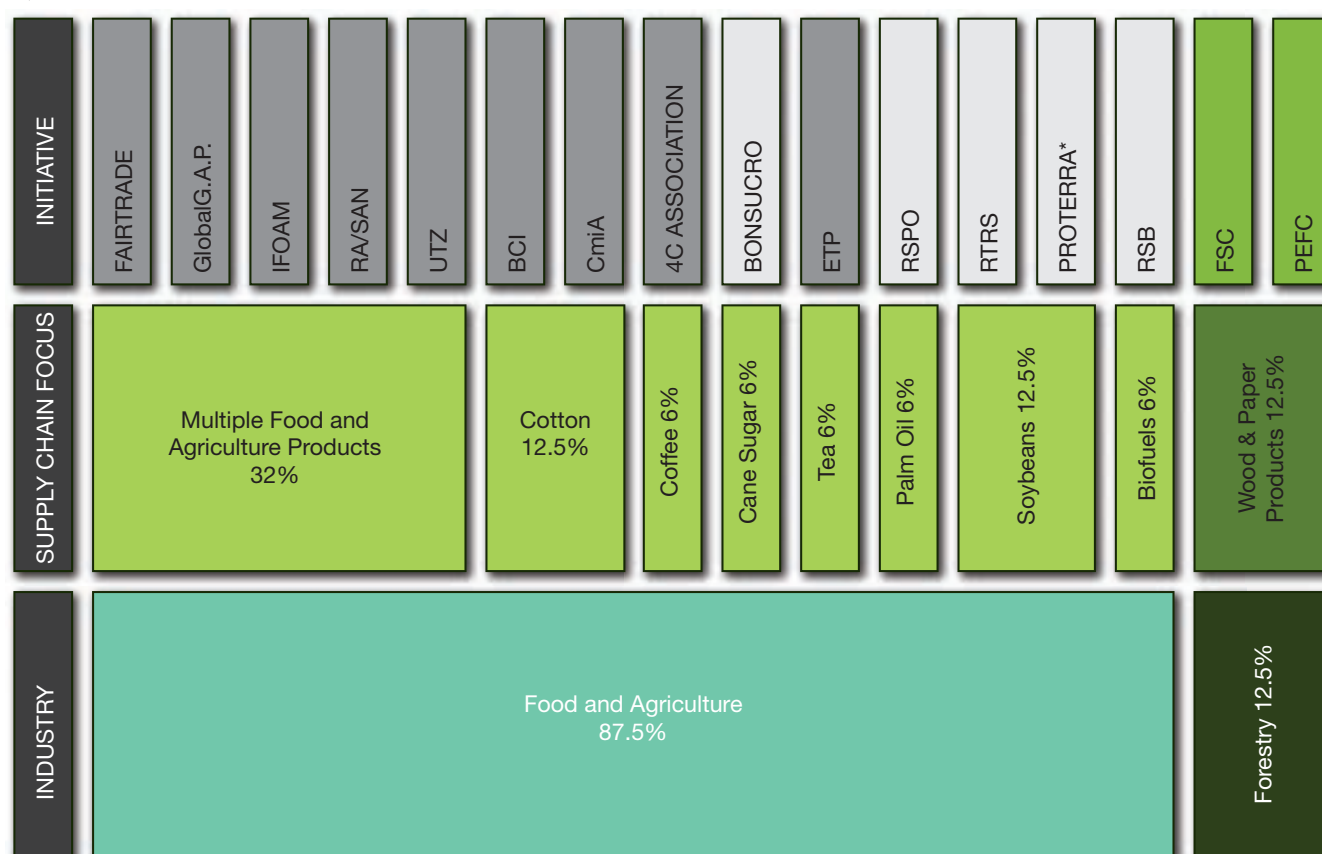
The sustainability standards assessed in this review vary considerably in their organizational makeup and implementing processes. Given the high degree of diversity associated with voluntary standards, any interpretation of the various indicators covered in this report needs to be considered in light of the history, ambitions and scope of the initiative itself. Indeed, the philosophical and historical antecedents to any given initiative will often provide the basic logic and rationale for a given standard's characteristics and position in the marketplace (see Box 2.1). The following overview provides high-level information that aims to contextualize an understanding of the statistics reported elsewhere in this report.

2.3.1 Industry and Product Scope

Voluntary sustainability standards have the potential to improve environmental, social and economic performance for a wide array of industry, product and supply chain sectors. In some sectors,

concerns related to social or environmental considerations at the farm or plantation level are the primary focus behind voluntary standard efforts (e.g., agriculture and food sector and forestry sector), whereas other sectors prioritize concerns related to worker health and safety (e.g., textiles and apparel). A characterization of industry and product coverage arguably represents the starting point for situating any given standard. This review covers 16 initiatives across 10 commodity sectors, 14 serving the agriculture sector (including biofuels) and two serving the forestry sector. Five of the initiatives covered are generic in form, setting standards according to an organization's mission and principles across a variety of commodity sectors. All 11 of the most recent initiatives are single sector and commodity specific, revealing a trend toward a deeper integration of standard-setting processes into existing industrial processes. See Figure 2.2; initiatives appearing in lighter grey also cover biofuels within the food and agriculture sector.

FIGURE 2.2 INDUSTRY COVERAGE ACROSS VOLUNTARY SUSTAINABILITY STANDARDS REVIEWED.



*The ProTerra standard is designed to be applicable to any sector of the agricultural and food industries, although at present it is used almost exclusively for soy. Application to sugar is in its early stages (J. Fagan, ProTerra Foundation, personal communication, December 2013).

2.3.2 Activity Scope

Standard setters can play a variety of different roles in the standard-setting and implementation process. A broader understanding of the different activities undertaken by a given organization provides an important backdrop to interpreting the functioning of the organization within the market.

In order to be included in the SSI Review, an initiative must, at a minimum, manage the development and implementation of a global standard. Of the 16 initiatives covered, all also apply some form of conformity assessment, with certification being the most common. Whether or not an organization takes on accreditation, certification and/or verification may turn on a variety of issues, ranging from cost and efficiency to ownership and credibility. The delegation of accreditation, certification and/or verification to third parties provides an increased degree of independence in the conformity assessment process, with independent accreditation representing the highest level of independence.²⁰

The delegation of these processes to third parties may also provide efficiencies by allowing more specialized organizations to carry out these functions. However, the employment of independent organizations in conformity assessment may also mean: (1) A reduced degree of ownership of the conformity assessment process and/or (2) the reallocation of scarce revenues to third parties. Historically, organizations have tended to mature into increasingly independent conformity assessment processes as budgets and initiative complexity allow over time.²¹



Image: JBLM PAO / CC BY NC SA

²⁰ Note that even the highest level of independence does not entirely avoid conflict of interest issues. Independent conformity assessment bodies, like “internal” conformity assessment bodies, ultimately rely on successful conformity assessment processes for their ongoing revenues and therefore are exposed to a latent moral hazard problem.

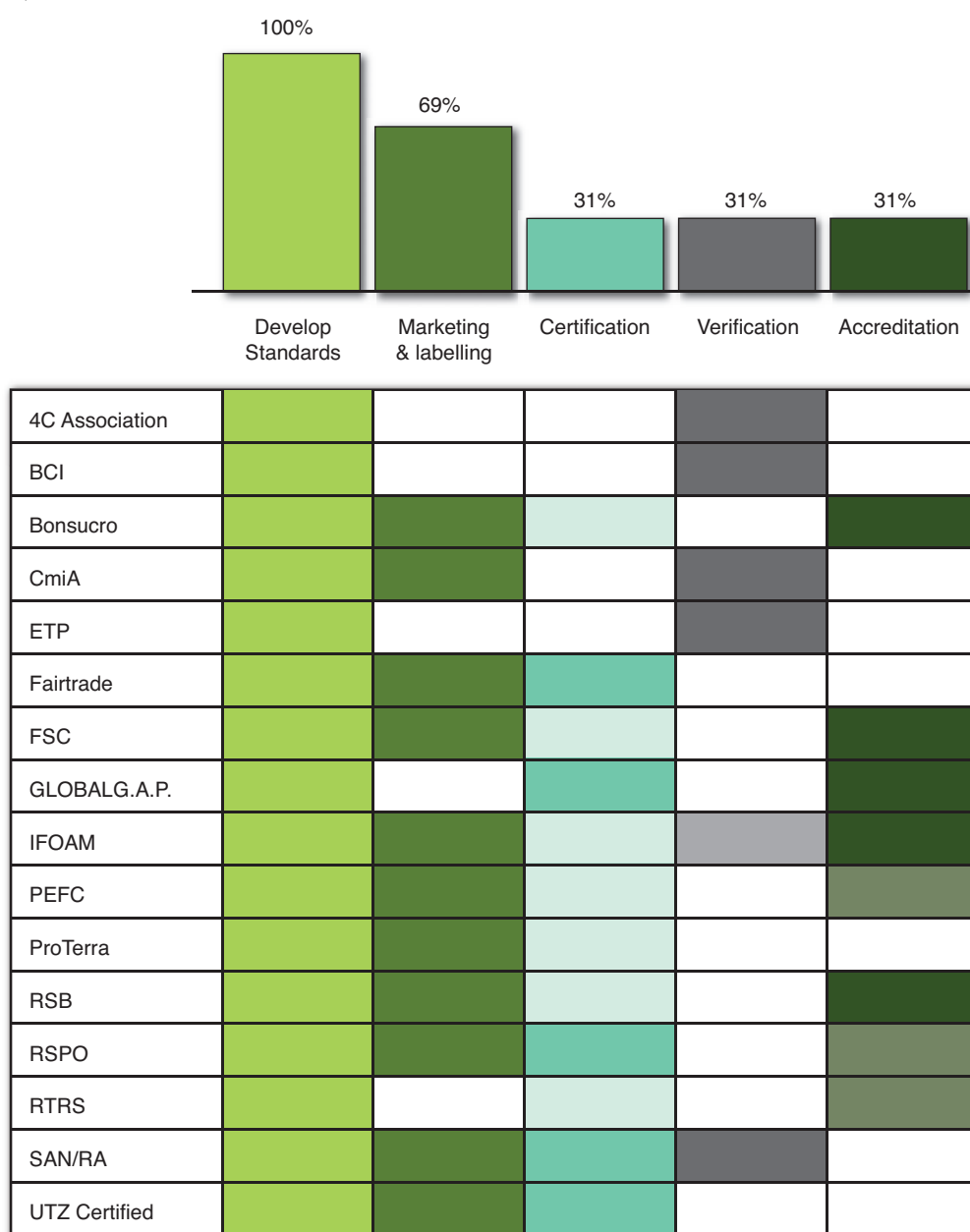
²¹ For example, Fairtrade Labelling Organizations International initially conducted both certification and standard development processes but today has divided these functions up between Fairtrade International and FLO-CERT. Similarly, FSC originally performed its own accreditation but now runs accreditation through Accredited Services International.

Figure 2.3 shows the activities undertaken by each of the initiatives reviewed. All develop standards and all manage conformity assessment using either certification or verification. Some of the organizations reviewed also apply an accreditation model. Since both verification and accreditation can be combined with certification (potentially carried out by third parties), the adoption of one or another of these conformity assessment processes by the standard-setting body does not on its own determine the

depth of the conformity assessment process associated with the standard system itself. In order to capture “system variances” that exist beyond the individual standard-setting bodies, we use lighter shading to underscore “affiliated activities”²² that are associated with the standard system.

²² These “affiliated activities” are not included in the calculation that determines the overall percentage of types of main activities performed by the initiatives.

FIGURE 2.3 MAIN ACTIVITIES OF VOLUNTARY SUSTAINABILITY INITIATIVES.²³



²³ FSC, IFOAM, PEFC and ProTerra manage or oversee certification schemes but do not act as certification bodies. Accreditation Services International (ASI) provides accreditation for FSC, RSPO, and RSB certification bodies. IFOAM Global Organic System Accreditation accredits IFOAM-compliant certification bodies, which must then use standards or regulations recognized by the IFOAM Family of Standards. IFOAM also approves Participatory Guarantee Systems, which do their own form of verification. PEFC is considered a certification system, while also underscoring the certification process as a distinct activity in order to maintain impartiality. RSB also manages a certification system that is conducted and verified by a third party.

Approximately two-thirds of the initiatives reviewed also perform marketing and labelling activities, revealing the close link between voluntary standards and product marketing more generally. Marketing and labelling services help support member product branding (private good) while helping consumers and other stakeholders more efficiently identify and support sustainable practices (public good) (see Box 2.2).

Perhaps self-evidently, organizations that undertake a broader range of activities (and particularly those that manage certification systems) can be expected to have a greater range of tasks (and costs) associated with the day-to-day operations of the organization. This becomes a relevant point of analysis when considering the annual revenues of a given organization (see Section 2.3.5, Figure 2.8).

BOX 2.2 THE BUSINESS OF A GREEN ECONOMY: TWO MODELS

Two basic business models define the field of voluntary sustainability standards: the consumer-facing label and the business-to-business standard. Different business models, in turn, tend to be affiliated with different core activities.

Consumer-facing labels seek to inform consumers about production practices and are often linked with education and/or brand development.²⁴ In contrast, the business-to-business model emphasizes supply chain and risk management attributes through the standards implementation process.

Put another way, consumer-facing labels and corresponding market activities play a more direct role in building consumer demand for green products. Business-to-business initiatives tend to focus on building private sector demand, not by operating as differentiators in the market but by setting “rules of entry” to the market.

While the use of a label is more likely to promote intentional sustainable consumption at the level of the individual consumer, the business-to-business model eliminates reliance on individual consumer choice for ensuring that sustainable practices are implemented and therefore are more likely to achieve widespread uptake.²⁵

Across the initiatives reviewed, roughly two-thirds apply a consumer-facing label, with the remaining one-third relying primarily on business-to-business implementation processes. Business-to-business models represent a newer phenomenon and may also be integrated within a labelling system.

These two distinct approaches represent two parallel pillars of a green economy, with each having its own merits depending on the market structure in a given case.

²⁴ In order for the consumer-facing label to increase consumer awareness, the label needs to be publicly recognized and the message clearly understood. Moreover, it may be beneficial for claims associated with the label to be clarified at the outset, since it is difficult to achieve this after the fact (ISEAL, 2007). For further information, see ISO (2012).

²⁵ To the extent that this is true, business-to-business initiatives may have the potential to affect trade flows more substantially than do consumer-facing initiatives. This may point toward a particular need to ensure alignment between business-to-business initiatives and the principles of non-discrimination as embodied in international trade law.

2.3.3 Geographic Scope

The geographic distribution of standard-compliant production depends on a number of factors. The first and most obvious set of factors relates to the conditions that determine the distribution of commodity production more generally, such as climatic, social, and economic conditions (and other factor endowments), domestic policies, internal infrastructure to support production and trade, and historical trade patterns.²⁶ A second important set of factors may be linked to perceptions of where sustainability issues are the greatest. For example, Fairtrade certification is only available for

products sourced from developing countries. Similarly, CmiA's focus on developing-country cotton sources reflects a focus on building sustainability in less developed supply countries (see Figure 2.4).²⁷ A third set of factors relates to the ease or cost of implementing established standards across the supply base. In regions where adoption costs are lower, one can expect a deeper integration of standard-compliant production (see Box 4.1, Section 4).

²⁶ For example, the absence of RSPO production in North America is linked to the absence of commercial palm oil generally in North America. Note that in order to be considered in the SSI Review, an initiative must be designed to draw supply from more than one source country.

²⁷ Note that the emphasis of these initiatives on developing countries is largely in accordance with a needs-based approach to sustainable development, as set forth by the Brundtland Commission and adopted by the Rio Earth Summit and UN Conference on Environment and Development process more generally.



Of the 16 initiatives reviewed, almost all cover services and production operations in South America and Asia. Africa follows, with 81 per cent of the initiatives operating in the region. The two areas showing the least amount of voluntary standard reach are Europe, at 56 per cent, and Central America and the Caribbean, at 50 per cent. FSC, GLOBALG.A.P., IFOAM and RSPO exhibit the highest global coverage of their operations, operating across all seven regions (see Figure 2.4).

While Figure 2.4 illustrates the regions in which each initiative is technically active, it does not effectively reveal the *degree* of activity (i.e., the prominence of the initiative) in any given region. Figure 2.5 shows the relative presence of each initiative based on the number of hectares certified by region. This graphic provides a more accurate indication of how each initiative, operating within its own target market, has developed its own unique footprint across the geographical landscape.

FIGURE 2.4 CURRENT GEOGRAPHIC SCOPE OF VERIFIED OR CERTIFIED OPERATIONS (SERVICES OR PRODUCTION).

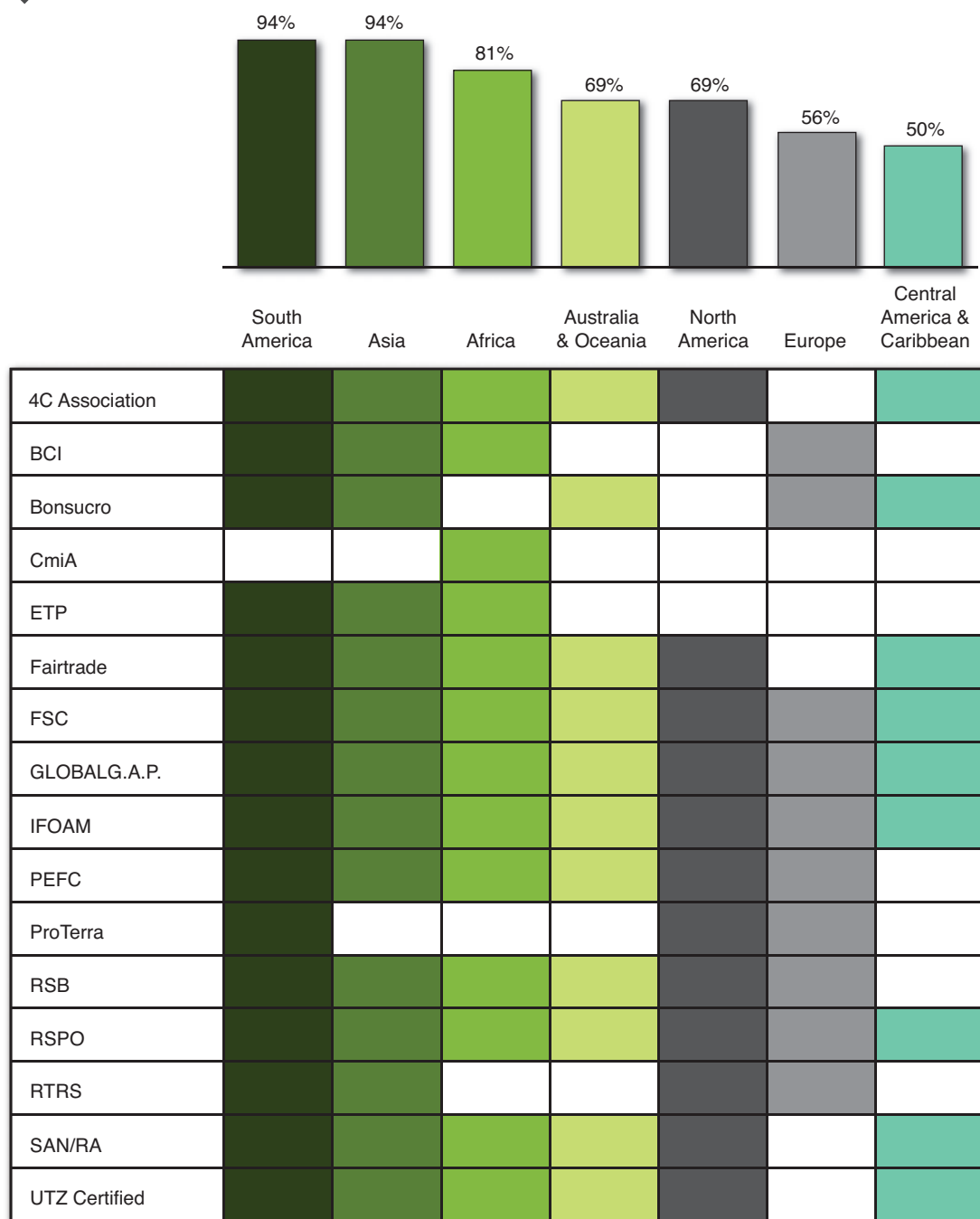
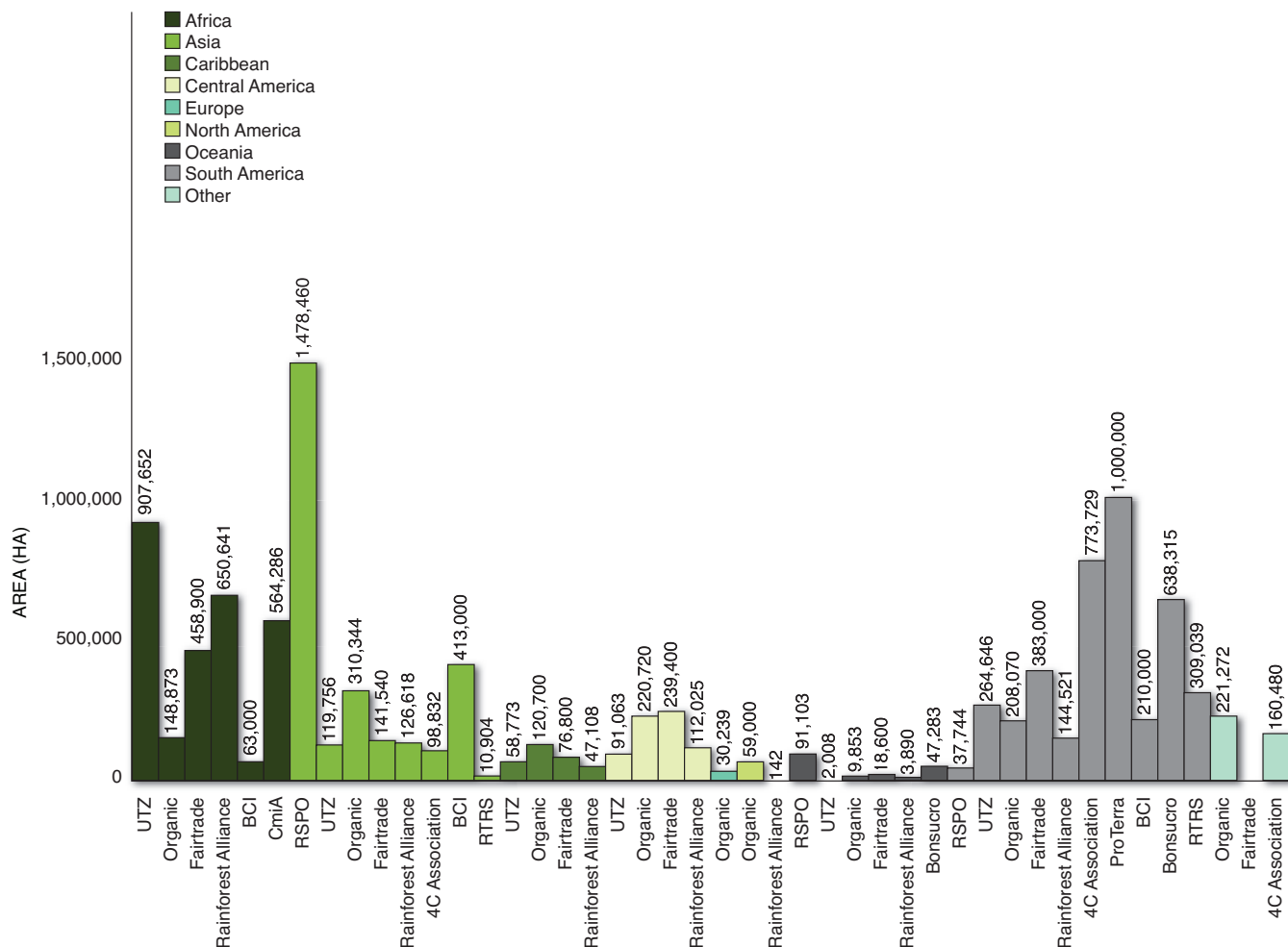


FIGURE 2.5 TOTAL STANDARD-COMPLIANT HECTARES IN EACH CONTINENT ACROSS ALL COMMODITIES, AGGREGATED BY INITIATIVE, 2011/2012.



Data are from 2011 for Fairtrade and IFOAM,²⁸ and from 2012 for all other standards. "Unidentified" refers to unspecified standard-compliant regions. No disaggregated data across regions are available for Bonsucro, and no cotton data are available for IFOAM. 4C Association provides data for only Brazil, Colombia and Vietnam. Only partially disaggregated data are available for Fairtrade. No data are available for ETP, GLOBALG.A.P. and RSB.

28 IFOAM data in figure are referred to as "Organic."

One of the more noticeable features is that many initiatives reveal a distinctive presence in specific countries or regions, a presence often delinked from the actual global distribution of production. While the distribution of a given initiative's activities will depend to some degree on the different commodities it covers, much of the geographical concentration at the initiative level can also be traced to historical or strategic links between a given initiative and specific countries and regions.²⁹

Some of the observable trends based on current hectareage data include:

- UTZ Certified has significant African supply.³⁰
- 4C Association and Bonsucro have a focus on South American supply.
- RSPO leads significantly in Asian supply.
- IFOAM has a fairly even distribution of supply across regions.

The distribution of voluntary standard production is also often delinked from the distribution of conventional commodities. This is particularly the case for individual initiatives, which may have developed specific target markets or networks that imply a regional or even country-specific focus. Different external factors, such as national legislation, can often determine the ability and time necessary to implement these voluntary sustainability standards.

²⁹ See also Section 4, Market Introduction, as well as the market performance sections for each commodity, for concentration and distribution of compliant supply.

³⁰ UTZ supply is not focused mainly on Africa for all commodities. It is the case for cocoa, because of the market, but not for coffee (M. Papadopolou, UTZ Certified, personal communication, December 2013).

“WHILE IT IS OUR INTENTION...THAT SUCH INFORMATION SERVES A COMMON EFFORT OF CONTINUAL IMPROVEMENT AND INCREASED IMPACT OF SUCH INITIATIVES, OUR DATA ARE NOT, PER SE, INTENDED TO MEASURE OR DRAW CONCLUSIONS RELATED TO THE SPECIFIC IMPACTS OF INDIVIDUAL INITIATIVES.”

2.3.4 Single-Sector or Multisector

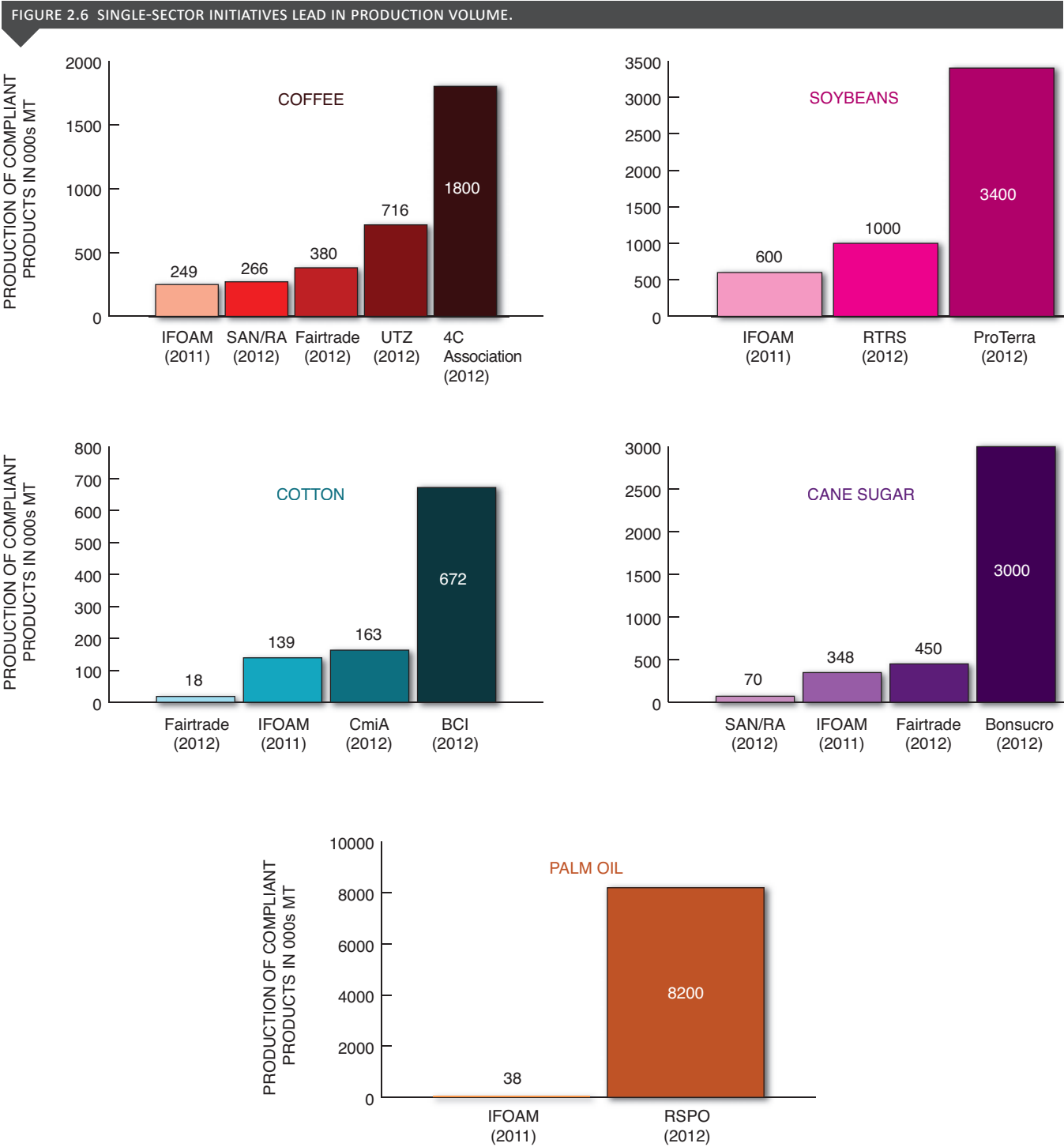
One of the major trends observed over the past decade in the development of commodity standards is a general trend toward the development and adoption of sector-specific or single-sector initiatives. Just over two-thirds of the initiatives reviewed are single-sector initiatives. All of the single-sector initiatives are post-Rio, and of the 10 most recent voluntary standard initiatives on the market, nine are single sector.

Single-sector initiatives are more likely to be deeply tailored to a specific commodity market, arguably allowing for more rapid penetration and uptake. Initiatives that operate in multiple sectors, on the other hand, may have the ability to build up broader consumer recognition of products and so may be more likely to engage in marketing and awareness-raising activities. Figure 2.6 provides a comparison of the production volumes of standard-compliant commodities, revealing a clear trend toward market leadership of single-sector initiatives in every sector where they are present (among the commodities reviewed in this report). There are many causes behind the rapid growth and prominence of single-sector initiatives, but a deeper integration of major mainstream players into the initiative development process is one of the constant features of such initiatives (see Box 2.1 and Table 2.1).

In every sector where a single-sector initiative is present, it has come to dominate the market in a short period of time. 4C Association led production in the coffee sector in 2012, with 1.8 million metric tons. This is more than double the volumes of the leading multisector initiative in the coffee sector (UTZ at 716,000 metric tons). ProTerra led production in the soy sector, with 3.4 million metric tons in 2012. This is almost six times that of the leading multisector initiative in the soy sector (IFOAM at 600,000 metric tons).³¹ BCI led the cotton sector with 672,000 metric tons, almost five times that of IFOAM's organic cotton (139,000 metric tons in 2011). Bonsucro production volumes of cane sugar, at 3 million metric tons, were more than six times that of Fairtrade (450,000 metric tons in 2011). The difference in compliant palm oil production volumes between the single-sector and the multisector initiatives is staggering, ranging from 8.2 million metric tons for RSPO to 38,000 metric tons for IFOAM.

³¹ Latest data available for IFOAM-compliant production volumes is 2011.

Single-sector initiatives, although often newer, lead in standard-compliant production volumes across all of the sectors where they exist. Figure 2.6 is a clear indication of this trend.



The latest data available for IFOAM-compliant production volumes are from 2011. Market data is confidential for ETP, so we make no comparison between the single- and multisector initiatives in the tea sector.

2.3.5 Revenue and Annual Budget

Revenue generation is a fundamental aspect of every voluntary standard body. It goes without saying that everything a standard organization does depends on the resources it has at its disposal. With this in mind, revenue generation may be the single most challenging and important activity of voluntary standards, beyond setting the standards themselves. Most importantly, perhaps, constraints on revenues can operate as constraints on monitoring and enforcement, and thus on the very integrity of the initiative. The relatively young nature of the market for sustainability standards suggests that revenue models are often still largely under development. This in turn suggests that there are strong arguments for deepening our understanding of what works and what does not in terms of revenue generation for voluntary standards.

Different revenue-generation models potentially offer different opportunities for pursuing sustainable development objectives and revenue sustainability. While a voluntary sustainability standard's ability to draw revenue from recurring sources can be an indication of longer-term financial sustainability, a reliance on non-recurring sources may allow for more independence in the implementation of the initiative.

Organizations relying on grant funding, for example, arguably have greater flexibility in making principle-based decisions, but may also face greater insecurity in terms of longer-term revenue stability. Organizations reliant on recurring revenue sources, on the other hand, may have to be more practically inclined, following opportunity over principle in some cases, but may also face better prospects for long-term revenue stability. From a broader sustainability perspective, both elements are clear assets to an organization—independence of revenue sources has the potential

to allow an organization to more accurately pursue public-good sustainability issues, while client-supported revenue sources can potentially help ensure that the services offered by the organization are relevant and useful to the market. Figure 2.7 shows the spectrum and potentially competing nature of these opportunities.

The degree to which service delivery and other recurring revenue sources such as membership fees account for annual revenues varies considerably among the initiatives reviewed. The *State of Sustainability Initiatives Review 2010* found that most of the initiatives accessed in the report relied on grants for 50 per cent or more of their annual revenues, suggesting that voluntary sustainability standards faced challenges with respect to financial stability. Interestingly, results from the initiatives surveyed for the current review paint a different picture, with 75 per cent of the initiatives relying on recurring revenue (membership fees or fees and services) for 50 per cent or more of their income (see Figure 2.8). This suggests that voluntary regulatory schemes, as a general trend, are moving toward more stable, market-oriented revenue models. This may be a reflection of the growing maturity of the sector or a reflection of the deeper integration of private sector players into the development and management of such initiatives.

This trend may face growing constraints in pursuing public good objectives that do not directly benefit service-paying members. Figure 2.8 shows RSB as an example of an initiative that relies on non-recurring revenue sources for over 80 per cent of its income. BCI, Fairtrade, and CmiA each share a relatively even distribution between recurring and non-recurring revenues. The remaining initiatives derive most of their revenues from recurring sources.

FIGURE 2.7 POTENTIAL IMPACTS OF DIFFERENT BUSINESS MODELS ON THE OPERATIONAL SUSTAINABILITY OF INITIATIVES.

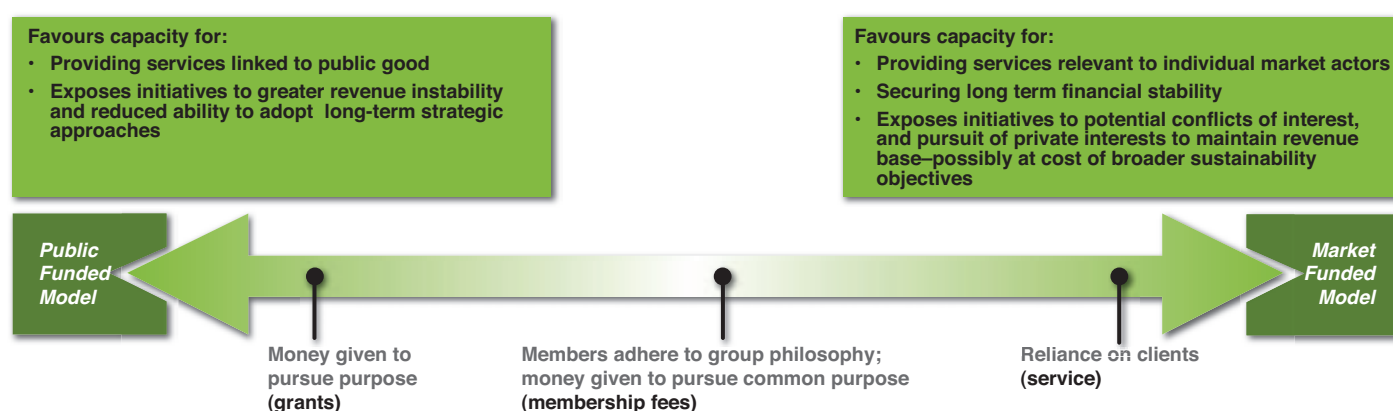
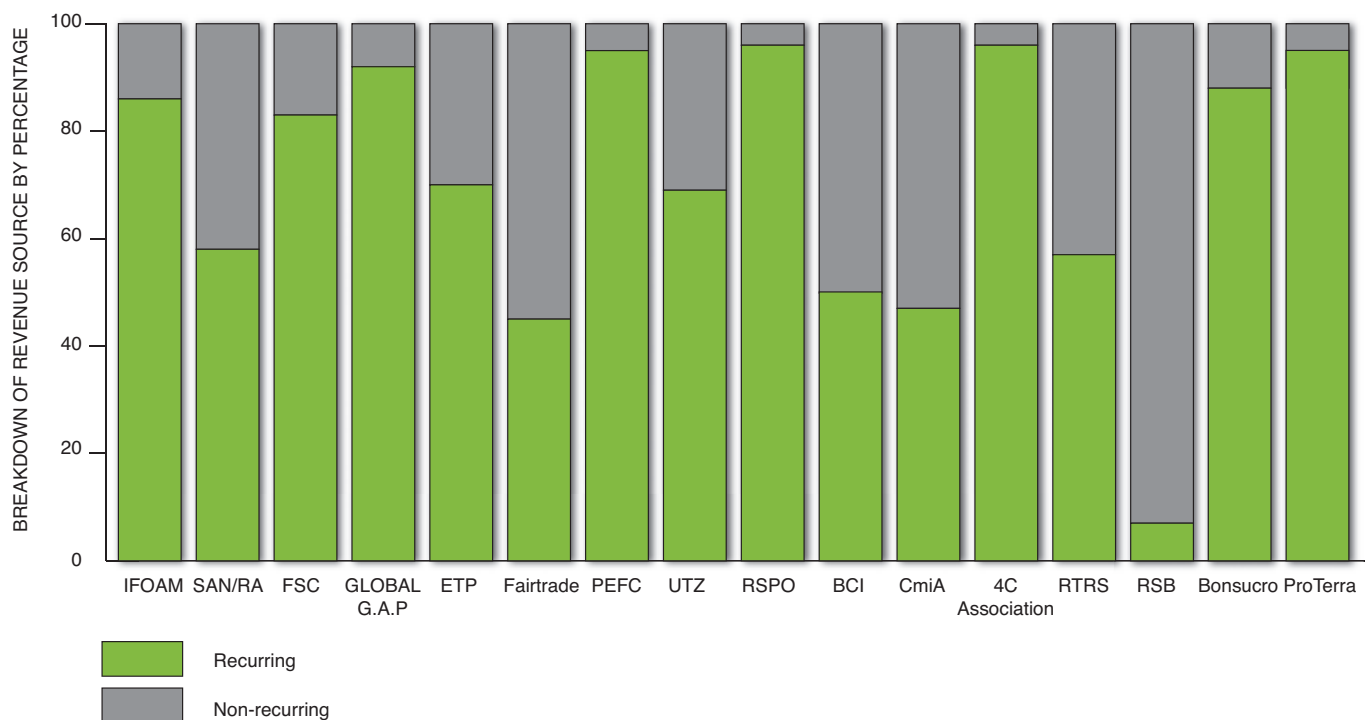


FIGURE 2.8 REVENUE SOURCES, BY INITIATIVE.³²



Recurring revenue includes membership fees, and fees & services. Non-recurring revenue includes public and private grants and other sources of income.

An important consideration for all players along the supply chain will be the cost-benefit ratio provided by any given initiative. Higher costs associated with an initiative could be due to any of a number of factors, ranging from the number of commodities covered, to the types of activities undertaken (particularly whether the organization is directly involved in marketing, technical assistance or certification activities), to increased investment in market expansion, to higher overall transaction costs.

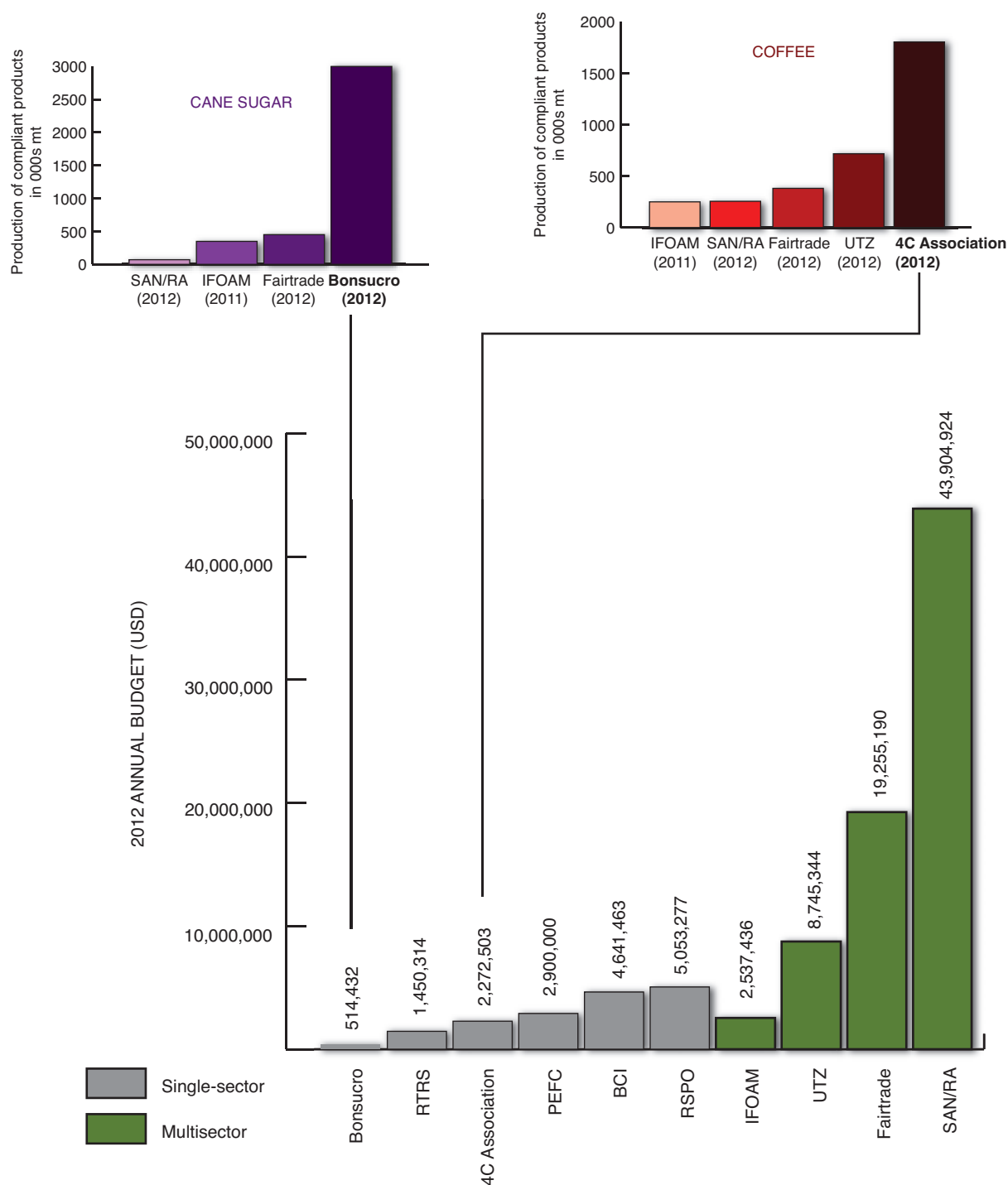
While it is impossible for us to make any determination on this matter in the context of this review, the cost-benefit analysis is arguably specific to each individual actor in the supply chain. For example, it is possible that a particular investment by a given initiative is likely to provide benefits disproportionately along the

supply chain.³³ Accordingly, no single cost-benefit analysis is likely to apply to all stakeholders.

The 16 initiatives reviewed had annual budgets ranging from approximately US\$500,000 to over US\$40 million in 2012. We observe a general trend toward higher budgets for initiatives that cover more commodities (see Figure 2.9). Without knowing how much revenue an initiative allocates to each specific commodity, or the distribution of revenues to specific activities, it is impossible to draw any conclusions regarding cost-efficiency. Nonetheless, the revenue levels of different institutions do presumably point toward the overall capacity of specific organizations to catalyze change through their own direct actions or investments. On the other hand, the market leadership position of lower-revenue organizations such as 4C Association and Bonsucro reveals that budgets may have little to do with actual market share.

³² For SAN/RA, “membership fees” include “certification fees” and “contributions and membership”; fees and services include “special events” and “participation agreement” (Rainforest Alliance, 2012).

³³ For example, an organization such as Fairtrade invests directly in producer capacity building, arguably offering an additional benefit to producers that may or may not be seen as value to other stakeholders further down the supply chain. Similarly, SAN/RA may invest in marketing activities that provide value to private sector partners but that may not be seen as providing value to producers.

FIGURE 2.9 ANNUAL BUDGETS: SINGLE SECTOR VERSUS MULTISECTOR, BY INITIATIVE.³⁴

Sources: 4C Association: 4C Association, 2013a; BCI: BCI, 2013b; Fairtrade: Fairtrade, 2013; Bonsucro: estimate provided by Bonsucro; IFOAM, PEFC, RSPO, RTRS, SAN/RA and UTZ: ITC, 2013b.

³⁴ An initiative's budget can include distribution of revenue to specific activities beyond the implementation of the scheme alone. For example, certification-related work is only one area of SAN/RA's work. Other work areas of revenue distribution are more closely related to what organizations like WWF or The Nature Conservancy do as conservation-focused NGOs, and are not related to the implementation of the scheme (A. de Freitas, SAN, personal communication, January 2014). See also Rainforest Alliance (2012). Similarly, Fairtrade manages an extensive program of producer support services.

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