# Sustainability Standards

## A NEW DEAL TO BUILD FORWARD BETTER

International Trade Centre

TRADE IMPACT FOR GOOD

The International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations.

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# SUSTAINABILITY STANDARDS

## A NEW DEAL TO BUILD FORWARD BETTER

# ABOUT THE REPORT

This report shows how sustainability standards can be a powerful tool for post-pandemic recovery.

It traces the origin of sustainability standards, their evolution from niche to mainstream and industry trends. Companies use them widely in their value chains. Investor choices and government policies are also being shaped by these standards.

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For more information on Standards Map: visit www.standardsmap.org



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# FOREWORD


This has been an awful year and a half, full of stressful headlines and constant adrenaline. COVID-19 deaths every day and lockdowns costing millions of workers their jobs; almost every aspect of normal life upended. Accelerating climate change leads to constant weather-related events, from floods and wildfires to landslides, droughts and tropical storms. We speak of resilience, but the past year-and-a-half have tested every person, country, government and organization. We cannot pass this test unless we help each other.

At the International Trade Centre (ITC), we are doing our best to improve the sustainability and resiliency of small enterprises, not only so they can improve their prospects for accessing new markets, but also so they can contribute to economic growth, environmental sustainability, decent working conditions and reduced discrimination and inequities across value chains. Our approach lifts all boats and leaves no one behind.

From the trade perspective, sustainability standards are one of the tools that has stood the test of time, apply to multiple sectors and countries, and contain relevant criteria and implementation frameworks.

For the past decade, ITC colleagues in the Trade for Sustainable Development (T4SD) programme have been studying the connections between trade and sustainability, notably through the implementation of sustainability standards. This work was inspired and nurtured by two of ITC's core funding partners, the German and Swiss governments, which had the vision to develop the world's first global database on sustainability standards: Standards Map.

Back in 2011, some sceptics questioned investing resources in such a niche field, as certified trade in those days only made up a fraction of global trade. Today, the picture is dramatically different. The catchphrase 'from niche to mainstream' could not be more appropriate.

This year, we celebrate the 10th anniversary of the Standards Map with a brand-new online portal. It now contains data on more than 300 standards, codes of conduct and sustainability frameworks, offering fresh features and functionalities just a few clicks away and ready for use by private and public actors, researchers and academia, and consumers.

In the pages ahead, you will learn from a decade of our experience working with standards, lead firms, non-governmental organizations, small and medium-sized enterprises, and policymakers. This book discusses the origin of sustainability standards, their relevance in trade and how they are dealing with the profound climate, social and economic resilience issues facing our planet today.

This publication also carries an important message for our global economy's future: sustainability is indispensable. It takes the form of initiatives – local and global – emerging in every corner of our society, from consumers and producers to companies and policymakers.

COVID-19 has taught us that we are not as invulnerable as we believed. In the trade field, the key pandemic-inspired lesson is one we must heed: international value chains are more fragile than we thought. We need to strengthen these value chains, make them more resilient and inclusive.

I hope you find this book informative and inspiring. Sustainability is essential, the *sine que non* for our future. We call it the Sustainability Deal, and we carry it in our DNA at ITC. We hope you will carry it, too.

**Pamela Coke-Hamilton**
Executive Director
International Trade Centre

# ACKNOWLEDGEMENTS

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ITC's Trade for Sustainable Development (T4SD) programme produced this book. T4SD is a flagship programme of ITC that is implemented in close cooperation with the German Development Ministry, the Swiss State Secretariat for Economic Affairs and the European Commission.

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# ACRONYMS, UNITS AND MEASURES

Unless otherwise specified, all references to dollars ($) are to United States dollars, and all references to tons are to metric tons.

| | |
|---|---|
| CEO | Chief executive officer |
| CO2 | Carbon dioxide |
| CSR | Corporate social responsibility |
| ESG | Environment, social and governance |
| EU | European Union |
| GIZ | Gesellschaft für Internationale Zusammenarbeit |
| ILO | International Labour Organization |
| ITC | International Trade Centre |
| MSME | Micro, small and medium-sized enterprises |
| NGO | Non-governmental organization |
| SDGs | Sustainable Development Goals |
| T4SD | Trade for Sustainable Development programme |
| WTO | World Trade Organization |

CHAPTER 1

# SUSTAINABILITY: PARADIGM FOR SOCIETY'S FUTURE

By Joseph Wozniak and Cristina Rivero Bono


# SUSTAINABILITY: PARADIGM FOR SOCIETY'S FUTURE

It has become commonplace to say that sustainability has moved from niche to mainstream. This is a response to greater public awareness of social and environmental issues, the ambitious Sustainable Development Goals and globalization interconnecting our value chains and resources.

Political and economic challenges remain, but the sense of urgency and the commitment of a range of actors offer the opportunity to 'build forward better'. Various sustainability tools and initiatives have emerged. These can be found in the International Trade Centre (ITC) Standards Map.

## Growing public concerns

Climate change and poor working conditions in developing countries are now 'front-page' topics, no longer just concerns addressed by non-governmental organization (NGOs) and understood by a narrow market segment of 'conscious consumers'. When it comes to a place on the global agenda, social and environmental sustainability is now a 'top of mind' issue for consumers, multinationals and policymakers. Google searches for sustainability-related terms such as 'CO2 compensation', 'atmosfair' or 'MyClimate' quadrupled in 2019, compared to previous years.[1]

Momentum has been building, especially in the past decade, for more concerted action on sustainability. A realization is emerging that more coordinated efforts are needed to change the dynamic and move the debate forward. Time is running out; a new urgency has taken hold.

1. https://tnmt.com/infographics/the-sustainability-hype-in-numbers/

This heightened realization was deepened by the Rana Plaza tragedy in April 2013, by catastrophic environmental disasters such as Deepwater Horizon in 2010 and by extreme weather events such as Hurricane Sandy (2012) and global wildfires in the Amazon, Indonesia and Australia (2019). At the time of writing, devastating floods in Germany, Belgium and the Netherlands in mid-July 2021 had taken more than 220 lives.

The publicity in 2019 surrounding Greta Thunberg and her environmental activism was easily understandable to all, even children who could relate to her age, simple language and passion for the topic. Her message echoed that of the teenager Severn Cullis-Suzuki at the Rio Earth Summit, held before world leaders three decades ago. Interestingly enough, Suzuki's message did not get through like Thunberg's did. This perhaps reflected the 'niche' nature of the debate 30 years ago while our globally accessible social media platform was a thing of the future at the time.

## COVID-19: New priorities

The COVID-19 pandemic hit the world as a black swan shock to us all, jolting us out of our daily routines, our erstwhile easy adjustment to low-cost and frequent travel, and the 'it can't happen to me' syndrome. We are still grappling with the pandemic. For much of the world, life will not return to normal soon. There is a feeling that things will never be the same as before and that we cannot continue our reckless consumption as in the past. We need to build forward better, protect the planet and make good on the ambitious climate commitments put in place years earlier with the Paris Climate Accord – COP 21 in 2015.

## Changing the status quo

The emergence of the United Nations Sustainable Development Goals (SDGs) in 2015 helped to place a frame and context around the world's most pressing problems. For the first time, it implicated consumers and the private sector – and consequently, global trading networks and supply chains – as key drivers of achieving the goals, notably SDG 12 (sustainable consumption and production) and SDG 17 (partnerships for the goals).

What is different today in 2021, compared to other times when calls for action were made, such as the initial Earth Summit in 1992 and Rio+20 in 2012, is that governments now act in ways that were not considered in 1992 or 2012.

National governments now mandate the improved environmental sustainability of industries, such as the French government's climate and resilience legislation that ended domestic air routes that can be served by trains in under two and half hours. Many countries are phasing out diesel and petrol cars by 2030.[2]

Other examples include a French law on due diligence by multinational companies (2017), the Dutch Agreement on Sustainable Textiles (2016), the UK Modern Slavery Act (2015), the US Textile Products Identification Act (2020), the Australia Modern Slavery Act (2018) and the corporate social responsibility provisions of the Indian Companies Act (2013).[3] This year, Switzerland entered into a free trade agreement with Indonesia that links tariff reductions on Indonesian palm oil imports with sustainability.[4]

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2. The initial proposal from the French *convention citoyenne* was set at four hours, but this was not retained by the French National Assembly. See https://news.trust.org/item/20201118095737-8h1uh
3. Dutch Agreement – 2016 (https://www.imvoconvenanten.nl/en/garments-textile/agreement); UK Modern Slavery Act – 2015 (https://www.legislation.gov.uk/ukpga/2015/30/contents/enacted); US Textile Products – 2020 (https://www.federalregister.gov/documents/2020/02/18/2020-02759/rules-and-regulations-under-the-textile-fiber-products-identification-act); Australia Modern Slavery – 2018 (https://www.legislation.gov.au/Details/C2018A00153); Indian Companies Act – 2013 (https://www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf)
4. The agreement's Trade and Sustainable Development chapter requires all vegetable oils and their derivatives to be traded according to 'the laws, policies and practices aiming at protecting primary forests, peatlands and related ecosystems, halting deforestation, peat drainage and fire clearing in land preparation, reducing air and water pollution and respecting rights of local and Indigenous communities and workers'. See Articles 8.10(2):a and 8.10(2):e.

At the international level, beyond the Sustainable Development Goals, multilateral institutions such as the World Bank are phasing out the financing and development of fossil-fuel power plants.[5]

Most recently, the European Union (EU) launched the Circular Economy Action Plan and the Green Deal to safeguard environmental sustainability and ensure decent social and labour practices in international value chains. In late 2019, Costa Rica, Fiji, Iceland, New Zealand, Norway and Switzerland began negotiations on the Agreement on Climate Change, Trade and Sustainability to bring together interrelated elements of climate change, trade and sustainable development.

At the private sector level, multinational firms have made commitments to 'green' their supply chains or do away with the worst forms of child labour practices among their suppliers. Multistakeholder initiatives such as amfori, the Social and Labor Convergence Program, the Initiative for Compliance and Sustainability, the Sustainable Apparel Coalition, AIM Progress and the Sustainable Agriculture Initiative Platform have sprung up to bring industry-wide solutions to tackle environmental, social and labour sustainability challenges.

## Box 1 Defining sustainability standards

The terms private standards, voluntary sustainability standards and sustainability standards are used interchangeably. They are defined as:

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

Companies and non-profit associations lead these voluntary standards. They complement national public health and safety standards; international standards of the World Trade Organization (WTO) that address sanitary and phytosanitary measures, technical barriers to trade and government procurement; and international standards approved by the International Organization for Standardization that address quality management, food safety, the environment, health and safety, energy, information technology security and more.

***Source*:** United Nations Forum on Sustainability Standards (2013), p. 3.

5. https://ieefa.org/international-finance-corporation-tightens-rules-on-coal-plant-financing/

## Connecting the dots for international value chains

When it comes to international trade and value chains, these national, international and private sector initiatives are welcome. Yet there is little coordination or understanding on how these rapidly developing policy solutions and multistakeholder initiatives can work together in a value chain perspective.

In other words, there is a lack of a connective structure to ensure interoperability or compatibility between national, multilateral, regional and private industry perspectives on sustainability. Nor is there one internationally recognized body to create a 'level playing field' for all initiatives. Indeed, given the private sector-led nature of many of the prevailing initiatives, this may well be an unrealistic and unworkable aim.

More importantly, micro, small and medium-sized enterprises (MSMEs) producing along the value chain – and who make up the majority of the industry and trade – have not received much attention or incentives to become sustainable. Their voice is critical to making policies practical.

However, much has been done and tools have been developed to address sustainability concerns. The most-known tools take the form of voluntary standards and related codes of conduct.

Voluntary sustainability standards, company codes of conduct and other related measures have existed for years. Consumer-facing standards and labels including Fairtrade, Rainforest Alliance and Organic are understandably somewhat better known than business-to-business voluntary standards such as GLOBALG.A.P. or SA8000 that do not have their labels on consumer products.[6]

Sustainability standards can serve as practical tools to monitor companies' due diligence and compliance with other social and environmental measures. Financial institutions can also use them to help ensure the sustainability of upstream investments.

Standards organizations, related NGOs and companies that have developed their codes of conduct have years of experience in developing environmental, social and labour criteria, as they implement these standards across the globe in various sectors. Their collective experience offers insights on how to make the transition to sustainability work for all.

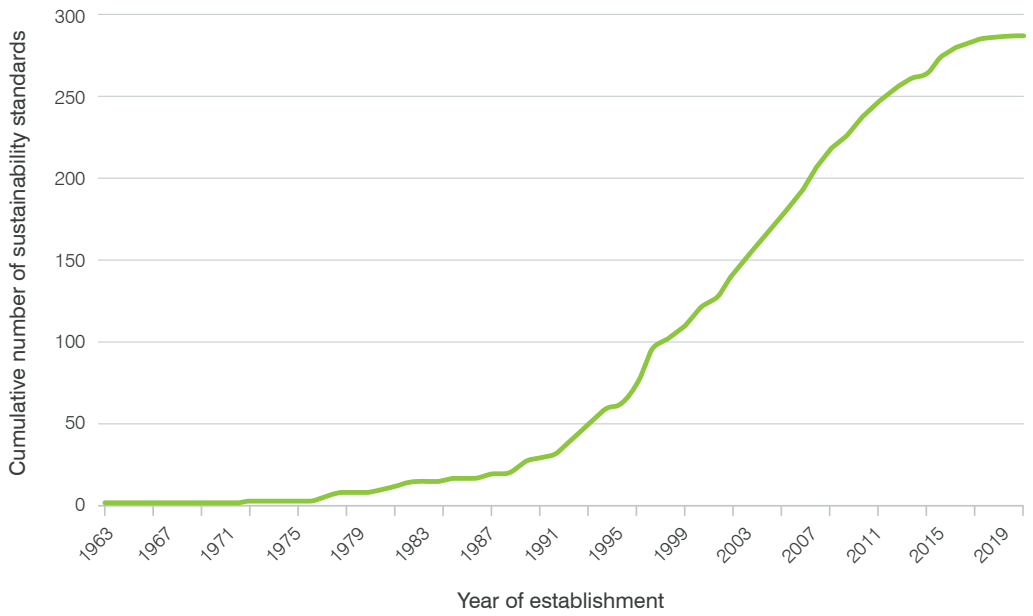
Standards are not a 'magic wand' or a panacea for all our sustainability challenges. Rather, these insights serve as a guide, and as a guardrail, to ensure that environmental and social conditions in international value chains do not become worse, and current progress does not backslide. But can we be more ambitious? Can sustainability standards make innovative and meaningful contributions to help foment a new Sustainability Deal? If so, what would this look like and how would standards help reshape the future global economy? These topics are explored in this publication.

6. It is important to note that private sustainability standards fall outside of the purview of the WTO and its Agreement on Technical Barriers to Trade, Agreement on Sanitary and Phytosanitary Measures, and Agreement on Government Procurement. As we will see, sustainability standards are developed by private actors and NGOs and are voluntary in nature, as opposed to mandatory public regulations. However, even this distinction can get blurry as certain standards, such as Organic agriculture standards, are developed by public institutions but nevertheless remain voluntary in scope.


## Mapping sustainability standards

Initiatives to promote social and environmental concerns have emerged over the last several decades and in parallel with the rise of societal awareness of natural resource constraints, poor social and labour conditions in producing countries, and the general imbalance of power between developed and developing countries.

Figure 1: Development of sustainability standards over time




***Source:*** International Trade Centre, Standards Map (2021).

## Box 2 Standards Map

Standards Map is a global public tool to navigate the diverse landscape of voluntary sustainability standards.

Sustainability initiatives, standards, codes of conduct and audit protocols have skyrocketed in the last decade, making it a challenge for companies, consumers and policymakers to navigate the ever-changing landscape of sustainability standards.

Standards Map provides an inventory of public domain covering over 300 sustainability initiatives, applicable to more than 80 sectors and 190 countries. Producers, cooperatives and companies across the world wanting to demonstrate that they are operating towards high sustainability standards use the tool.

Since its launch in 2011, Standards Map has provided comprehensive, verified information on voluntary standards and similar initiatives covering environmental protection, food quality and safety, labour rights and economic development.

This global public good allows users to:

- Identify and review standards by product, sector, area or focus;
- Compare standards side-by-side with more than 1,650 criteria;
- Monitor production trends among standards;
- See where they are in their compliance processes and assess their performance against a range of standards requirements.

***Source*:** www.standardsmap.org

Sustainability standards have proliferated rapidly since the 1990s, initiated mostly by non-governmental organizations. NGO-led initiatives focus differently on social, environmental or ethical topics, depending on their mission. Thus, it has become confusing to distinguish and differentiate between initiatives that seem to address similar issues, while implementing their programmes in very different ways. One example is an initiative requiring a simple membership commitment and signature of a common charter versus an independent third-party assessment in view of product certification.

To support users of sustainability standards, ITC's Trade for Sustainable Development (T4SD) programme has developed the Standards Map. It is the world's only global repository of such initiatives and standards, including references to codes of conduct, audit protocols, certification programmes, sustainability reporting frameworks, sustainable finance indicators and international standards. As a response to the complicated landscape of sustainability initiatives, Standards Map focuses on making such information more accessible and transparent for everyone, as a global public good.

The main challenge in 'mapping' these voluntary standards comes from the fact that they are very different in terms of scope, governance and implementation – for example, codes of conduct versus certification programmes or due diligence sets of good practices.

They can be managed by very different types of organizations (e.g. private or public sector, for-profit or not-for-profit). They can be managed through multistakeholder boards and committees or they can keep the decision-making power in the hands of a single organization and few people (e.g. a private company with its own corporate sustainability programme, versus a civil society multistakeholder-driven programme).

Beyond the organizational set-up, they may focus on very different topics and at various levels (e.g. gender empowerment in business management versus biodiversity conservation in the rice sector in South-East Asia). Standards can apply to just one product (coffee, sugar, palm oil, soy, cocoa) or a wide industry (textiles, electronics) or even apply to any sector of the economy (e.g. the International Labour Organization's Labour Standards).

## Typology: Comparing apples with oranges

Given the variety of approaches to sustainability standards, ITC has been developing a comprehensive typology of sustainability standards to highlight their differences and similarities. The typology is meant to be used by every organization that deals with sustainability standards:

- Companies that need to compare sustainability standards used by their suppliers or that want to choose an appropriate sustainability standard based on their market position.
- Business support organizations that need to support their members in search of adequate sustainability standards in their respective sectors and markets.
- Governments, policymakers and trade negotiators seeking to include sustainability provisions in public regulations and trade agreements and connect such provisions to the language of the private sector.
- Researchers, academics and civil society organizations involved in the field of sustainability.

The typology of sustainability standards aims to offer a flexible framework to organize, cluster and analyse standards based on common attributes, missions, objectives, organizational set-ups, etc. Three building blocks have been defined to develop the typology:

- **Purpose**: For example, the purpose of sustainability standards can be product certification, a global reporting framework, a set of guidelines and good practices, a framework for due diligence, a code of conduct, etc.
- **Governance and scope**: For example, a sustainability standard focusing on the electronics industry led by a consortium of private brands, or an NGO-driven sustainability standard that certifies well-managed forests and fights against deforestation.
- **Implementation and expected impacts**: For example, a sustainability standard based on a set of continuous improvement practices, with third-party verification of progress and impacts achieved over a period of time, or another sustainability standard that operates through a mandatory 'yes/no' auditable checklist requiring full compliance at a certain time without specific consideration of future impacts.

Table 1: Sustainability standards typology: Three building blocks

| Purpose | Governance and scope | Implementation and expected impacts |
|---|---|---|
| Product certification<br>Organization certification<br>Process certification<br>Topic certification<br>Standard benchmarking<br>Company benchmarking<br>Guidance and set of good practices<br>Performance assessment<br>Reporting framework<br>Policy framework<br>Due diligence | Governmental public organization<br>Non-governmental private organization (for-profit or not-for- profit)<br>Existence or not of multistakeholder decision-making processes<br>Product industry-specific scope versus no product industry scope<br>General or specific segment of value chain focus (production, processing and manufacturing, trading and retailing, consumption and end of life) | Output activities and expected long-lasting outcomes and impacts;<br>Time-bound versus no time-bound requirements for compliance;<br>Existence or not of policies for public claims and labelling;<br>Existence of an assurance model based on first-party, second-party or third-party verification. |

***Source*:** International Trade Centre, Standards Map (2021)

## Box 3 The Trade for Sustainable Development programme

As sustainability shapes future economic competitiveness, MSMEs – especially in developing countries – need solutions to improve their sustainability performance and market access. ITC's T4SD programme was conceived to respond to these needs.

This initiative is a partnership-based programme that empowers and equips MSMEs to improve their sustainability performance for better efficiency and international competitiveness.

T4SD contributes towards seven of the Sustainable Development Goals in the following ways:

- **Building MSME competitiveness and resilience** by empowering them to meet sustainability requirements. T4SD provides customized coaching programmes for MSMEs to strengthen their decision-making regarding the value standards implementation
- **Supporting business ecosystems** by providing business support organizations and private sector service providers with knowledge and skills to help MSMEs implement sustainable business practices.
- **Collaborating with industry platforms to drive sustainable sourcing alignment, transparency and traceability.**
- **Improving access of sustainable businesses to international markets** by improving their visibility and connections, via third-party e-commerce platforms, online and offline trade fairs and other business-to-business events, and direct connections to potential buyers.
- **Facilitation of international efforts** on convergence between voluntary and mandatory standards and input and advice to multilateral organizations as they incorporate sustainability standards into their policy work.
- **Harnessing data to encourage global trade policymakers to take greater account of the sustainability needs of MSMEs.**


Two major tools :

- **Standards Map**, a free tool to find transparent information and discover trends on standards for environmental protection, labour rights, business ethics and more.
- **Sustainability Map**, a free online platform for businesses to promote their sustainable business practices, find new business opportunities and improve their product traceability.

***Source*:** www.sustainabilitygateway.org

CHAPTER 2

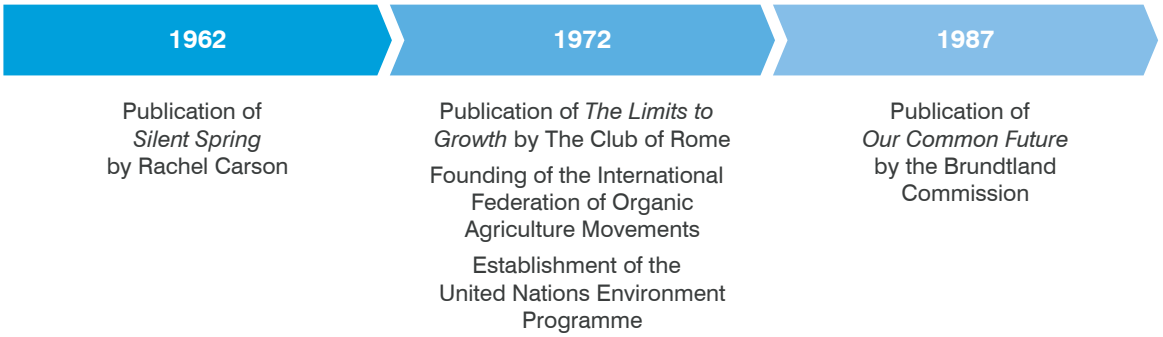
# SUSTAINABILITY OVER TIME: BEYOND 'BUSINESS AS USUAL'

By Sandra Cabrera and Florence Mooser

# SUSTAINABILITY OVER TIME: BEYOND 'BUSINESS AS USUAL'

Sustainability standards have evolved from topic-oriented civil society-based movements starting in the 1960s to coordinated, multistakeholder sustainability frameworks and private sustainability schemes operating at a much broader scale and affecting all aspects of international trade and value chains.

## From the 1960s to the 1990s: Environmental issues trigger concerns




Sustainability standards weren't always the large multistakeholder frameworks we know today. At their root, standards were a group of haphazard, civil society-based movements denouncing environmental and social excesses. Those excesses can be traced back to the Industrial Revolution – a time when technology and mass production required more natural resources. Man's relationship to nature would be forever altered: 'There was a psychological change: confidence in the ability to use resources and to master nature was heightened.'[7] Man's dominance of nature, along with its harmful consequences, would only grow over time.

Fast-forward to the 1960s, when advances in agriculture and chemistry, coupled with a post-war population boom, marked the advent of large-scale agriculture. As the use of pesticides also became more widespread, scientists began to sound the alarm about the harmful effects of DDT and other chemicals.

Ecological consciousness blossomed with the publication of Rachel Carson's *Silent Spring* (1962), which documented the effects of pesticides on plants and animals for a general audience. Infused with the Protestant thinking of the time, the book 'demanded personal action to right the wrongs of society'[8] – the same type of thinking that would power the rise of sustainability standards.

Carson was not the only scientist to worry about the state of the planet. In 1968, the Club of Rome was born. This informal organization of eminent scientists, economists, humanists and industrialists addressed the complex issues facing humanity and the planet.

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**Molly Harriss Olson**

Chief Executive Officer, Fairtrade Australia and New Zealand

## ADAPTING STANDARDS OVER TIME: THE CASE OF FAIRTRADE

**How did Fairtrade's 'fair price' originate?**

Fairtrade was founded in the 1980s, when a Dutch charity delivered some wells to coffee farmers in Mexico. It was an 'a-ha!' moment: the farmers were very grateful, but highlighted that a fair price for the coffee would enable them to buy the well themselves.

We had a profound recognition: the poverty in coffee and many commodities stemmed from a structural issue. We were not paying the production price of that coffee! As a result, Fairtrade started thinking differently about what was driving poverty we were seeing in commodities around the world.

By the early 1990s, small initiatives were springing up all over Europe, even in places like New Zealand. By 1997, Fairtrade International had begun to set up its global standard for fairly traded products and the certification mark that we know today. It had a rapid evolution and then became very prominent. Today Fairtrade is recognized and trusted all over the world.

**How has Fairtrade evolved?**

When Fairtrade started, there were no sustainability principles, no Global Reporting Initiative, no Millennium Development Goals. Today, Fairtrade is totally aligned with the Sustainable Development Goals and has a very positive, measurable impact on all of those goals. Some are core to what Fairtrade is doing. When I was Chair of the Global Board of Fairtrade, we changed the constitution to make farmers and workers in the Fairtrade system half-owners of it.

We now have about 1.7 million farmers and workers, with retail sales around $15 billion per year, so it's a very significant global trading system. The producers are now there to really represent their own system.

**What is your future post-COVID?**

COVID has shown how connected we really are. Climate change is definitely here and we must work together, because the consequences aren't just going to hit the people who caused it – the consequences are hitting everyone.

Long-term, sustainability standards are important if they can help us in a measurable and transparent way to change our behaviour. If they are not measurable and if they're not transparent, and if unlike the Fairtrade system they don't have a consequence, all it does is confuse consumers and businesses.

Fairtrade has demonstrated a model of genuine impact that can transform trade. We need to make sure that all our sustainability standards have the same sort of consequences and impact.

If value chains do not show the true impact of production, then consumers will keep making unsustainable choices. Fairtrade has helped us to know what that visibility requires, in terms of auditing measurable standards. If we go into that robust measurable direction, then we'll be able to transform the way we're trading in the system, and hopefully to overcome the huge problems facing the planet and humanity.

The think tank is famous for *The Limits to Growth* (1972), which marks the first time that the word 'sustainable' appeared in its modern form.[9] The book warned of the perils of continued worldwide expansion, arguing that the planet's resources will probably not support continued economic and population growth beyond 2100. The concept snowballed from there. While no book in the English language had used either 'sustainable' or 'sustainability' in its title before 1970, there was a mushrooming of books referencing sustainability after 1980.[10]

Around the same time, the grassroots organic and fair trade movements took off, signalling the advent of voluntary sustainability standards.[11] The organic movement had been slowly gaining ground over the years as a response to large-scale agriculture.[12] In 1972, the movement became coordinated under the auspices of the International Federation of Organic Agriculture Movements, or IFOAM. Perhaps even more relevant, the organic tenets proposed by pioneers such as Lady Eve Balfour became codified into standards.[13]

That same year, the concept of sustainability was gaining ground at the United Nations. Indeed, in 1972, the United Nations Environment Programme was established after the United Nations Conference on the Human Environment in Stockholm. 'Significantly, the emergence of sustainability within the milieu of the UN signalled the increasingly international character of the movement.'[14]

In 1983, the World Commission on Environment and Development, known informally as the Brundtland Commission, was set up to create a global framework for sustainable development. The establishment of the commission culminated with the publication of the report *Our Common Future* (1987). The report looked at sustainability with a holistic vision that encompassed 'the three Es' of 'environment, economy and equity', rather than just environmental considerations.[15] That version of sustainability still guides us today.

Around that time, environmental and social responsibility were linked through the rise of fair trade movements. Non-governmental organizations seeking more balanced trade relations between North and South started popping up. These would lead to the rise of Fairtrade International in 1997, as an umbrella organization for national chapters.[16]

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10. *Ibid*., p. 2.
11. State Secretariat for Economic Affairs SECO (March 2021). *SECO's Engagement in Voluntary Sustainability Standards (VSS) An evolving commitment to drive sustainability in Global Value Chains* and Gale, F., Ascui, F., & Lovell, H. (2017). 'Sensing Reality? New Monitoring Technologies for Global Sustainability Standards. Global Environmental Politics,' 17(2), pp. 65–83. https://doi.org/10.1162/glep_a_00401
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14. Caradonna, *op. cit.*, p. 142.
15. *Ibid*., p.143.
16. Fairtrade Foundation (n.d.). 'The History of Fairtrade.' https://www.fairtrade.org.uk/what-is-fairtrade/the-impact-of-our-work/the-history-of-fairtrade/

## The 1990s: Social issues elicit a global response


Two trends marked the 1990s as a turning point for the formalization and rapid growth of sustainability initiatives. First, social issues became more prominent as globalization took hold. Second, international policy discourse adopted the term 'sustainable development' from the Brundtland Commission.

The 1990s marked the era of globalization, as international value chains began stretching across continents. Major companies fragmented their production processes: products and their spare parts were manufactured, assembled and sold in different countries and regions. This form of cross-border production emerged during the 1990s as a result of trade liberalization, advances in technology and communication, and progress in logistics.[17]

While these value chains created new jobs and growth, they also contributed to environmental degradation and social inequality. During the 1990s, activist Jeff Ballinger led a widely publicized NGO movement against Nike for worker abuse and exploitation in developing countries. After pressure from labour activists, campus organizers and anti-globalization forces, Nike Chief Executive Officer (CEO) Phil Knight promised reform in 1998. Around the same time, awareness about social conditions in the production of major globally traded commodities such as cocoa grew, as documentaries came out about child labour on plantations.

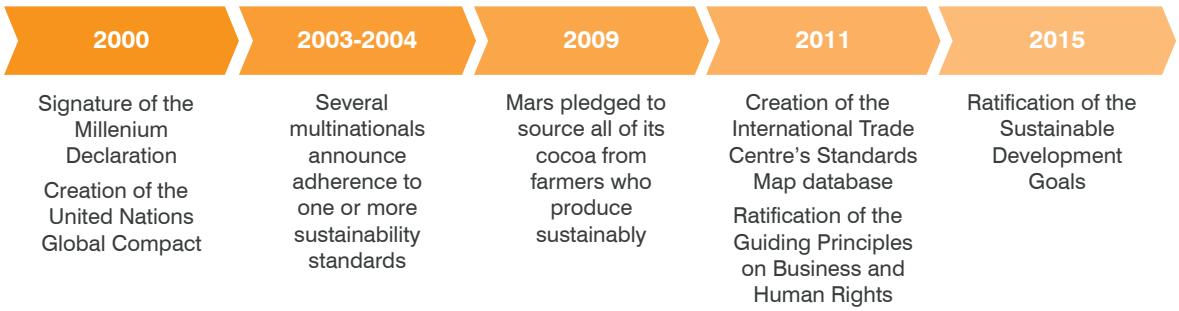
At the international policy level, more than 170 countries met in Rio de Janeiro in 1992 at the United Nations Conference on Environment and Development to focus on the impact of human activities on the environment. An output of the Earth Summit was *Agenda 21*, which linked social and economic development with environmental protection and championed economic growth and free trade.[18] This movement marked a pivotal point, during which 'sustainability' and 'sustainable development' no longer were fringe concepts, but were becoming mainstreamed.

The 1992 Earth Summit represented a turning point in the development of sustainability standards: it is the moment that talk translated into action. In 1993, the Forest Stewardship Council was founded. In 1995, the World Trade Organization was created, with its Preamble to the Marrakesh Agreement including direct references to sustainable development and the environment. It is worth pointing out that since the establishment of the WTO, its relationship with private standards has been thorny, considering the difficulty in regulating them.

Fairtrade was founded in 1997, raising awareness about the challenges of farmers in developing countries. The Programme for the Endorsement of Forest Certification was founded two years later. The 1990s and early 2000s marked the rapid growth of sustainability standards.

17. Seric, A. and Tong, Y.S. (3 August 2019). 'What are global value chains and why do they matter?' Industrial Analytics Platform. https://iap.unido.org/articles/what-are-global-value-chains-and-why-do-they-matter
18. Purvis, B., Mao, Y. & Robinson, D. (2019). Three pillars of sustainability: in search of conceptual origins. *Sustain Sci* 14, pp. 681–695. https://doi.org/10.1007/s11625-018-0627-5 p.684

## From 2000 to 2015: Companies adopt sustainability standards




The beginning of the twenty-first century saw sharply increased public interest in and concern about climate change, as well as global economic and social inequalities. As a result, a set of global frameworks was launched to promote fundamental values for international relations in an era of progressive globalization. After a summit in New York City, the United Nations General Assembly launched the Millennium Declaration in response to the central challenge of the time – to ensure that globalization becomes a positive force for all the world's people.[19]

### Box 4 The Millennium Development Goals

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Global partnership for development

***Source*:** Resolution Adopted by General Assembly No. A/RES/55/2, 3 C.F.R. 2 (2000).

19. Resolution Adopted by United Nations General Assembly No. A/RES/55/2, 3 C.F.R. 2 (2000).

National representatives agreed that globalization offered great opportunities – and that costs and benefits were shared very unevenly. More precisely, developing countries and countries with economies in transition faced difficulties in responding to that central challenge. The only way to make globalization inclusive and equitable was to set a common, sustained agenda based on fundamental values (such as freedom, equality, solidarity, tolerance, respect for nature and shared responsibility) to govern international relations.

Out of this realization came the Millennium Development Goals, shortly after the 2000 New York summit. They set targets to achieve these goals around the world by 2015. The Millennium Development Goals served as the North Star for the United Nations, in conjunction with the development agencies, national governments and private sector contributions throughout the period.

At the same time, the United Nations faced calls for more efficient, effective programmes and public-private partnerships. Out of this notion, two months before the launch of the Millennium Development Goals, the United Nations launched the Global Compact at its headquarters in New York City.

This initiative put forward 10 principles to guide business operations and strategies everywhere and had two objectives: 'Mainstream the United Nations Global Compact 10 principles in business activities around the world' and 'Catalyse actions in support of broader United Nations goals', such as the Millennium Development Goals, and later, the Sustainable Development Goals.

The coordinated and multistakeholder efforts of the United Nations Global Compact have resonated across the globe and it has since become the world's largest corporate sustainability initiative. Currently, more than 13,000 companies in over 170 countries ¬– both developing and developed – are Global Compact signatories.

## The rise of corporate social responsibility

As sustainability efforts gained critical mass, companies developed their own corporate social responsibility (CSR) initiatives. By their very nature, these are corporate strategic responses to pressures they face: from customers, who sought socially and environmentally sustainable products; from suppliers and business partners, who faced similar customer pressures; and from authorities, in light of societal awareness. The initiatives sought to protect company reputations (as well as sales and profits) and stave off a rise in regulation.

Despite high-level initiatives (such as the Millennium Development Goals) and growing corporate awareness, there was no singly accepted definition of corporate social responsibility in the early 2000s. All definitions share the notion that companies, through their sustainability strategies, should manage their impact on society and environment. However, there is no agreement or definition on the scope of such a contribution, or what exactly social and environmental sustainability means.

The vague and at times differing definitions of CSR included 'a broad range of activities that corporations may engage in, with varying degrees of enthusiasm, to demonstrate that they are addressing important human rights, environmental and labour issues – many of which have been brought to their attention by activist groups'.[20]

While the scope of corporate responsibility was not defined, firms were eager to showcase their contributions to broader development goals. Most publicly traded companies, in some form or another, began to issue reports about their corporate social responsibility and sustainability efforts. In the corporate world, CSR and sustainability strategies have come to mean the same thing: that companies consider limits of natural, human and financial resources and that they align with and contribute to a globally recognized and voluntary sustainable framework, such as the Millennium Development Goals and the United Nations Global Compact Principles.

This growing attention by the corporate sector was reflected in a 2010 study of more than 700 CEOs of multinational corporations, conducted by UN Global Compact and Accenture. It found that '93% of CEOs believed that sustainability issues will be critical to the future success of their business' and '96% of CEOs believed that sustainability issues should be fully integrated into the strategy and operations of a company (up from 72% in 2007)'.[21]

This strategic importance was equally mirrored in the growth of CSR reports: while 464 CSR reports were published in 1998, this number grew to almost 6,000 by 2011.[22]

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20. Balmaña, R.M. (2010). *International corporate social responsibility: The role of corporations in the economic order of the 21st century*. Alphen aan den Rijn: Kluwer Law International.
21. United Nations Global Compact Leaders Summit 2010 – Summary Report (Rep.) (October 2010). Retrieved 5 July 2021 from United Nations Global Compact website: https://d306pr3pise04h.cloudfront.net/docs/summit2010%2F2010_Leaders_Summit_Report.pdf
22. 2012 Global Winners&Reporting Trends (Rep.) (April 2021). Retrieved 5 July 2021 from CorporateRegister.com website: https://www.corporateregister.com/crra/help/CRRA-2012-Exec-Summary.pdf

## The race to adopt sustainability standards

As companies responded to demands for transparency in contributing to a more sustainable and inclusive world, they aligned with globally recognized frameworks, such as the Millennium Development Goals and the United Nations Global Compact Principles. Such frameworks included high-level objectives. Pressed to show positive impact, companies looked around for more pragmatic tools. They began to adopt voluntary sustainability standards to address specific issues in their value chains.

Today, these standards are at the heart of many corporate sustainability actions. Often created by industry consortia, NGOs or multistakeholder initiatives, voluntary sustainability standards go beyond minimum legal standards imposed by legislators. Such a standard includes a set of criteria, defined by its owners or stakeholders. A company must fulfil the criteria if it wants to report compliance with that particular standard. The standards are usually limited to a well-defined sustainability area, value chain, specific sector or product.

The corporate appetite for these standards is reflected in their rise in the early 2000s. While the first such standards were established decades earlier, they doubled in number from fewer than 200 in 2000 to more than 400 in 2010. At the same time, several global roundtables were established: on soy (Round Table on Responsible Soy), palm oil (Roundtable on Sustainable Palm Oil) and sugar (Bonsucro). These kick-started a new generation of standards focusing on global food supply chains, backed up by considerable industry engagement.

Companies were soon eager to publicize their sustainability efforts. A few brief examples: In 2003, Nespresso announced its AAA Sustainable Quality Program in partnership with the Rainforest Alliance, in 2004, Kraft and Procter & Gamble begin to sell Rainforest Alliance-certified coffee in their stores, representing the first widely sold coffee products to feature that seal. Two years later, Walmart – the world's largest retailer – committed to not sell any wild-caught fresh and frozen fish in the United States and Canada unless they met Marine Stewardship Council criteria. And in 2009, Mars pledged to source all of its cocoa from farmers certified by Fairtrade and Rainforest Alliance (now merged with UTZ Certified).[23]

As the internet gained momentum in the second half of the decade, voluntary standards moved into the virtual realm. The founding of ITC's online Standards Map database represented one example of the growing presence of sustainability standards on the internet. Simultaneously, supported by the rapid adoption and increased credibility and maturity of the standards system, sustainability standards began to spread into a new range of sectors and sustainability themes such as tourism, mining, aquaculture, water and jewellery.

By 2010, there was a growing realization that sustainability concerns were interconnected. From the chemical levels in fertilizer to the income received at the end of each month – all affect producers equally. In response, many standards expanded their scope of coverage. For example, 4C (The Common Code for the Coffee Community) added a climate module (covering mitigation and adaptation measures) to its existing coffee production guidelines.[24]

With more than twice as many sustainability standards then a decade before, standards continued in 2010 to increase their footprint. In 2013, the Forest Stewardship Council (FSC) reached over 180 million hectares of forest managed according to its principles – 450% more than 10 years prior. That year, 32 of the 100 largest global beauty companies referred to biodiversity in their sustainability reporting.[25] And certain standards had an unprecedented impact on consumers. In the United Kingdom in 2014, for example, 78% of the population recognized the Fairtrade mark.[26]

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23. ISEAL Alliance (n.d.). Growth of the Sustainability Standards Movement. https://platform.isealalliance.org/sites/default/files/Growth%20of%20the%20Sustainability%20Standards%20Movement%20timeline%20online.pdf
24. Deutsche Gesellschaft für Internationale Zusammenarbeit (n.d.). Climate Change Adaptation and Mitigation in the Kenyan Coffee Sector. file:///C:/Users/Cabrera/Downloads/8264.pdf
25. Convention on Biological Diversity (2013). Press release on Biodiversity Barometer. https://www.cbd.int/doc/press/2013/pr-2013-04-16-UEBT-en.pdf
26. Fairtrade Foundation, *op. cit.*

Yet sustainability issues in supply chains increased after 2010, following repeated reports about corporate wrongdoing. Reports revealed, for example, poor working conditions in offshore garment and footwear production. In response, the United Nations ratified its Guiding Principles on Business and Human Rights in 2011, focusing on human rights affected by business activities.[27] Such wrongdoing added to the growing notion that tackling sustainability issues in supply chains required collaboration across all supply chain tiers.

Scalable impact could only be reached by engaging multiple stakeholders in common purpose and commitment – which gave way to corporate coalitions and engagement platforms such as the Consumer Goods Forum, led by more than 400 CEOs from retailers, manufacturers and service providers.

## From 2015: Towards a 'Sustainability Deal' across value chains

The Sustainable Development Goals reflect the results of a global multistakeholder approach. Ratified in September 2015 during a historic United Nations summit, the 17 goals entered into force in January 2016 and outline a pathway towards sustainable progress by 2030.

Compared to the Millennium Development Goals, the SDGs differ in three key areas: First, they apply to all countries; target achievements are nationally owned and led. Second, they specifically establish trade as a way to achieve sustainability goals (through, for instance, SDG 12: Ensure sustainable consumption and production patterns). Third, the SDGs contain more sub-goals, allowing for detailed contribution and progress measurement (see https://sdg-tracker.org).

The 17 goals are highly interlinked. Their achievement requires deep public–private collaboration. Multinationals from all sectors and geographic locations soon embraced this multistakeholder approach and the ease of measurement and alignment.

A quick Google search reveals, for instance, that Airbus, Credit Suisse, Danone, Hitachi, Nissan, Orange, Repsol and Vodafone have started to measure their SDG contributions in detail and publish data-based reports. Several companies also quickly pledged to advance sustainability goals in the wake of the SDG launch – clothing manufacture C&A, for example, said in 2015 that 100% of the cotton it uses must be organic and 'more sustainable' by 2020.[28]

This last example is telling, as what we call the new Sustainability Deal involves public institutions, businesses and voluntary standards that encompass the entire value chain. C&A, a profit-driven corporation, has publicly pledged to achieve a sustainability goal that contributes to the SDGs set forth by a public institution, the United Nations.

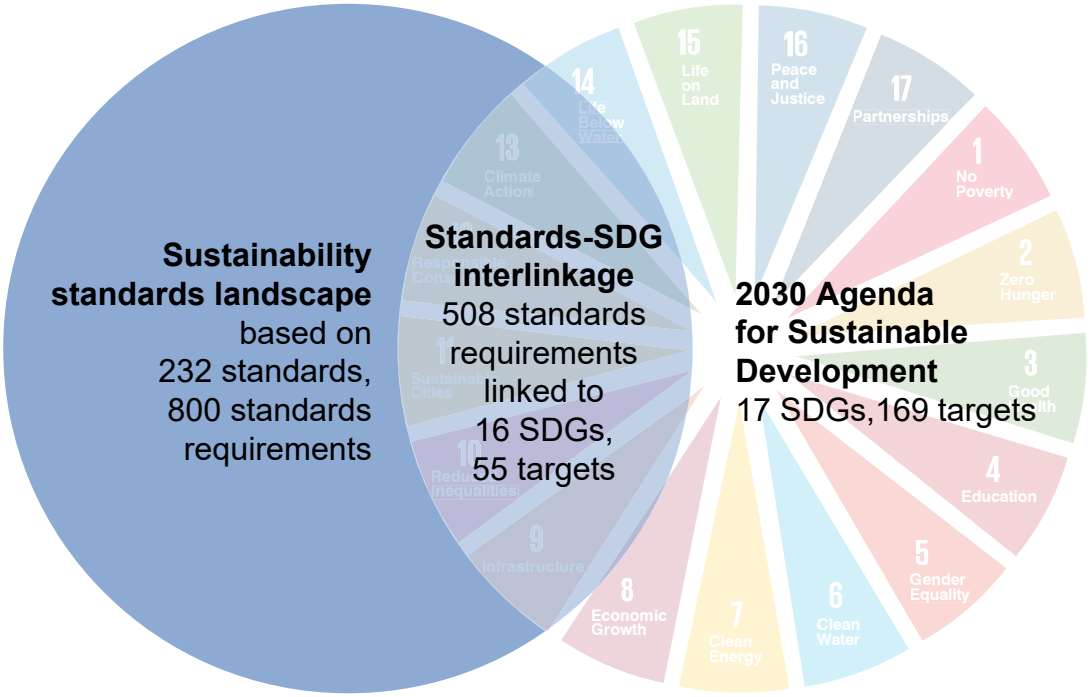
This multistakeholder set-up, which covers the value chain and its actors, is achieved through corporate action, public alignment and the use of voluntary standards. To certify that its cotton is indeed organic and more sustainable, C&A buys it exclusively from sources backed by voluntary standards such as the Better Cotton Initiative.

Sustainability standards have also been aligning their sustainability goals with the SDGs. Thanks to the data-oriented design of the SDGs, one can measure to what extent a sustainability standard (and, by extension, a given user of the standard, such as a smallholder cocoa farmer) aligns and contributes to different SDGs.

27. Office of the United Nations High Commissioner for Human Rights (2021). OHCHR and business and human rights. https://www.ohchr.org/en/issues/business/pages/businessindex.aspx
28. C&A (2015). Global Sustainability Report 2015. https://www.c-and-a.com/uk/en/corporate/fileadmin/user_upload/Assets/3_Newsroom/Media_Center/sustainabilityreport_2015/C_A_Global_Sustainability_Report_2015_Summary_English.pdf

Governments and financiers are turning to voluntary standards as they measure SDG target achievement and as they begin to understand strategic potential of standards. To better understand the linkages between sustainability standards and the SDGs, which may overlap,[29] the figure below illustrates their connection.

Figure 2: Common objectives: Sustainability standards and Sustainable Development Goals




***Source:*** Adapted from ITC report *Linking Voluntary Standards to Sustainable Development Goals*.[30]

Companies today find their role evolving. Those firms that use a voluntary standard today face due diligence requirements from governments and greater expectations from consumers and stakeholders.

The International Trade Centre has worked with standard-setter organizations for 10 years, displaying them in its global, neutral and free Standards Map online portal. At the same time, ITC has become the convener of a community of sustainability experts – including technical development agencies, international agencies, industry associations, business support institutions, civil society organizations and governments – that promote sustainability practices and work to align sustainability frameworks.

Looking ahead, policymakers may increasingly recognize and use voluntary standards, signalling a shift away from the 'voluntary' part of such sustainability standards. The European Commission, for example, is exploring ways to introduce mandatory due diligence through its Green Deal, to put greater weight behind the achievement of sustainability targets.[31] As part of a mandated due diligence seeking to tackle the problem of global deforestation and forest degradation, there are ongoing discussions on the role that sustainability standards requirements could play in a 'smart mix' or combination of strategies of supply chain interventions.

Standards have evolved significantly over the last half-century. As the next chapters will show, standards today are changing the rules of the game with greater transparency along supply chains. Not only are they moving from 'limiting damage' and 'sustaining' towards 'creating positive impact', but they also contribute to an ecosystem that has potential to create a more systemic positive change through integrated action and coordination among all actors of international value chains.

29. Bissinger, K., Brandi, C., Cabrera de Leicht, S., Fiorini, M., Schleifer, P., Fernandez de Cordova, S., and Ahmed, N. (2020). *Linking Voluntary Standards to Sustainable Development Goals*. International Trade Centre, Geneva, Switzerland (https://www.intracen.org/publication/Sustainable-Development/ )
30. Note that the focus of the analysis in *Linking Voluntary Standards to Sustainable Development Goals* was based on the 126 core SDG targets of the 169 targets in the 2030 Agenda for Sustainable Development.
31. European Parliament (2020). Towards a mandatory EU system of due diligence for supply chains. https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/659299/EPRS_BRI(2020)659299_EN.pdf

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Division Head, Sahel/West Africa, German Federal Ministry for Economic Cooperation and Development

## STANDARDS: PART OF A SMART MIX FOR SUSTAINABLE TRADE POLICY

**How can sustainability standards foster sustainability?**

Sustainability Standards provide a very good basis to prove compliance with product-related sustainability criteria.

The Green Button seal for sustainable textiles and other government initiatives were built on existing sustainability standards. The German Government complemented those criteria and corporate policies with their own social and environmental criteria.

Governments could use sustainability standards in a smart mix of tools to foster their sustainable trade policy. An example is preferential or free treatment towards imports of sustainably produced products on the basis of non-discriminatory criteria. Governments have to design and describe the criteria they set for ecological and social standards based on existing voluntary standards.

Voluntary standards would be able to document their coverage of sustainability issues. And on that basis, inputs could be tailored free, for example, in the Generalized System of Preferences.


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CHAPTER 3

# TRENDS IN SUSTAINABILITY STANDARDS

By Regina Taimasova and Akshata Limaye


# TRENDS IN SUSTAINABILITY STANDARDS

The volume of sustainably certified products is growing, with more and more standards expanding beyond the traditional agriculture, textile and garment sectors. The continued proliferation of standards worries supply chain actors such as manufacturers, producers and traders. They have joined forces to address this issue by creating benchmarking platforms and other tools, such as mutual recognition to reduce the duplication of resources, particularly around audits.

Standards have become a quasi-ubiquitous tool used not only by large firms and producers, but also by other stakeholders for different purposes. Financiers use standards to control for sustainability risks of their borrowers. Governments use them to apply due diligence policies and monitor the sustainability performance of large companies' supply chains. Smallholders also make use of standards to improve their social and environmental practices, obtain price premiums and access international value chains.

Consumer trust remains an issue. With rising consumer awareness and demand for sustainable products, companies must make sure their sustainability practices and claims are credible and substantiated.

# Expansion and consolidation

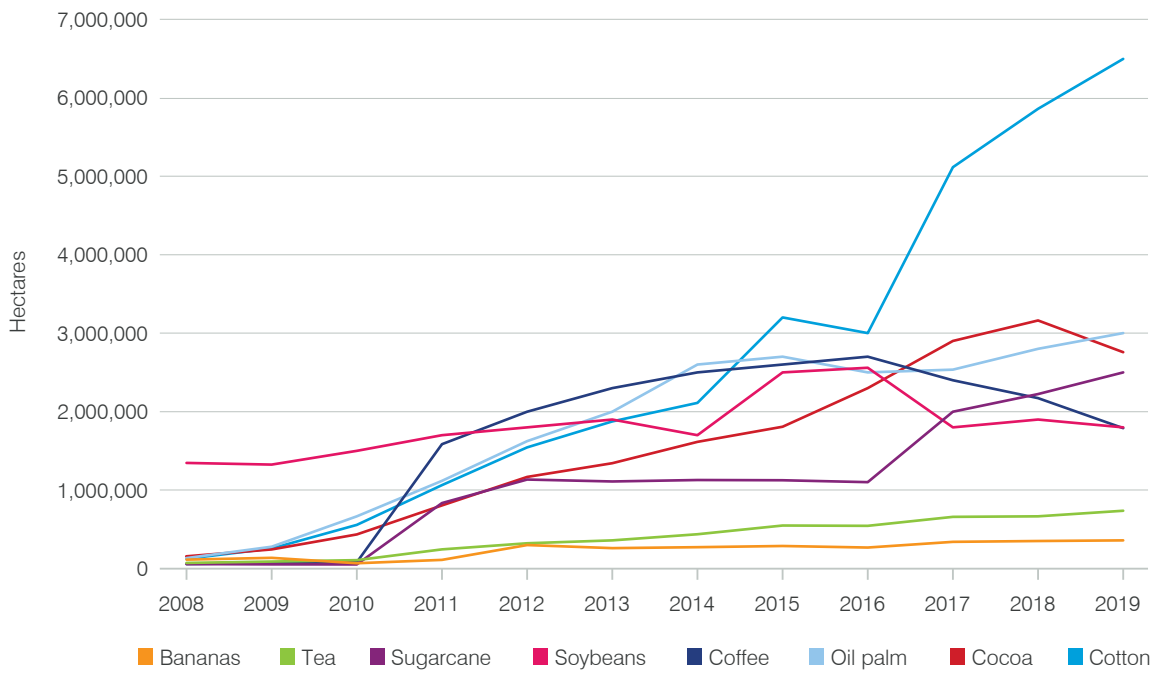
## Certification in Agriculture: Growing or Plateauing?

There has been a steady rise in certified agricultural commodities in the last decade. This reflects the growth of sustainability standards, fuelled by interest from consumers, buyers and producers.

The latest *State of Sustainable Markets* report shows the steady increase in land that is certified by major sustainability standards,[32] for eight major crops and for forestry.[33] The minimum certified area of the selected crops[34] expanded by 52%[35] in 2014–2018.

Looking closely at the data, however, one can also argue that growth rates in certain sectors may be plateauing at 20% market shares, having reached the early adopters and larger producers. The challenge remains to reach the middle majority of producers – the MSMEs that are often less able to comply to sustainability standards' requirements, have difficulties to organize themselves and are situated in more remote locations.

Figure 3: On the rise: Minimum certified area for key crops, 2008–2019



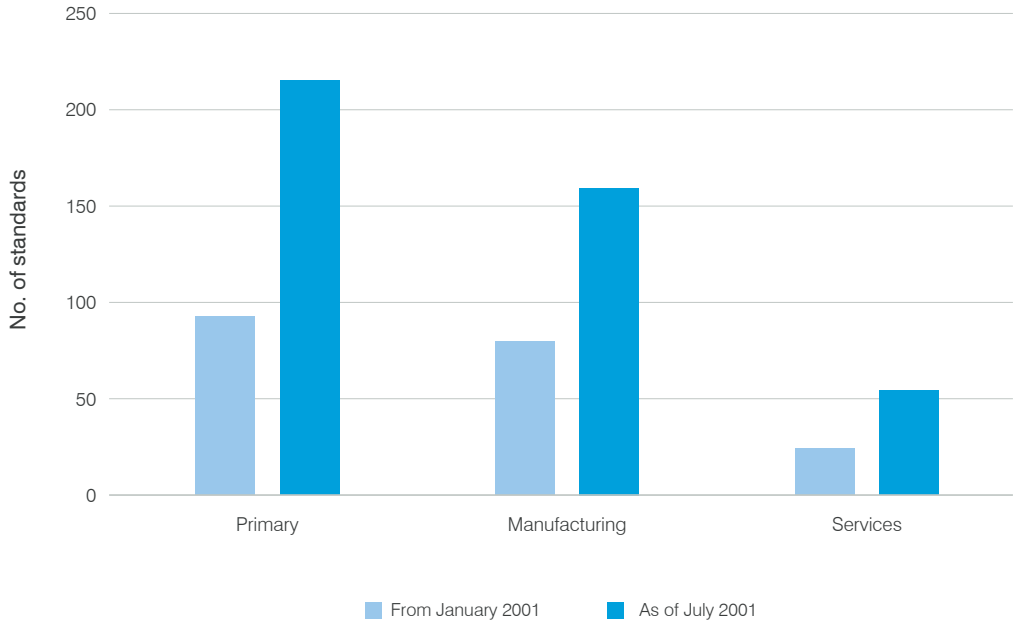

***Source*:** ITC, *The State of Sustainable Markets 2021: Statistics and Emerging Trends*.

32. 4C Services, Better Cotton Initiative, Bonsucro, Cotton made in Africa, Fairtrade International, Forest Stewardship Council, GLOBALG.A.P., IFOAM – Organics International, the Programme for the Endorsement of Forest Certification, ProTerra Foundation, Rainforest Alliance, the Roundtable on Sustainable Palm Oil, the Round Table on Responsible Soy and UTZ.
33. *The State of Sustainable Markets 2020: Statistics and Emerging Trends*, page xiii (https://www.intracen.org/publication/Sustainable-Markets-2020/)
34. Bananas, cocoa, coffee, cotton, oil palm, soybeans, sugarcane and tea.
35. It is assumed that a maximum number of multiple certifications occur within each commodity. The minimum possible sustainability standards compliant area is shown. This corresponds to the standards with the largest compliant area operating within a given sector. Sources: FiBL-ITC-SSI survey, 2020: 4C Services, 2014, 2015, 2016, 2018, 2019 and 2020; Better Cotton Initiative, 2014, 2015, 2017, 2018, 2019 and 2020; Bonsucro, 2014, 2015, 2016, 2018, 2019 and 2020; Cotton made in Africa, 2014, 2015, 2016, 2018, 2019 and 2020; Fairtrade International, 2017, 2018, 2019 and 2020; GLOBALG.A.P., 2015, 2016, 2018, 2019 and 2020; FiBL survey, 2020; ProTerra Foundation, 2014, 2015, 2016, 2018, 2019 and 2020; Rainforest Alliance, 2014, 2015, 2016, 2018, 2019 and 2020; Roundtable on Sustainable Palm Oil, 2019 and 2020; Round Table on Responsible Soy, 2014, 2015, 2016, 2018, 2019 and 2020; Textile Exchange 2013–2020.

## Sustainability standards expand beyond agriculture

Voluntary standards in the agricultural sector have been prevalent for some time. More recent is the widening number of products and sectors that adopt such standards. Broadly, sustainability standards cover primary products, manufacturing sector, and services. The two figures below highlight the sectoral distribution of the sustainability standards in the ITC Standards Map database, comparing the number of standards in January 2001 and as of July 2021.[36]

Figure 4: Primary sector has biggest share of standards landscape



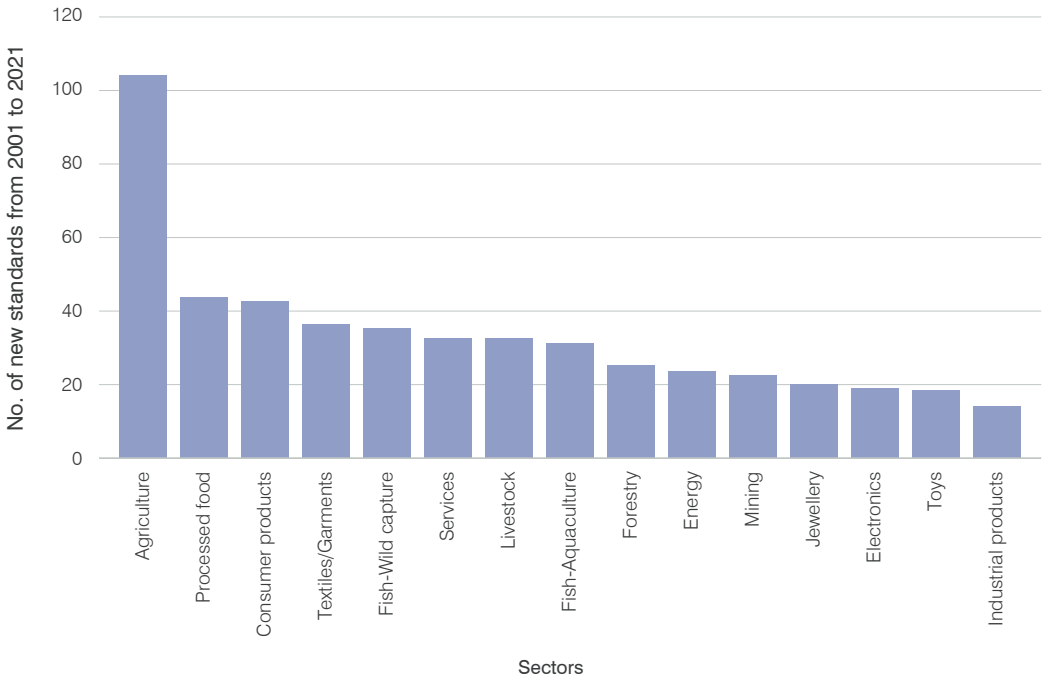

***Source*:** Authors' own calculations based on ITC Standards Map https://standardsmap.org/standards

Based on our study of the ITC Standards Map database, we have observed the following trends:

- **The primary sector has the biggest share of the sustainability standards landscape.** Some 20% of the all new stanadards in two decades relate to agriculture. Over the last decade, sustainability standards in the primary sector have increased by 133%.
- **Sustainability standards relevant to manufacturing and a broad range of consumer products have doubled over 20 years.** Textiles, garments, processed food and consumer goods have traditionally made up (and continue to make up) the largest share in this sector. Standards have also emerged covering niche products such as electronics, jewellery and toys, also doubling in the last two decades.
- While fewer sustainability standards apply to services, **standards in services have increased by 128%**. Two-thirds of services standards relate to tourism, the other standards relating to services include financial services, cleaning, accommodation, cultural and sports events, and transport.
- Apart from agriculture sector, which reflects exponential growth, there is a steady potential for proliferation of standards across all the sectors.

36. As many sustainability standards are applied across various sectors, the total exceeds the number of sustainability standards on Standards Map. In this graph, the primary sector includes agricultural products, fish, livestock, forestry, mining and energy. Manufacturing includes consumer products, electronics, industrial goods, jewellery, processed food and toys. Services includes tourism, financial services, cleaning, accommodation, cultural and sports events, transport, etc.

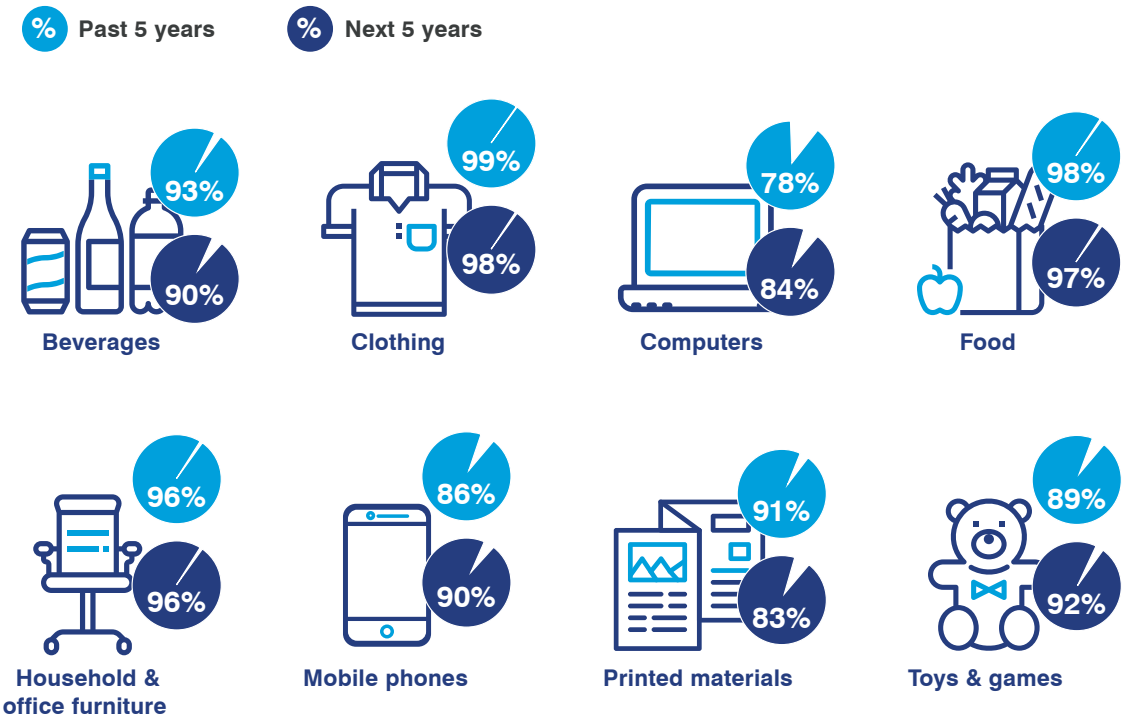
Figure 5: Agriculture dominates while other key sectors advance




***Source***: Authors' own calculations based on ITC Standards Map https://standardsmap.org/standards

Some sectors – for instance, mining, fossil fuels and plastics – are only beginning to adopt sustainability standards. This means there is scope for new and innovative sustainability standards in these areas.

Figure 6: European retailers see a rise in sustainable sales




***Source***: ITC, *The European Union Market for Sustainable Products* (2019), survey of European retailers covering 2015–2019.

The rise in many standards is linked to greater demand for sustainable goods. In Europe, consumers support environmentally friendly products, fair and ethical trade, and decent jobs in supplier companies. The ITC study *The European Union Market for Sustainable Products* notes that 85% of retailers reported increased sales of sustainable products[37] in 2015–2019. About 92% of these retailers expected sustainable sales to grow over the next five years.

Globally, certified products have also grabbed a bigger market share, though adoption of sustainability standards varies. Developed and middle-income countries have more sustainability standards. In low-income countries, adoption of sustainability standards is higher in sectors that represent major export commodities. Open economies with diversified economic sectors, coupled with relatively well-functioning governments and a high level of development, tend to adopt more sustainability standards.[38]


37. It covers eight retail product groups: beverages, clothing, computers, food, household and office furniture, mobile phones, printed materials, and toys and games.
38. https://unfss.org/wp-content/uploads/2020/10/UNFSS-4th-Report_revised_12Oct2020.pdf

**Martine Willems**

Senior Standards Manager, Rainforest Alliance

## SCALING IMPACT THROUGH MERGER OF STANDARDS

**What was the motivation behind the merger of UTZ and Rainforest Alliance?**

Rainforest Alliance and UTZ had similar missions. There were many double certifications in the field, which meant that producers had to comply with two different sets of standards and go through two different audits. This also applied to supply chain parties committed to more sustainable sourcing.

Creating a single agriculture sustainability standard would simplify the certification process for farmers and empower companies to build more responsible supply chains more efficiently, while expanding the reach of our certification programme at both organizations and creating even more impact for farmers, communities and our planet. In addition, it was a great opportunity to rethink our systems and develop a range of innovative approaches to further forward our mission: building climate resilience, cultivating rural prosperity, protecting forests and biodiversity as well as advancing human rights.

**Will we see more consolidation or mergers of sustainability standards in the future?**

I haven't heard of any other standards' mergers so far. We have seen new third-party certification schemes and in-house company sustainability labels arise.

With the number of sustainability labels increasing, it is important that consumers remain able to make well-informed purchasing decisions. Value chain actors may appreciate having more choices in the market, but with this increase in the number of sustainability labels, it is important that the number of different labels does not increase the burden for producers. Although challenging, it could be interesting in the future to align with other standards for user-friendliness and scale.

## More convergence: Efficiencies and streamlining

The proliferation of sustainability standards can be burdensome and confusing for those who want to comply.[39] There is a multiplicity of certifications and audit fatigue, due to varied preferences among retail buyers and intermediaries.[40] Producers may also require different certifications depending on preferences in various export markets. This adds to the costs and compliance burden on businesses. It is especially challenging for MSMEs and smallholder farmers.

Interestingly, two of the major sustainability standards in the agriculture sector, namely UTZ and Rainforest Alliance, declared their merger in 2018, and the new Rainforest Alliance Certification Program 2020 was recently launched. This move seems to have been taken on the basis of common purpose, economies of scale and market consolidation.

Social auditing does not improve all working conditions, according to evidence in the apparel and footwear industry. Yet social audits have proliferated, subjecting manufacturers to repetitive, duplicative resource-intensive audits multiple times a year. While there has been little collaboration across the industry, with companies creating their own audit protocols and not sharing findings, the establishment of the Social and Labour Convergence Programme[41] was a positive step towards convergence.

39. ISEAL-100 report (2011)
40. Marx, A., & Wouters, J. (2014). Competition and Cooperation in the Market of Voluntary Sustainability Standards. SSRN Electronic Journal, 13. https://doi.org/10.2139/ssrn.2431191
41. https://slconvergence.org/what-we-do

**Janet Mensink**

Executive Director, Social and Labour Convergence Programme

## AUDIT CONVERGENCE: MORE RESOURCES TO IMPROVE WORKING CONDITIONS

**Why was the programme developed?**

There were multiple social audits in the apparel and footwear sector, so many resources were expended on similar audits. Manufacturers were going through a similar process 5–10 times every year, using their scarce resources for audits rather than on remediation. There was a need to converge and have one common assessment framework to address audit fatigue and redeploy resources towards improvement programmes.

A common framework leads to a comparable set of credible and actionable data that can be benchmarked, meaning better transparency, and inform private and public sector decisions to improve working conditions.

**What financial impact has the programme had?**

Last year, 1,500 facilities went through our process, and we were able to unlock €2 million. This year, we have scaled up to 4,000 facilities globally, which could unlock €10 million. We aim to go over 20,000–25,000 factories worldwide on an annual basis.

**What challenges does the textile industry face?**

From our data, we can identify issues in working conditions relating to working hours, wages, health and safety that will need to be addressed. But underlying systemic cause to these problems, such as lack of transparency, dispersed supply chains, outsourcing of garment production in countries where governments don't protect workers and inequality in supply chains in terms of power. Both the public and private sector must address these issues.

**What are the programme's limitations?**

Our work hinges on whether other stakeholders are willing to leave propriety to us. So far, 45 brands and standards organizations have accepted the convergence assessment framework. They realize the benefits of industry-level or multistakeholder initiatives. The next step will be convergence and compatibility with different social standards. We are leveraging Standards Map to make comparisons as a starting point for dialogue with standards organizations to identify overlaps and make it more compatible.

**Can this approach be replicated in other sectors?**

The framework is applicable to other sectors and products. We want to grow gradually into other sectors. Our signatories include brands that are retailers with different product portfolios, so there is demand for company-level data to be compared and measured against the same framework, across different product portfolios.

There are unique challenges in adapting the converged assessment programme to the agriculture sector. Measuring compliance at farm level is a different ball game, as many parties are involved, as opposed to a textile factory owner. Secondly, environmental awareness is new compared to awareness about working conditions, which makes collaboration and harmonization between the stakeholders more challenging.

## Harmonization through benchmarking: Tapping into collective wisdom

The diversity of standards created by different actors for different purposes can be a good thing. National actors, including governments, may develop standards that operate on a global scale. It can be challenging to understand the differences, similarities and opportunities for interoperability between standards.

One response to this challenge has been the development of benchmarks to evaluate, compare and qualify sustainability tools and company performance. Firms, brands and manufacturers realize that for standards to work effectively as a package and across geographies, sound approaches are needed to drive more comprehensive sustainability assurance in their value chains.

This awareness has led to dedicated sustainability benchmarking tools. Benchmarking is the assessment of multiple sustainability standards, policies, tools or company performance against fixed reference points. This makes it possible to better compare the scope, coverage, rigour and outcomes of standards. As consistent, robust and sound practices for benchmarking enable consistency, accuracy, transparency and robustness, benchmarking may help harmonize the complex landscape of sustainability standards.

ITC is partnering with several organizations to develop robust benchmarking tools aligned with ISEAL's Sustainability Benchmarking Good Practice Guide.[42] The ITC Benchmarking Technical Working Group works to align and harmonize good practices for benchmarking. Its members include ISEAL Alliance, AIM-Progress, the Sustainable Trade Initiative, GIZ, the Consumer Goods Forum, the Sustainable Agriculture Initiative Platform, the European Feed Manufacturers' Federation, the Global Sustainable Seafood Initiative, the International Institute for Sustainable Development, UNCTAD, WWF and the World Benchmarking Alliance.

For instance, ITC has developed a collaboration with AIM-Progress, a forum of fast-moving consumer goods manufacturers and suppliers that promotes responsible sourcing and sustainable supply chains.[43] The forum seeks to reduce supplier evaluation fatigue and address common sourcing issues. By benchmarking members' audit protocols against common criteria, it offers knowledge sharing, mutual recognition and convergence of supplier assurance approaches.

Another example is the European Feed Manufacturers Federation's soy benchmarking tool, which ITC developed and launched in collaboration with the federation. Meanwhile, the federation developed the Soy Sourcing Guidelines to facilitate transparency on responsible soy production that meets EU feed industry requirements.[44] Its latest edition (2021) has criteria for 'conversion-free soy' production, linking up with current market and political expectations.

The soy benchmarking tool allows sustainability standards organizations and certification bodies to benchmark their requirements and criteria against the federation's minimum requirements for responsible and conversion-free soy.

ITC, as a neutral, global institution, independently performs the benchmarking exercise, using its Standards Map database. A dedicated portal provides detailed benchmarking analysis and equivalence assessments. Neither ITC nor the European Feed Manufacturers Federation verifies the quality of these programme features. Nevertheless, the ITC infrastructure and the federation's guidelines are leading the way towards a transition to mainstream the supply of responsibly produced soy.

These examples reflect the current direction in business to take collaborative action towards a more harmonized sustainability assessment to evaluate, compare and qualify sustainability tools, enabling innovation through different tools and strategies.

42. https://www.isealalliance.org/about-iseal/our-work/benchmarking
43. https://aim-progress.com/
44. https://fefac.eu/

## New approaches, challenges and opportunities

### Truth in labels: Traceability through technology

As international value chains evolved, so have consumer, regulator and investor expectations. Today, these groups expect supply chains to be traceable and sustainable. Standards and supply chain actors have joined forces with technology providers to trace products to their origin – and provide data to back those sustainability claims, down to the farmer level.

Supply chains are being digitalized through mobile and internet technologies. Procurement professionals and standard setters increasingly use artificial intelligence, the Internet of Things and blockchain technologies to track products at each stage of the supply chain.

Rainforest Alliance, for instance, has its own traceability system called MultiTrace. It certified volumes from individual farms to the final claim being made. Supply chain actors record their transactions (e.g. from producers to buyers, from traders to manufacturers or blenders) and their sales, purchases, conversions, blends and manufacturing activities in the platform every quarter.

Companies must conduct quarterly spot checks by verifying a sample of incoming volumes, matched with traceability documentation for products labelled with the Rainforest Alliance seal or claimed as Rainforest Alliance Certified. The system allows for organized data collection on supplies for certified products. This helps producers and companies to meet chain-of-custody requirements. Data can be also used for internal management, external communication and stakeholder reporting, such as progress towards the SDGs.[45]

In another example, Tony's Chocolonely, a Dutch chocolate confectionary company, uses blockchain technology to track its supply chain to farmers. Its main objective is to remove slave and child labour. It can also trace the farmers' individual contribution of cocoa beans. The technology improves the traceability and transparency in value chains, and also facilitates the process for suppliers to receive premiums they can use to pay for children's education, invest in the farms, improve access to water and other community benefits.[46]

The main challenge is not to build the technology, but to collect timely, accurate, complete and reliable data. MSME-dominated goods face certain challenges. Products are often aggregated and can be 'misplaced' along long, fragmented supply chains. This complicates traceability.

Furthermore, MSMEs – especially agribusinesses – are often located in regions with poor infrastructure, including roads, transportation and bad or no network connections. Data collectors are turning to the Internet of Things and devices such as tablets to collect data and consolidate this information in a single platform.[47]

### Reducing the carbon footprint

Major businesses have been committing to reduce their carbon emissions or even become carbon neutral in the face of climate change. Maersk, the world's largest shipping company, set an ambitious target in 2018 to have net-zero carbon dioxide (CO2) emissions from operations by 2050.[48] Unilever has committed to lowering its CO2 emissions by investing in new technologies such as hydrogen; increasing energy efficiency; switching to renewable energy sources; and using sustainable transport, among other things.[49]

Voluntary standards have also developed solutions to calculate and reduce the carbon footprint of their certified operations. ProTerra, a certification for sustainable and non-GMO crops, launched its Carbon Footprint Calculation Project in 2019 to calculate CO2 emissions in soy production. The method calculates CO2 emissions per kilogram of soybean and includes emissions data from land use change (when forests are cleared to grow soy, carbon stored in trees is released into the atmosphere as CO2), agricultural production and industrial transformation as well as logistics.

Buyers of ProTerra-certified soy, therefore, can obtain high-quality data from ProTerra Foundation for their own CO2 calculations and decision-making on sustainable soy sourcing.[50]

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45. https://www.rainforest-alliance.org/business/responsible-sourcing/understand-end-to-end-traceability-for-tea/
46. https://tonyschocolonely.com/us/en/our-mission/tonys-impact
47. From the interview with Frans Pannekoek, Tony's Chocolonely 'This Company Is Using Blockchain Technology to Eradicate Slavery In The Chocolate Industry' (Forbes) https://www.forbes.com/sites/chelseadavis/2019/03/31/this-company-is-using-blockchain-technology-to-eradicate-slavery-in-the-chocolate-industry/?sh=6faef5a01407
48. https://www.maersk.com/news/articles/2019/06/26/towards-a-zero-carbon-future
49. https://www.unilever.com/planet-and-society/climate-action/decarbonising-our-business/
50. https://www.proterrafoundation.org/news/carbon-footprint-calculation-project-main-outcomes/

Calculating or tracking carbon can be a challenge for MSMEs. Support from capacity-building organizations or simplified tools is one solution. Fairtrade International has developed its own climate change initiative and a new Fairtrade Climate Standard as part of this strategy. The standard aims to enable smallholders and rural communities to gain access to the carbon market by producing Fairtrade carbon credits.

Small-scale farmer communities create local projects to reduce carbon emissions. Planting shade trees, buying biogas installations and reducing the use of wood cook stoves are some examples. These measures protect the environment in which smallholders live and make them more resilient to climate change.[51]

Farmers then become eligible to receive Fairtrade carbon credits, which they can sell to buyers who are looking to reduce their carbon emissions and impact on the environment. Farmers receive Fairtrade minimum prices on their products and a premium on carbon credits they sell to buyers. This enables farmers to cover the costs of implementing carbon reduction projects and to invest in more projects that will help them adapt to climate change.

## Standards can boost resilience during the pandemic

COVID-19 is a huge challenge for small businesses, especially in developing and least developed countries. The pandemic has created many financial, commercial and operational risks for these firms. It has strongly affected two-thirds of African companies, with 75% of MSMEs reporting lower sales and 54% struggling to access inputs. A fifth of MSMEs surveyed by ITC globally said they risked closing permanently.[52]

The natural question that arises when discussing sustainability standards today is whether compliance has helped MSMEs to stay resilient in the face of the financial, commercial and operational risks brought about by the COVID-19 crisis. An International Institute for Sustainable Development policy brief explores how well sustainability standards are achieving the objectives they champion while helping to build smallholder resilience to external shocks.

Adopting sustainability standards can improve smallholders' resilience to external shocks such as COVID-19, the brief finds. Where prices for certified products are higher or have premiums, producers can obtain higher incomes and, hence, better capacity to invest, adapt and cope with shocks. For instance, Cambodian rice farmers selling Organic-certified rice continued to sell at premium prices during the pandemic, making them resilient to potential commercial and financial shocks caused by COVID-19.

Compliance with sustainability standards forges stronger relationships with buyers, which results in more secure market access or faster recovery of market access after disruptions, according to the policy brief. For example, one buyer of Indian cotton obtained special permission from the authorities to keep timely seed deliveries to its sustainability standard-compliant supplier despite the lockdown; he also kept orders intact and paid a premium price for organic cotton.

While obtaining a premium is good at any time, standards do little for inherent price volatility. Processes can fluctuate widely in times of crisis, and a premium on highly volatile prices is itself very volatile. Long-term contracts, floor prices and other characteristics of some standards can support producers' resilience, but there is no certainty that standards will actually boost resilience.

Market diversification helps reinforce the resilience of certified farmers, who also have more options to sell their products. For instance, certified Guatemalan producers have continued to sell goods to international buyers during the pandemic and have been less affected by COVID-19 shocks than their non-certified peers.

Certified producers have been generally better able than non-certified producers to cope with COVID-19 protocols related to hygiene and masks, as they had already received training on sustainability standards' criteria about safety, health and labour protocols.[53]

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51. https://www.fairtrade.net/standard/climate
52. ITC (2020). *SME Competitiveness Outlook 2020: COVID-19: The Great Lockdown and its Impact on Small Business*. https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/ITCSMECO2020.pdf
53. https://www.iisd.org/system/files/2021-04/covid-19-certification-farmer-resilience.pdf

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## USING SUSTAINABILITY STANDARDS TO INVEST IN SMALL BUSINESSES

Eco.business Fund, an impact investment fund promoting biodiversity conservation, mitigation of climate change impact and sustainable use of natural resources, works with financial institutions to support businesses in agriculture, agroprocessing, aquaculture, forestry and tourism.

**Why do you use sustainability standards as a funding criterion?**

Standards are a useful tool for monitoring and reporting by financial institutions and for controlling clients' compliance with the necessary criteria. They are scalable and easy to use by financial institutions, which don't have strong sustainability teams. We also use other criteria for investments – International Finance Corporation criteria, UN Principles on Responsible Banking.

Eco.business Fund is a pioneer in this field, but other financial institutions are now replicating this approach and starting to promote credit lines with similar sustainability criteria.

**Who are your clients and how can uptake be increased?**

We don't work directly with smallholders, but with cooperatives and groups of small producers. Small producers have a lot of sustainability gaps, for example, compliance with environmental laws.

We partnered with ITC to develop a self-assessment tool that allows businesses to assess themselves against selected sustainability standards and see if they are ready for certification and audits. The tool also helps us identify common gaps in social and environmental compliance and develop a capacity-building programme.

**How can financiers harmonize their criteria?**

It is very important to harmonize financiers' environmental, social and governance criteria. It will take time to decide on the best tool. We organize workshops where banks share their experiences and lessons learned in developing impact frameworks. We want to know how clients are affected.

# Growing relevance for all

## Financiers: Managing risk through standards

Financiers increasingly are building portfolios that avoid social and environmental risks. Voluntary standards are used as a way to show that these risks are being managed.

Today we see more financiers providing what is called sustainable finance. Sustainable finance integrates environmental, social and governance (ESG) criteria into business or investment decisions for the benefit of clients, the environment and society. Sustainable funds, impact investing, green bonds, microfinance and credits for sustainable products are all examples of sustainable finance.

Sustainable finance is a strong instrument to encourage sustainable business practices. It sets a price on sustainability-related risks in business operations. In Ghana, sustainable businesses can get lower interest rates for loans as such firms appear less risky to banks. Investors can also influence companies in which they invest to develop more sustainable business practices.

In 2020, two-thirds of Procter & Gamble investors voted for better disclosure of the company's impact on forest operations, after it was accused of contributing to deforestation. Procter & Gamble then committed to increase its use of FSC-certified wood pulp to at least 75% across its brands by 2025.[54] Investors demand much more information now, especially on climate-related risks, so companies will be required to disclose more sustainability-related information.

54. https://www.ft.com/content/1dd92502-e95b-4c21-be1c-c18a598acf1a

Central banks – both in developed and developing countries – are starting to promote sustainable finance. In 2019, the Bank of Ghana published its Sustainable Banking Principles[55] and urged commercial banks in the country to apply environmental and social risk management policies in their financing. As a result, some banks now offer discounts on loans for sustainable businesses and projects.

In the EU, the European Commission released an action plan to finance sustainable growth in 2018. It aims to reorient capital flows towards sustainable investment, mainstream sustainability into risk management, strengthen sustainability disclosure of financiers and foster sustainable corporate governance.[56]

Financiers use various social and environmental criteria to select clients and invest in businesses. They can use criteria developed by other organizations, such as the International Finance Corporation Environmental and Social Management System[57] (covering stakeholder engagement, emergency preparedness and impact on local communities, for example) or the UN Principles for Responsible Banking, as a basis for investment and lending decisions.[58]

Some financiers come up with their own environmental, social and governance requirements, or decide to work with companies that have zero carbon footprint or do not use fossil fuels. Others use voluntary standards as a precondition for companies to apply for funding.

First, standards can be a credible instrument to confirm investees' compliance with social and environmental practices, as they are usually third-party certified. Second, financiers can rely on the expertise of standard setters, rather than developing their own deep expertise in these areas. Third, voluntary standards are useful as a comprehensive tool to monitor many risks in business operations.

## Policymakers: Developing due diligence frameworks

Policymakers are starting to use voluntary standards in free trade agreements and public procurement policies, and to monitor large firms' supply chains. Standards are a central component of the smart-mix approach in due diligence frameworks.

Over the last decade, some governments have stepped up their role in promoting sustainable production and mitigating social and environmental risks. There are many reasons for this. Governments want to reduce the negative impacts of international value chains on sustainability. They want to see more transparency and consistency in mitigating actions from companies. Governments also aim to create a more level playing field for corporate actors by setting up basic rules for firms to mitigate and report on social and environmental risks in supply chains, therefore making corporate social responsibility mandatory.

Several countries have adopted laws that oblige companies to trace their supply chains to ensure that no harmful social or environmental activities are associated with production. The United Kingdom was one of the pioneers in this area.

In 2015, the UK Parliament adopted the Modern Slavery Act,[59] which includes a section on transparency in supply chains and obliges lead firms operating in the United Kingdom to prepare annual modern slavery statements. Companies must provide details of their supply chains, policies to mitigate modern slavery risks, due diligence policies and performance indicators. The company's board of directors must approve the statement and a director or CEO must sign off on it.

France, following the British example, adopted the French Law on Duty of Care (*Loi relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre*).[60] It went beyond slavery risks to include other social issues as well as risks related to the environment. The law obliges French companies to demonstrate they have processes in place to address human rights issues, health and safety risks as well as impacts on the environment.

Germany's parliament adopted the Supply Chain Act in 2021. Businesses with more than 1,000 employees must identify and address child labour, forced labour, pollution, land rights and other risks. The act enters into force on 1 January 2023, and firms that fail to comply will face fines of up to €8 million, or 2% of their annual turnover. Companies also risk being excluded from public tenders for non-compliance.

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55. https://www.bog.gov.gh/wp-content/uploads/2019/12/Ghana-Sustainable-Banking-Principles-and-Guidelines-Book-1.pdf
56. https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en#action-plan
57. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_esms-general
58. https://www.unepfi.org/banking/bankingprinciples/
59. https://www.legislation.gov.uk/ukpga/2015/30/contents/enacted
60. https://www.legifrance.gouv.fr/loda/id/JORFTEXT000034290626/

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## SWISS–INDONESIAN TRADE AGREEMENT: STANDARDS AND PALM OIL

Switzerland will reduce tariffs on sustainably produced Indonesian palm oil by 40% within a fixed quota under their recent free trade agreement, using four sustainability standards to certify compliance.

**How will you ensure these imports are sustainable?**

Importers will have to provide proof that they have a valid supply chain certificate of one of the four accepted sustainability standards prior to importing palm oil at preferential rates. There is, however, no established official document to be checked for compliance at the border. We had to define a list of requirements and documents to be checked, such as company name, member IDs, printouts of tracing reports. We also check the sustainability standards' websites to see whether companies have valid certification and licences.

**Are other countries likely to follow suit with their trade deals?**

We hope they will, as this would help create a critical mass to streamline the use of sustainability standards and customs control procedures. The more countries use this approach, the quicker we can develop an international understanding about sustainable production of agricultural commodities.

Sustainability standards are established, have a rigorous chain-of-custody system and they control sustainability issues on the ground, for which we have neither the authority nor the capacity. They are not developed by single countries, and hence do not tend to be protectionist. Countries will have to resort to sustainability standards in the short term because there is no common agreement oon what sustainable production processes are or how to control them.

But in the long term, if more countries integrate sustainability aspects into their import requirements, there will be more interest from the international community to create a common standard for sustainable imports on a more granular level.

**Will exporting countries accept the use of sustainability standards in trade deals?**

Indonesia has agreed to the solution found in the Comprehensive Economic Partnership Agreement, i.e. to link tariff reductions on palm oil to criteria regarding its sustainable production. So we are not defining these criteria unilaterally or implementing them in a discriminatory way. This is crucial for exporting countries. Indonesia is one of the biggest producers of RSPO-certified palm oil, so we are not limiting Indonesia's capacity to export palm oil.

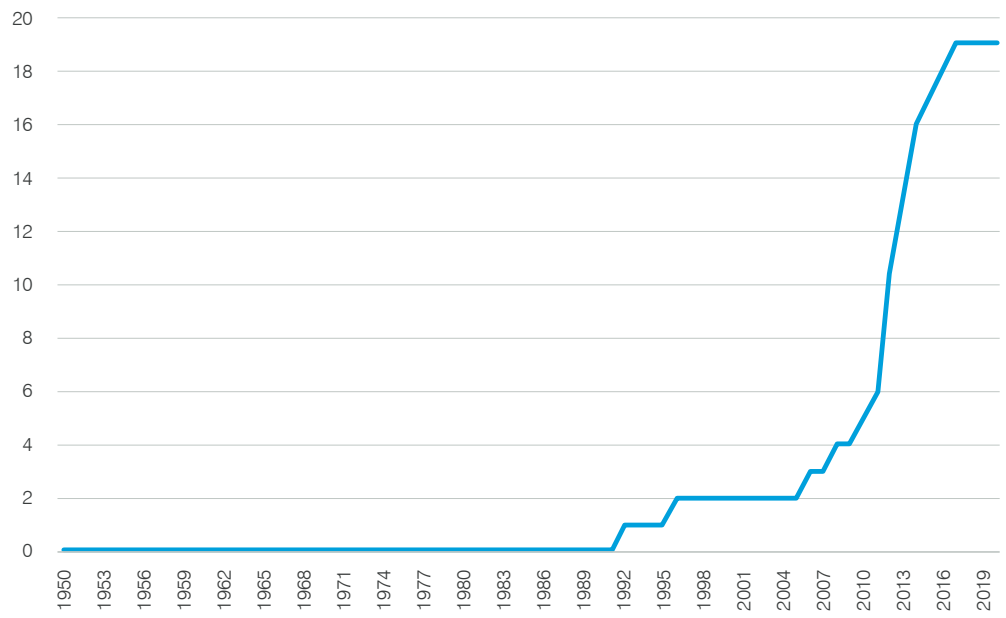
Exporting countries may not always have capacity to mainstream sustainable production, in which case they need support. Switzerland has supported sustainable palm oil production in Indonesia for a long time through its development cooperation, support of the United Nations Development Programme locally, partnering with IDH to improve Indonesia's ISPO standard and facilitating inclusion of smallholders in the certification process. Imposing sustainability criteria on imports should go hand in hand with the support of exporting countries to maximize their export potential.

The European Union is also taking action. The European Commission has initiated a Sustainable Corporate Governance Initiative,[61] with a directive on environmental and human rights due diligence. The directive aims to reduce fragmentation between existing due diligence laws in member states, and to set EU-wide binding requirements for businesses to mitigate social and environmental risks in their supply chains.

Governments also use free trade agreements to enhance sustainable production in supply chains. More and more environmental and social provisions have been included in such agreements since the 1990s. Since 2010, they also refer to sustainability standards as a way for exporters to address social and environmental risks in production. In 2019, 19 such agreements were in place, most of them involving the EU.

61. https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance_en

Figure 7: More trade deals refer to sustainability standards




***Source***: United Nations Conference on Trade and Development, *Scaling Up Voluntary Sustainability Standards Through Sustainable Public Procurement and Trade Policy*, 2020, p. 40.

Even though these references to sustainability standards remain recommendations without substantive commitments and evaluations, standards remain on the radar of governments as a mechanism to check for imports of sustainable certified products.[62]

Sustainable public procurement is another mechanism used by governments to encourage sustainable production. Public tenders increasingly refer to sustainability standards to select suppliers or service providers, as standards guarantee that suppliers or service providers comply with social and environmental practices required by public procurers. Some European and Asian countries refer to standards in their sustainable procurement policies because there is no other way to prove companies' compliance with social or environmental criteria.[63]

## Smallholder farmers: Including their voice

In recent years, several standards have developed solutions and strategies to boost the uptake of standards by smallholder communities and groups to enhance their participation in international value chains and improve their market access. Smallholders are generally unorganized and may be geographically dispersed, making delivery of inputs, training and support resource intensive. They may struggle to access markets because they lack the production quality and volumes required by buyers, as well as the funds and capacity to implement standards and successfully pass audits. Historically, few voluntary standards have been geared towards smallholders – even though smallholders are responsible for most production.

Fairtrade conducted a comprehensive consultation with farmers and then updated its standard for small-scale producers. The key change in the new standard is that more members of farmer cooperatives should be small family farms as a condition to apply for Fairtrade certification.[64] Fairtrade standards also aim to improve the organization of farmer groups and provide Fairtrade minimum prices as a safety net against fluctuating commodity prices. This helps smallholders obtain better prices and sustain their livelihoods.[65]

Similar to Fairtrade, Bonsucro, a certification scheme for sugarcane, has also developed a separate Production Standard for Smallholder Farmers, which contains fewer criteria for smallholders and a set of indicators to

62. https://unfss.org/wp-content/uploads/2020/10/UNFSS-4th-Report_revised_12Oct2020.pdf
63. https://unfss.org/wp-content/uploads/2020/10/UNFSS-4th-Report_revised_12Oct2020.pdf
64. https://www.fairtrade.net/standard/spo
65. https://www.fairtrade.org.uk/farmers-and-workers/coffee/

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## SUSTAINABLE AQUACULTURE: BETTER SHRIMP AND LESS LAND DAMAGE

**What would sustainability mean in aquaculture?**

Aquaculture is the fastest growing food-producing business in the world. In 2019–2020, India exported 12,589,651 tons of seafood, worth $6.68 billion.

Sustainability in aquaculture would help produce the best shrimp. It doesn't affect the environment in the surrounding areas as no chemicals are used in sustainable shrimp farming. The most important reason for sustainable shrimp culture is that it saves the soil and the land from damage. Most shrimp culture is done by farmers on a small scale; we don't get good quality seed and feed at good prices.

We have other challenges where we can't access resources and services. Getting together things like the market, traceability, resources and services would encourage more farmers to produce sustainable aquaculture.

**How can governments help?**

If we got subsidies for sustainable aquaculture, small farmers would be willing to change the techniques they have used for decades. They would be happy to take up new techniques as there are big benefits in product quality and pricing. The more the premium product, the better the price they get.

Prices fluctuate during peak harvest season, so a better-quality product should get a better price. The Government of Andhra Pradesh gives us a power subsidy, where power tariffs are much lower than in the other states of India. We expect to see more cold storage and testing lLabs.

Companies like ours are looking for help in technology, funding and market support to sell our produce and best integrate international value chains. Sustainability is an opportunity, but only if we are given the necessary support to embrace its concepts and not lose competitiveness.

improve farmer group organization and management.[66] Bonsucro also helps improve sugarcane production through water stewardship, soil management and better management of chemical inputs.[67]

When it comes to the impact of sustainability standards on smallholder farmers and MSMEs, there is some evidence of positive impact depending on specific sectors and standards.

One study that focused on coffee standards concluded that certification is commercially viable only if it improves productivity, or if it provides a price premium large enough to cover all certification-related costs. The poorest and most marginalized smallholders usually cannot obtain certifications without external help.

In many cases, they cannot get certified because their products lack the quality demanded by buyers. These smallholders often do not have the land, labour, education or other resources to comply with standards or make it worth their while to go through the certification process.

The study also shows evidence of certification-improved coffee prices for farmers and higher incomes, improved agrochemical use and handling, better water use, and reduced use of inorganic chemicals (in case of Organic standards, though this can also lead to low yields in the short term). Standards that strongly focus on good agricultural practices also positively impact productivity. Those that target trading relationships or prices are likely to have no impact on productivity.[68]

Several key factors make certification beneficial to smallholders. Effective producer organizations can spread the benefits of certification fairly among smallholder farmers (e.g. price premiums distributed equally among farmers). Steady relations with buyers can sustain sales and revenues of smallholder farmers. Training on social and environmental practices promoted by standards can improve farmers' sustainability performance.

66. http://www.bonsucro.com/tools_resources/bonsucro-production-standard-for-smallholder-farmers/
67. https://www.rural21.com/english/news/detail/article/sustainability-standards-traceability-and-certification.html?no_cache=1
68. Elliott, K.A. (2018). 'What Are We Getting from Voluntary Sustainability Standards for Coffee?', Center for Global Development Policy Paper 129.

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## ORGANIC COMPLIANCE: GREATER MOTIVATION AND RESILIENCE

Amaati, which has grown from 10 women farmers to 3,000 farmers in less than 10 years, specializes in the production of fonio, an indigenous African grain rich in nutrients and protein. Amaati became certified to the organic standard during the pandemic and shipped 19 tons of organic fonio to a European buyer in June 2021.

**Why did you get certified?**

Our European buyers asked us to obtain organic certification. We had already been practicing a few organic production methods, such as composting and use of natural fertilizers, but we did not have a certification and realized we needed to prepare a lot of documentation to get certified.

Thanks to ITC coaching and a grant that ITC helped us obtain (covering 80% of audit costs), we obtained a double certification against EU Organic and the United States Department of Agriculture National Organic Program.

**How does certification help your company?**

The largest benefit is market security and premiums on organic products. Premiums go directly to farmers. This creates a huge motivation for farmers to maintain organic production practices. We also see situations where farmers producing non-organic fonio switch to organic as they witness the benefits and additional revenue. We have 700 farmers who are certified organic and are planning to increase volumes of organic fonio.

Sustainability standards help bring together in one document the quality criteria required and accepted by international buyers. However, the cost of certification is too high for average small business owners in Ghana. We need a way to reduce or facilitate the costs of certification, for instance, through introducing payment plans.

**Has certification increased Amaati's resilience?**

We lost 80% of our revenue last year at the peak of the pandemic in Ghana. At the same time, we learned a lot – we launched an online store, found alternative ways to send our products abroad. Organic certification was a great help to us to build back. We now sell to the United States, Canada, the Netherlands and Italy.

Another study that focuses on Fairtrade and Organic standards found that certified farmers receive a 20%–30% higher price on their products compared to non-certified farmers. Certified farmers gain higher profits, which boosts household incomes by 16%–22% (results vary depending on product, standard or country).[69]

Standards can certainly increase MSME growth through price premiums, improved market access, better sales and access to finance. However, there are several constraints to meet standard requirements. Small firms must have the right managerial and technical knowledge, as well as funds to cover the costs of certification and implementation of standards' criteria.

While some standards have made efforts, more needs to be done – particularly in terms of the producer-enabling environment (policies, regulation, public infrastructure) – if standards are to play a pivotal role in the smart-mix approach and deliver on the Sustainable Development Goals, especially SDG 1 and SDG 2.

### Consumers: Growing concerns about sustainability claims

Consumers are one of the most important stakeholders in the sustainable trade agenda. Markets with a relatively high level of consumer demand for sustainable products can spur the increased adoption of sustainability standards.[70]

While the uptake of sustainable consumption varies across consumers in different economies, their concern about sustainability has deepened over the past few decades. The Conference Board® Global Consumer

69. Meemken, Eva-Marie. (2020). 'Do smallholder farmers benefit from sustainability standards? A systematic review and meta-analysis', *Global Food Security Journal*, 09 vol. 26.
70. https://unfss.org/wp-content/uploads/2020/10/UNFSS-4th-Report_revised_12Oct2020.pdf

Confidence Survey, conducted in collaboration with Nielsen in 2017, found that 81% of respondents said it was 'extremely' or 'very' important for companies to adopt programmes to improve the environment.

When consumer concerns increase, the issue arises of their awareness about the credibility of sustainability standards and labels. People must be better informed about what the labels actually represent to drive them to consume sustainably.

The German Government set up an online platform called *Siegelklarheit* to disseminate information about sustainability labels. Nadine Stiller, an adviser at the Deutsche Gesellschaft für Internationale Zusammenarbeit, explained what *Siegelklarheit* seeks to achieve.

> *Siegelklarheit* translates to 'clarity of labels'. It is an online platform established around 2015 by the German Federal Ministry for Economic Corporation and Development to assist German consumers in assessing labels in different product groups, especially in verifying their credibility and level of ambition. By now, also five other ministries are involved. The labels are assessed as 'good choice' or a 'very good' choice.
>
> There is a specific methodology for this assessment called Sustainability Standards Comparison Tool that forms the basis of *Siegelklarheit*. There are three broad topics: credibility, social and environmental aspects. For each of the pillars, there are specific subtopics that make the assessment detailed. Aspects that are critical in terms of sustainability are so-called minimum criteria. Each label must fulfil those criteria in terms of credibility and one of the other two dimensions to get a rating on *Siegelklarheit*.[71]

Stiller said click rates on the platform have risen during the COVID-19 pandemic.

Switzerland set up Labelinfo.ch, which is by far the most comprehensive label database in the country. Labelinfo.ch offers information on 135 quality seals and 19 declarations in German and French, which informs businesses and consumers about labels and helps make their consumption more responsible.

Despite these German and Swiss efforts, greenwashing[72] has been on the rise, with companies providing information that may be imprecise, unclear, incomparable, unsubstantiated or irrelevant. Greenwashing can damage the reputation of credible standards, labels and claims, causing mistrust and confusion among both consumers and information providers in business and government.

In 2020, the European Commission analysed green online claims from businesses such as garments, cosmetics and household equipment. It concluded that 'in 42% of cases, the claims were exaggerated, false or deceptive and could potentially qualify as unfair commercial practices under EU rules. "Greenwashing" has increased as consumers increasingly seek to buy environmentally sound products'.[73]

To address greenwashing, the United Nations Environment Programme in collaboration with ITC developed guidelines for providing sustainability information[74] in 2017. These guidelines help in identifying sustainable products, as not all standards use a label. Many use a written message or claims[75] that could be consumer facing or business to business.

The ISEAL Alliance has developed a *Sustainability Good Practice Guide* to inform sustainable standard organizations and improve the credibility of claims about sustainability standard systems. As few consumers seek additional information, the ISEAL guide recommends that sufficient information be provided with the claim or logo.

The COVID-19 pandemic has focused attention on critical issues of biodiversity conservation and climate change, Citizen engagement and concern about sustainability has increased in Europe, where consumers are demanding that fashion businesses act responsibly and consider their social and environmental impacts. European consumers also prefer more durable fashion items as they repair and wear them longer.[76]

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71. Interview with Nadine Stiller.
72. This is the process of conveying a false impression or providing misleading information about how a company's products are more environmentally sound.
73. https://ec.europa.eu/commission/presscorner/detail/en/IP_21_269
74. United Nations Environment Programme (2017). *Guidelines for Providing Sustainability Information: Global guidance on making effective environmental, social and economic claims, to empower and enable consumer choice*. https://wedocs.unep.org/bitstream/handle/20.500.11822/22180/guidelines_product_sust_info.pdf?sequence=1&isAllowed=y
75. https://www.isealalliance.org/get-involved/resources/video-credibility-claims-and-labelling
76. McKinsey & Company (17 July 2020). 'Survey: Consumer sentiment on sustainability in fashion.' https://www.mckinsey.com/industries/retail/our-insights/survey-consumer-sentiment-on-sustainability-in-fashion

Interestingly, people of different ages are demonstrating different sustainable consumer behaviours. The level of engagement between different age groups is varied. Studies show that Gen Z are least engaged in environmental issues, in contrast with Younger Millennials, who are the most engaged. Yet supporting ethical brands matters more to Gen Z.[77]

As the research in behavioural economics attempts to decode the psyche of new consumers, some experts have suggested new approaches for companies – using social influencers, shaping good habits, leveraging the domino effect, talking to the heart with emotions and favouring practical experiences over ownership.[78]

Still, cost must be considered when analysing changing consumer preferences. Studies suggest that most consumers choose products with a lower impact on the environment (if the cost is the same) and public claims from sustainability standards such as ecolabels are among the most important signals to the market to help consumers in this process.[79] In 2020, data indicated that sustainability was a key consideration for various consumer groups when making their purchasing decisions. However, cost is still a significant barrier. Consumers may want to buy sustainably, but cannot afford to do so.[80]

To ensure that younger consumers continue to make more sustainable choices, well-designed and targeted tools are needed to improve awareness and give these consumers credible information. Businesses are likely to engage in more sustainable production to meet rising demand and to avoid reputational risk. Social media, given their worldwide uptake, especially among younger consumers, should be leveraged to promote sustainable consumption and production.


77. Deloitte (n.d.). 'Shifting sands: How consumer behaviour is embracing sustainability.' https://www2.deloitte.com/ch/en/pages/consumer-business/articles/shifting-sands-sustainable-consumer.html
78. White, K., Hardisty, D.J., and Habib. R. (July-August 2019). 'The Elusive Green Consumer'. *Harvard Business Review*, pp. 124–133.
79. Iraldo, F., Griesshammer, R. and Kahlenborn, W. (11 March 2020). 'The future of ecolabels.' *International Journal of Life Cycle Assessment* 25, pp. 833–839. https://link.springer.com/article/10.1007/s11367-020-01741-9#Sec6
80. Deloitte, op.cit.

CHAPTER 4

# THE 'SUSTAINABILITY DEAL' IN THE FUTURE GLOBAL ECONOMY

By Mathieu Lamolle and Shemina Amarsy


# THE 'SUSTAINABILITY DEAL' IN THE FUTURE GLOBAL ECONOMY

With the sudden interruption of international value chains due to the COVID-19 pandemic, coupled with more frequent and devastating weather events, and widespread inequity challenges, the need to change direction has become more urgent. The new 'Sustainability Deal' is the necessary response to safeguard our future.

## The Sustainability Deal during COVID-19

A Sustainability Deal has been a topic of discussion in recent years, with the tacit and implicit consensus that our future can only be shaped with strong consideration for sustainability in every aspect of society.

This includes more attention to human impact on the environment and more transparency on working conditions and respect for human rights. The call to transform our global consumption culture has been made loud and clear. Concrete changes and initiatives have sprung up as a result.

Early in 2020, the sustainability spotlight was on the young climate activist Greta Thunberg, who had just returned from her sailing trip to New York to confront the international community – along with the president of the United States – with her climate change concerns and a call for immediate action. Society was talking about innovative solutions to tackle environmental issues, from plastics in the ocean to rising water threatening small islands' survival, and pollution. Social strikes and tensions about living wages, gender equity, modern slavery, migration and human rights were also very much present.

COVID-19 erupted in March 2020, leading in a matter of weeks to shutdowns in country after country. Between waves of confinement and re-openings and closures of shops, the sanitary risks of the pandemic were on everyone's mind. Disrupted international supply chains meant hundreds of millions of workers lost their jobs.

At the same time, governments spent unprecedented billions of dollars to prevent their economies from collapsing. As the world tries to get control of the pandemic, with new variants emerging and vaccinations rates stalling or very low in many countries, one may ask if the concept of the Sustainability Deal and its ingredients still holds. Or have other priorities taken its place?

## Red flags and building blocks

Environmental concerns have only become more serious as the pandemic crisis has unfolded. Policies to recover and emerge from the crisis can and should integrate environmental concerns while reinforcing the resilience of companies, instead of only focusing on economic recovery.

The extreme vulnerability of millions of workers has been brought to light by the COVID-19 crisis. Its biggest impact has been on the poorest workers and the most vulnerable job seekers. Modern slavery and poor working conditions have always existed as part of the 'hidden' cost of our mass production and outsourced economy. Already fighting for subsistence, many workers had no other choice than to accept the most precarious and dangerous ways of earning money to keep afloat during the crisis.

Child labour has increased for the first time in certain regions, reversing 20 years of efforts and progress. In 2020, the number of working children rose to 160 million worldwide – an increase of 8.4 million children in the last four years – with millions more at risk due to the impacts of COVID-19.[81] Families facing economic hardship caused by the pandemic may deprioritize education to meet basic needs, according to a recent GoodWeave International study on textile supply chains.[82]

The pandemic has also exacerbated gender inequalities, with devastating impact on women and girls in many areas. Even after the world tackles the pandemic, these inequalities will remain endemic in societies.

While scientists and environmentalists revealed the reality of climate change decades ago, societies are only embracing it now as a whole, systemic and disruptive issue. Yet massive migrations due to increased storms, droughts and loss of livelihoods are there to testify to changing climate patterns, which will only accelerate in the coming years.

This pressure will serve as a leitmotiv for action towards sustainability. The success of these initiatives will depend on the political will of many countries and regions, however, as none are immune from instability, conflicts, populism and other trends often fanning the embers of social suffering.

International value chains will also look different in the future. The model of hyper-globalized supply chains, enabled during the last two decades by the advancements in information technology and lean manufacturing, was suddenly disrupted in just a few short weeks by COVID- 19. This was wake-up call for many firms that faced interruptions to the flow of raw materials and goods for weeks or even months.

The crisis accentuated the need to build resilient and agile supply chains that can adapt and cope with changes. It also accelerated the digitalization of supply chains, the massive trend of the current Fourth Industrial Revolution. This so-called Fourth Industrial Revolution builds on the last century's digital revolution, with new and groundbreaking technologies such as artificial intelligence, robotics, autonomous vehicles and biotechnology.

These breakthroughs will affect supply chains, which will benefit from greater automation, more transparency, connectivity and analytical capabilities. Many emerging economies could benefit from these technological advances if they were able to operate in a digital industry landscape. But this will not be automatic, or easy. Indeed, there is a risk that many regions and actors will be excluded due to costs and technical capacity gaps. Partnerships for innovation and technological transfers will be needed, as well as policies and standards, to avoid monopolistic positions and excessive concentrations in digital trade.

Furthermore, supply chains will strive over the coming decade to meet rising consumer demand for a direct-to-home based consumption model, developing networks of individual drop-off points that replace traditional hubs and distribution models. This will have environmental impacts (freight and shipping already account for more than 3% of global carbon emissions)[83] and social repercussions (loss of jobs, spreading of different forms of abusive forms of work in delivery services, etc.).

The COVID-19 and climate crises have also heightened the interest in circular economy and re-localization of international value chains, which might be a model to develop as global warming accelerates. Underpinned by a transition to renewable energy sources, the circular economy model is based on three principles: designing out waste and pollution, keeping products and materials in use, and regenerating natural systems.[84]

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81. https://www.unicef.org/press-releases/child-labour-rises-160-million-first-increase-two-decades
82. https://goodweave.org/rapid-research-confirms-covid-19-crisis-creates-extreme-hardship-for-informal-workers-and-families-in-south-asia/
83. https://info.kpmg.us/news-perspectives/technology-innovation/covid-19-accelerates-supply-chain-digital-transformation.html
84. https://www.ellenmacarthurfoundation.org/circular-economy/concept

**Nina Smith**

Chief Executive Officer, GoodWeave International, Washington DC

## INTERNATIONAL VALUE CHAINS: COLOSSUS WITH FEET OF CLAY

Workers at the bottom of international supply chains are highly vulnerable even though they are adding value to products. Sustainability standards, such as GoodWeave International, help companies address this issue.

**How can child labour occur in textile supply chains?**

Companies often place orders with a primary factory or exporter, which in turn outsources production, and everything rapidly becomes difficult to trace. In the garment sector, certain tasks like embroidery and beading are regularly outsourced from the factory to communities that can be hundreds of kilometres away.

Women predominantly perform this work at home and are underpaid. Their daughters and sometimes their sons, work alongside them, starting from a young age. It is not difficult to find this happening in producer communities in South Asia. But it is hard to make that connection with the jacket or t-shirt you buy in stores in Europe or North America.

**Has the pandemic affected child labour in supply chains?**

We conducted some research as soon as the pandemic-related lockdowns in South Asia occurred. Our resulting *Hidden and Vulnerable* report showed that textile workers are going deeper into debt to their employers, increasing poverty and vulnerability to forced labour. It has also become challenging for workers to meet their families' basic needs, and children are more likely to go to work. The impact on women and girls is even more severe.

Income loss is even more severe for garment workers: consumers stopped buying goods, orders and supply chains came to a halt. This had a ripple effect on the workers. I can't imagine there is going to be quick recovery in these communities. It will be a generation of children who have missed out on their education.

**What are the priorities for a sustainable future?**

There is now a bigger spotlight on these issues and this is going to spur action. It's our mission to end child labour, and we must keep the public's eye on the troubling trends emerging. There is certainly momentum to protect workers with the recent EU and national laws on human rights due diligence being introduced or strengthened. But it is not only about having laws in place, or companies ticking check boxes for compliance.

It is about bringing true visibility to the ground and to people, as well as supporting prevention programmes, education and remedy. Sometimes there is a desire for quick-fix scalable solutions. But the truth is that, like for climate change, with human rights you have to work in a 'patchwork' way, ensuring that solutions lead to impact for people in different regions and industries.

**Can sustainability standards help on due diligence?**

Sustainability standards and certification at some point became a tool, alongside ground-level prevention programmes and long-term rehabilitation work. These models are critical and have proven to work.

Standard-setting organizations must have strong assurance systems, and ensure companies, governments and other stakeholders know what supply chains look like, where goods come from, who makes our goods and how to ensure there is no child labour involved in the process. We all have to be accountable to these communities who are turning a simple garment into something…beautiful.

**Charlotte Lonitz**

Student and FairActivist, Germany

## ACTIVATING YOUTH FOR GLOBAL EQUITY

The FairActivist movement campaigns for more equity in trade and more reward for producers and workers in the Global South. Through their engagement, these young activists envisage a world where the 'fair trade' movement would no longer be needed, as it would be the norm.

**Who are the FairActivists?**

The FairActivists are a group of youngsters advocating for fair and sustainable production and global value chains. The movement was initiated by Fairtrade Germany in March 2021. Our mission is to share knowledge about Fair Trade, especially within our generation. Many people of our age consider Fairtrade as something old-fashioned with luxurious goods they cannot afford. To change their minds, we use our means: social media, podcasts (with voices from the Global South), street actions, flash mobs or workshops.

**Why did you join this movement?**

I heard about the FairActivist initiative via social media and applied because in my view the social equity dimension is not present enough in the current sustainability discourses – at least, not as much as ecological topics. I also wanted to connect with other peers to get out the messages I believe in, and have exchanges with farmers, youth activists from the Global South, importers and campaigners.

**How do sustainability standards raise awareness?**

We here in the Global North have externalized our costs to other countries. We let people working in rudimental conditions which allow us to buy cheap cappuccinos and low-cost trousers (that we throw away after a year). These standards are means to set some boundaries on this exploitative trade. Their rules raise awareness on both sides: producers know that they have rights, and consumers are more conscious about global issues.

**What can the young generation do?**

In an ideal word, the current agricultural export model would disappear, producing countries would retain more value from the supply chains and Fairtrade wouldn't have to exist anymore as production and trade would be fair as the 'default' setting. But market-based instruments are maybe getting to a saturation level. We need a lot more initiatives on the country level and policy side. The young generation can create bottom-up pressure, to change the status quo and bring intergenerational justice. Not only for the future, but for now.

The circular economy can change consumption patterns by diverting usage from short-lived, single-use products and making reuse and repair the norm.

It remains to be seen, however, whether this model will improve or worsen the situation of emerging countries that export raw materials and mass-produced goods to the global market. Policies and standards will again be needed to ensure that circular economies remain inclusive and equitable, and add value for all, especially MSMEs in developing countries.

**Dirk Steinwand**

Head of Programme, Deutsche Gesellschaft für Internationale Zusammenabeit GmbH, Germany

## SUSTAINABILITY CAN DRIVE INNOVATION

**Has the pandemic changed sustainability priorities?**

The pandemic has revealed how complex and interconnected our world is. The spotlight has been increasing public awareness on global problems that go well beyond local issues. The world post-pandemic will still have environmental considerations such as climate change very high on the sustainability agenda, although the events caused by the pandemic have revealed social inequalities and human rights violations in a way that was probably known for a long time, but were less visible until the crisis hit.

**What is the future role of sustainability standards?**

Voluntary sustainability standards are innovative in nature, and this innovation is much needed to complement legislative instruments.

Nevertheless, I believe strongly in the smart-mix approach between private and public instruments and remain convinced of the positive innovative approaches that standards will continue to bring in the future, at a speed of development that legislative frameworks may not be able to have.

**What role do you see for ITC Standards Map?**

Starting with the mapping database concept 10 years ago was a very good start. Transparency was much needed in the constantly evolving world of sustainability standards. The Standards Map has evolved into a service provider that offers more than data – practical approaches and methodologies to make sense of the standards.

We are working to harmonize our criteria and indicators so Standards Map can better support the approaches developed by the German Government to raise awareness with consumers (e.g. Green Button initiative), support public procurement in their sustainable purchasing decisions and on due diligence. The new due diligence instruments being developed at the national and European Union levels also offer a nice future to Standards Map in connecting sustainability standards to such approaches.

## Sustainability standards: Rethink, reshape, reinvent

Sustainability standards are forging safeguards to build forward better – as opposed to the status quo. Innovative approaches, combined with lessons learned, will enable sustainability standards to rethink their value proposition, reshape implementation models and reinvent the future. This encompasses all sorts of sustainability standards, from civil society-led initiatives, certification programmes, responsible corporate practices and governmental and intergovernmental international standards and policies.

Several drivers will be critical in reshaping, rethinking and reinventing sustainability standards, including:

**Technology** – Already deeply integrated in society and the functioning of global trade, technology is everywhere and used by almost everyone. Technology is expected to continue growing in importance in every aspect of life. What does this mean for sustainability, and sustainability initiatives and standards? Some may say that technology could replace standards, as it offers more and more credible ways to assess, verify and make sustainability performance along the value chain transparent (e.g. blockchain).

Nevertheless, transparency does not equal sustainability: a company can be very transparent about non-sustainable practices. Technology will therefore probably support some aspects of the sustainability movement – such as traceability and verification – though in and of itself, it does not ensure sustainability.

What could be interesting is that technology will likely affect assessments of how and whether sustainability initiatives have fulfilled their mission. Indeed, technology offers many options to monitor the outcomes of sustainability initiatives (e.g. satellite images to show deforestation or reforestation initiatives, trusted distributed ledger systems ensuring that such information cannot be changed).

Therefore, sustainability standards that focus mostly on outputs and activities (e.g. numbers of trained farmers and safety kits made available at the farm) will need to rethink their approach to ensure these ultimately lead to positive impact through other mechanisms, such as studies. Standards that can demonstrate their achieved impacts through technological means will likely resonate even more with the needs and demands of the new generation and conscious consumer.

**Didier Bergeret**

Director,
Social Sustainability and the Sustainable Supply Chain Initiative, Consumer Goods Forum, Paris

## COVID-19: SHINING A SPOTLIGHT ON ABUSE OF WORKERS' RIGHTS

**What limitations has COVID-19 exposed?**

The pandemic has highlighted vulnerabilities in global value chains that existed well before. Some sectors were impacted more than others, and the rights of workers being trapped in unimaginable situations were at stake. One example is seafarers getting stuck on boats with no possibility to go back to their homes, ending in de facto forced labour situations.

We decided to include additional perspectives to take into consideration these new realities exposed by COVID-19 – one example being the point of repatriation of workers, as it would have been very helpful in the seafarer situation.

When it comes to sustainability standards, the pandemic has shown innovative approaches and models such as remote auditing, with standards organizations trying to achieve good levels of assurance despite the restrictions on travel and meetings in person. It has worked to some extent in a few contexts, but in my opinion the pandemic has shown the limitations of such systems and traditional approaches of auditing that can be very expensive and not necessarily efficient, not offering all the necessary safeguards of credibility.

**What role will technology play?**

The role of technology is only going to increase, but here again I would refrain from making it a myth of being the magical solution. Technology also has its limitations and will not offer the silver bullet against human rights violations, modern slavery and protection of worker rights.

**Any thoughts about the new European law on human rights due diligence?**

We see the new law positively. Will this new law and policy framework really incentivize small companies to make the necessary efforts? I have some doubts, as the first companies that will be impacted will be the biggest companies, already trying to address these issues in their value chains. Smaller companies mostly need support to implement sustainability practices.

One can only hope that the EU human rights due diligence law will not be only a tick-the-box exercise, but rather an accompanying framework that is inclusive and accessible to all and based on a stepwise approach.

**Traceability and transparency** – The adoption of sustainability standards and future mandatory due diligence legislation pose the question of credibility of compliance. This will largely have to be addressed through more transparency at all levels of international value chains and better traceability of products. Such efforts will require more integration between private sector initiatives and public sector regulations to achieve the sustainability objectives set by standards, regulators and civil society at large.

Questions of cost and accessibility for producers in developing countries and concerns about siloed systems used by brands that source from these countries will also need to be addressed to ensure that accurate data can be collected and shared as a public good.

**Finance** – Financial institutions have already started to transform their portfolio of services, focusing more and more on sustainability and using environment, social and governance indicators in their financing operations. For instance, the EU Sustainable Finance Disclosure Regulation offers a set of rules that encourages investors and corporations to reflect on both the positive and negative impacts of their activities.

The first phase of the regulation went into effect on 10 March 2021 and focuses on predefined metrics to assess the ESG outcomes of the investment process. Many financial organizations and funds have turned towards sustainability standards as essential safeguards for their investments and guarantees of higher resilience of companies in which they invest (e.g. eco.business Fund).[85]

85. https://www.ecobusiness.fund/en/

**Christian Robin**

Executive Director,
Swiss Platform for
Sustainable Cocoa

## STANDARDS MAP: PLAYING A KEY ROLE IN THE SUSTAINABILITY DEAL

**How do you envisage the new normal?**

The pandemic and what it brought to the world is the new normal. The focus on environmental degradation and climate change will certainly remain very high on the policy agenda and more effort will have to be given to the victims of the pandemic and the most vulnerable countries that have suffered and continue to suffer from it, namely developing countries.

**What are the pros and cons of sustainability standards?**

On the positive side, the evolution of sustainability standards has been very innovative in many ways, and at a speed that could never have been matched with regulatory frameworks. The ideas and concepts generated by this blooming and fast-changing ecosystem of sustainability standards has benefited the entire sustainability movement and inspired both private and public actors.

On the less positive side, standards' impacts on the ground have not always reached the level of ambition of these initiatives and stakeholders have sometimes been more verbally advocating for sustainable changes than acting concretely and making things move. Consumers are often seen as key drivers to transform the industry, but beyond the good words and support, many consumers still prefer to pay the lowest price. As for the years ahead, one can mostly hope for more convergence between the sustainability initiatives and a higher level of motivation at absolutely every stakeholder level.

**What roles can ITC and Standards Map play?**

The T4SD programme, and Standards Map in particular, have been instrumental in providing transparency on voluntary sustainability standards and making such information accessible. Standards Map will play an even more important role in the future, considering the growing demand for such platforms to connect the dots between sustainability initiatives, private and public frameworks, and fostering convergence.

In the past, competing companies' and standards' initiatives tried to differentiate themselves on everything possible. Today this is not an option. Collaborations, partnerships and developing solid and common platforms are necessary conditions for survival in tomorrow's world. ITC can play a game changer role in that regard, and Standards Map is likely to contribute in a large part to this new Sustainability Deal.

**Future proofing standards** – The COVID-19 pandemic has exposed weaknesses and vulnerabilities in international value chains. Business leaders will be more prepared for such events, with teleworking ready if needed and value chains supported by the necessary safeguards should a new outbreak occur.

Standards are no different. They will also be transformed via consolidation or new system-wide approaches where standards look at ecosystems as a whole, overcoming traditional certification boundaries and considering land-use decisions and interventions in a more holistic way. This model – which some call a 'landscape' or 'jurisdictional' approach – has attracted significant interest from civil society organizations and non-governmental organizations in recent years. However, few sustainability standards have experimented with this approach or developed this concept fully.[86]

A fair number of standards are evolving, expanding their focus beyond the single farm, production unit or forest. Such an approach requires collaboration with various players (local governments, producers, companies, communities and NGOs). Sustainability standards are expected to improve their services and to be well placed to provide better training to producers, connect them with sustainable finance providers and facilitate public and private partnerships.

86. https://www.isealalliance.org/innovations-standards/operating-scale

Many sustainability standards already address issues that have implications for the wider landscape (high conservation value assessments, management of water resources, social protection of entire communities, etc.). The know-how of standards on these issues will be needed to put the new Sustainability Deal in action, especially in terms of governance systems, as many initiatives have already developed fine participatory mechanisms that allow all stakeholders to work towards common sustainability goals.

Landscape approaches may represent an opportunity for standards to scale up their approaches, skills and impacts. These evolutions are complex, however, as they will require a change of scope of assurance monitoring and evaluation systems.[87] One key driver of success will be how well sustainability standards will be able to set effective participatory mechanisms, putting affected stakeholders at the heart of the approach and allowing them to have a say in the final decision-making.

**Due diligence** – Key international frameworks such as the United Nations Guiding Principles have been around for a while. Yet few companies have the guidance and tools they need to develop and adopt adequate policies on human rights. Although most firms have developed policy commitments to respect human rights (for instance, through statements against modern slavery),[88] not all of them know what governance and accountability structures they need to ensure the policy is implemented, or which human rights issues are most relevant to their specific product value chains.

Today, companies' responsibility has started and ended with the requirements they place on the suppliers of the goods they purchase. These requirements could take the form of a code of conduct or a more rigorous standard that is monitored at the factory level. Regardless, being effectively accountable for sustainability conditions across the entire value chain – including its bottom tiers – remains very challenging for most firms.

Furthermore, it is difficult for companies, governments and other stakeholders to trace their supply chains, especially when it comes to subcontracted parties, small workshops and informal workers – where many human rights violations occur. Human rights and supply chain experts will have to support brands so they can identify, trace, remediate and prevent such abuses in their value chains.[89]

The pioneering frameworks on human rights due diligence, such as the California Supply Chain Act or the Model Slavery Act in the United Kingdom, were fundamentally reporting laws, within which companies decided whether to publicly disclose their approaches and supply chains. The new due diligence legislation being developed in the EU will have stronger requirements. This creates a great opportunity, but also raises the question on how to implement these requirements effectively.

This is where sustainability standards can play a key role. Due diligence regulations will not replace standards, but rather outline the need for a new combination of voluntary and regulatory frameworks, often referred to as the smart mix.[90] Sustainability standards are well-placed to bring their extensive criteria, implementation methods, sector specificities and supply chain knowledge here.

This experience, whether it relates to socioeconomic contexts of certain regions or stakeholders, will be invaluable. It represents deep and long-standing know-how on supply chain functions, often backed by active field resources and head office staff who map, monitor and trace supply chains, or identify forced labour practices and environmental hotspots. Standards can share good practices they have been implementing on the ground for decades, potentially serving as an inspiration or model for more scalable approaches.

To maintain their relevance going forward, however, standards will need to deepen their analytical skills on key issues such as the root causes of human rights abuses while employing mechanisms to detect human rights violations in supply chains, demand access to effective remedies and push for the inclusion of rights holders and civil society as agents of change.

87. https://www.isealalliance.org/innovations-standards/innovations-projects/adapting-landscape-approach
88. https://www.business-humanrights.org/en/from-us/modern-slavery-statements/
89. https://www.globalcompliancenews.com/2021/04/10/eu-european-commission-adopts-report-on-corporate-due-diligence-and-accountability250321/
90. https://www.shearman.com/Perspectives/2021/04/New-Mandatory-Human-Rights-Environmental-and-Governance-Due-Diligence-for-Companies-in-EU-Market

## The Sustainability Deal in practice

Building on the trends of the sustainability movement, one may ask what the future may look like, what projections can be made and which new developments indicate the direction of travel ahead. Below is a non-exhaustive (although very relevant) list of developments that are happening today, and which may signal upcoming changes that will affect our future and reinforce the Sustainability Deal in the years to come.

**Culture**: Generation Z or zoomers are shaping the world beyond themselves. These teenagers, students and young adults – who have lived through the COVID-19 pandemic as a generation-shaping event – have much to say (and do) in sculpting the future. The drive for more transparency is still there, as it was before the pandemic, and complements an ever-growing appetite for accountability and trust.

The latest examples of initiatives suggest a strong need to distinguish from the past (pre-COVID-19) and focus more on stakeholder capitalism. Initiatives from local associations and messages of trust and inclusiveness move in that direction. The *2021 Consumer Culture Report* by 5WPR highlights the fundamental shifts in the new generations (Z and millennials) in consuming local, healthy and with purpose.[91]

**Policy**: The new due diligence frameworks developed by governments complement existing sustainability standards developed by private organizations. They give final consumers more information on the products they consume (transparency) and more power to decide which ones make most sense to them (e.g. 'buy local' initiatives that are blooming in the European Union, the United Kingdom and the United States).

**Trade**: The use of specific sustainability provisions in free trade agreements illustrates efforts to incorporate sustainability in the global economy. The Swiss–Indonesian free trade agreement is a good example of this, as the provisions for improved market access clearly reference sustainability criteria and the use of voluntary standards. The number of trade accords with provisions on sustainability issues and references to sustainability standards has grown rapidly in recent years (e.g. the Agreement on Climate Change, Trade and Sustainability).

**Partnerships**: Global supply chains have focused on reducing costs, just-in-time sourcing and pushing risks and costs upstream. The resulting supply disruptions were highlighted during the worst of the COVID-19 shutdowns in 2020 and 2021. Voluntary standards can help establish longer term partnerships with upstream producers, thus enabling more investment at the production level and greater resilience in supply chains.

**Sustainability**: The sustainability movement faces societal pressure for a more radical shift, with some new values and new definitions of what sustainability means. Sustainability standards have stories to tell about their impacts, but some have been accused of not living up to their potential and others have been accused of potential greenwashing. Consumers – especially younger ones – do not blindly trust product seals, logos or brands as they did in the past.

**Technological innovations**: More high-tech solutions are being used to address sustainability challenges and concerns. Social media and direct access to a plethora of online information have already changed consumer habits. Information technology applications have been developed to inform consumers about the healthiness of their food, and other online solutions provide information on product sustainability claims. More innovations like these are likely to be developed in the future (e.g. Switzerland's Labelinfo website).[92]

91. https://www.5wpr.com/new/research/5wpr-2021-consumer-culture-report/
92. https://www.labelinfo.ch/

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## ECONOMIC RECOVERY: EMBRACING SUSTAINABILITY TOPICS IS A MUST

**How can the global economy recover from COVID-19?**

Economic recovery and support to micro small and medium-sized enterprises has become a priority, and not only in Switzerland. However, economic recovery will only be achieved with appropriate social protection safeguards and a vision that embraces sustainability topics, among which climate change issues will remain an essential part.

The pandemic has revealed and highlighted trends and challenges inherent to global value chains which need to be addressed rather sooner than later: *inter alia* the resilience of international logistics, the enhancement of traceability and transparency about products' origin and production/manufacturing conditions.

Consumers' appetite for information about the products they buy will only increase post-pandemic. This was a trend pre-pandemic and can only be expected to grow.

**What is the post-pandemic role of sustainability standards?**

Sustainability standards have rapidly evolved from being niche market tools to becoming more mainstream and playing an important role in the Swiss market, but also at the policy level, in trade policy and with civil society and consumer organizations. This role will likely evolve further in the coming years, with a mix of public awareness, sustainability lobbying and new practical tools for companies to position their products in a future-oriented, sustainable way.

The governance of sustainability standards has also changed over the last years in terms of inclusivity of multiple stakeholders' views and opinions. The Swiss–Indonesia free trade agreement is a good example of this interconnection of public regulation and trade policies with sustainability standards for the enforcement of common objectives and goals for sustainable development.

## The road ahead

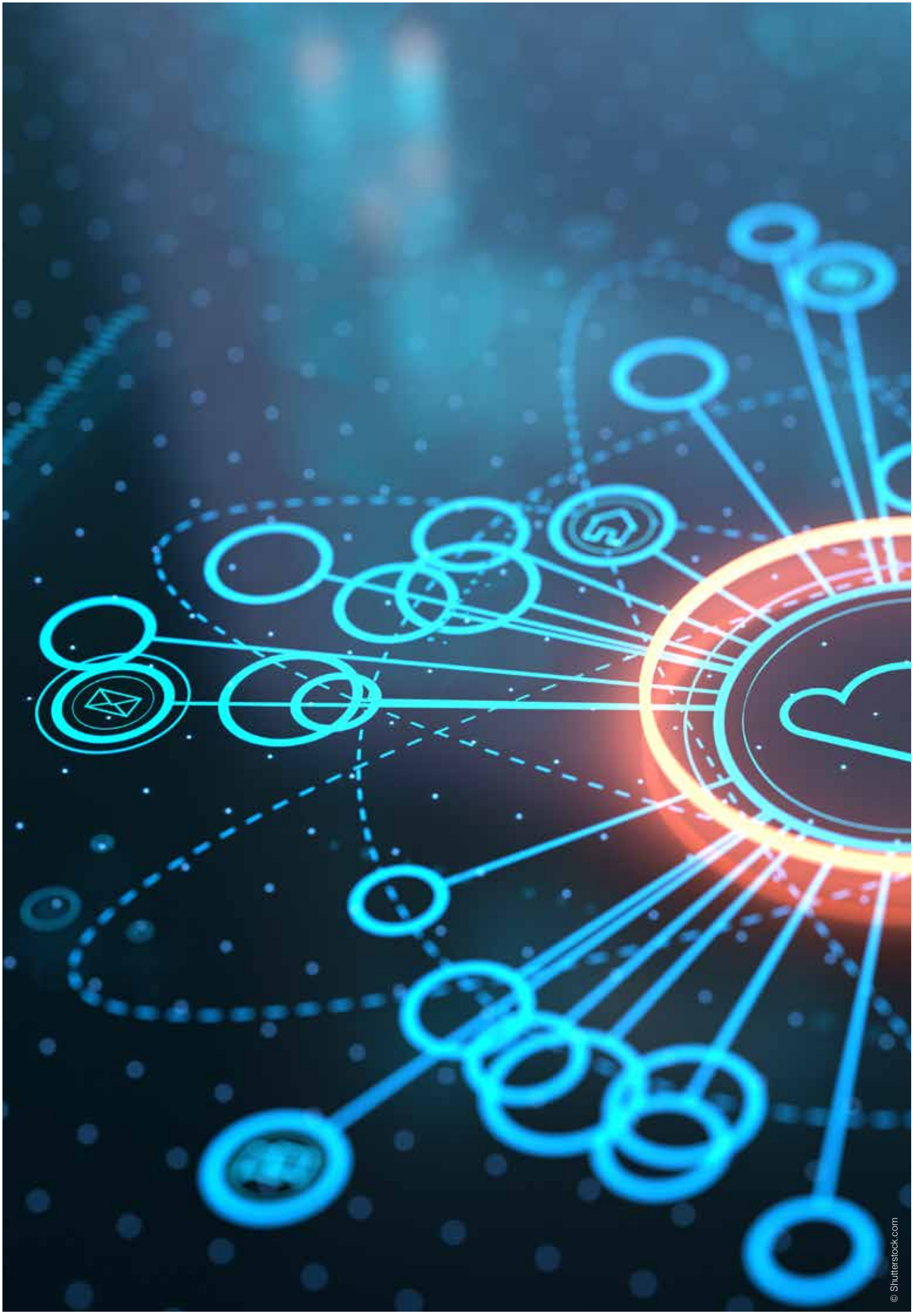
With the emergence of due diligence frameworks, policymakers will turn to standards as part of the smart mix needed to implement these highly ambitious and complicated policies. Standards have proved adept at reinventing themselves and improving their processes to better meet new challenges. If anything, the competitive nature of sustainability standards argues well for innovation and change. This can only be an asset to those groups that the standards serve worldwide.

Standards have a place in the new Sustainability Deal. They are an important instrument in a larger toolbox of sustainability solutions. But which standards tools are the most suitable for a given circumstance?

This is where the ITC Standards Map comes in, helping smallholders, producers, firms and policymakers choose the right tool for the specific context. Standards Map can connect the dots between sustainability initiatives, facilitating benchmarking and complementarity assessments between initiatives and enabling the due diligence process for international value chain actors.

Trends come and go – in sustainable development as in other domains. Yet it is clear that sustainability standards are here for the foreseeable future, through they will need to evolve and respond to the rapidly changing environment.

Sustainability standards have become embedded in supply chains and key agricultural and consumer sectors across the world. In parallel, their criteria and implementation mechanisms have been honed over the years and represent a solid basis or roadmap to achieve environmental and social sustainability.



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