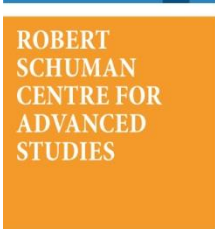




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Transnational Sustainability Governance in the Global  
South:  
A Comparative Study of Producer Support in Brazil

Philip Schleifer



European University Institute  
**Robert Schuman Centre for Advanced Studies**  
Global Governance Programme

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A Comparative Study of Producer Support in Brazil**

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European University Institute

Badia Fiesolana

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## **Abstract**

A primary objective of transnational sustainability governance is to address governance failures in the global south. But little is known about the conditions under which producer groups in these countries participate in private regulation. To shed some light on this question, this article examines the decisions of key players in the Brazilian agriculture industry to support (not to support) transnational sustainability governance. Using a qualitative case study approach, the article explores how soybean producers first backed the Roundtable on Responsible Soy, but then decided to withdraw their support from the initiative. In the sugarcane sector, the dynamic was a very different one. After initial resistance, the principal industry association switched strategy and endorsed Bonsucro, making it the leading sustainability standard for sugarcane in Brazil. Through a within-in case analysis and cross-sector comparison, this article shows how southern producer groups responded to economic and regulatory changes in the global market place, in particular, a shift in trade flows and the adoption of public sustainability regulation in the global north.

## **Keywords**

Transnational governance; private regulation, certification, sustainability, agriculture, Brazil





## Introduction

Transnational Sustainability Governance (TSG) has emerged as an important source of global business regulation (Abbott & Snidal, 2009; Vogel, 2008). In the past, states and intergovernmental organizations were the primary and often only providers of social and environmental regulation in the international system. But the form and locus of regulation is changing, and in the early 21<sup>st</sup> century private actors and public-private partnerships supply a growing proportion of the rules and standards governing the global economy.

One important driver behind the development of TSG institutions is government failure in the global south. Many of the factories, farms, and mines supplying northern consumer markets are located in countries with weak regulatory regimes. Scandals about ‘sweatshop’ labor conditions, illegal logging, and industrial accidents have demonstrated this again and again. In response to these events and mounting political, reputational, and economic pressures, a large variety of TSG institutions have been created to re-embed global production in a regulatory framework. And while today many firms participate in these arrangements in one way or another, others do not. An important task for students of private regulation is to understand and explain their institutional choices. The emerging literature on the topic has mostly focused on business support for TSG in the global north (Bartley, 2009; Cashore, Auld, & Newsom, 2004; Fransen & Burgoon, 2011; Sasser, Prakash, Cashore, & Auld, 2006). In contrast, little is known about the conditions under which producer groups in the global south participate in private regulation. This is an important issue because these actors are responsible for a large proportion of the social and environmental externalities TSG institutions aim mitigate.

To address this gap, this article reviews and contextualizes arguments about business support for TSG. With a focus on the agriculture sector and Brazil (the largest producer and exporter of agricultural commodities in the developing world), it then explores and compares these arguments in two case studies. Agricultural expansion in the global south is a key driver behind global climate change, deforestation, and biodiversity loss (cf. FAO, 2014a; Foley et al., 2005; Gibbs et al., 2010). Winning the support of producer groups in these countries is essential for the success or failure of TSG to mitigate these impacts. To gain a better understanding of the underlying processes, the first study case examines how Brazilian soy producers initially supported the non-governmental organization (NGO)-sponsored Roundtable on Responsible Soy (RTRS), but then decided to leave the initiative. In the second case, the dynamic was a very different one. After initial resistance, the principal industry association switched strategy and endorsed Bonsucro,<sup>1</sup> making it the leading sustainability standard for sugarcane farming in Brazil. The empirical analysis shows how southern producers’ institutional choices were influenced by economic and regulatory changes in the global market place, in particular, a shift in trade flows and the adoption of public sustainability regulation in the global north.

The remainder of this article is organized in four sections: The next section provides a brief overview of TSG in the agriculture sector. This is followed by a review of arguments about business support for TSG institutions, identifying institutional design, social movement pressure, regulatory context, and economic context as potential explanations. In two case studies, these arguments are then explored and compared. The article concludes with a brief summary of its main findings and by highlighting avenues for future research.

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<sup>1</sup> Before a name change in 2010, Bonsucro was known as the Better Sugarcane Initiative (BSI). To avoid confusion, the name Bonsucro will be used throughout the text.

## **Agricultural Expansion and TSG in the Global South**

Agricultural production in the global south is expanding at a high rate. Population growth, changing diets in key developing countries, and the adoption of bioenergy policies around the world have strongly increased global demand for agricultural commodities. With most arable land already in use in North America and Europe, much of this demand is being met through agricultural expansion and intensification in the global south. Over the last decades, countries like Argentina, Brazil, China, India, Indonesia, and Malaysia have strongly expanded their export-oriented agricultural sectors. Since 2000, their share of global agricultural exports has grown from 14.9 percent to 23.1 percent in 2012 (WTO, 2013: 67). This trend is set to continue in the future. The United Nation's Food and Agriculture Organization (FAO) projects that in order to feed the rapidly growing and urbanizing populations in Africa and Asia, world cereal production will have to grow by 904 million tons (+46 percent) and meat production by almost 200 million tons (+76 percent) by 2050. Developing countries will produce about 90 percent of the projected increase in global agricultural output, raising their share to 74 percent in 2050 (FAO, 2012: 95-96).

In the group of developing economies, Brazil is the leading producer and exporter of agricultural commodities. In particular, the soy and sugarcane sectors have expanded strongly over the last two decades. The soybean is often referred to as the 'king of the beans'. The dry seed contains 38 percent protein, more than any other food crop and twice as much as pork. This quality makes soy the world's number one animal feed. Soybeans are also rich in oil. The oil fraction is mainly used for human consumption and a smaller proportion (< 5 percent) is processed into biodiesel. Sugarcane is the most important sugar crop, supplying about 70 percent of global demand. Increasingly, sugarcane is also used as a feedstock for biofuel production (ethanol). The FAO estimates that currently about 24 percent of the global sugarcane harvest is used for this purpose. For 2020, this share is set to increase to about 32 percent of global production (OECD/FAO, 2011: 132).

Soy and sugarcane farming in Brazil is booming. Since 1990, the combined total land area under soy and sugarcane has increased by 21.9 million hectares (FAO, 2014b). For comparison, this is almost the size of the United Kingdom. Through generating export-led growth, the boom of these and other agricultural sectors has played an important role in the economic development of the country. In 2012, Brazil exported agricultural products worth 86.4 billion US\$, accounting for 36 percent of its total merchandise exports that year (WTO, 2013: 68). The Brazilian agriculture sector is often credited for its competitiveness and industrial mode of production. However, these economic successes came with a price tag attached.

Agricultural expansion in Brazil is a key driver behind deforestation and connected to this biodiversity loss, soil degradation, and climate change. Studies have shown how, through processes of indirect land-use change, soybean and sugarcane farming have played a critical role in displacing other agricultural activities to previously uncultivated areas. In the Cerrado and Amazon regions, these changes in land-use patterns are destroying some of the world's most sensitive and precious ecosystems (Eugenio, Peter, Robert, & Marcellus, 2011; Lapola et al., 2010). Besides causing huge environmental problems, agricultural expansion has had severe social repercussions. While many have benefited economically from Brazil's agriculture boom, reports about forced labor, land grabs, and violence against indigenous people reveal the sector's negative social impact (Amnesty International, 2008; The Guardian, 2013).

Over the last two decades, TSG institutions have emerged as an important policy instrument to address the negative externalities of global agriculture production. In response to government failure in developing countries and mounting political, reputational and economic pressures in the global north, NGOs and firms have sponsored a variety of TSG institutions in the agriculture sector. In fact, the agriculture industry has been the most dynamic site of TSG diffusion in recent years (Schleifer, 2014). One important group of arrangements in this policy area is the agricultural commodity roundtables of the World Wide Fund for Nature (WWF). Beginning in the early 2000s, the WWF, in

cooperation with northern lead firms, launched a number of these initiatives in key agricultural sectors. Different from organic labels and the fair trade movement with their focus on price premiums and niche markets, roundtables are mainstream platforms designed to shift the entire sector towards more sustainable practices. With the goal to mitigate the environmental and social impact of soy and sugarcane farming in South America, the WWF launched two roundtable initiatives: the RTRS (2004) and Bonsucro (2005).

While similar in their objectives, the two roundtables initiatives have had varying success in attracting support from key producer groups, with important implications for their effectiveness. In the soy case, the leading Brazilian producer associations Aprosoja and ABIOVE (Associação Brasileira das Indústrias de Óleos Vegetais) were among the founding members of the RTRS and actively participated in the initiative. However, before the standard was finalized, the two associations decided to leave the roundtable and to create the producer-controlled Soja Plus Program (SPP). Ever since, the RTRS has struggled to establish a presence in the Brazilian market. Only few individual producers have joined the scheme and the share of total national production certified by the RTRS remains low. In contrast, the dynamic in the sugarcane sector was a very different one. UNICA (União da Indústria de Cana-de-Açúcar) – the leading Brazilian sugarcane association – initially opposed Bonsucro, but then changed strategy and made a decision to support the roundtable. Following UNICA’s endorsement and active participation, a large group of producers joined the initiative, making Bonsucro the leading sustainability standard for sugarcane production in Brazil. See Table 1 for a comparison of the two initiatives.

**Table 1 Producer support for the RTRS and Bonsucro in Brazil**

Scheme	Producer members from Brazil (values for 2014)	Land certified (values for 2014, thousand hectares)	Share of total land under soy/sugarcane (values for 2014, percent)
RTRS	9	260	0.9
Bonsucro	79	880	8.9

*Sources:* RTRS 2014a; RTRS 2014b; Bonsucro 2014; R. Seixas, Bonsucro, personal communication, January 2015

## **Explaining Producer Support for TSG**

Why and when do business actors support TSG institutions? This is an important question for students of private regulation to consider. Unlike public regulation, TSG is voluntary and a necessary condition for the success of these arrangements is the participation of business groups. This does not mean that this is the only criterion that matters. For example, a ‘greenwash’ cannot be considered successful even if supported by an entire industry sector. However, on the other hand, the most stringent and credible TSG institution is of little use if only few firms are willing or able to comply with its standard (Prakash & Potoski, 2007).

Recognizing the importance of the issue, scholars have set out to explore the conditions under which business groups support TSG. Several studies exist that have examined these patterns in the global north (Bartley, 2009; Cashore et al., 2004; Fransen & Burgoon, 2011; Sasser et al., 2006). While these works have covered important ground, little is known about the institutional choices of producer groups in the global south. But support from these groups is of great importance, in particular, in the agriculture sector. They are responsible for the majority of environmental and social externalities that initiatives like the RTRS and Bonsucro aim to mitigate. The key contribution of this article is to address this gap. It identifies the key variables of business support discussed in the broader literature on TSG and assesses their relevance for explaining the decisions of southern producer

groups. It then explores and develops these arguments through a combination of a within-case analysis and cross-case comparison in the Brazilian soy and sugarcane sectors.

**Institutional design** refers to the formal structure of a TSG arrangement – the design of its decision-making arrangement, standard, and monitoring and enforcement mechanisms. For Prakash and Potoski (2006, 2007), institutional design is an important determinant of a voluntary program's reputation (and ultimately its effectiveness). TSG arrangements with meaningful NGO participation, stringent standards, and strong 'swords' (monitoring and enforcement mechanism) are more credible than industry greenwashes – that is, schemes that score low on these dimensions. In times in which firms require a 'social license to operate' (Gunningham, Kagan, & Thornton, 2003), credibility is an important organizational resource. Firms need it to build and protect their reputations as good corporate citizens. However, credibility is not the only criterion companies consider when making a decision to support or not to support a TSG arrangement. Other important factors are control and cost. Control is essential because it affects the outcome of the regulatory process. Typically, industry-controlled schemes produce outcomes more closely aligned with business interests, whereas NGO participation often leads to more stringent private regulation (cf. Abbott & Snidal, 2009). This in turn increases the cost of TSG for the business actors involved. Existing research suggests that firms' institutional choices between more or less stringent TSG arrangements depends, among other factors, on their location in the supply chain (Fransen & Burgoon, 2011). While brand protection and reputational benefits are of high importance to consumer-facing companies, producer groups – as the primary targets of regulation – are more concerned with the cost of private regulation. Against this background, one possible explanation for variation in the level of producer support in the soy and sugarcane sectors is differences in the institutional design (level of stringency) of the RTRS and Bonsucro. To examine this hypothesis the existence of conflicts over standards will be explored and whether there was variation in this variable across the two cases.

**Social movement pressure** is another key variable discussed in the literature on TSG. The direct targeting of firms through naming and shaming campaigns has been identified as an important strategy in the repertoire of NGOs to put pressure on firms to participate in TSG (Sasser et al., 2006). Evidence from the apparel, diamond, and forestry sectors suggest that social movement pressure often precedes the creation of TSG arrangements. For example, Bartley (2009) describes how in the apparel sector NGO campaigning activities played a key role in getting firms to support private labor regulation. He argues that social movement pressure operated as a catalyzing force that can hardly be understated. Accounts of TSG formation in the forestry and diamond industries provide further evidence for the importance of NGO pressure. In the diamond industry, the 'blood diamond campaign' was a key factor contributing to the creation of the Kimberly Process Certification Scheme (Haufler, 2009). The same is true for the forestry sector where boycotts of tropical timber and the targeting of big retail corporations paved the way for the Forest Stewardship Council (Bartley, 2003, 2007). Typically, NGOs target firms located at the downstream end of the supply chain. Depending on the importance of branded goods in an industry, these companies are more or less vulnerable to naming and shaming activities (Mayer & Gereffi, 2010). Further removed from consumer markets, producers, on the other hand, are seldom directly targeted. However, this does not mean that social movement pressure has no effect on their decisions to support TSG. In global supply chains, lead firms pass social movement pressure on to their suppliers in the global south. In response to campaigning activities, many of the big food companies have formulated sustainable sourcing strategies (Dauvergne & Lister, 2012). To implement their targets and to send credible signals about their sustainability performance to relevant external audiences, some lead firms now require their suppliers to become certified under a specific TSG arrangement. Given the market power of big brand companies, producers in the global south have often little choice but to comply with these requirements. The upshot of this discussion is that social movement pressure can have an indirect effect on producer support for TSG. This leads to the following hypothesis: varying levels of social movement pressure caused the observed differences in producer support for TSG in the soy and sugarcane sectors.

**Regulatory context** is the third variable considered. While TSG arrangements are created to fill in gaps in the international regulatory system, they do not operate in an institutional vacuum. In the global economy, public regulation exists at various levels. Although often insufficient (otherwise TSG would not be necessary) environmental and social regulation exists in producer countries, but also international environmental agreements and the laws and regulations governing northern consumer markets shape the regulatory context of a given TSG arrangement. Regulatory context is an important variable for any analysis of business support for private regulation, as it affects firms' marginal cost to join a TSG arrangement (Prakash & Potoski, 2006: 67-72). Assuming effective enforcement – arguably a problematic assumption for many developing countries – a firm's marginal cost will decrease as the stringency of public regulation increases. Everything else being equal,<sup>2</sup> firms incur lower 'beyond the law compliance costs' in environments with stringent public standards. That is because the difference between what is required by law and what is required by the private standard is smaller in these contexts. On the other hand, big differences between public and private regulation increase the marginal cost for firms to support TSG. In the global south, public regulatory regimes are often weak. Even if existent, social and environmental standards are not effectively enforced. Still, national regulations play an important role as benchmarks and producers are likely to resist TSG arrangements that demand significantly costlier behavioral changes. Also, the regulatory context of target markets will influence producers' cost-benefit-calculations vis-à-vis TSG and ultimately their decision to support or not to support an arrangement. Following from the above discussion, the third explanation for varying levels of producer support for TSG in the soy and sugarcane sectors is differences in the regulatory context of the RTRS and Bonsucro.

**Economic context** is the last variable included in the analysis. In fact, it is a set of variables rather than a single explanatory factor. In their pioneering work on private forestry governance, Cashore *et al.* (2003; 2004) show how differences in the economic context influenced the decisions of supply side companies in North America and Europe to grant support to the Forest Stewardship Council (FSC), an NGO-sponsored eco-labelling program. Not all of the factors considered by Cashore *et al.* are of equal relevance for this analysis, and the discussion here focuses on trade flows and two variables related to the structure of the industry. Firstly, with regard to trade flows, they hypothesized that supply side companies in a region that sells a high proportion of its products to foreign markets will be more likely to support the FSC. A similar assumption can be made about the causal relationship between trade flows and the institutional choices of southern producer groups. They are more likely to support TSG if the majority of their products are exported to northern consumer markets. That is because economic and political pressures for sustainability in these markets are strong. Secondly, the degree of industry fragmentation has been associated with cross-regional variation in the support for the FSC. Rooted in economic theory, the argument goes that smaller companies face higher transaction and implementation costs and therefore are less likely to seek certification. The same mechanism could explain differences in the support for TSG in the Brazilian soy and sugarcane industries. However, both sectors are characterized by large farms, with the median farm size exceeding 1000 hectares (Byerlee & Deininger, 2010). Finally, Cashore *et al.* argue that members of the supply side in a region where forestry companies are well represented and unified are less likely to engage with the FSC. They explain this with the ability of peak industry associations to organize industry-wide resistance against NGO-led private regulation. While a possible explanation for varying levels of southern producer support for TSG, both the Brazilian soy and sugarcane industries are headed by powerful industry associations.

In sum, through the above review and discussion of the TSG literature four possible explanations of producer support in the global south were identified. In the following, their explanatory potential is explored. However, the goal is not simply to verify or falsify the hypothesized mechanisms, but to inductively learn from the cases in order to improve our understanding of TSG in the global south.

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<sup>2</sup> The relationship only holds if producers' environmental and social performance levels and the stringency of the TSG arrangement are held constant.

Beginning the empirical analysis, the next section examines the decision of key producer groups in the Brazilian soy sector to leave the RTRS. The article then focuses on Bonsucro and how Brazilian sugarcane producers switched strategy from initial resistance to full support of the program. This is followed by a cross-case comparison and a discussion of the results. Empirically, the article draws on thirty-three semi-structured interviews. The interviews targeted producer groups, lead firms, NGOs, and private regulation managers involved in the formation of the two initiatives. Due to the transnational nature of agriculture commodity roundtables, most of these interviews were conducted via phone. Between 2012 and 2013, 15 people were interviewed about the RTRS and 18 people were interviewed about Bonsucro. The information from the interviews was triangulated with primary documents (meeting minutes, background documents, and websites).

### **Case Study 1: Producer Support for the RTRS**

The RTRS evolved out of the Forest Conversion Initiative (FCI) of the WWF. Starting in 1998, a team at WWF Switzerland began exploring the problem of forest conversion in the tropics. The team identified agricultural expansion as one of the key drivers behind deforestation in the global south, and because of its high growth rates, soy was soon made a priority sector. But at the time, the WWF had no strategy or instruments in place to deal with the problem of agriculture-induced land-use change. Until then, the NGO's forest conservation efforts had exclusively focused on the forestry sector and the FSC as the main forum and instrument to promote sustainable forestry practices. Agricultural activities, on the other hand, were not included in its forest conservation strategy. As part of the FCI, the RTRS was initiated to change that.<sup>3</sup>

In May 2004, twenty-five participants from civil society, industry, and producer groups attended a WWF workshop in London. At the meeting, the different stakeholder groups discussed the major impacts of soy production, existing sustainability initiatives in the agriculture sector, and the possibility of creating a set of global principles and criteria for sustainable soy production. The most important outcome of the meeting was the decision to institutionalize the dialogue between the different stakeholder groups (WWF, 2004). A committee was formed which over the next few years organized the first global roundtable conferences on sustainable soy, developed the structure of the RTRS, and initiated the standard-setting process. In November 2006, the members of the Organizing Committee met in Rolle Switzerland to launch the RTRS as a formal organization under Swiss law (RTRS, 2006). Four years later, the standard-setting process was concluded and the RTRS issued Version 1.0 of its Principles and Criteria. Shortly after, the scheme rolled out its certification system and began certifying soy farmers against its standard.

Initially, the RTRS enjoyed the support of key players in the Brazilian soy industry. ABIOVE, the Brazilian Association of Vegetable Oil Industries that represents 72 percent of the country's soy processing volume, and Grupo André Maggi, with 150,000 hectares one of the largest soy producers in the country, joined early on in the process. They became members of the RTRS Organizing Committee and actively participated in the creation of the initiative and the formulation of its standard. In 2007, also Aprosoja, the powerful producer Association of Brazil's main soy growing region Mato Grosso, joined the initiative's Executive Board. But relations between stakeholder groups in the RTRS soon deteriorated. Increasingly, conflicts between NGOs and producer groups emerged and dominated internal debates about standards and the purpose and objectives of the initiative. In 2009, at the General Assembly, the situation escalated and Aprosoja and Abiove announced their retreat from the roundtable (RTRS, 2009b). After leaving the RTRS, they played a key role in creating the SPP, a producer-controlled competitor program. Lacking the support of Brazil's influential producer associations, the RTRS, struggled to establish a foothold in the sector. Only few Brazilian producers have joined the initiative and the proportion of total national production certified under the scheme

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<sup>3</sup> Interview with the former Director of the WWF FCI, via phone, 27 May, 2013.

remains very small (see Table 1). Why have key producer groups in Brazil soy industry withdrawn their support from the RTRS? To find an answer to this question, the following sections explore the explanatory of power of institutional design, social movement pressure, regulatory context, and industry context.

### ***Institutional design***

It was hypothesized that differences in the institutional design (level of stringency) of a TSG arrangement is a possible explanation of variation in producer support in the global south. While only the comparative analysis can fully assess the validity of this claim, the within-case analysis revealed that the stringency of the standard was an important issue for Brazilian producers in the RTRS. Repeatedly, Aprosoja and ABIOVE clashed with NGOs over questions of standard design. In particular, the roundtable's policy on forest conversion became a bone of contention. On one side of the issue were the NGOs, which demanded the inclusion of a clear cut-off date for forest conversion in the RTRS' Principle and Criteria. On the other side were the producers, which vigorously opposed the policy. At various occasions, the representatives from Aprosoja and ABIOVE expressed concerns about the cost of RTRS certification and that many of their members would not be able to comply with the standard. The following quote from a meeting of the Executive Board in 2009 reflects their position:

We acknowledge that certification implies costs. (...) ABIOVE central concern is to establish conditions that a large number of producers from different countries can meet and not just a minority (RTRS, 2009a: 2).

Both sides insisted on their position and there was little room for compromise. Eventually, the WWF in partnership with Unilever and Migros, two major players in the European food and retail industry, pushed the issue through the Executive Board. They had initiated the RTRS to stop deforestation in the Amazon and were under strong pressure to deliver on this objective. Against the opposition of Aprosoja and ABIOVE, the Executive Board voted for the inclusion of criterion 4.4 in the standard, which prohibited the clearing of forests and other areas with a high conservation value for soybean cultivation after May 2009 (RTRS, 2009a). The two Brazilian producer associations contested the legitimacy of this decision and at the next General Assembly of the RTRS made a request to remove the criterion. But their proposal was voted down and even failed to win the support of producer groups from other countries. Already at the meeting, Aprosoja announced its retreat from the RTRS, expressing its discontent over the decision and the way it was taken (RTRS, 2009b). A few months later also Abiove left the RTRS.

The empirical material presented here suggests a direct relationship between the stringency of the RTRS standard and the decision of Aprosoja and ABIOVE to withdraw their support from the scheme. However, in the interviews several people involved in the events of the time raised doubts about this interpretation. They believed that the Brazilian's had used the conflict over forest conversion merely as a pretext to leave the RTRS. In their view, other factors were at play which had profoundly changed the incentive structure under which soy producers were operating.<sup>4</sup>

### ***Social movement pressure***

Another factor thought to affect producer support for TSG is social movement pressure. Targeted by NGOs, lead firms pass social movement pressure on to their suppliers in the global south. It was hypothesized that this can create incentives for producers to participate in TSG. In the case of the RTRS, social movement pressures did play a role, but not in the way described above. Instead of targeting companies to engage in TSG (this had been the experience of the forestry sector), a coalition

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<sup>4</sup> Interview with the former Coordinator of the RTRS secretariat, via phone, 18 June, 2013.

of NGOs formed and campaigned against the RTRS. From the beginning, the roundtable was heavily criticized from civil society groups for its decision to include genetically modified organisms (GMOs) under its scheme.<sup>5</sup> Already, the first roundtable conference in March 2005 in Foz do Iguaçu, Brazil, became a highly politicized event. Parallel to the roundtable meeting, GMO-critical NGOs held a counter-conference. In a statement, they pointed to the irreconcilability of GMOs and soy monoculture with sustainability and heavily criticized the RTRS. The second roundtable conference in August 2006 in Asunción, Paraguay, was also accompanied by protests. A coalition of NGOs organized a protest march and published a declaration opposing the idea of ‘responsible soy’. Similar protest activities surrounded the third and fourth RTRS roundtable conferences (ASEED, 2008; Corporate Europe Observatory, 2009). One effect of these protest activities was increasing frustration among the group of Brazilian producers, as evidenced by the meeting minutes and the interview material.

[W]e are very disappointed in the last international conference in Buenos Aires, the negative propaganda about soy in Brazil (RTRS, 2008).

From their perspective, being a member of the RTRS created costs – in particular, it was feared to pose a barrier to future agricultural expansion – but brought little in return. Instead of gaining reputational benefits from participating in TSG, soy producers felt singled out and complained about the, in their eyes, unjust naming and shaming of soybean farming in Brazil.<sup>6</sup> While some of the major food companies and buyers of internationally traded soy continue to support the RTRS, this was not enough to hold Aprosoja and ABIOVE in the roundtable. In sum, the case study produced some evidence in support of the social movement hypothesis. One way to interpret the effect is that the ongoing attacks of NGOs against the RTRS reduced the reputational benefits it produced for its members (Prakash & Potoski, 2007).

### ***Regulatory context***

Regulatory context affects the marginal costs of producers to support TSG. Against this background, it was hypothesized that producer support is less (more) likely if the difference between private and public regulation is large (small). Analyzing the empirical material, there is reason to believe that producer groups in Brazil were concerned about the marginal cost of RTRS participation. Repeatedly, they complained about the fact that the RTRS’ policy of forest conversion included requirements that went beyond Brazilian law. In Brazil, matters related to forest management, protection, and land conversion are regulated under the National Forestry Code (NFC). Introduced in 1965, the NFC set limits on the use of forests in areas of high conservation value. For example, it requires landowners to maintain 80 percent of their land in its natural state in the Amazon, 35 percent in the Cerrado, and 20 percent in the Mata Atlântica. In a much criticized revision of the code, passed into law in 2012, some of the regulations on forest clearing were relaxed and amnesty was granted to illegal deforestation that had occurred before 2008 (Mongabay, 2014). Important for the analysis here is that Brazilian law allowed deforestation within limits, whereas the RTRS had a zero deforestation policy. The meeting minutes document that Aprosoja and ABIOVE were unwilling to accept this.

[P]roducers are legally entitled to deforest because their level of compliance goes beyond the quota required by law. RTRS should not forbid something that is permitted by Brazilian law. Producers must not sign it (RTRS, 2009a: 3).

These and other passages in the meeting minutes suggest that the beyond the law requirements of the RTRS posed a problem for Brazilian producers. The question for the comparative analysis thus is

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<sup>5</sup> About 80 percent of global soy production is genetically modified (GM) (GMO Compass, website). The founders of the RTRS believed that a decision to exclude GM-soy would have undermined their central objective of shifting the entire soy sector toward more sustainable practices, interview with a founding member of the RTRS’ Organizing Committee, via phone, 24 May, 2013.

<sup>6</sup> Interview with a senior executive of a large Brazilian soy producer, via phone, 17 July, 2013.

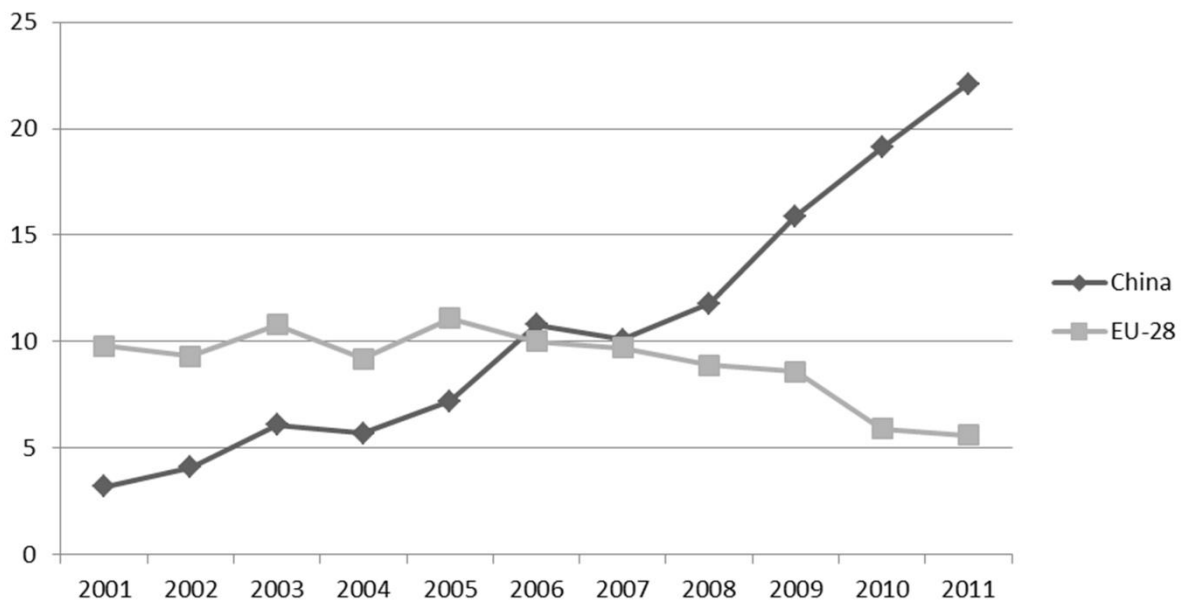


whether differences in the regulatory context, and therefore the marginal cost of participating in TSG, were smaller for producers in the sugarcane sector. With regard to the national regulatory context, this is unlikely to be the case as the NFC applies equally to the soy and sugarcane sectors in Brazil.

### ***Economic context***

Besides institutional design, social movement pressure, and regulatory context, the economic context (trade flows) were considered as an explanatory factor. It was hypothesized that southern producers are more likely to support TSG if their products are exported to northern consumer markets. That is because economic and political pressures for sustainability in these markets are strong. In the past, the European Union (EU) was the primary destination for Brazilian soy. This, however, changed in the early 2000s as the interviews and an analysis of international trade data revealed. Driven by its rapidly urbanizing population and changing diets, China started importing large volumes of Brazilian soy for its rapidly growing livestock sector. Due to its high protein content, soybean meal is the number one animal feed used in industrial meat production. By 2006, China had replaced the EU as the primary destination for Brazilian soy (see Figure 1).

*Figure 1: Brazil's soybean/soymeal exports to China and the EU-28 (million tons)*



*Source:* International Trade Centre

This shift in trade patterns correlates with Aprosoja's and ABIOVE's decision to withdraw their support for the RTRS. In 2009, the year they left the roundtable, China imported 55 percent of Brazil's total soybean exports, almost twice as much as companies from Europe (International Trade Centre, 2015). The decreasing importance of the EU as a target market for Brazilian soy is likely to have changed the incentives structure of producers to participate in the euro-centric RTRS. This interpretation found support in several of the interviews. While deforestation in the Amazon is a high-profile issue in Europe, it has not the same importance on the public and political agenda in China. Consequently, Chinese lead firms are much less concerned about the environmental and social

externalities of soybean farming in Brazil than their European counterparts.<sup>7</sup> The RTRS made several attempts to promote its standard among Chinese buyers, but with limited success as a member of the secretariat explained in an interview:

Chinese companies increasingly care about food security, because of scandals they had in the past. But sustainable trade is not really something they have on their agenda.<sup>8</sup>

The fact that Chinese companies were now buying the lion's share of Brazilian soy significantly reduced the pressure on Aprosoja, ABIOVE, and their members to participate in the more stringent RTRS. Frustrated about conflicts with NGOs within and outside the roundtable, they decided to withdraw their support from the initiative and to create the producer-controlled SPP.

## **Case Study 2: Producer Support for Bonsucro**

The Global Freshwater Programme (GFP) was another WWF initiative working on agriculture and its impact on the environment. According to the GFP, agriculture is the biggest user of water, accounting for about 70 percent of all freshwater withdrawn for human use. Agriculture was also identified as a key driver behind freshwater pollution, mainly because of its intensive use of fertilizers and pesticides. In a series of studies and publications on the sector's impact on global water systems, a number of crops, among them sugarcane, were singled out as the world's 'thirstiest' crops (WWF, 2003). It was the WWF United Kingdom which then took the lead on the network's work on sugarcane. The NGO reached out to Tate & Lyle, one of the world's largest buyers and refiners of sugar, and together they organized a workshop on better management practices for sugarcane farming in London in June 2005.

The workshop was attended by about thirty stakeholders from industry and civil society. The meeting focused on identifying the key environmental and social impacts of sugarcane production and how these could be improved through better management practices. At the meeting, the goals and objectives of a sugarcane roundtable were discussed and a decision was made to move forward with the plan (WWF, 2005). A Steering Committee was formed in 2006, which over the course of the next few years initiated the standard-setting process and developed the organizational structures of Bonsucro. Important milestones of the formation process were the finalization of the first version of the Production Standard in 2008, the registration of Bonsucro as a non-profit company in England in 2009, and the certification of the first sugarcane mill in Brazil in 2011.

An important objective of the initiators of Bonsucro was to get key producer groups from the global south involved in the process. When the Steering Committee held its first meetings in 2006, a decision was made to approach the International Society of Sugar Cane Technologists (ISSCT), the leading international industry association, for technical support and formal endorsement. In 2006, the Coordinator of Bonsucro met with the ISCCT Executive Council, with the request to use its annual congress as a forum to launch and promote Bonsucro within the wider industry (BSI, 2006a). However, the ISCCT leadership was highly suspicious of Bonsucro as the meeting report of the Coordinator to the Steering Committee reveals:

There was real concern from those present as to the construction of a barrier to entry and as to discrimination against producers with low environmental or social performance. I was forcefully informed by [Person A] that these matters relating to sugarcane were ISSCT competence and not WWF's (BSI, 2006b).

Also, attempts to win the support of national producer association from the world's main sugarcane growing countries were met with little success. The South African Sugarcane Association, CANEGROWERS (Australia), and UNICA (Brazil) were all highly critical of Bonsucro and its objectives, as the meeting minutes of the Steering Committee show.

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<sup>7</sup> Interview with a senior executive of a large animal feed producer, via phone, 26 June, 2013.

<sup>8</sup> Interview with the former Coordinator of the RTRS secretariat, via phone, 18 June, 2013.

The producers (Australia, South Africa, et al) remain wary of BSI because of the perceived potential of BSI standards for introducing trade filters or other phytosanitary trade barriers, and because the BSI's name (Better Sugarcane) makes them feel singled out. This, together with the BSI corporate and NGO members, who are mainly from the EU and the US, suggests to them that there may be a hidden protectionist trade agenda (BSI, 2007).

But then, in 2008, UNICA, the Brazilian sugarcane industry association, changed course. Representing about 50 percent of Brazil's ethanol production and 60 percent of its sugar production, UNICA is one of the most influential supply-side actors in the global economy of sugarcane. This was the support Bonsucro needed to become a recognizable force in the sector. In autumn 2008, the Coordinator was invited for talks to Brazil and shortly after UNICA formally joined the Steering Committee. Later that year, UNICA hosted the roundtable's first Annual General Meeting in São Paulo. UNICA's support and endorsement functioned as a catalyst for the initiative.<sup>9</sup> A large cadre of Brazilian producers joined the roundtable, making Bonsucro the leading sustainability standard for sugarcane production in Brazil. What explains this shift in strategy? And how is this case different from the events in the soy sector? As in the previous section, arguments about institutional design, social movement pressure, regulatory context, and industry context will be examined in order to explore these questions.

### ***Institutional design***

Standard design was identified as a possible explanation for variation in producer support for TSG. Providing some initial support for this hypothesis, the case of the RTRS had shown how a conflict between NGOs and producer groups over standards on forest conversion had preceded the decision of Brazilian producer groups to withdraw their support from the initiative. The stringency of the standards was also an important issue in the formation of Bonsucro. Through the interviews, several episodes of bargaining over the scope and content of the standard could be identified. On one side producer groups felt that the standard should start from a low base. Their argument was that instead of putting the bar too high, and thus excluding many producers from the initiative, it should highlight continuous improvement. On the other side, NGOs wanted to see a more stringent standard from the start. They feared that producers merely used arguments about continuous improvement as a pretext to water down the standard. In an interview, the Chairman of the Steering Committee described the two groups as opposite poles. Asked about the different stakeholders and their positions, he explained:

WWF was more pragmatic than the others. Solidaridad was more left if we call NGOs left and the Brazilian cooperative [UNICA] was stamping its feet from the other side.<sup>10</sup>

While conflicts over standards were as common in Bonsucro as they were in the RTRS, there is no evidence to suggest that (changes in) the stringency of its standard were related to UNICA's shift of strategy. A comparison of the RTRS and Bonsucro standards revealed also that they were very similar. In the RTRS, the inclusion of a criterion on forest conversion had preceded the Aprosoja's and ABIOVE's withdrawal from the soy roundtable. But, like the soy roundtable, Bonsucro had a strict policy on forest conversion, prohibiting the clearing of forests and other lands with a high conservation value after January 2008 (Bonsucro, 2011: 12). This means there is little variation in this variable across the two cases.

### ***Social movement pressure***

In the soy sector, NGO campaigning activities against the RTRS were found to have contributed to the withdrawal of producer groups from the initiative. In contrast, in the sugarcane sector, social movement pressure for or against TSG was largely absent. In the past, there has been some NGO

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<sup>9</sup> Interview with the former Coordinator of Bonsucro, via phone, 23 May 2012.

<sup>10</sup> Interview with the Chairman of the Steering Committee, via phone, 13 June, 2012.

criticism of poor working conditions in the industry. For example, in its 2008 international report, Amnesty International reported about forced labor and exploitative working conditions in Brazil's rapidly growing sugarcane sector (Amnesty International, 2008). However, no major NGO campaign was underway in the period preceding UNICA's decision to join Bonsucro. One possible reason for the low level of NGO activity in the sector is that GMOs, which had been an important mobilizing factor in the soy sector, were not an issue in the sugarcane industry. There have been trials with GM sugarcane in a variety of countries, but the proportion of GM sugarcane of global production remains insignificant. The situation somewhat changed when sugarcane became an important feedstock for the world's growing demand for biofuels. As a result, the industry was increasingly associated with the controversial topics of the biofuels debate, such as food security and land grabbing (Friends of the Earth, 2010). However, during its formation period Bonsucro was primarily a food crop initiative. Only later in the process did Bonsucro enter the biofuels certification market. Background research on media coverage and NGO reports confirmed the low level of social movement pressure during the initiative's formation phase. It produced only one report by European Corporate Observatory in which the 'little known Better Sugarcane Initiative' was critically mentioned (Corporate Europe Observatory, 2008). Compared to the RTRS, Bonsucro and its members were "sailing in calm waters" as one of the interviewees put it.<sup>11</sup>

### ***Regulatory context***

It was hypothesized that regulatory context affects the marginal cost of producers to join TSG. While the RTRS and Bonsucro operate in the same national regulatory context, the within-case analysis revealed how regulatory changes in the EU affected sugarcane/ethanol and soy producers differently. In January 2008, the EU Commission presented a draft renewable energy directive (RED), in which it proposed a 10 percent blending mandate for biofuels to be reached by all member states by 2020 (EU Commission, 2008). But using food crops for fuel production was highly controversial at the time. In particular, the food crisis of 2007/2008 sparked much debate about biofuels. As food prices increased sharply during this period, Jean Ziegel, the United Nations Special Rapporteur on the Right to Food, even called them a 'crime against humanity' and requested a five year moratorium on their production (The Guardian, 2008). In response to these pressures, the Commission flanked its renewable energy policy with a mandatory sustainability scheme, which all biofuels produced in or exported to the EU would have to meet.

Adopted in 2009, the RED created one of the world's largest markets for biofuels and a great business opportunity for Brazil's ethanol industry. However, to gain access to this market, they had to comply with the RED's compulsory sustainability scheme. Among other requirements, it included a criterion stipulating that biofuels cannot be obtained from land that in January 2008 was categorized as having a high biodiversity value. In the same way, biomass obtained from land with high carbon stock cannot be used for biofuel production (e.g. forests and peatlands) (European Union, 2009). This may explain why UNICA, unlike Aprosoja and ABIOVE in the RTRS, did not oppose Bonsucro's policy on forest conversion. Another important feature of the RED is that the EU's main implementation mechanism is TSG. To gain access to the European market, biofuel producers have to obtain certification from a private certifier recognized by the Commission as a qualifying standard (Schleifer, 2013).

In combination, these factors are likely to have influenced the cost-benefit calculations of Brazilian ethanol producers. As the regulatory context in one of their key target markets changed, so did their marginal cost of participating in TSG. With its European outlook and focus on sugarcane, Bonsucro was the natural forum for the Brazilian's to seek certification. In an interview, the Chairman of the

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<sup>11</sup> Interview with a sugarcane farmer, via phone, 23 May, 2012.

Steering Committee confirmed that the EU RED was a key driver behind UNICA's change of strategy. This assessment was shared by several other interviewees.

What drove it for Bonsucro in the end was legislation around ethanol production and the need for certification there.<sup>12</sup>

In comparison, the European biofuel market and the RED had not the same importance for the Brazilian soy industry. While soybean oil is processed into biodiesel, only a relatively small fraction of Brazil's production is used in this way. The biodiesel that is produced is almost exclusively used for domestic consumption (USDA, 2014).

### ***Economic context***

The soy case showed how a shift in trade flows from the EU to China influenced producer support for TSG in the sector. The analysis of trade data for the Brazilian sugarcane industry reveals a different picture. While sugar exports to China have soared in recent years, the EU remained the primary target market for sugar producers from Brazil throughout the 2000s (International Trade Centre, 2015). When UNICA made its decision to support Bonsucro, there was also the prospect of exporting large volumes of ethanol to the EU. As described in the previous section, the RED introduced a 10 percent blending mandates for biofuels in the transport sector to be reached by all member states by 2020. The policy created one of the world's largest markets for biofuels and imports from third countries were needed to meet the demand. Cane ethanol is a very cost effective biofuel. It also has a high greenhouse gas savings potential and Brazil is the world's largest producer and exporter. In 2008, when UNICA joined Bonsucro, its exports to the EU had reached 1.5 billion liters (UNICA, website). In the following years, imports of cane ethanol from Brazil were increasingly replaced with corn ethanol imports from the United States (USDA, 2013). However, during the period of investigation, the EU was the primary target market for Brazil's ethanol industry.

### **Results of Comparison**

In two case studies, this article examined arguments about producer support for TSG in the global south. This section concludes the empirical analysis by presenting the comparative results. The first case study produced some evidence in support of the argument that **institutional design** (stringency of standard) affects the decisions of southern producer groups to support TSG. A conflict over the RTRS' forest conversion policy directly preceded Aprosoja's and ABIOVE's decision to leave the roundtable. But there is little evidence to suggest that standard design was the main driver behind their withdrawal. The analysis revealed also that there was little variation in this variable across the two cases. The RTRS and Bonsucro were found to have a similar level of stringency. In the second case, this did not prevent UNICA to support the sugarcane roundtable. This suggests that other factors were at work as well. The analysis of **social movement pressure** found variation in this variable across the two cases studied. Social movement pressure was strong in the soy sector, but largely absent in the sugarcane sector. Interestingly, the direction and effect of social movement pressure differed from the initial hypothesis. In the literature, social movement pressure is commonly portrayed as a force behind TSG (Bartley, 2007, 2009; Haufler, 2009). Against this background, it was hypothesized that lead firms pass these pressures on to producers in the global south, pushing them to support TSG. This was not the case in the soy sector. Here, social movement pressure was directed against the RTRS and its supporters. It was shown that negative NGO campaigning had some influence on how Brazilian soy producers perceived the cost and benefits of TSG. However, the bulk of evidence points to differences in the regulatory and economic contexts of the two roundtable initiatives as the main explanatory factors. In the case of Bonsucro, changes in the **regulatory context** could be directly linked to

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<sup>12</sup> Interview with the Chairman of the Steering Committee, via phone, 13 June, 2012.

UNICA's switch of strategy. The creation of business opportunities on the European biofuels market, and the introduction of public sustainability regulation in this area, reduced the marginal cost of Brazilian sugarcane/ethanol producers to engage in TSG. On the other hand, given the low importance of the European biofuels market for Brazilian soy producers, these regulatory changes did not affect them in the same way. Their institutional choices were driven by other global forces, in particular changes in the **economic context** of the soy industry. The analysis of trade data showed that by the mid-2000 China had replaced the EU as the primary destination for Brazilian soy. The decreasing dependence on northern consumer markets also reduced the pressure on Brazilian producers to participate in the euro-centric RTRS. The information obtained from the interviews suggests that this was a key factor behind Aprosoja's and ABIOVE's decision. In comparison, the situation in the sugarcane sector was a different one. Throughout the 2000s, the EU remained the primary target market for sugar and ethanol from Brazil.

## **Conclusion**

Over the last two decades, agriculture expansion in developing countries has caused environmental and social externalities on an unprecedented scale. In the absence of an effective public regulatory response, TSG institutions have been developed to mitigate this impact. But unlike public regulation, TSG is voluntary and a necessary condition for the success of these arrangements is the participation of producer groups from the global south – the primary targets of regulation. To identify the factors that influence their decisions to participate in TSG, this article examined and compared the outcomes in two key agricultural sectors in Brazil, the largest producer and exporter of agricultural commodities in the developing world. It was found that in the soy sector the leading industry associations initially participated in the creation of the RTRS, but then made a decision to withdraw their support. Since then, only few producers have joined the roundtable and the proportion of total national production certified under the scheme remains very low. In contrast, in the sugarcane sector, Bonsucro was able to quickly expand its membership base after UNICA, the powerful Brazilian industry association, made a decision to endorse the initiative.

While several studies have examined patterns of business support for TSG in the global north (Bartley, 2009; Cashore et al., 2004; Fransen & Burgoon, 2011; Sasser et al., 2006), little is known about the factors influencing the institutional choices of southern producer groups. In order to address this gap, this article reviewed and contextualized arguments about business support for TSG. In this way, four possible explanations (institutional design, social movement pressure, regulatory context, and economic context) were identified and examined through a combination of within-case analysis and cross-case comparison. The empirical analysis produced evidence in support of regulatory and economic context as the main explanatory factors. The decisions of Brazilian producers to support (not to support) TSG, were influenced, in particular, by regulatory and economic changes in the global market place. In the soy case, a shift of trade flows from Europe to China changed the incentive structure for Brazilian producer groups. With decreasing dependence on northern consumer markets they felt less pressure to participate in TSG. On the other hand, in the sugarcane case, renewable energy policies in the EU created business opportunities for Brazil's ethanol industry, while at the same time reducing the marginal cost of joining Bonsucro.

These findings are interesting on several levels. They underline the importance of regulatory and economic context as important scope conditions for the success or failure of TSG (Cashore et al., 2003; Prakash & Potoski, 2006: 67-72). They also show how, in an increasingly interconnected world, global forces shape local outcomes. In this regard, the case studies described two processes warranting further investigation. One is how global economic change and the rise of emerging markets can reduce the incentives of producer groups in the global south to participate in TSG (Schleifer, 2015). The other is how the effectiveness of TSG can be increased through the interaction with public regulatory frameworks (Abbott, 2012; Eberlein, Abbott, Black, Meidinger, & Wood, 2014). These are important topics for students of TSG to consider in future work.

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**Author contacts:**

**Philip Schleifer**

Robert Schuman Centre for Advanced Studies

European University Institute

Villa La Fonte

Via delle Fontanelle 18

I-50014 San Domenico di Fiesole

Email: [philip.schleifer@eui.eu](mailto:philip.schleifer@eui.eu)