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**Can Advocacy-Led Certification Systems
Transform Global Corporate Practices?
Evidence, and Some Theory**

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A paper written for the Natural Assets Project

Program on Development, Peacebuilding, and the Environment
Political Economy Research Institute (PERI)
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Abstract: There is emerging evidence that globalization is beginning to provide new opportunities for global coalitions of advocacy groups to bring market-based pressures to bear upon major transnational firms in a way that promotes higher standards of social and environmental responsibility in production processes and trade relations. This can be seen as successful citizen-led attention to the “production and process methods” which the Uruguay Round of trade negotiations explicitly chose to omit. More broadly it may reflect the increased importance of global branding, improved awareness in both consumer and financial markets of the social and environmental practices of firms, and collaboration on the part of producers to reduce their risk of brand-damaging attacks on the social and environmental responsibility of their practices. The emergence and growth of the Forest Stewardship Council as the “gold standard” for sustainable forest management, and the expensive attempts by the forest products industry to create industry-driven substitute standards, may be the pivotal example of this phenomenon. The further growth of certified Fair Trade practices under Transfair USA is another example. Both cases provide important lessons as to the elements of present and future success for this movement. They may also represent creative new solutions for problems of persistent poverty by using the leverage of markets in the global North to improve the ability of workers, farmers, and other producers in the global South to build natural assets in ways that generate socially and environmentally sustainable livelihoods.

Introduction

Few consumers realize that the World Trade Organization (WTO) prohibits placing any restrictions on the importation of products solely because of the way in which they were produced. Forest products cannot be banned no matter how egregious the denuding of whole mountainsides, no matter how much erosion or contamination of rivers may have resulted, no matter what the labor conditions under which logging, milling, and finishing took place. Similarly, textiles and apparel cannot be banned because of the working conditions faced in factories abroad. Food products cannot be prohibited on the basis of the chemicals used in their production, not even when those chemicals are banned in the importing country, unless traces of the banned chemicals are actually found on the surfaces or in the preparations of the imported products themselves. The ways that products are produced, “production and process methods” or “PPMs” in the language of trade negotiators, were deliberately excluded from the Uruguay Round of trade negotiations that concluded with the agreement to create the WTO in 1993. At the time, negotiators believed that countries might use their disapproval for the ways that products are made in other countries as a “barrier to free trade.”

The impact of this exclusion has been significant. No matter how high a local community or a nation chooses to set its own standards for social and environmental regulations, including minimum wage laws, environmental protection laws, or worker safety laws, that same government cannot impede the importation of items produced under much worse (and presumably less costly) conditions elsewhere in the world. This decision by the trade negotiators has unleashed a massive force for lowering social and environmental standards worldwide, undercutting generations of legislative progress and hard-earned community and worker rights.

Concern with production and process methods, however, has increased rapidly since the creation of the WTO. This paper outlines a broad and fast-growing movement to use voluntary, stakeholder-based, negotiated social and environmental standards to substitute for the (in)ability of nations to exert control over the nature of products they import, including the production and process methods under which they were produced. This international movement towards voluntary standards has previously been described in terms of the pursuit of higher corporate accountability and the use of certification processes based on firms' altruistic behavior.¹ This paper focuses on a much more dynamic advocacy-led process that is changing corporate practices more rapidly than altruism alone has done in the past. The paper outlines the strategies used by social and environmental advocacy organizations to bring about corporate compliance, the reasons why corporations are positively *seeking* to anticipate and participate in standard-setting and certification processes, and the lessons for market-based citizen-led advocacy that can be drawn from these experiences, lessons which can be potentially applied to much broader areas of civil society. The conclusion, succinctly, is that advocacy-led certification processes "have arisen to govern firm behavior in a global space that has eluded the control of states and international organizations."² More explicitly, they represent an increasingly successful pursuit of alternatives to the downward pressure placed upon social and environmental responsibility by the refusal of the WTO to permit the use of PPMs as a basis for trade policy.

The paper draws most heavily on the experiences of two successful advocacy-led standard-setting processes. The first is the Forest Stewardship Council, a small international nongovernmental organization that has set the highest standards for social and environmental responsibility in sustainable forest management and stunned the forest products industry by the speed of its growth. The second is the "Fair Trade" certification movement, which was originally established in Europe and has grown most rapidly since adopting advocacy-based processes in the United States in 1998.

Seemingly Improbable Recent Events

Who would have guessed that Greenpeace, the Natural Resources Defense Council, and other environmental groups would share the podium in June 1998 with the top executives of MacMillan Bloedel, the giant Vancouver-based timber and paper company, and would encourage consumers to give preference to "MacBlo" products? The environmental groups had long pilloried MacMillan Bloedel for its clear-cutting forest practices in Clayoquot Sound on Vancouver Island and elsewhere on the British Columbia coast. On that day, however, MacMillan Bloedel announced that it would cease clear-cutting practices in its British Columbia logging operations and that it would seek broader certification of its forest management under the principles of the Forest Stewardship Council. Commenting on this announcement, Lester Brown noted:

Under the leadership of a new chief executive, Tom Stevens, the company affirmed that clear-cutting will be replaced by selective cutting, leaving trees to check runoff and soil erosion, to provide wildlife habitat, and to help regenerate the forest. In doing so, it acknowledged the growing reach of the environmental

movement. MacMillan Bloedel was not only being pressured by local groups, but it also had been the primary target of a Greenpeace campaign to ban clear-cutting everywhere...

Among giant corporations that could once be counted on to mount a monolithic opposition to serious environmental reform, a growing number of high profile CEOs have begun to sound more like spokespersons for Greenpeace than for the bastions of global capitalism of which they are a part... What in the world is going on?³

The Greenpeace campaign had focused on a relatively novel “markets campaign” strategy: to lobby and demonstrate against the purchasers of MacMillan Bloedel forest products, pressuring them to cancel or threaten to cancel orders unless the firm implemented improved environmental practices.⁴

A second seemingly improbable event occurred on October 8, 1999, when the Rainforest Action Network (RAN) published a full-page paid advertisement in *The New York Times* urging consumers to shop at Home Depot, Inc. The ad was unlikely for many reasons. RAN had actively campaigned against Home Depot for more than two years, orchestrating more than 700 demonstrations against the company’s purchasing policies. RAN had organized activists dressed in bear costumes and using megaphones in the rafters of Home Depot stores; it had draped the Home Depot headquarters building with 5-story banners, and it had filled billboards across the street from shareholder meetings with images of forest clear-cutting allegedly linked to Home Depot’s wood purchases.⁵ RAN was also alleged to have been behind other, less traditional means of placing pressure on the firm, including a somewhat scurrilous website. The paid advertisement in the *Times* resulted from a decision by Home Depot, announced on August 26, 1999, to end all purchases of wood products coming from “old growth” forests and to give preference in its purchases to products certified as arising from sustainable forest practices, such as under the standards of the Forest Stewardship Council.⁶

A third event of this sort occurred on April 13th, 2000, when Global Exchange, a social activist organization in Oakland, California, turned threatened demonstrations against the Starbucks coffee chain in 30 U.S. cities into demonstrations in praise of its coffee purchasing practices. Starbucks is the largest chain of coffee houses in the U.S., accounting for more than 20 percent of the total. Global Exchange had spent more than a year orchestrating a campaign against Starbucks, because the firm refused to introduce the sale of certified coffee that would provide higher prices and better conditions for small-scale coffee producers worldwide. This effort was part of a much longer, multi-year strategy to improve the benefits from trade for producers in the global South through various mechanisms, including a certified “fair trade” system. Four days before the planned demonstrations, Starbucks executives signed a letter of intent with TransFair USA, a fair-trade certification organization, to offer certified coffee in all 2700 Starbucks outlets in the U.S. On October 4th, 2000, certified fair trade coffee began to be sold at Starbucks.⁷

Basic Concepts

What are the certification systems that have triggered these improbable events? Definitions in the literature vary. According to the International Standards Organization:

Certification is a procedure by which a third party gives written assurance that a product, process or service conforms to specified requirements... It is distinct from the other systems of proof of conformity such as supplier declarations, laboratory test reports or inspection body reports. Certification is based on the results of tests, inspections and audits and gives confidence to the customer on account of the systematic intervention of a competent third body.⁸

According to the World Bank:

Product certification involves written documentation that a product meets detailed technical specifications. Governments and consumers are increasingly demanding such certifications of goods in international commerce. Certification involves testing a product against either a voluntary, de facto, or regulatory standard and is often carried out organizations that are independent of any link to the manufacturer or purchaser. After testing, a certificate is issued that attests to the fact that a product meets a set standard.⁹

As applied to forest management, Upton and Bass have defined certification as “an economic market-based instrument which aims to raise awareness and provide incentives for both producers and consumers towards a more responsible use of forests.”¹⁰

Certification is a market-driven process designed to encourage and reward firms that choose to produce or trade in products that use the highest social and environmental standards in their production. Rather than requiring those standards by law (which is often politically difficult to achieve), and rather than trying to block the importation of products that do not meet the standards (which is not allowed under WTO rules), certification offers a positive alternative system designed to encourage compliance with voluntary standards and to reward those who do comply by offering increased market share and, at times, market price premiums.

In theory, certification requires little more than an independent assessment of management practices. In reality, the creation of a credible certification system requires the development of standards by a diverse set of stakeholders in an inclusive process designed to build consensus. Without an agreed-upon set of standards, the meanings of certification would vary widely. There is a need, therefore, to establish a set of certifiers who are independent of the outcome of the certification process, as well as an accreditation system for the certifiers that assures the integrity of their application of the standards.

The Forest Stewardship Council

The Forest Stewardship Council (FSC), a nonprofit organization created by an international assembly of about 300 people in Toronto in 1993, has created a certification system whose aim is to transform the \$50 billion worldwide timber industry. The FSC opened its offices in 1994 in Oaxaca, Mexico, partly because it wanted to be based in the global South, and partly because of the personal preferences of its first Executive Director. From that original base, the FSC has grown to have operations in 50 countries; and its international headquarters will be moved to Europe in 2002.

The governance of the FSC is structured around three “chambers”: an environmental chamber, an economic chamber, and a social chamber. Each chamber represents a group that has a vested interest in -- or are stakeholders in -- the management of forests around the world. In addition, the FSC structures all of its international activities to include balanced representation from the global North and the global South. When people run for election to the FSC board of directors, for example, they run for a position in the “social chamber from the global North,” or for the “economic chamber from the global South.”

How does it work? The Forest Stewardship Council has developed a stakeholder-based set of forest management standards, with ample participation of all three chambers, including timber and paper industry representatives, social and environmental nongovernmental organizations (NGOs), and local community representatives. The FSC does not undertake the certification itself; rather it accredits other organizations or firms to perform the certification. It assesses candidates to make certain that they have the capability and knowledge of the field to analyze the forest management practices of applicant timber companies. It monitors the certifiers, resolves any disputes that may arise in the application of the standards, and protects the integrity of the label that it creates. The certifiers themselves determine the eligibility of firms and other forest owners to receive certification, issue the FSC certificates, and then monitor compliance annually to assure continued eligibility.

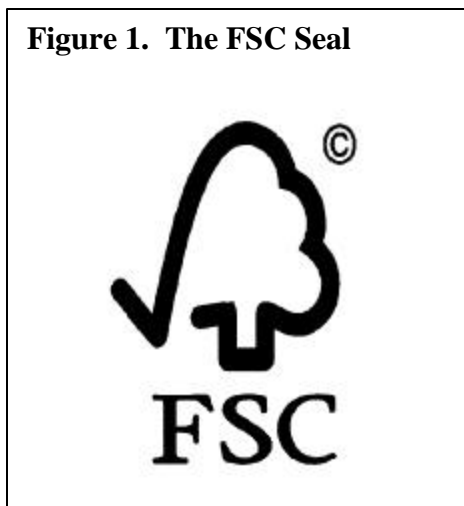


Figure 1

There are two types of certificates issued by the FSC. The first is a “forest management certificate” based upon how the forest is managed; the second is a “chain-of-custody” certificate that tracks the wood from the forest to the consumer. To obtain chain-of-custody certification, a mill that is going to process certified wood is required to establish a system for keeping the certified wood separate from the non-certified wood. Only forest products derived from wood from certified forests, and processed in a certified chain-of-custody mill or factory, qualify to carry the FSC logo (Figure 1).

The broad principles embodied in FSC standards for sustainable forest management embrace social as well as environmental characteristics, as exhibited in Figure 2. Detailed dimensions of each of these standards have been developed for worldwide application, and localized standards are being created for most of the countries (and for sub-regions within countries) where FSC is operating. The social standards are intended to secure and protect long-term tenure and use rights and the rights of indigenous peoples. The ecological standards specifically call for the conservation of old-growth or primary forests and other high-priority conservation areas, a documented reduction in the use of chemicals such as herbicides, and a prohibition on the use of invasive or exotic species (including some genetically-modified species) in tree plantations. FSC standards also call for the reduction of clearcutting, and require the protection of the interests of local communities and forest-industry workers. They allow for the certification of plantations so long as they comply with the other standards.

Figure 2.

Forest Stewardship Council Principles (abridged version)

The Forest Stewardship Council principles state that in order to be certified, a forest operation shall:

- Meet all applicable laws.
- Have legally established, long-term forest management rights.
- Recognize and respect the rights of indigenous peoples.
- Maintain the economic and social well-being of local communities.
- Conserve the forest's economic resources.
- Protect biological diversity.
- Have a written management plan.
- Engage in regular monitoring.
- Conserve primary forests and well-developed secondary forests.
- Manage plantations so as to alleviate pressures on natural forests.

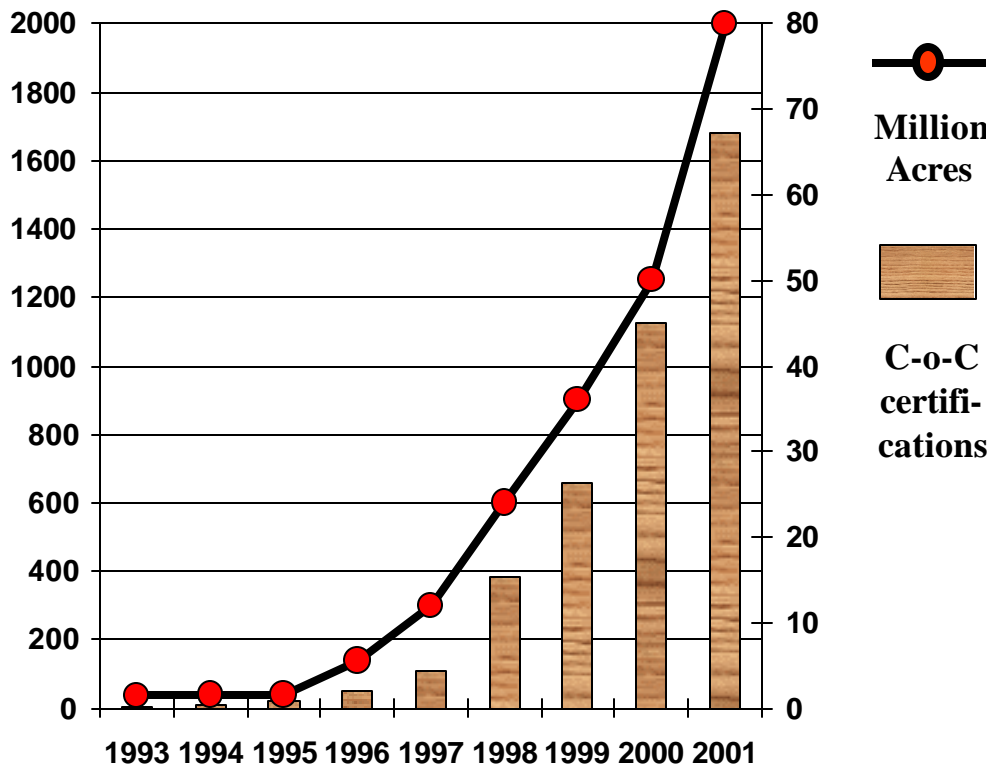
Source: Forest Stewardship Council-US, as quoted in "Ethical Wood, Equitable Coffee: Big U.S. retailers give certified products a major boost," by Rose Gutfeld, *Ford Foundation Report* (Fall 2000).

FSC Success

Since 1995, when FSC began certifying its first forests, the number of acres of forest certified around the world has grown to 60 million (as of mid-2001). To put this in context, there are approximately 1.1 billion acres (450 million hectares) of working forests worldwide. That suggests that the management of more than 5 percent of the world's working forests is now certified under the FSC standards. Similarly, more than 1700 firms were certified for chain-of-custody as of mid- 2001. The rates of growth are depicted in Figure 3.

Success as measured by demand is even greater. The demand for FSC products has been growing far faster than supply. Price premia are being paid for certified products, although this fact rarely is acknowledged publicly. Price premia of 4% to 12% on softwoods in European markets are admitted by one of the largest European certified forest products firms. Premia of 100% on certified teak have been paid to Malaysian exporters. One of Canada's largest forest products manufacturers has offered a 30 percent premium on FSC-certified timber delivered to its mills, even though its own forest lands are not yet certified. Documenting these market characteristics is difficult because it is in the interest of neither buyer nor seller to publicize the information. Buyers would prefer that sellers not expect a premium. Sellers receiving a premium have no interest in stimulating increases in supply by others, lest they lose their premium prices.

Figure 3. FSC Forest Management and Chain of Custody Certifications



The demand is not driven directly by consumers of forest products who seek certified wood products in stores. It is driven, in fact, by the commitments of major producers of forest products and by major retailers of forest products in response to their own internal culture of social and environmental responsibility, a culture that is strongly encouraged by the pressure brought to bear by the advocacy networks' market campaigns. One indicator of these corporate commitments is the surging membership in the Global Forest

and Trade Network (GFTN) and its U.S. member, the Certified Forest Products Council. More than 700 companies have now joined the GFTN, thereby formally expressing a preference for forest products certified under the FSC standards. The members include all five of the largest Do-it-Yourself retail chains in the United States, as well as major forest product manufacturers such as Andersen Windows. The network also includes forest product business consumers such as Nike (for paper and cardboard), The Gap (for flooring and shelving), and Kinko's (the largest photocopying chain in the U.S.).¹¹

The FSC also has major opponents. They are clustered in three rival forest management certification schemes in the global North. The first is an industry-created set of standards fashioned by the American Forest and Paper Association, the principal industry association of timber and paper companies in the United States. Its program, the Sustainable Forestry Initiative (SFI),¹² claims to encompass 94 million acres of forests in the United States and Canada. In Europe, where most large forests are now certified under FSC, small-scale forest owners have set up a Pan-European Forest Certification system (PEFC) which in less than a year claims to have certified compliance with its standards on more than 36 million hectares (79 million acres).¹³ Finally, a smaller rival certification scheme for forests is the Canadian Standards Association (CSA), a general purpose standard-setting organization with standards for more than 2000 products.¹⁴ The most complete comparative evaluation of the four systems to date reaches unambiguous conclusions. Using such criteria as transparency, stakeholder participation, and assessment procedures, the study concludes that:

...[T]he Forest Stewardship Council is currently the only independent and credible certification scheme in the [forest products] market... This does not mean that the FSC scheme is perfect. Continued vigilance is required to ensure that its implementation lives up to its commitments.¹⁵

The report's toughest criticism focuses on the PEFC scheme, where it was found that substantial tracts of land were certified as fulfilling PEFC requirements without ever being visited, and numerous tracts were included in the PEFC statistics without the landowner's knowledge or consent.

A further comparison of FSC and SFI has been published by the National Wildlife Federation, the Natural Resources Council of Maine, and Environmental Advocates.¹⁶ It too found the following systemic differences:

- FSC sets more stringent guidelines in many areas of environmental protection, such as maintenance of older forest and reserve areas, use of chemicals, exotic and genetically modified species, and conversion of natural forest to plantations. These guidelines promote ecologically sound forest management.
- FSC is based on mandatory standards, and a required and consistently applied third-party audit; SFI is not.
- Most FSC standards emphasize on-the-ground field performance, while few SFI standards evaluate on-the-ground results.

- FSC requires public reporting of audit results and enforceable conditions; SFI does not.
- FSC has social criteria focusing on local communities and indigenous peoples; SFI does not.
- FSC has Chain-of-Custody Certification and a product labeling system that allows processors, retailers and consumers to confidently know that their wood comes from a well-managed forest; SFI does not.

The battle will continue for the hearts and minds of consumers and retailers. The advantage rests with the FSC, however, precisely because of the strong support that it receives from social and environmental NGOs.

Transfair USA and Fairtrade Labeling Organizations International

A significantly different form of social certification is offered by the Fairtrade Labeling Organizations International (FLO) and its U.S. affiliate, Transfair USA. The FLO was born of the Max Haavelar Foundation in the Netherlands and Transfair International in Germany, two groups that separately had begun to define criteria for fair trade and to label products that met those criteria. They joined into a common organization in 1998. The standards for certified fair trade coffee are quite simple (Figure 4). This certification system deliberately seeks to focus on improving the market conditions faced by the 50% of coffee producers who are small-scale family farmers, many of them organized in cooperatives. Approximately 80-85% of the world's coffee farmers fall into this category.¹⁷

Figure 4. Certified Fair Trade Criteria

Under Transfair USA's guidelines, coffee can be sold as Fair Trade Certified in the United States if importers agree to:

- Purchase from the family-farmer cooperatives included in the International Fair Trade Coffee Registry.
- Guarantee cooperatives a minimum "fair-trade price" of \$1.26 a pound for their coffee (\$1.41 if it is also certified organic). If world price rises above this floor, cooperatives will receive a small (five cents per pound) premium above the market price.
- Provide partial payment to farmers at the time they ship their coffee, against future sales, to help the cooperatives stay out of debt between harvest seasons.
- Develop direct, long-term relationships with producer groups, thereby cutting out middlemen and bringing greater commercial stability to an extremely unstable market.

And if coffee roasters agree to:

- Buy Fair Trade certified coffee only from certified importers.
- Use the Fair Trade certified label only on Fair Trade certified products.
- Use the label only on blends that contain 100% Fair Trade certified coffee.
- Submit quarterly reports to TransFair of all sales and purchases of Fair Trade products.
- Pay TransFair a licensing fee of 10 cents for each pound of green FT certified coffee purchased from a certified importer.



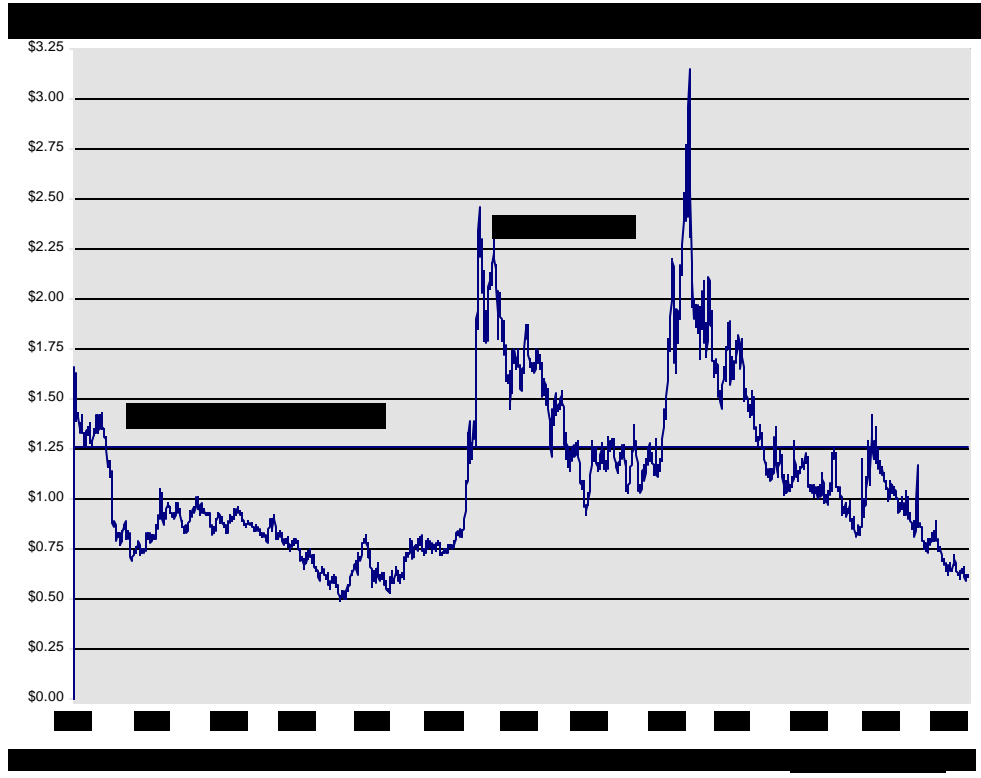
Fair Trade Certified coffee standards require buyers to pay a fixed minimum price for coffee that was negotiated with small-scale producers

in the 1990s. In mid-2001, that price was nearly twice the prevailing spot market price in a very depressed coffee market, but still less than 15 percent of the prevailing market prices for specialty coffee in Northern markets. (See Figure 5.) Buyers of certified fair trade coffee must make available partial payment to the farmers at the time their coffee is shipped, when requested. This differs from the usual industry practice in which producers ship their coffee to brokers and are paid only if and when that coffee is eventually sold. The resulting delays in payments often force small-scale coffee farmers to fall back upon usurious credit systems, since they must cover all the costs of harvesting and processing the coffee months before they are paid by the brokers. Finally, certified fair trade encourages longer-term contractual relationships, discouraging one-time purchases on the spot market.

Sales of Fair Trade Certified coffee in the United States have gone from virtually nothing in 1998 to an estimated 7 million pounds in 2001; global sales of the entire FLO network are expected to exceed 30 million pounds in 2001. There are now more than 100 coffee companies selling Fair Trade Certified coffee in the United States, including the pioneer

companies (Equal Exchange, Peace Coffee, and Cooperative Coffees), café chains such as Starbuck's, Peet's, and Tully's, food chains such as Whole Foods, Wild Oats, Andronico's, ShopRite, Stop N Shop and some Safeway stores, and even most ExxonMobil convenience stores in New England.

Figure 5. Spot Coffee Prices Compared with Fair Trade Certified Minimum Price



The direct impact of this upon the coffee farmers is significant, especially in times of very low spot market prices for coffee. With the current \$0.60/pound difference between the spot price in mid-2001 and the minimum price paid for Fair Trade Certified coffee, sales of this level imply annual net gains for farmers of more than \$18 million dollars per year for participating in fair trade certification. But demand in this case remains well below supply. There are more than 550,000 farmers listed on the Fair Trade worldwide coffee producer registry; and they produce an estimated 170 million pounds each year.¹⁸ After growth in sales in Europe began to stagnate in the mid-1990s, growth in the U.S. markets has led the world. And the growth of sales in the U.S. has been driven, more than anywhere else, by NGO advocacy to convince companies to offer certified coffee to their customers.

Elements of a Theory: The Attraction of Certification for Transnational Corporations

Why would corporations willingly choose to participate in certification schemes? The logic can be established in a set of simple propositions:

1. *Branding.* Given the increasing importance of retail concentration and the top-level importance to firms of establishing their brands -- for some firms the majority of their investment is said to go towards branding -- consumer awareness is the “name of the game” in terms of global production growth. The historical importance of branding has been the focus of countless studies. Marketing specialists look with envy upon global brands, “brands whose positioning, advertising strategy, personality look, and feel are in most respects the same from one country to another.”¹⁹ This is a problematic strategy for smaller firms, reinforcing its importance and advantage for large firms.²⁰
2. *Vulnerability.* The more successful a firm becomes in dominating a particular industry, and the more successful it is in getting worldwide recognition of its product label or logo, the more vulnerable it becomes to pressure on social and environmental grounds. Every dollar invested successfully in strengthening consumer recognition of a global brand paradoxically also increases the firm's vulnerability to attacks on that brand.
3. *Risk reduction.* Certification systems can constitute a risk-reduction strategy for globally-branded firms, a form of insurance against criticism of a firm's practices. Unsubstantiated or fraudulent attacks may be easy to thwart, but well-organized, well-documented acts of corporate engagement by NGOs are the marketing manager's nightmare. The best response is to search for a certification system to validate that the firm is, in fact, pursuing appropriate social and environmental practices.
4. *Credibility.* It is only natural for a firm to assert a “code of conduct” according to which it will perform. But such “first party” claims have weak credibility. Hence, no matter how sophisticated the process, “first party” claims yield little risk

reduction. It is then natural for an industry to attempt to create a carefully-controlled industry-wide set of standards to protect its members from charges of social or environmental irresponsibility. The chemical industry was one of the first to develop such a scheme, the “Responsible Care Program” initiated after the disaster in Bhopal, India.²¹ The Sustainable Forestry Initiative is another of these “second party” certification attempts, wherein the industry association sets standards that are relatively easy for all its members to meet. It does not take long to realize that independent, third-party certification is the only road to credible certification, although hundreds of millions of dollars have been spent reaching that conclusion.

5. *Costs.* Previous economic analyses of the costs of certification tended to focus on the fixed costs of meeting minimum standards and obtaining certification, plus the variable costs of expanding the output of certified products.²² It is equally important, however, to recognize the additional benefits, over and above sheer production economics, that businesses gain from engaging with certification systems. Businesses understand the value of reducing a risk, and they are normally willing to pay for that reduction. They pay for bonding of key management employees and they insure themselves against exchange rate risk and casualties of all sorts; by the same logic, they are willing to pay for certification that their practices meet well-established standards. The costs of certification, furthermore, may be offset by savings associated with shortening the value chain. Chain-of-custody certification in forest products has tended to reduce the number of intermediaries, generating net benefits for both producers and retailers. Fair Trade Certified coffee, for example, is most often sold directly from producer cooperatives to roasters, again shortening the value chain and permitting a combination of higher prices for the producers (as warranted by the requirements for certification) without requiring the roaster or retailer to charge higher final market prices. Home Depot, a notoriously tough negotiator of prices for forest products, is paying a premium for most of the certified wood it purchases, yet it does not pass that premium on to the consumer.

6. *Ancillary benefits.* There are additional benefits for industry leaders in certification. These can include the positive advantages of market differentiation brought about by early entry into a green or fair-trade certified market. Some retailers have reported that employee satisfaction with their leadership in the shift to certified forest products has increased morale and reduced turnover, yielding immediate benefits in terms of labor costs. Financial markets are increasingly aware of environmental risks, and the so-called “socially responsible investors” networks often use FSC certification as a screen for the highest levels of social and environmental responsibility in the industry. The latest example of this is the June 2001 announcement of the creation of the Xylem Rainforest Fund, L.P., which is seeking to invest \$500 million in forestry companies in the tropics and sub-tropics that adhere to the FSC standards for sustainable forest management.²³

These propositions constitute the simple analytics of why a firm would find certification systems to its benefit, so long as the costs imposed by meeting the standards were not excessive.

Elements of a Theory: Why NGOs Find Certification Systems Attractive

What leverage do certification systems offer to advocacy groups that seek to improve the social and environmental performance of firms? A parallel logic leads creative NGOs, from Greenpeace and World Wildlife Fund to Global Exchange and Oxfam, to find corporate engagement through certification systems a highly productive approach to reaching their goals.

Global advocacy. Over the past 50 years there have been myriad campaigns focused on “advocacy against” certain corporate practices. Improved international communications have greatly increased the ability of advocates to orchestrate truly global sets of actions. Increased transparencies in firms and changing governmental reporting requirements have further increased the ability of advocacy groups to launch market-focused campaigns. And networks of NGOs have begun to organize as never before to wield “sticks” against corporations and official global economic institutions, documenting and criticizing their practices and calling for changes in behavior.²⁴ However, when there is no agreed-upon set of changes that are being pursued, the resulting changes in corporate behavior may be difficult to document. Moreover, continued changes in practice may be costly to monitor and the permanence of changes may therefore be questionable. Maintaining the energy of staff, volunteers, and contributors for such efforts may be difficult.

Consolidating the gains of advocacy, plus an alternative. Certification systems embody a specific set of alternative practices toward which advocacy campaigns can drive corporate and other international actors. Systems for verifying change, and for monitoring it over time, can be set up that are independent of both the advocacy NGO and of the target corporation or institution. These systems can be financially self-sufficient if the organization seeking certification pays the costs of the certification process. Success can be measured tangibly. And satisfaction with the changes produced

can motivate staff and volunteers to continue the effort, and can motivate financial supporters to continue to provide funding.

Stakeholder-based standards. Standards can be created out of whole cloth and superimposed on the subjects of the process, but direct engagement of corporations and other institutions in the standard-setting process increases the likelihood of reaching consensus on requirements that are both improvements over current practice and minimally acceptable to the target firms. Multiple voices can be incorporated; standards to meet all of their needs can be created; and advocacy can be used to encourage continued participation by the firms in the standard-setting process. Ownership of the resulting standards by the full range of stakeholders is much more likely to achieve the stipulated goals than could be expected with externally superimposed standards.

Identification of industry leaders. Just as labor unions select an industry leader on the basis of complex analyses of the firms with which to negotiate, NGOs can identify an industry leader on the basis of its vulnerability “on the ground.” This may be a function of the evidence available with respect to its practices; or it may relate to its importance in the industry. MacMillan Bloedel was apparently selected by advocacy groups in British Columbia because of its paramount importance in the region. It also may have been selected because its president was in the middle of a “turnaround,” in which he took a firm that was losing more than \$300 million per year and transformed it into one that was earning nearly \$50 million per year. Starbucks may have been a target for advocacy in support of improved pricing practices for coffee farmers because of its national prominence and market share. It also may have been targeted because, by promising to create a code of conduct for producers that sold to it, the firm had avoided a threatened boycott in 1996 by the Guatemala Labor Education Project. Those promises later proved impossible for the small advocacy group to monitor, leading to negligible results.

Positive imbalances. Advocacy groups are typically conceded by the general public to have greater credibility than firms or industry associations. This is a very important positive imbalance that NGOs can, and do, exploit. Firms and industry need very large marketing budgets to persuade the public that first-party or second-party sets of standards are worthy of consumer confidence. It takes far less resources for advocacy groups to counter those campaigns through well-organized press conferences, well-covered demonstrations, and the free publicity that these generate. The more attractive alternative for industry is to participate with advocacy groups in creating standards and certification systems that put both sides on the same track.

Cumulative effects. One reason given by coffee industry representatives for refusing to endorse certification of organic or “sustainably harvested” coffee, revealed at a recent meeting of the Specialty Coffee Association of America, is their fear that consumers will see labeled coffees and ask “And what’s wrong with all the others?” Every successful certification scheme, every label well-placed before consumers, and every campaign that successfully raises consumer consciousness of production and process methods, sows doubts about all unlabeled products on the shelf. Does this mean that full-fledged certification systems need to be created for every production dimension of every product?

Not necessarily, for many production and process claims are now routinely used to distinguish environmentally preferable products. “Chlorine-free” and “recycled” paper products are examples. Requirements for the use of those labels has become codified in law; and government (presumably) monitors their appropriate use. “Dolphin-safe” canned tuna has entered public awareness to the point that continued advocacy may be less necessary. More importantly, certification systems offer the possibility of raising public awareness to the point that unlabeled products will be increasingly resisted by consumers and laws to curtail repugnant environmental and labor practices will be pressed upon governments.

Certification and Poverty Alleviation

The movement for Fair Trade certification represents an explicit attempt to assure that the first level of producers, e.g., the small-scale coffee farmers it is designed to serve, receive higher prices, more direct access to markets, and improved long-term contractual relationships with the buyers of their coffee. Consumers are encouraged to recognize that they are contributing to sustainable livelihoods for these farmers at a cost which may be only a few cents (and a very small percentage increase) in the price of the final product. Given that farmers are receiving as little \$0.60 per pound in mid-2001 for coffee that often retails at, or above, \$10.00 per pound, the Fair Trade price of \$1.26 means an increase of 110% in the price that farmers receive. For the consumer, however, the increase is only about six percent, if, indeed, the full increase is passed on. This price premium is generally managed by the coffee co-operatives themselves, with some portion of it used to improve infrastructure of the co-op or to fund community projects such as schools and clinics and the remainder returned directly to the farmers.

The poverty alleviation impacts of certification of sustainably managed forests and chain-of-custody certification of forest product processors are less direct, possibly much greater, and generally less well documented. Forest products industry livelihoods may become more sustainable in certified forests. Managing forests sustainably most often implies a slower and more continuous rate of harvesting, rather than the once-every-seventy-years massive harvesting practiced by traditional commercial logging. The boom-and-bust mentality of temporary mill towns is replaced, in theory, by a sustained balance between continuous harvesting of wood products and continuous processing of them over much longer periods of time.

The ecological benefits of FSC standards helps communities to build forest assets rather than destroy them, whether the forests are community-owned or privately-owned. The use of variable retention harvesting techniques, as opposed to massive clearcutting, is expected to reduce greatly the erosion that occurs and to retain forests of mixed age and mixed species. It also contributes to the retention of greater biodiversity in fauna and flora, encouraging livelihoods based on non-timber forest products. Reductions in the use of chemicals reduces the damaging runoff into local streams, lessening the health consequences for local residents.

The chain-of-custody certification process also introduces, or protects, some aspects of the working conditions for workers in forest product mills. This certification requires that all local laws be followed, in addition to requirements for systematic management of certified products separate from uncertified products in a mill or factory. And there have been examples where worker safety conditions have been improved as a condition for C-o-C certification.²⁵

Small-scale and community-based forests have had less success in penetrating the booming global market for certified forest products than large-scale industrial production. But there is a growing number of successful community-based certification efforts that have reaped greater market access and, in some cases, significant market price premiums for their forest products that neighboring uncertified community forests were unable to obtain.

Challenges to the Theory

The biggest challenge to the theory presented in this paper comes from multi-process, multi-dimensional products. How can one trace mineral products to market, when mining firms rarely sell their products directly to consumers? The diamond industry, by virtue of its monopoly structure, is an interesting exception, and is the one component of the mining industry that is most interested in creating certification systems.²⁶ Some advocacy campaigns have been effective in this type of industry by focusing on financial markets, the banking sector, and shareholders, invoking the increased risk of financial loss when production takes place under less-controlled circumstances than certification systems would provide.

A major challenge to the evolving practice of retailer-based advocacy arises for products for which there are no easy targets in the form of industry leaders. Partly for this reason, the Marine Stewardship Council, created about the same time as the Forest Stewardship Council, has had much less success either in certifying sustainably managed fisheries or in creating demand for the products of such certified fisheries.²⁷

An additional challenge to be expected is the proliferation of deceptive or fraudulent labels and claims of certification. As quickly as markets respond to legitimate labels, “knock-offs” can be expected to proliferate, offering a degree of certification protection to some firms or industries while requiring less responsible behavior or changes in practices. Some have argued the SFI and PEFC forestry certification programs fall into this category.

Consumer confusion due to the proliferation of labels, even when most or all of them are legitimate, can create further problems. The creation of other fair-trade certification labels, such as those from the Fair Trade Federation and organizations such as Fairtrade e.V. in Europe is an example. They use some of the same core concepts, and make similar claims, but represent very different certification systems. Consumers Union (CU) is working on a solution to this problem through its Ecolabeling Encyclopedia website that will provide consumers with information on the principal characteristics of most eco-

labels, including CU's own judgment of the extent to which the label is a third-party, independent label, and the standards that have to be met to earn that label.²⁸

A further problem arises from the fixity of absolute standards. Standards are set on the basis of the best technical information available at the time; yet changes in technical possibilities can generate pressures to revise standards, leading some stakeholders to seek to re-open the standard setting process and stiffen the requirements. The public-relations cost of backing out of a commitment to a certification process in that eventuality could be very high.

There are also problems when relative standards are used, rather than absolute standards. Relative standards reward firms with a seal or label for improving their practices, even though these practices may remain far short of the desired goal. The “ECO-OK” and “Better Banana” labels of the Rainforest Alliance's Conservation Agriculture Program are examples of this type of standard.²⁹ Other advocacy groups criticize such standards because they do not demand enough of firms before awarding the label: small reductions in pesticide use, rather than rapid movement toward the elimination of pesticide use, may be enough to garner a label, for example. The counterargument is that absolute standards, such as organic certification, set the bar too high for most producers, and therefore have less impact on environmental practices.

Other Potential Applications

Certification systems are potentially applicable to a wide range of areas. The Rainforest Alliance is presently developing a framework for a global accreditation system for certified sustainable tourism and ecotourism. This framework, to be completed in time for the World Conference on Ecotourism scheduled to be held in Quebec City in 2002, is likely to propose standards that would apply to existing tourism and ecotourism certification programs, rather than creating a wholly new program as was done by the FSC.

Certification systems for mining activities are also being considered. The World Conference of Mining Ministers, convened in Ottawa in 2000, opened with a three-hour plenary focused on “Do we need mining certification systems?” The International Institute for Environment and Development has been engaged in the creation of an initiative called Mining Minerals and Sustainable Development, funded by the World Business Council for Sustainable Development, which seeks to engage stakeholders in the question of whether mining can be compatible with sustainable development.³⁰ A parallel effort, with greater likelihood of generating a certification system, is presently underway among a global coalition of mining-related NGOs, led by the Mineral Policy Center in Washington, D.C. and WWF/Australia. They are quietly engaging a small group of major mining companies that are willing to discuss the possibility of developing a set of standards relating to both social and environmental characteristics of mining worldwide. At the same time, the Environmental Law Institute, the Sociedad Peruana de Derecho Ambiental, and Oxfam-America are working on the development of community-based standards that would apply to mining in the Andean countries, where

the tensions among environmental concerns, indigenous peoples, government, and the mining industry have been especially acute in recent years.

Certification of the social and environmental practices of cruise ships is being explored by the Oceans Blue Foundation.³¹ Certification of sustainable agricultural practices, including both social and environmental dimensions, has been developed in the Portland OR area by The Food Alliance and is being spread to the midwestern states of the U.S. by The Midwest Food Alliance.³²

There are also opportunities for certification systems to intersect with the implementation of global conventions. For example, the Convention on International Trade in Endangered Species (CITES) currently bans all sales of the ivory from a slain elephant, regardless of the circumstances in which the elephant was killed. What happens when marauding elephants have trampled the fields of an African village, or where the population of the elephants is too large, or where elephants have become life-threatening in a particular village? Some have been asking whether a certification system could be created for ivory from legitimate sources, perhaps alongside a fund to compensate the villagers in those areas where elephant conservation forces them to accept agricultural damage from the animals.

Conclusions

Citizen-led advocacy campaigns linked to the establishment of certification systems represent a new movement that is only now gaining major strength. The ability of advocacy groups to bring market pressures to bear upon firms offers a powerful alternative to simple invocations of corporate altruism and civic responsibility. In an increasingly privatized world, with restrictions on what the global trading system will allow local and national governments to legislate, these movements may be the *only* alternative to the competitive downgrading of social and environmental practices by firms worldwide.

There is evidence that financial markets are paying increasing attention to these dimensions of corporate practice, rewarding firms that become leaders, and punishing those that lag behind. The incentives for corporate collaboration in the creation and management of certification systems appear to be growing. Struggles between NGOs and corporations can be expected to continue, for many of the same reasons that firms also struggle against government regulations. In the 21st century, this dynamic new strategy for corporate engagement may become an important global force for “civilizing globalization,” and for assuring that its environmental and social benefits exceed its costs.

18 This paper is based upon a talk delivered to the Political Economy Workshop at the University of Massachusetts, Amherst, on October 3, 2000. It has benefited greatly from the comments offered at that workshop. The opinions in the paper are those of the author alone; they do not necessarily reflect in any way the perspectives of the Ford Foundation.

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- ³ Brown, Lester R. 1999. "Crossing the threshold," *World Watch*, March/April.
- ⁴ For a history of the campaign, see the 1996 Greenpeace article entitled "Macmillan Bloedel violates rainforest protection agreement," Ancient Forests Press Center at www.greenpeace.org. An analysis of the impacts of the market campaigns in British Columbia is provided by Sheldon Kamieniecki in "Testing alternative theories of agenda setting: Forest policy change in British Columbia, Canada," *Policy Studies Journal* 28(1): 176-189, 2000.
- ⁵ This market campaign was documented in an article by Matt Biers-Ariel entitled "A Chanukah forest miracle," *Tikkun*, November/December 1999. Home Depot's commitment to FSC-based certification is noted and explained on its website, under company info/ environment/ forestry at <http://www.homedepot.com>.
- ⁶ A copy of the advertisement is available at http://www.ran.org/info_center/press_release.
- ⁷ Documentation of this market campaign may be found on the Global Exchange website, <http://www.globalexchange.org/economy/coffee>. Starbucks corporate analysis of certified fair trade coffee can be found at www.starbucks.com/aboutus/fairtrade.asp.
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The Natural Assets Project

The Natural Assets Project, based at the Political Economy Research Institute of the University of Massachusetts, Amherst, is a collaborative initiative launched with support from the Ford Foundation. The project aims to promote critical analysis and discussion of the potential for building natural assets – individual and social wealth based on natural resources and ecosystem services – to advance the goals of poverty reduction, environmental protection, and environmental justice.

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