

## Briefing on the UNFSS Launching Conference, Geneva, 18 February

### Statement of Jean-Marie Paugam, Deputy Executive Director of ITC

Over the past decade numerous voluntary sustainability standards have been established and adopted across sectors. Most of them refer to the triple bottom line of environmental quality, social equity, and economic prosperity. By now, sustainability standards play a key role in international trade and in global value chains. Four phenomena are influencing the increasing adoption of voluntary sustainability standards:

- A consumer environment characterized by concern about the social and environmental conditions in the place of origin.
- A concentrated and more competitive business environment requiring new methods of differentiation, reliable supply sources, and greater efficiencies in costs and logistics.
- A regulatory environment with new import rules and greater food safety requirements such as traceability.
- Social communications advances that expose corporations and individuals to greater levels of scrutiny and that can alter reputations in a matter of hours.

Voluntary sustainability standards are also an important tool in implementing sustainable procurement strategies developed by the public sector. Public procurement officers are using criteria taken from voluntary sustainability standards to draft technical specifications, verify compliance through labels or their equivalent, and benchmark offers to achieve social and environmental goals. As such, compliance with sustainability standards is crucial for selling to these buyers.

For example, the European Commission identified seven sustainability standards that biofuels used in the EU have to comply with - whether locally produced or imported - if these are to receive government support or count towards mandatory national renewable energy targets.

Sustainability standards are also used in sourcing by corporations. To date, 42 multinational companies have made public commitments to strengthen environmental sustainability. In the food sector, this includes major players like Unilever and Nestlé. IKEA, the world's largest furniture retailer, uses the two major sustainability standards in forestry to meet the due diligence requirements of the EU timber regulation.

The United Nations Forum on Sustainability Standards is a landmark initiative recognizing the key role sustainability standards play in international trade. This Forum will be an important place to strengthen the effective and active participation by developing countries in the international dialogue on Voluntary Sustainability Standards. ITC would like to express its full support to this Forum and we are proud of being among the five UN agencies laying the groundwork for the initiative.

Sustainability standards provide new opportunities to participate in trade where they improve competitiveness of exporters. Voluntary sustainability standards have been found to enhance competitiveness through facilitating compliance with public standards, improving product quality, making production more efficient, and improving access to finance.

Other production benefits pertain to environmental management practices such as the reduction of chemical inputs, soil conservation measures, and using shade trees. Sustainability standards were also found to have a positive impact on the producers' communities. Premiums resulting from standard compliance were used to build wells, roads, schools, health care facilities, and to support women-led projects.

Research also highlights that exporters compliant with sustainability standards have increased credit opportunities and access to technical assistance, enhanced market visibility, reduced uncertainty about market conditions, improved marketing and stricter quality control. Finally, engaging through sustainability standards in global value chains can translate into beneficial long-term trade relations and systems of 'preferred buyers', securing market access.

On the other side, sustainability standards constrain trade when they are perceived as non-tariff measures to trade. Producers and exporters have expressed concerns for three reasons:

- First, some standards have complex requirements that require know-how, skills, equipment or investment and exclude smaller and less sophisticated producers and, thus, marginalize these groups;
- Second, some producers cannot meet the costs of implementing sustainability standards. Also, certified produce cannot always be sold as such, meaning that the producer takes a risk of complying with a standard without having a buyer and a guaranteed price premium;
- Third, with an increasing amount of private and public buyers purchasing products compliant with a sustainability standard, these standards gradually become a market access condition. That also means that price premiums are eventually eroded in the market place.

While sustainability standards can facilitate participation of small farmers in international trade by enhancing their competitiveness, they need to be complemented by business development services, and logistics. Remaining bottlenecks like consistency in the supply and quality, building strong cooperatives to aggregate volumes and access to services need to be addressed.

There is a paucity of data on the market penetration of sustainability standards. Nevertheless, in some sectors such as coffee, cocoa, tea, and forestry, it is possible to present an indication of market trends.

The world market share of sustainable coffees has grown rapidly in the past few years. Most of the world's largest coffee roasters have developed strategic alliances with sustainability standards, like Fairtrade, Rainforest Alliance, Utz Certified or developed their own coffee standard. In 2011, about 12 per cent of global coffee production was compliant with at least one sustainability standard. The sales of sustainable coffee have grown to 12 million bags worldwide or 9 per cent of total consumption.

The Tropical Commodity Coalition (TCC) also estimated certified tea to reach 10 per cent of the world production by the end of 2010. Sustainable banana sales accounted for approximately 20 per cent of world exports by 2009, and the land area covered by global

sustainable forestry initiatives (FSC and PEFC) accounted for 18 per cent of global managed forests by the end of 2009.

Overall, market shares of certified products and commodities remain relatively small. But market shares have seen high double digit growth over the past decade and are expected to continue growing at a fast pace.

Consumer demand for information on social and environmental practices in production, processing and trading of products continues to drive the development of sustainability standards. This is also reflected in the growing significance of sustainability standards in south-south trade. Although this creates important opportunities, some of the potential risk related to sustainability standards need to be address too. Therefore, future initiatives in this field need to consider the following:

- Sustainability standards increasingly become market access requirements. Given this development, there is a risk that (financial) benefits for producers and exporters in developing countries decline or disappear.
- Harmonization and equivalence of standards is required to reduce potential barriers to trade for developing countries.
- Sharing of best practices in the application and improvement of sustainability standards and auditing;
- Cost sharing solutions need to be developed to take the financial burden off producers and to share compliance costs more evenly along supply chains;
- Greater participation by developing countries in standard setting.
- And last but not least, stronger integration of the sustainability agenda in south-south trade.

Thank you for your attention.