PACIFIC INSTITUTE

Sustainability Standards: Meta Narrative

***Context:** Following meetings organized by the Pacific Institute and the ISEAL Alliance, clear questions remained about the role that social and environmental standards systems play in meeting broader sustainable development objectives. Participants at these meetings identified a need to better communicate both standard systems' value proposition as well as to offer a vision for the movement. In order to do so, it was recognized that the movement needs to answer key questions around how the systems contribute to solving key social and environmental challenges, how successful they have been at doing so, how they can position themselves amongst other tools and strategies led by the private sector and the government, and what they cannot achieve.*

***Objective:** To develop a meta-narrative built upon a common understanding of the role that standards and certification systems have in meeting broader social and environmental objectives and to explore how different actors in the standards movement can contribute to meeting these objectives.*

***Audience and Definitions:** The envisioned audience for this meta-narrative is the standards movement/community or those familiar with standards systems.*

For the purposes of this paper, the proposed definition for sustainability standards systems is: third-party, independent standards and certification systems focused on social and environmental issues.

A Shared Vision

In today's highly globalized world, production chains are vast and far reaching. They involve a variety of actors stretched over continents and utilize vital human and natural resources to provide a growing population with goods and services. To adequately provide for these needs while ensuring the integrity of both human and natural systems requires a rethinking of current production processes. A more responsive system places the rights and needs of future generations at the core of decision making over geopolitical or pure profit interests. It also necessitates an inclusive system that involves the widest range of stakeholders coming together to ensure that the best decisions are made on both social and environmental concerns. Since the problems are vast, no one tool can fix all the issues, hence a mixture of government regulation with proper corporate management systems and voluntary tools will be required to reshape current practices. In this context, we believe that social and environmental standards can play a key role in providing a necessary mechanism for how to approach both social and environmental problems that is more inclusive of and responsive to the needs today and of future generations.

A Theory of Change

What would a solution to major systemic problems plaguing today's production systems look like and entail? What role do standards have in bringing about these solutions?

Sub-questions to address in the answer:

At what depth do social and environmental standards systems want to address the problems and their underlying causes and where can standards achieve the most impact (on whom and on what)?

The problems require a solution that changes current production processes, contributes to changes in market incentives, and even, if possible, broader cultural changes or shifts in how the economic system operates.

In the short term, the creation of production chains where good practices are the norm is the goal. This requires production systems to integrate social and environmental considerations and employ good or best practices that avoid human or environmental harm. Standard systems provide the tools and market incentive for mainstreaming good practices along the value chain. Standard systems can define and provide the framework for what best practices look like while also offering capacity building for those companies or buyers who are less capable. This includes providing tools that helps local producers incorporate good practices identified by standard systems and providing multinational companies with a framework that allows them to successfully implement practice and policy down their value chain. Standard systems are particularly well placed to change practices at the corporate and producer level.

In the medium term, standard systems can contribute to practices by companies or large buyers that help identify products that are produced to a higher standard than what is normally offered in the marketplace. Standard systems and certification processes can act as a market differentiator introducing both a price premium and reputational boost for companies who adopt better practices or products. Over time these offerings can become the norm and lead to changes in how products are produced by increasing consumer awareness of sustainably produced products.

In the long term, standard system's unique multi-stakeholder governance model provides an arena to drive shared values by increasing the voice and empowering a much larger group of stakeholders to be a part of solutions. This new model of decision making not only empowers individuals but ensures that solutions involve the best people coming together to solve problems. These processes have the long term goal of changing how decision-making occurs and underscores a new value system that places environmental preservation and human rights over long term growth. In turn, these values can potentially shift the current economic paradigm away from high growth led consumption to a more sustainable model.

In the long term, these changes will be reflected in government decisions at the national and intergovernmental levels.

Making the Case

Market and Regulatory Failure

What are the major systemic problems social and environmental standards systems have been developed to address and is there a common set of underlying causes to these problems? Since the start of the standards movement, have there been any changes in the nature of these problems?

Current production processes are plagued by market failures that do not address social and environmental problems and instead leave the problems to local communities or ecosystems. As these problems have no easily identifiable monetary value to companies or production systems, they are not seen as a problem or issue that companies need to deal with. Today's practices are overly focused on least cost processes that externalize the negative attributes

(labor and human rights violations, environmental degradation) to local communities, workers, or ecosystems. This thinking has led to major human rights violations (including the use of child labor, forced labor, improper working conditions), forest degradation, water pollution, collapsing wildlife stock, climate change, to name just a few of the issues.

These problems have been caused by a variety of factors including an economic system highly reliant on growth and fueled by consumption. To support economic growth, nations have focused on increasing international commerce through trade agreements that look to primarily benefit their own local business environments. These agreements have rarely, if at all, taken into account the harmful attributes of trade and production. Although some recent trade agreements contain new clauses that attempt to tackle labor and environmental issues; they do not go far enough. At the same time, these state led trade agreements have also been very opaque, involving only a number of key players and business interests in their negotiations; while often excluding vital voices from civil society and local communities.

The highly globalized nature of production processes also contributes to current sustainability problems. Companies maintain extensive value chains that span continents with few instituting management systems that can adequately trace components or address environmental, social, or cultural issues in their production processes.

During the past decades, continued pressure from civil society has also resulted in company recognition that success lies not only in profits but also in a business policy that incorporates social and environmental concerns, leading to a rise in corporate responsibility policies. However, problems still persist as growth continues to be the carrying call for most nations and corporations. Traditional pathways to address these social and environmental problems, such as government regulation, are either non-existent or unenforceable, leaving a vacuum in how to deal with these challenges.

Standard and certification systems should be designed to provide a mechanism that enables corporations and production processes to incorporate these market failures into their normal practices. At the same time they should be cognizant of and respect the pivotal role and responsibilities of government.

Towards a Solution

What contributions have standards systems made thus far in bringing about the solutions to social and environmental challenges?

Addressing the social and environmental challenges facing today's production processes will require contributions from all segments of society. Standards have a played a number of key roles in driving solutions to existing problems.

One of their important contributions has been their ability to raise awareness and create knowledge amongst consumers, private sector, civil society and government. Standards are a communications mechanism that sheds light on an otherwise opaque process that helps educate consumers in their buying decisions. They also create a neutral platform under which different parties from the public, private, and civil sectors can come together to discuss their different viewpoints. These avenues for information sharing create the trust and the

groundswell needed for governments to take political action to correct deficiencies in the system.

They also define the practices that reduce or avoid social and environmental impacts. They enable for a more sustainable economic model by allowing both businesses and consumers to be aware of their purchasing decisions. They also seek to internalize the costs of productions. Standards systems and labeling also introduce practical guides on how to tackle environmental and social challenges. These capacity building mechanisms work directly with producers, local communities, or factories to improve their production processes or local management systems in order to better address social or environmental problems.

The systems are also an empowerment mechanism by including producers or affected communities from throughout the value chain into the standard setting process or reflecting their views in implementation or verification processes.

These contributions help to correct failures in the system in the near term and in the long term build the necessary support for government action.

Sustainability standards can be effective

What is the scale of impacts that the standards systems have had and how do you measure them? How successful have social and environmental standards been in making production systems more sustainable and what evidence is there to support this? What endpoints or milestones can be used to measure success and what success stories are there?

The scale of impact that standards systems have had has been so far difficult to ascertain especially as standard systems address different sectors and until recently have not contained a monitoring and evaluation mechanism. There have also been few if any real studies that have looked into their on the ground impacts. A recent study undertaken by the Washington, DC research organization, Resources for the Future, finds that there have only been 14 overall credible analyses that have looked at the impacts of these social and environmental standards. Even these studies are limited in scope, only looking at local impacts in a handful of farms or locations. This speaks to the overall need for standards systems to measure their impacts, a proposition that the standards systems have recently taken in hand to seriously address.

Over the past twenty years, standard systems have seen their share of certified products increase in the overall marketplace. Several organizations have noted that in order to have a lasting long term impact on how products are produced, a significant portion of the market will need to be "tipped" towards the uptake of certified products. By reaching a "tipping point," corporations will likely change their entire production cycle towards a system that produces certified products rather than having different processes for different products. How well this may work depends on the type of product, the industry, and geography.

As each system has different objectives, from eliminating poor labor practices to increasing fish stocks and forests cover, the major markers are different, and key markers of success will be different. Some of the current data has shown that there are increasing numbers of workers working in better managed facilities while the percentage of certified forest products, coffee, tea, and cocoa have steadily increased over the past years.

Highlights include: 1.4 million people working in SA8000 certified workplaces (whose goal is to inculcate good labor standards in workplaces), certified forest products now account for 18% of the market, certified coffee, tea, and cocoa have grown between 248 %-2000% over the past five years, account for between 1.2 to 8% of global sales. These numbers are also increasing as large buyers such as Unilever commit to only offering certified tea or coffee in the next ten years.

In addition, studies by the International Trade Center have found that producers involved in standard and certification schemes tend to be better off financially than others and in fact benefit not just financially but through better quality, yields, relationship and marketing from the schemes.

Although this is encouraging and signal that there has been positive outcome from the work of standard systems, much more work on impacts need to be completed. The standards movement will need to collect and analyze more impact data to cover on the ground impacts of what this has meant for ecosystems or communities. Thus far the potential negative attributes of standards systems are fairly low and a monitoring and evaluation system that is currently being implemented by the ISEAL membership will help to ensure that these do not occur.

Strategic Challenges

Navigating standards diversity and responding to business expectations

Standard systems take different approaches across a performance spectrum in bringing about change; some aim at promoting the most sustainable solution possible, some focus on delivering an outcome that the highest performing companies could deliver, some look at identifying and providing good practices for mainstream producers, buyers, and companies, while others look at assuring that the worst practices are avoided along the value chain. Do all of these approaches have a role to play? If so, what language and/or framework should we have in place to help distinguish between these approaches?
(Comment: This has been a particularly difficult question to lay out and phrase. We feel this is still quite unwieldy and not to point. Any suggestions would be quite welcome.)

All of these approaches have a role to play in bringing about social and environmental changes to global production systems. Currently there is no way for outsiders to understand how each contributes to overall goals. To address this, the systems may need to place themselves on a spectrum for meeting specific objectives, or to use clearer language around what they look to achieve or clarity around their main targets.

With the rapid growth in the number of standards systems addressing a widening array of sustainability issues, how can the standards systems landscape be better organized to be both understandable to and supported by consumers, brands, and retailers? What tools or strategies can be used?

Possible sub-questions:

What parameters can be used to decide whether a new scheme or a new standard is justified; what differentiating mechanisms can be put in place?

The current standards landscape includes a wide range of systems that cover specific issues and sectors. It has been recognized by standards systems that the landscape is now overly complex and some order or tool should be developed to help make it easier for users of standards systems to understand what is available and how they can be accessed. A system that looks at reorganizing the standards systems around broader categories would help simplify this landscape and move it towards greater comprehension by more parties. Amongst the current systems, there is also space for increased cooperation on related issues and recognition that different schemes are working on similar issues.

The standards community can encourage a reorganization, mutual recognition, or interoperability amongst different systems. Similarly, tools to navigate the current landscape and identify schemes to meet a wider range of sustainability goals (rather than specific niche markets) can be helpful to users.

Yet, the standards landscape also continues to grow as new standards or schemes emerge. For these new schemes, the standards community should look towards creating criteria that set out a process to identify how potential new schemes differentiate themselves from existing schemes and how they may benefit the overall standards community.

Increasingly the standards systems recognize this challenges and are working together through organizations such as ISEAL to define best practice, align their systems, and coordinate their strategy and messages.

Standards in a Broader Landscape

What are the limitations of social and environmental standards systems; what can they not achieve?

Social and environmental standards systems work in specific contexts and therefore their success is limited by what local conditions will allow. Permanent change is difficult to achieve where standard systems are faced with poor local or national governance or weak civil society. The market mechanisms of social and environmental standards are bound by local malfeasance such as corruption, state led human rights abuses or environmental destruction. In these circumstances, where bad practices are a product of government policy, standards and certification systems cannot bring about social or environmental change.

Standard systems also can not eliminate the worse practices from occurring in the world. Although much has been achieved, the worse practices still do occur; they have merely shifted to different countries. Even though some have heralded the success of some standards systems, their success is limited to improving better practices in certain locations, not eliminating all illegal practices.

By themselves, they also cannot lead to overall global changes in production processes without the assistance of government regulation and action.

How should the social and environmental standards movement position itself amongst other efforts by intergovernmental organizations, governments, and the private sector?

Standards are merely one tool that can be used in conjunction with others to achieve sustainability objectives. Many other sectors, including governments and the private sector play critical roles for standard systems and standards system can find key alliances amongst them.

Governments and the public sector can play a key role in scaling up standards either through the use of standards in their procurement processes or in public policy making as an implementation tool. At the same time governments can also be a key actor in creating incentives for others to increase the uptake in standards through the promotion of practices such as creating tax breaks, regulatory freezes, or through mutual recognition programs.

In countries where governance capacity is weak, standard systems can also act as an example to show how key problems in production systems can be properly addressed; this can set the groundwork for legislation by governments at a later date. Standard systems need to actively engage with public policy to ratchet up the lessons they present and to get these lessons into enforceable public policy. However they should be careful to not undermine government efforts to fulfill their own responsibilities.

In *intergovernmental systems sectors or multilateral bodies***,** standard systems can position themselves as a key resource for development promotion projects aimed at promoting more sustainable practices. In broader intergovernmental policy making initiatives such as the World Trade Organization (WTO), standards system should engage in discussions around social and environmental standards as market differentiators or in ongoing debates about standards systems in SPS and TBT committees.

As a market based instruments, environmental and social standards systems are reliant on the *private sector* for its success. As shown in the past, certain forward looking best in class companies can prove to be powerful allies for the standards movement in showing how changes in the production system can happen. They can pull along those smaller or slower companies who are averse to change to apply better processes. Identifying and working with these companies will be vital. Standards systems have thus far been very successful at identifying and working with front runner companies and industries. However today's landscape and business expectations have changed and resulted in many more industry led initiatives. The standards community will need to reposition itself in the face of these changes.

Finally, *the investment community* can potentially be a critical ally for standard systems in the future. As more investors take into account corporate governance in environmental and social issues in their investment decisions, the standard community offers a critical arena for information sharing to influence these decisions.

The standards community can position itself as a key player in offering the tools and information for sectors to work towards meeting similar objectives of addressing market failures and promoting better practices.

Strategic Planning

What activities and tools does the social and environmental standards movement want to use to get to the environmental and social solutions it strives for and what resources will be required?

Sub-questions to address in answer:
Who are the key actors within the movement and who is best positioned for which activities?

A variety of activities and tools will need to be utilized to achieve the results that standards systems and its partners envision. Each actor in the standards movement, from the standard setters to accreditors, to campaigning NGOS, to corporate partners, and consumer groups, has a vital role to play.

Standard systems themselves set the criteria and provide the tools needed for businesses to utilize in meeting their social and environmental objectives. The standards provide a method for companies to measure their progress and meet key benchmarks. The systems also provide the necessary capacity building skills to instill necessary management systems or processes necessary for businesses (from small producers on up the supply chain) to bring its systems in line with expected practice. Accreditors then are instrumental in the auditing process to ensure that businesses actually are following through with what they profess. Standard systems can also recognize current obstacles to uptake, such as audit fatigue, and introduce efficiencies in how things are done. To ensure all these positive aspects occur, the systems will need to ensure their own internal credibility and continually transform their governance structure to respond to conditions that would require more than mere accreditation (such as the introduction of redress mechanisms).

The movement can reach out to ***campaigning NGOs*** who can utilize standard systems in their public campaigns to highlight poor corporate practices while also offering an alternative to the status quo. Standards can be offered by campaigning NGOs as a method to address the accusations of poor corporate practice. NGOs and their alliances with community based organizations are also best placed to understand how corporate practice and standards implementation affect local communities and can channel realities to the public or back to standard systems.

Consumer groups can educate buyers about the options in the marketplace to align the ethical value system with their own purchasing choices. Easy to understand documents that describe the standards systems are necessary to fulfill this purpose. An educated, informed, and mobilized populace can potentially drive key changes in the marketplace through their purchasing choices.

Overall, social and environmental standards systems can develop key communications materials refined and targeted to different constituencies as a key component in its strategy.

Looking towards the future, what strategy can environmental and social standards systems utilize to proactively confront coming challenges or trends in business views, expectations or other arenas that will affect its mission?

Standards systems will need to make key investments internally to bring in human resources and strategic insights to continually keep up to date on the emerging major issues that affect its

success. These issues can range from business centered initiatives to government led efforts to other civil society strategies that challenge the standards movement's aims. A proactive approach that looks to understand these movements and develops corollary strategies will be vital to the movement's ongoing success.