



## **UNIDO First Expert Group Meeting on Private Standards**

**Vienna, 8-9 May 2008**

### **Meeting Report**

#### **Executive Summary**

There is a growing consensus on the emerging role of private standards in trade, not only as an opportunity for producers and suppliers in developing countries to be linked with international supply chains but also as a potential barrier and challenge in view of their compliance capacity. The growing attention to food safety issues and retailers requirements for instance has led to several influential research projects and publications on the role of private standards in agro-food sector in the recent years. There are also increasing number of studies looking at the capacity of developing countries to comply with social and environmental requirements. However, there seems to be a gap in global knowledge on private standards prevalent in other manufacturing sectors - especially those that can be expected to gain more importance for developing country exporters (such as textiles, leather, toys, gifts and decorative items, furniture and wood products, chemicals etc.) due to structural change and emerging competitive pressures.

As a development agency with a mandate to provide technical assistance in the area of industrial development and trade capacity building, UNIDO recently initiated a project that will help to bridge this gap by developing an inventory on private standards relevant to selected manufacturing sectors together with a producer's guidebook.

The objective of the first Expert Group Meeting (EGM) held in Vienna between 8-9 May was to validate and refine the methodology proposed to be carried out by the project and clarify what the final product should contain. It was also an opportunity to build partnerships with research organizations and international agencies interested in contributing to the project.

The EGM was organized in four main sessions initiated by expert's presentations:

#### *1. Introduction – rationale for the project and the objectives of the meeting*

Müge Dolun (UNIDO project manager) explained that the project concept drew from the practical experience gained by UNIDO in developing countries that there was little practical information available for exporters. She outlined the methodology proposed to be carried out by the project - including mapping, case studies and buyers surveys – as well as the potential pitfalls in the methodology and the questions to be reflected on for each component. The conclusions of the preliminary literature review on the subject were also presented in this session.

#### *2. Definitions and the Potential Scope of the Study*

Pepijn Van de Port (Vrije University, Amsterdam) explained that standards are issued by a wide variety of organizations under an even wider variety of names. So we encounter not only standards, but also values, norms, ethics, codes, practices, guidelines, principles and morals that may, or may not be defined, approved on, certified or accredited.

He pointed out that the first step in the process of developing a private standards guidebook on behalf of developing nations should be a clear demarcation of what we consider to be private, and what we consider to be standards. However, he attempted to problematize the issue by showing that in fact such demarcation cannot be made when we are interested in the practice of standards and the impact they have on a given field. He concluded that a possible alternative approach to the problem of demarcation was to concentrate on the standards-practice, rather than the institutional background as the starting point for the analysis.

### *3. Private Standards and market access: the preliminary results of a mapping exercise*

Pierre Hauselmann (Pi Consulting) noted that the number of existing buyer requirements is skyrocketing and producers, particularly in developing countries, are overwhelmed by the amount of information they have to process in order to find out what they need to comply with to access a given market.

To investigate the perceived information gap, Hauselmann took a developing country producer perspective, confining himself to using the Internet as the source of information, and conducted an initial mapping of existing information resources on social and environmental requirements for producers in the textiles, leather, wood products and leather sectors. To this end he presented his suggested typology for the mapping exercise as well as a measure for judging the “web transparency” of selected standards.

### *4. Trends in manufacturing exports from developing countries – criteria and methodology for selection of case studies*

Carl-Johan Hedberg (UNIDO consultant), presented the results of an analysis based on international trade data to identify developing countries that enjoy large market share and show strong growth in world export in the textiles, leather, wood and chemicals. By mapping the top performers and the major export destinations, he then presented these findings as a foundation for the selection of countries constituting potential case studies.

Presentations by experts in each session were followed by discussion initiated by a group of pre-selected participants. The remainder of this report is divided into three parts. Next, we provide an overview of the recommendations. Thereafter, a more detailed account of each presentation is given. Finally the discussions are reported in more detail.

## **Overview of recommendations of the Expert Group Meeting**

During the two days, participants agreed on several principles that should guide the project:

- o The main output needs to be a practical inventory that takes on the producer’s perspective.
- o The inventory should shed light on the issues related to the implementation, monitoring and verification of private standards rather than what is in the “word” of the standard.
- o The inventory should also give some indication to producers regarding the market prevalence of various schemes. The analysis should give guidance to producers as to what are the basic common requirements among the various

schemes and what are the specific differences. This type of 'ground-work' could lead to the formulation of better-designed technical assistance initiatives that will provide the basic capacity to comply with a wide-scope of standards as a potential next phase of the project.

- o The aim, however, should not be to suggest or recommend a 'meta-standard'. Harmonization among standards might indeed be a desirable objective to pursue; yet this might not be feasible due to many interests involved and also the concerns regarding inclusiveness of such standard development process - notwithstanding ISEAL's and others' important efforts in developing Mutual Recognition Agreements and Code of Good Conduct for Environmental and Social standard-setting bodies. Developing an inventory and mapping out the common principles among existing standards without making value judgments could however facilitate further discussion.
- o The analysis should take a 'value-chain' perspective rather than breaking the methodology down to separate developing country case studies and buyer's surveys. This would facilitate our understanding on the dynamics of private standards.
- o In order to ensure effective use of resources available to the project, it is advisable to develop the methodology and refine it by concentrating initially on one sector. In terms of the sector choice, there are main three criteria: the importance of the sector to a significant number of developing countries, the number of relevant standards applied to the sector and the complexity of the value-chain. In terms of these criteria, the textile sector is a good candidate.
- o For the textiles sector, it should also be recognized that there is probably a plethora of relevant studies out there ranging from value-chain analysis undertaken by other agencies to information available through business associations or import-promotion agencies such as CBI. The project team should first undertake a quick but rigorous study to ensure that there is no duplication of efforts.
- o In addition to the main output - the inventory - the project can produce further tangible outputs in the form of guidelines and policy recommendations. For example, it would also be desirable to provide some guidelines on improving the transparency of publicly available information to the standard-setters, as well as promoting the use of rigorous impact assessment (not only in terms of market access for the poor but also in terms of social and environmental outcomes). Furthermore, the dynamics between technical requirements and private standards can be addressed. These should take into consideration some of the other ongoing or planned initiatives of other agencies.
- o UNIDO's technical assistance on Trade Capacity Building focuses on strengthening the national SMTQ infrastructure which is critical in proving compliance with export requirements including product, process and management system standards. The mapping therefore needs to go into more detail beyond social and environmental standards, and provide some guidance towards improving national conformity assessment bodies services to exporters.
- o The ownership of the process and the final product as well as the information dissemination mechanism is an important issue. While it is clear that the current project financed by Norad and implemented by UNIDO will result in an inventory, the development, dissemination and updating of such information will require strong partnerships with other organizations and UNIDO should facilitate such cooperation- especially with ITC, TSWG, UNCTAD, UNECE, UNDP and ISEAL project, Sippo, CBI and the Norwegian Department of International Trade Cooperation.

## Presentations

### *Rationale for the project and the objectives of the meeting*

In order to define the approach to be followed by the project it is necessary to first identify the current status of affairs.

Firstly, while it is clear that private sector was always the driving force behind standardization, it is interesting to note that still a number of definitions co-exist.

The literature survey conducted as a preparation for the EGM identifies two main strings: food sector related private standards (but not just FSMS) and what can be called Corporate Social Responsibility or Ethical standards. The studies tend to concentrate either on trade impacts, compliance concerns or trying to account for underlying trends responsible for proliferation and the nature of the existing standards. Little information was found on other manufacturing sectors and there was no study to suggest the market prevalence of different schemes. Still less information was found on how to implement the standards – which is often considered to be proprietary information for commercial use (usually by third-party certifiers and consulting companies).

With these in mind, the suggested approach and the potential pitfalls/concerns is summarized in the below table:

Component	Concern
Mapping/scoping through publicly available information and certification companies	Information availability and transparency Readiness of certification companies to contribute Where to start/stop? Product/process/management system standards, only consortia and NGO standards, only environmental/social/sustainable development/organic? Linkage with other organizations/projects of relevance
Sectoral case studies	Regional representation Fewer sectors and more comparative case studies? Methodology – inventory, comparing market prevalence of schemes, implementation issues/differences?
Buyer surveys	How to convince big buyers to take part? Concentrate on only big retailers or also middlemen? Methodology – large numbers/simple questionnaire, face-to-face interviews, linkage to other initiatives

The challenge for the remaining two days of discussions was therefore to address these concerns and to clarify what the Guide should contain. Finally, Dolun emphasized that UNIDO would very much welcome substantive contributions and cooperation with interested organizations to further common objectives related to the project.

### *Definitions and the Potential Scope of the Study*

Standards are issued by a variety of organizations under various names, which make them hard to define. They are not only used to bring order to market transactions, are not always developed in consensus or approved by recognized bodies. They can also serve company interests to gain competitive edge and for NGOs can be important tools towards promoting social/environmental objectives.

Seen as functional devices, standards can be analyzed progressively as *means to communicate practices and conditions*; as *regulatory devices*; as *means of governance*; or as *means for 'impression management'*.

When we study standards as a *means of communication*, the major distinction is made between the kinds of issues standards addresses such as: the 'product', the 'production process' or the 'management of the production'. Although they are usually presented as being separate entities, the demarcation between them are not clear-cut.

Looking at standards as *regulatory devices* Van de Port found that the literature often uses a classification based on the institutional-origin of standard setting and the legal backup these institutions have at their disposal. This leads to a distinction between public and private standards as well as international, regional and national standards. Within the private sphere a division between industry standards, retailer standards and standards by NGOs exist. Though some standards might not be mandatory in a legal sense, de facto they often are for market access.

In many cases neither the user/sender, nor the receiver is the one that needs to act in order to comply with the content that is articulated in the standard. When looking at standards as *a means of governance*, the downstream actors in the supply chain are the one supposed to change their way of working in order to comply with the demands of the standard. This highlights the importance of understanding the interaction between different actors in the process of standard setting.

Some standards are intended for multiple receivers, eg they send signals to government or to consumers. Standards imposed in the business-to-business sphere might for example in reality be intended to impress consumers in the business-to-consumer sphere. As opposed to standards-as-governance and standards-as-regulation, which are deemed successful only when they are truthfully implemented, standards as a *means for 'impression management'* are considered successful if the consumers believe it is implemented, regardless of the actual state of affairs.

The challenge from the producer perspective is then how standards are implemented. For example, many food safety standards make reference to the provision of potable water, however, what is accepted as potable water by different auditors vary.

Van de Port therefore suggested that an alternative way to study standards - one that would make the demarcation issue meaningless – is to focus on the way standards are applied in certain sectors and value chains. The few studies that have adopted this approach to date show how the content of certain groups of standards influence other groups of standards. These studies illustrate the full

scope of the institutions that regulate the use of standards, and lastly, they show how private and public standards in fact operate in tandem.

Table 1: Van de Port (2008) Standards as impression management

		Public Sphere		Private Sphere				
		Voluntary	Mandator	"Mandator	"Voluntary	"Mandator	"Voluntary	"Voluntary
form	owner	Treaty	Law	Contract	Self-Regulation	Contract	Self-Regulation	Moral Pressure
	sender	ILO	US	SQ1	KEMA (NL)	BRC	PVE/IKB	Fair-Trade
scope	rec	States	Retailers	Producers	Producers	Producers	Producers	Producers
	scope	other states >> entire value chain	entire value chain	Supplier's Value chain	Producers	Supplier's Value chain	Producers	entire value chain
		G2B		B2B & B2G		B2C & B2B		O2C &

*Private Standards and market access: the preliminary results of a mapping exercise*

Outside of the standards published by traditionally "established" organizations such as ISO or the International Electrotechnical Commission, there are, broadly speaking, four types of private standards developed by:

- o specific companies, e.g. Nike's "Innovate for a Better World",
- o sector specific consortia e.g. "Responsible Care" in the chemical sector,
- o civil society organizations, eg. "SA 8000" of Social Accountability International,
- o government agencies that have created ecolabelling schemes (while strictly speaking not private schemes, they are voluntary and work at the same level as private standards and are thus incorporated in this review).

Actually a standard cannot have any effect in terms of market access if compliance with it is not required, verified and communicated. Thus reviewing standards would make little sense outside the description of its accompanying operations: standardization, the verification procedures, the claims that it allows and the access to the scheme. The availability of information on all these elements then is an important concern for the study.

To investigate the perceived information gap, Hauselmann therefore took a developing country producer perspective, confining himself to using the Internet as the source of information, and searched social and environmental requirements for producers in the textiles, leather, wood products and leather sector using a typology to classify the information available on 16 selected schemes owned by companies, consortia, civil society and multistakeholder (public-private) initiatives (see table 1). In this assessment, he checked the existence of public information in each element of the typology but not their quality or their relevance at this stage.

Initial findings confirmed that there is a vast amount of information available. The CBI web site seems to have the most useful and practical information but it focuses solely on the European market. Most importantly the analysis uncovered that:

- o While requirements are relatively uniform, verification methods probably vary – at least very little information is easily available about this.
- o While information exist, it is often difficult to find, even with modern and fast Internet access. In the case of a developing country producer, with a different cultural background and limited English knowledge, the access to information can indeed be problematic.
- o No practical and structured information was found on the market share of the different requirements.
- o Very few of the schemes have any impact assessment method. The only ones that have are ISEAL members and even this is less than optimal. The assessments relate by default to implementation indicators (how many hectares or how many factories certified), but do not question whether the requirements in the standard are making a positive change on the ground.

With these in mind, he recommends to:

- o Identify and benchmark the different verification methods, identifying similarities and differences and making the information practically and easily accessible
- o Accompany a certain number of producers from different regions aiming to supply to different markets to identify *in practice* where the cultural and technical barriers to access information lie. In a second step, develop good practice guidelines for web-based information.
- o Develop a method to identify the market share of the different standards. A close collaboration with existing portals (e.g. CBI at the European level) would be needed to avoid duplication (and confusion for producers).
- o Promote the inclusion of actual impact assessment. UNCTAD and the BioTrade Initiative are developing such a method and collaboration with them on the issue may be appropriate.

Standard	Type		Application				Scope				Geogr. coverage			Verification				Declarations			SH partici- pation			transpa- rency			Web	Average				
	Company	Consortia	governmental	MSH based/ civil soc.	Textile & Apparel	Leather	Wood & furniture	Chemicals	Labor	Fair trade	Environmental	Organic	Sustainable dev.	National	Regional	International	1st party	2nd party	3rd party	Certification Body	Impact monitoring	Generic	Company specific	Certificate	stand. dev.	Dec.-making	Appeals		Requirements	Verification proc.	Application proc.	Contacts
Nike	1				1	1			1		1					1					1						3	3	3	3	3	3.0
ADIDAS	1				1	1			1	1						1					1	1					2	2	0	5	2	2.2
Fair Labor Association		1			1	1			1							1		1				1			1	5	5	0	5	4	3.8	
Better Cotton																																0.0
IKEA	1				1	1	1		1	1		1				1		1									2	2	0	1	1	1.2
FSC			1			1		1	1	1		1				1		1	1	1	1	1	1	1	1	1	5	5	5	5	5	5.0
SA 8000			1		1	1	1	1	1							1		1	1	1	1	1	1	1	1	1	3	0	1	5	2	2.2
Responsible Care		1					1			1						1	1				1						5	0	0	5	3	2.7
BSCI		1			1	1	1		1						1	1	1				1						5	5	0	5	4	3.8
FLO			1		1	1		1	1	1						1		1	1	1	1	1	1	1	1	1	5	4	0	5	5	4.0
Nordic Swan		1			1	1	1	1	1	1		1							1								5	5	5	5	5	5.0
Oeko Tex		1			1	1	1			1							1					1					5	5	5	5	3	4.3
Global Organic textile standard			1		1	1	1	1	1	1						1						1					5	5	0	5	3	3.5
Accountability AA1000			1																								5	0	0	5	4	3.0
PEFC		1					1	1	1			1										1	1				1	1	1	5	2	2.0
Liz Claiborne	1				1			1					1				1										5	5	0	5	3	3.5
H&M	1				1			1	1	1						1											3	3	0	5	5	3.5
Wal-Mart	1				1	1	1	1	1	1						1					1		1				4	0	4	5	3	3.2
AFIRM		1			1	1			1							1					1						5	0	0	0	2	1.5

### *Trends in manufacturing export*

The objective of the study on *Trends in manufacturing exports from developing countries* was to identify sectors that are important to developing country manufacturing export. The criteria's used for selection were developing country market share and growth in sectors as well as perceived importance from a structural change perspective.

Hedberg set out to identify developing countries that enjoy large market share and show strong growth in world export in these sectors. By mapping the top performers major export destinations he then presented these findings as a foundation for the selection of countries constituting potential case studies in the research program on Private Standards.

Developing countries have been increasing their market share in a wide range of manufacturing sectors. East Asia & Pacific in general and China in particular hold the majority of this share, but developing countries from Eastern Europe and Central Asia also show impressive growth notably at much lower levels. The most dynamic sectors were wood, textiles and leather, ahead of chemicals and fruits and vegetables.

In the textile and apparel sector, for example, China, Turkey, Thailand, India Pakistan and Vietnam were identified as being particularly dynamic exporters. Export of finished manufactured goods is predominantly imported by companies residing in the US, UK, Germany and Japan. On the other hand, much of Asian semi-finished textiles are traded intra-regionally. In the case of Turkey, Italy and Russia are the two largest export destinations. The picture that emerges points to a segmented global production system especially in the case of textiles, where the buyer's requirements might differ along the chain.

## **Discussions**

### *Private standards as a market-access issue*

The discussion initiated by Van de Port's and Hauselmann's presentations focused on the target beneficiaries of such an initiative and the role private standards play as a market access issue for those target groups. Clearly, the guide must be built around the needs of the intended user and assess the most critical bottlenecks.

The non-transparent nature of private standards is the primary concern of developing countries. From the perspective of developing an inventory, this also presents us with the challenge of obtaining comprehensive information on the content of requirements and particularly the certification process. This is particularly true for the schemes that are second- or third-party certified, where the information can be regarded as commercial.

Two sets of target companies can be considered for the guide, those already exporting to certain markets and those yet to pass the threshold to enter the export market. The first could be companies, for example in management transition looking for new markets and facing new requirements. The way these two types of entrepreneurs perceive the main bottlenecks might differ.

In certain developing regions, such in Latin America, viewing standards as an opportunity is gaining foothold. The experience of GTZ pilot projects indicates

that stressing the business case is a fruitful approach. Producers have responded positively when presented with the tangible cost saving and productivity gains to be made from simple improvements in the environmental and social areas.

Nevertheless it is important to stress that the buying-decisions by international buyers still seem to be based mainly on the supplier's ability to deliver the right quantity, at the right time, at a certain price. This in many cases has to do with the different objectives and responsibilities of sourcing/procurement, CSR and conformity related departments of big companies. This poses the question of whether private standards merely become an additional requirement in addition to traditional selection criteria in the supply chain.

An additional question that demands attention is whether requirements differ between geographic regions, i.e. can a non-complying producer circumvent compliance by market selectiveness? Furthermore, the stringency of technical requirements of the importing country and the demands of private buyers seem to interact – leading to further questions about geographical differences. The length of the value-chain, i.e. how segmented the production of the final product is, might also impact the stringency of requirements along the chain and who is finally responsible for compliance.

One commentator underlined the importance of looking at who wants and who does not want labels. Which standards are label driven and which are certificate driven? Different actors may have different agendas. Large companies may not like certain labels, as they do not want consumers to see their brand as not “enough” and they may favour the use of company developed labels. If their own label does not communicate the intended message they may incorporate an external label, and over a period of time try to decrease the external label/logo's use.

As there seems to be many commonalities in terms of the basic requirements of both private and public standards, the issue of harmonization was brought up. One participant argued that, on a conceptual basis, it would be useful to recommend a meta standard. In theory, international management system standards such as ISO 9000 series or ISO 14000 were developed precisely to deal with the problem of multiplying standards. However, developing such a ‘meta’ standard or even negotiating Mutual Recognition agreements between different schemes is an overwhelming task given the number of interests involved and the weight and resources different actors bring to the negotiating table. The concerns regarding inclusiveness of standard-setting processes apply. That said, there are notable initiatives such as the work of ISEAL. While the experience in the food safety area is an informative one, one can imagine that some emerging schemes such as in carbon-accounting/labelling will also throw up similar challenges for producers.

The discussion on the intended user of the guide also highlighted the need to address the needs of experts working in the field to build capacity with national institutions, business associations and companies. One possibility would be to include different modules, for producers, capacity building experts and buyers.

#### *Important existing initiatives*

During the discussions, participants shared experiences and knowledge generated by several existing initiatives, such as the project being initiated by ISEAL and

UNDP on the credibility of voluntary schemes, the GTZ organized Roundtable, as well as activities of import promotion agencies such as Sippo in supporting niche market exporters from developing countries with higher-value added products. The ISO 26000 Social Responsibility guidance standard-formulation process and the experience of various stakeholders involved does also provide some insights to the dynamics and inclusiveness of standard-setting at the international level.

#### *The structure and the content of the final product*

In order to ensure sustainability of the inventory the group feel that the inventory should be web based and dynamic. Developing a partnership with a leading institution to this end could realize synergies and make efficient use of resources. The project aims to complete the base-line inventory and the supporting guide by June 2009, which will need to be continuously updated.

#### Case studies and buyer surveys

The subsequent discussion centred on what would constitute a good case study. To base the selection of successful exporters solely on trade statistics would risk overlooking countries in particular niches implementing innovative policy (ie. the case of Cambodia explicitly promoting its textile and apparel export based on socially responsible production). Furthermore, it might overlook the need of producers yet to enter the export market.

Traceability is very important in the case of labels. Therefore the participants felt that it would be fruitful to take a supply chain approach combining cases with buyer surveys. This route would need to include not only social and environmental standards but also IT-standards and product requirements as the latter also constitute an important part of what producers are asked to comply with.

There is an obvious trade-off in terms of depth and resource-allocation when selecting the number of sectors to study. It was therefore suggested that selecting one dynamic sector, and four country cases including active and potential exporting producers, would allow us to develop a methodology that could be applied when analysing multiple sectors at a later stage. It was argued that this approach would allow the project to identify hurdles (technical as well as government policy) as well as factors contributing to successful export performance. Recalling the presentation on standards, the choice of sector ought to be informed by the number of different standards, number of developing countries active in the sector and the complexity of the supply chain. It was agreed that the textile and apparel sector appears to constitute an interesting case based on these criteria.

This work could draw on the lessons learned and build on the existing UNIDO project on textile clusters. It would be interesting to look at how the hurdles producers face relate to private standards in comparison to other hurdles, how relevant they are and how they relate to public policy.

For the textiles sector, it should also be recognized that there is probably a plethora of relevant studies out there ranging from value-chain analysis undertaken by other agencies to information available through business associations or import-promotion agencies such as CBI. The project team should first undertake a quick but rigorous study to ensure that there is no duplication of efforts.

There were four main strands of thinking among the participants regarding how to initiate the case studies. The first was more concerned about picking a certain niche market and to analyse the private requirements that are applied, which could then be easily converted to technical assistance projects. It was clearly pointed out that textiles is a very large sector spanning from knitwear, to home-textiles, to special yarn or fabrics to high-tech sportswear. A second set of experts advocated for a detailed methodology which would start at the top of the value chain, for example with a large buyer such as H&M or C&A and identify the source of certain products and conduct face-to-face interviews with the players along the chain. The third option would be to reach out to a small number of developing country producers who are not yet exporting to high-value markets and follow them through the steps of entering those value chains to understand the challenges they face and the relative impact of compliance with private standards. Local and international certification companies could also be an important source of information regarding the certification services they provide in a certain country and sector. The final approach was to initiate a pilot study using traditional methods of surveying a larger sample (100-200) companies in a developing country with a more mature export sector to make an initial inventory of what they are required to comply with to stay in those markets.

Finally, during the discussions it became clear that in addition to the main output - the inventory - the project can produce further tangible outputs in the form of guidelines and policy recommendations. For example, it would also be desirable to provide some guidelines on improving the transparency of publicly available information to the standard-setters, as well as promoting the use of rigorous impact assessment (both in terms of market access for the poor but also in terms of social and environmental outcomes). Furthermore, the dynamics between technical requirements and private standards can be addressed. These should take into consideration some of the other ongoing or planned initiatives of other agencies.