

Sustainable Businesses in the Global Era: Can Market Driven Certification Systems Reward Responsible Behaviour?



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Overview

- ☞ Identify a particular form of global authority
 - ☞ The “certification solution”
 - ☞ Recognizes environmentally and socially responsible firms
 - ☞ Sustainability/eco-label
 - ☞ I refer to this as “non-state market driven” (NSMD) global governance
- ☞ Key research question:
 - ☞ **How does NSMD governance gain authority?**
 - ☞ **Critical for understanding (on the ground) effectiveness**

Non-state Market Driven Governance



Role of the state	Governments do not require adherence/compliance to the rules
Institutionalized Governance Mechanisms	Institutionalized system of societal input and policy adaptation
Policy focus	Enduring environmental and social problems
Role of the market	Provides compliance incentives
Enforcement	Compliance is verified

NSMD Certification Proliferating

- Global forest sector one of first (1993)
- Fisheries
- Coffee
- Mining
- Sustainable Tourism
- Apparel (Sweatshops)
- Agricultural production (organic)
- Building construction (LEED)
- Climate
 - **Clean Development Mechanism “Gold Standard”**
 - **Potential for carbon offset projects**

NSMD potential



- ☞ Creation of “hard law” in the private sector
- ☞ Could replace ineffective governmental efforts
 - ☞ **Inadequate rules**
 - ☞ **Compliance problems**
- ☞ Different fundamentally from other private governance innovations
 - ☞ **Responsible care**
 - ☞ **Global Compact**
 - ☞ **Equator Principles**

NSMD challenges

- ☞ Firms must evaluate support as being in their self interest i.e. strategically
 - ☞ **i.e. will not support if viewed as putting at economic disadvantage**
- ☞ Environmental and social groups evaluate them as effective
 - ☞ **(i.e. ameliorate the problem for which they were created)**
- ☞ Conundrum
 - ☞ **Requirements cannot be so high as to put supporters at competitive disadvantage**
 - ☞ **If requirements are too low, they may not address the problem**

NSMD challenges

- ☞ Can they work to improve business sustainability in a globalized world?
- ☞ Or are they more rhetorical, and unable to affect economic and social problems associated with globalization?
- ☞ To answer this question must take three analytical steps:
 - ☞ **Identify the “California effect”**
 - ☞ **Assess key problems facing a sector**
 - ☞ **Review what governmental efforts have produced**



Analytical Framework: The California and Delaware Effects

- The “California Effect” (Vogel)
 - Phenomenon where business in regulated markets
 - See strategic self interest in promoting similar regulations
 - on their less regulated competitors
 - Can lead to business and environmental group strategic coalitions
 - “Bootleggers and Baptists”



**Analytical Framework:
The California and Delaware Effects**

- The “California Effect” (cont)
 - Market integration (economic globalization) requirement for such phenomena to occur
 - Prerequisite: active environmental and social NGOs
 - Spark initial regulations
 - Environmental groups’ markets campaigning healthy



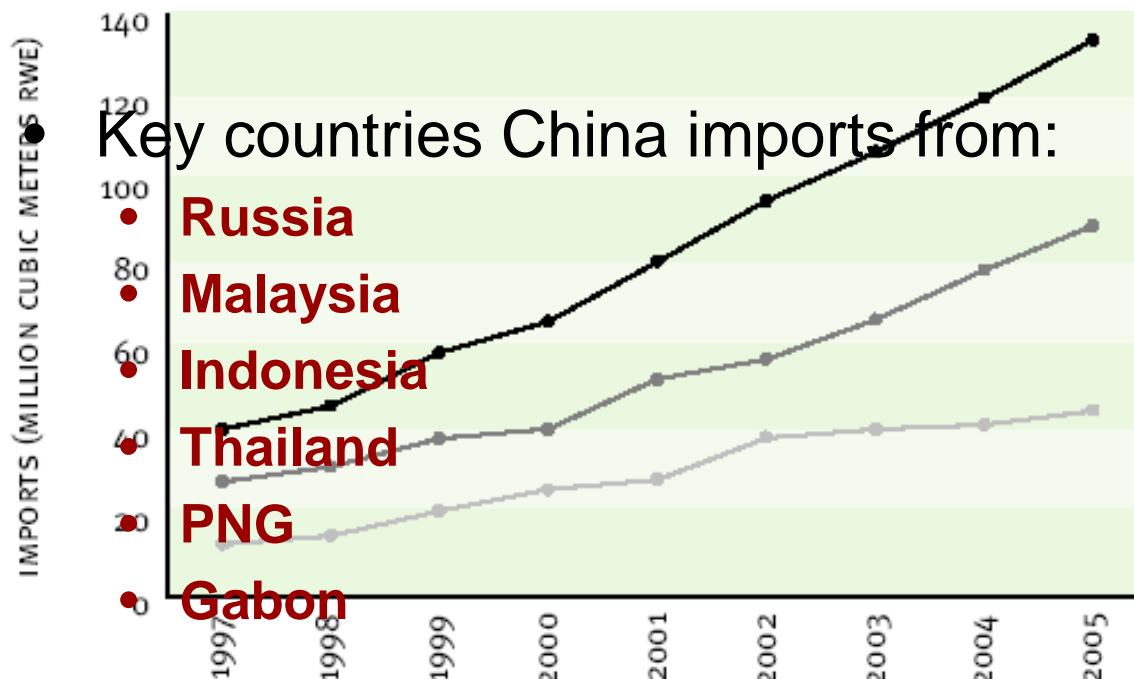
Analytical Framework: The California and Delaware Effects

- The “Delaware Effect”
 - The Phenomenon where businesses flee to less regulated markets
 - Or act as break to increase regulations
 - Common phenomenon in an era of increasing economic globalization
 - Forest firms operating in Indonesia or Malaysia
 - or from US Pacific Northwest to US Southeast

Environmental Challenges in Global Era: Globalization



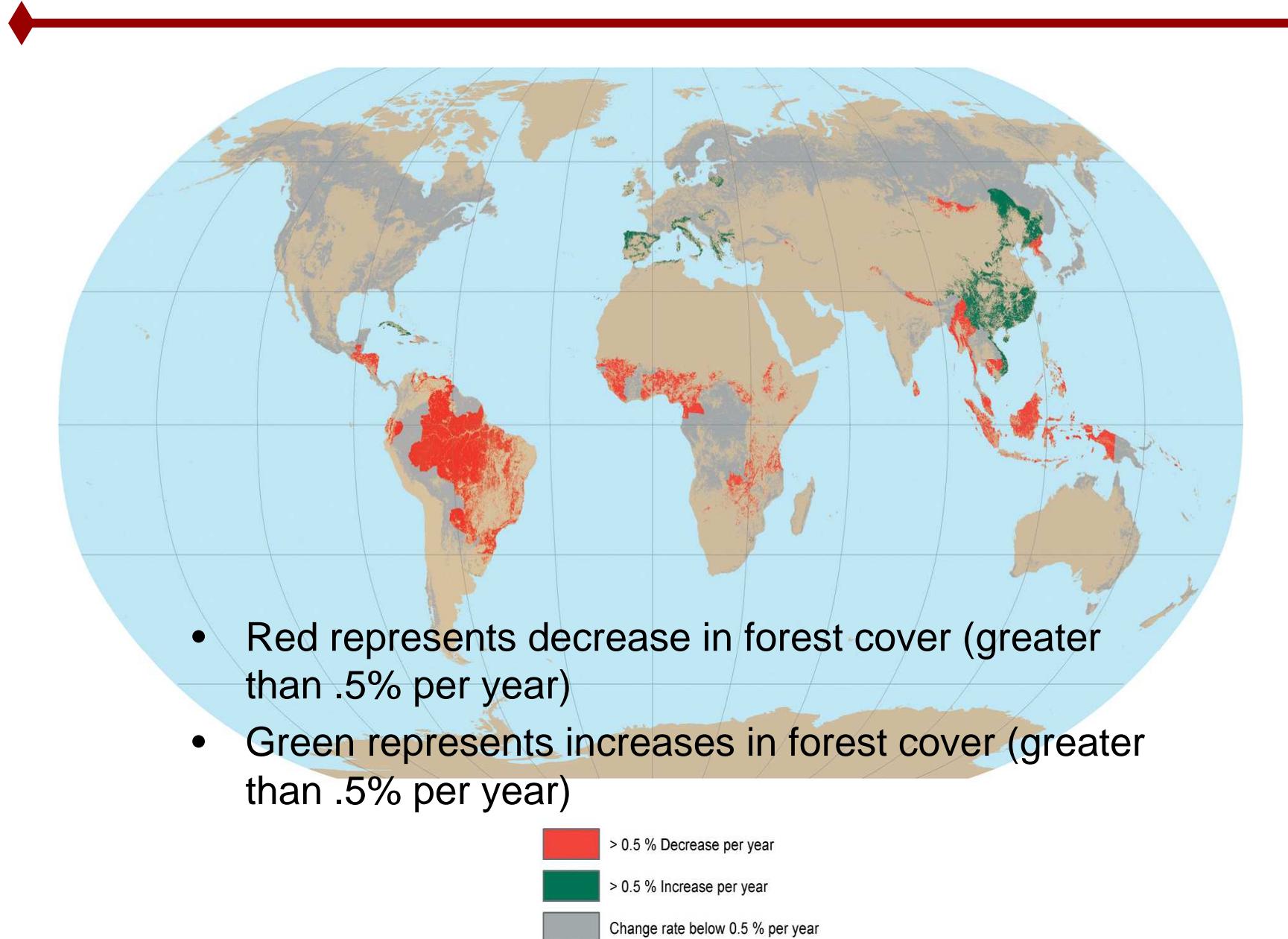
fig. 1 RECENT TRENDS IN CHINESE FOREST PRODUCTS IMPORTS⁴



Source: Chinese customs statistics

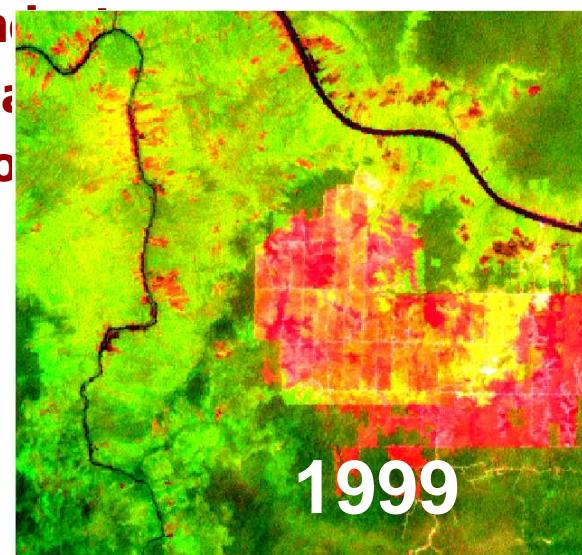
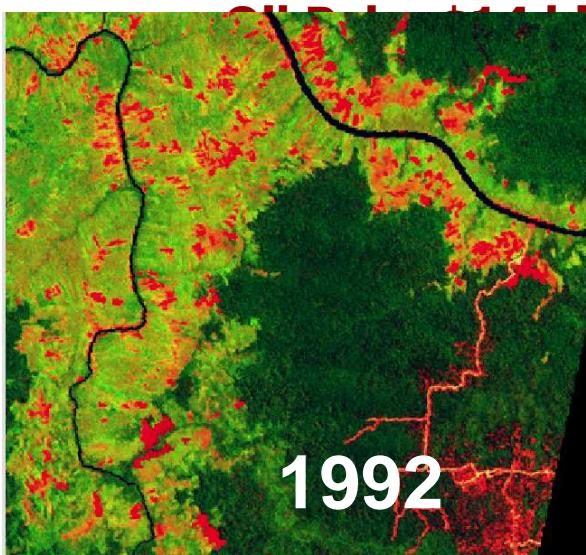
From White et al, **China and the Global Market for Forest Products**, March 2006

Environmental Challenges in Global Era: Deforestation



Environmental Challenges in Global Era: Deforestation

- Lisa Curran research
 - **Indonesia has the world's largest deforestation rate**
 - **In the time of this talk – forests equaling size of 100 football fields will be destroyed**
 - **Estimated at 25 to 28,000km²/yr now**
 - **Surpasses Brazilian Amazon**
 - **Major: Industrial Oil Palm plantations – 40 fold increase from 1992 to 1996 (6,000-96,000 hectares)**



Industrial Oil Palm Proliferation



An aerial photograph showing a massive industrial oil palm plantation. The plantation is characterized by a dense, grid-like pattern of roads and paths, creating a complex network of linear features that contrast with the surrounding natural greenery. The plantation is situated in a hilly or mountainous region, with the roads winding through the terrain. The overall image has a slightly hazy or overexposed quality, typical of satellite or aerial photography.

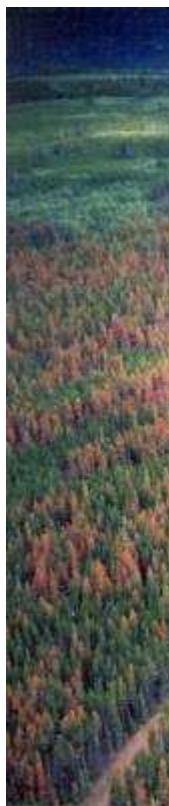
Source: Lisa Curran, 2006

Illegal Logging

Country	Wood harvested illegally (estimates)
	
Russia	20-50%

Source: ITTO Tropical Forest Update. 2002. Vol. 12, No.1. The ITTO data is based on a wide range of sources employing different measurement methodologies.

Climate Change: Affects Forest Operations?



Brief History of Global Forest Policy Efforts

- ☞ Focus on tropical forest destruction in 1980s
- ☞ Boycotts failed
 - ☞ **Encouraged conversion of forests to other uses**
 - ☞ **Didn't distinguish responsible from irresponsible forestry**
- ☞ International Tropical Timber Agreement viewed as weak
- ☞ Efforts turned to 1992 Rio Earth Summit to agree on a Global Forest Convention
 - ☞ **Canada was a strong supporter**
 - ☞ **California effect**
 - ☞ **Sovereignty key issue**
 - ☞ **Failed**
 - ☞ Left with “Non-Binding Authoritative Statement of Forest Principles”

Emergence of Forest Certification



- ☞ Emerged out of ashes of failed 1992 Rio Earth Summit
- ☞ International environmental groups and their allies
- ☞ *Bypassed governments*
- ☞ Created their own system of rules about what constituted responsible forestry
- ☞ Forest Stewardship Council
 - ☞ **Multi-stakeholder, three chambers**
 - ☞ **Wide ranging policies**
- ☞ FSC competitors
 - ☞ **Industry and forest owner associations**
 - ☞ **More flexible, business dominated**

Potential of Forest Certification



☞ What environmental challenges could forest certification address?

☞ **Conversion to palm oil plantation**

☞ **No**

☞ **Deforestation owing to subsistence forest use**

☞ **No**

☞ **Climate change?**

☞ **Marginal at best**

☞ **Promotion of Responsible Commercial forestry**

☞ **Yes**

☞ **Illegal logging**

☞ **Yes**

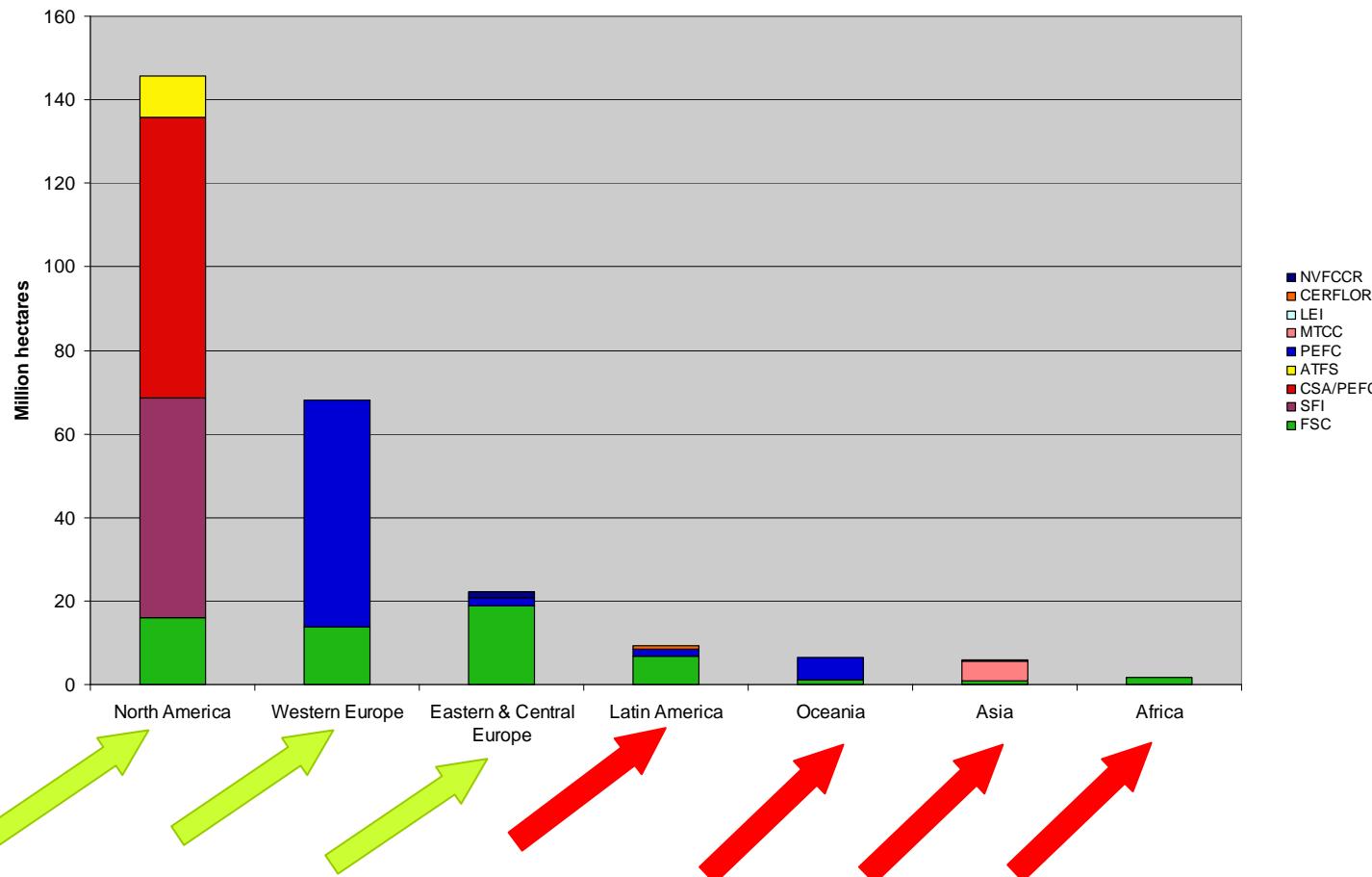
What has happened to date

- Support for forest certification
 - **STRONG among industrial forest companies in Europe and North America**
 - **WEAK in developing countries**
 - **HUGE debate about which program is most appropriate**

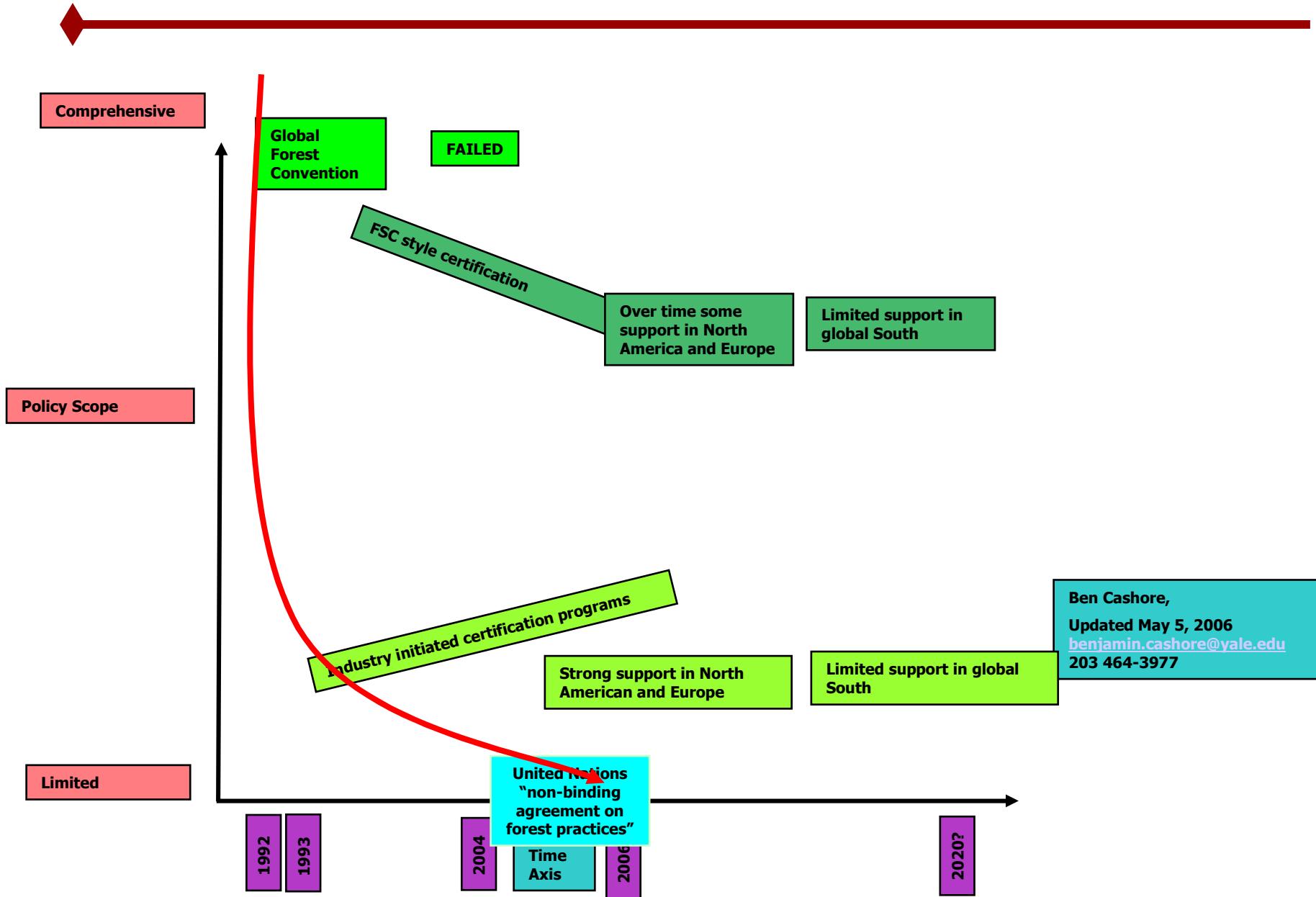
Area Certified: by Region and Certification system



Forest area under different certification standards

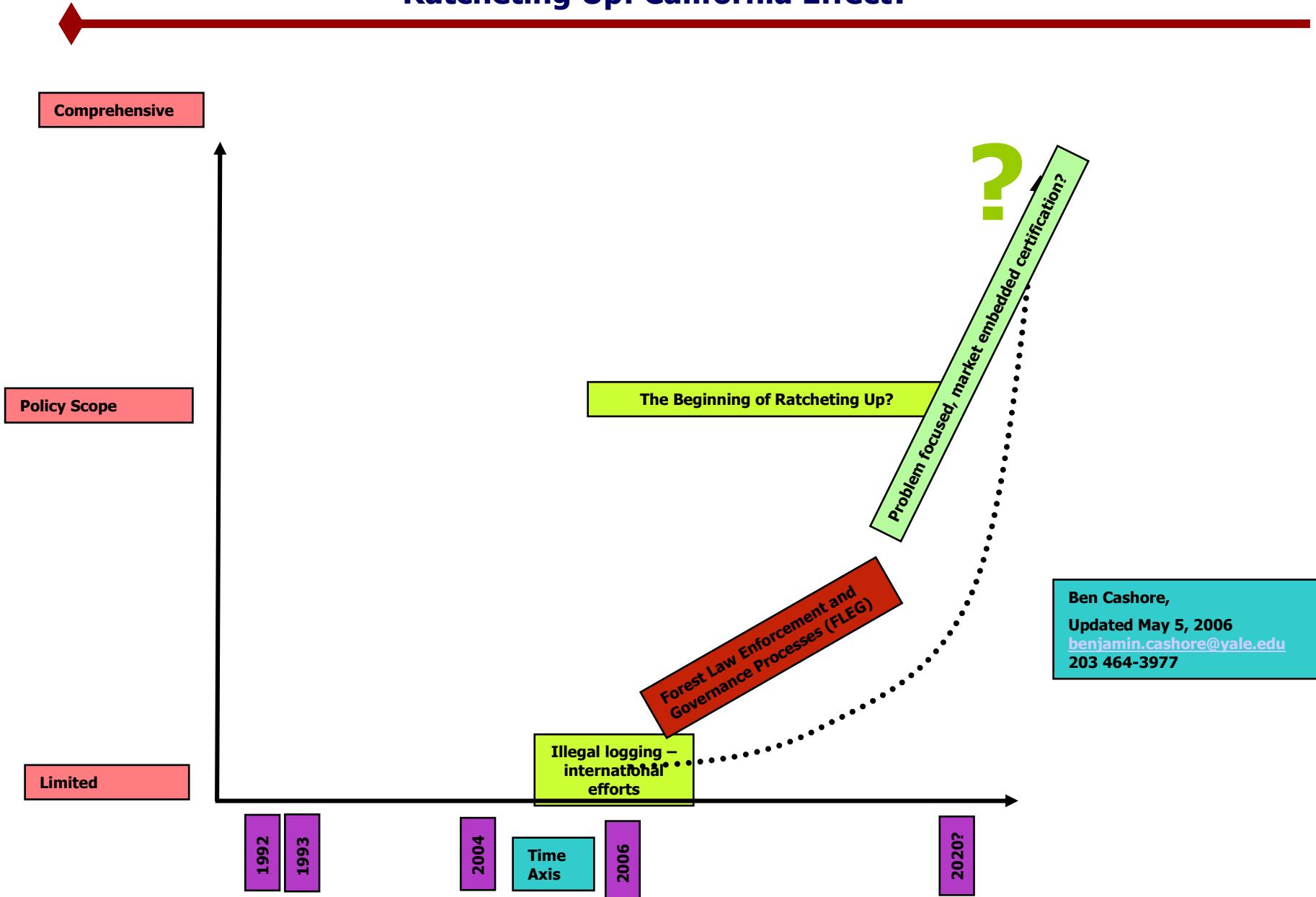


Brief History of Global Efforts to Promote Sustainable Forestry 1992-2006



Future History of Global Efforts to Promote Sustainable Forestry 2006-2020

Ratcheting Up: California Effect?



What is future of certification?

- Can these downward trends be reversed?
- Is there potential to use certification to “spark upwards” environmental protection
- To create a “California effect” in the private sphere?
- I argue:
 - **Yes**
 - **But requires NGOS undertake**
 - **More innovative**
 - **Long term**
 - **Strategic thinking**

Current Strategic Dilema



- ☞ First firms to accept certification
 - ☞ **Those already operating close to the standards**
 - ☞ **The highest performers “low hanging fruit”**
- ☞ Lessons
 - ☞ **environmental strategists**
 - ☞ **Standards work. Firms are doing them**
 - ☞ Desire to increase rules over time
- ☞ Evaluators
 - ☞ **Very little change on the ground– firms were already practicing close to those levels**
 - ☞ **Canadian boreal, Sweden, South Africa**
- ☞ Most important question
 - ☞ **How to move to widespread support**
 - ☞ **To get firms who didn’t join at Time 1 to join at Time 2**

Three Pronged Strategy”

1. California effect: rewarding the top

- **Set a bar that would**

- Use existing public policies as the “spark”
 - Certification of firms in relatively highly regulated regions
 - Create “bootleggers and Baptists” coalition
 - Used this support to gain traction for a global standard
 - That would address problems
 - *Elsewhere*
- *Support of FSC to date consistent with this logic*
 - *British Columbia, Maritimes in Canada*
 - *Sweden, Canadian boreal, South Africa*

Three Pronged Strategy

2. California effect: weed out bottom

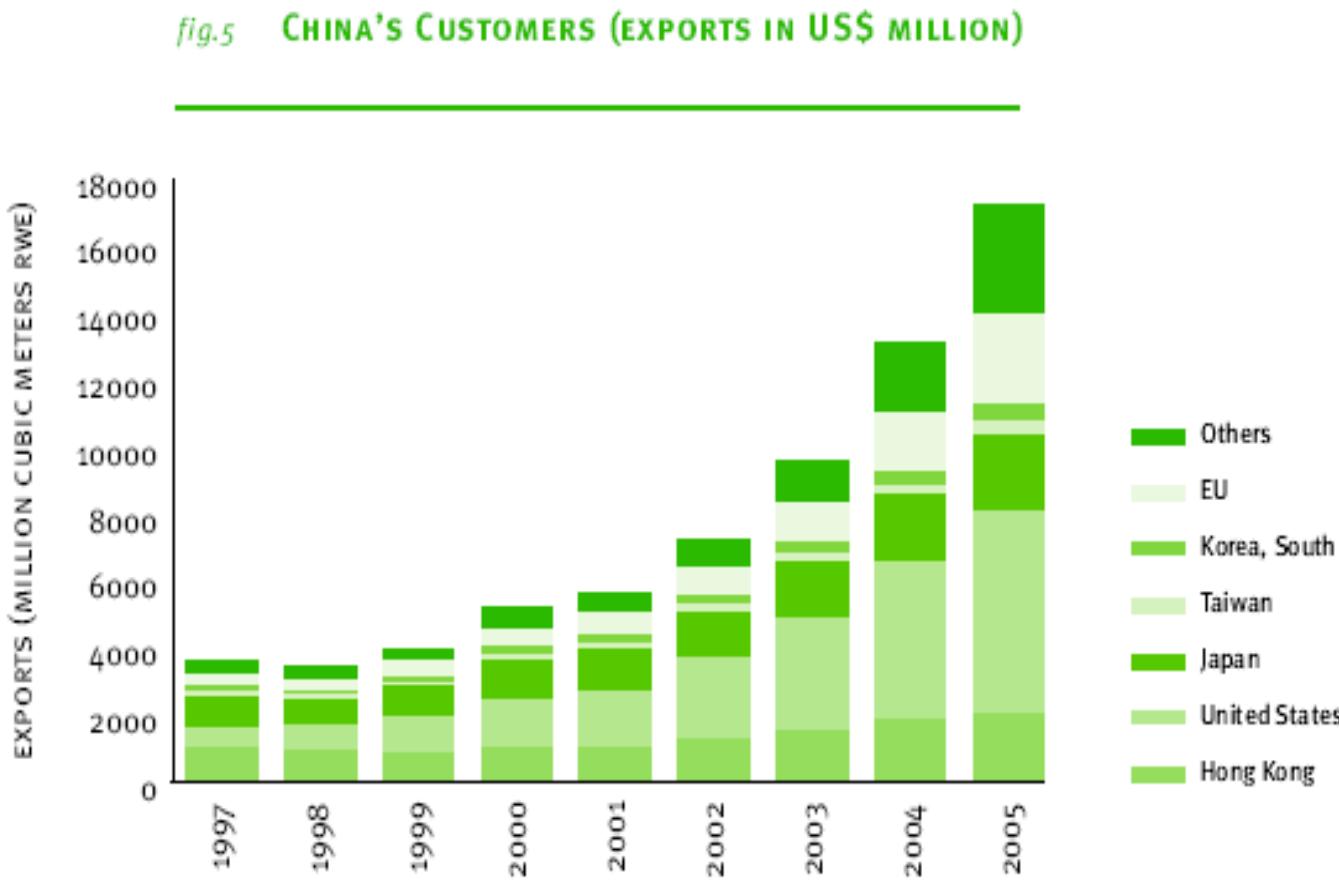
- Use certification/tracking to weed out bottom
- Efforts to distinguish illegally harvested wood from legal sources
 - Most firms in industrialized countries
 - Have economic self interest in supporting this
 - AF&PA study estimated price of lumber in world markets would go up 15% in absence of illegal logs
 - Arguably greater immediate impact “on the ground”

Three Pronged Strategy

3. Create a better World

- Reduce confusion in the market place
 - Better world FSC
 - Better world Fair Trade Coffee
 - Better world Marine Stewardship Council
 - Better world no illegal logging

Consumption key



From White et al, China and the Global Market
for Forest Products, March 2006

Ultimate Project

- **Creation of “political legitimacy”**
 - “the acceptance of shared rule by a community as appropriate and justified” (Bernstein and Cashore 2007, Bodansky 1999)
 - Support becomes engrained as routine practice
 - Whether this status can be achieved
 - Most important question for understanding NSMD effectiveness
- **End goal is still the same as before:**
 - Promotion of responsible forest management with highest of standards
 - Issue is the evolutionary logic for getting there