



**ENVIRONMENTAL AND
SOCIAL STANDARDS,
CERTIFICATION AND
LABELLING
FOR CASH CROPS**

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Prepared by
Cora Dankers

with contributions from **Pascal Liu**
Raw Materials, Tropical and Horticultural Products Service (ESCR)
Commodities and Trade Division



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EXECUTIVE SUMMARY

A variety of voluntary social and environmental standards and certification programmes in agriculture have appeared during the past twenty years. Governments have been or become involved in some of them, most obviously in organic agriculture and the related labelling. Other programmes are driven by the agriculture sector itself, such as, again, organic agriculture, or the programmes involved in the COLEACP Harmonized Framework or by the food retail sector, such as EurepGap. However, most social and environmental standards have been developed by non-governmental organizations (NGOs), such as the fair-trade system, the Social Accountability standard SA8000 and the SAN/Rainforest Alliance ‘sustainable agriculture programme’.

In terms of markets for labelled products, products labelled “organic” have captured the biggest market shares. For tropical products, market shares of labelled products (i.e. organic and fair-trade together) are typically one to two percent of the total North American and European markets. This ranges from 0.8 percent in the coffee market to two percent for bananas and fresh citrus. Annual growth rates of 20 percent or more in market volume have been observed for many consecutive years. For some products, such as organic bananas, growth rates of close to 100 percent were reported, but peak growth seems to be over. Sales volumes for fair-trade labelled products have been growing at 10 to 25 percent a year, albeit from a low base.

The markets for certified but non-labelled products, such as for Sustainable Agriculture Network (SAN), SA8000 and EurepGap certified products, are only differentiated at wholesale and buyer level, not at consumer level. Consequently there are no figures available on market shares, and development of demand for these types of certification is unknown.

An overview of documented case studies in Chapter 6 gives an indication of the impact of certification at producer level. Traditional low input farmers may expect productivity gains in the long term when implementing organic methods, but these are frequently accompanied by higher production costs, mainly in the form of higher labour demand. In these cases, access to premium markets through certification usually results in increased net profits. The case studies that report conversion to organic from high input systems observed initial yield declines. Yields in general recovered partly or completely over time. Effects on production costs have been very mixed, but very often involved substantial initial investment. In these cases access to premium markets, normally requiring certification, is essential to compensate for yield declines and investments.

For farmer cooperatives that are certified by Fairtrade Labelling Organizations International (FLO), the fair-trade price premium appears to be only part, and often a small part, of the benefits derived from the fair-trade system. Organizational progress, better bargaining positions, credit worthiness and economies of scale seem to be more important. The benefits result from the fair-trade marketing system and the additional support activities by other agencies, which appear to be highly interlinked and mutually supportive. The effect of the fair-trade premium is limited due to the often small part of total output that is sold via the fair-trade market.

Both organic and fair-trade certification seem to lead to general quality improvements, which in themselves are also valuable in conventional markets.

For the other standards discussed in this paper, only a limited number of case studies were available, reporting from only a single country for each standard. Therefore no generalizations can be made on the impact of such standards and certification programmes.

Chapter 7 discusses the voluntary social and environmental standards and labelling programming in relation to WTO agreements. Due to the voluntary nature of the standards and certification programmes discussed, they are not considered to restrict trade and are therefore of relatively little concern to committees of the WTO. What is more, the WTO is an agreement between

governments, and has therefore only indirect effect on the actions of NGOs. However, there may be some questions on the discriminative nature of social and environmental standards, as they distinguish based on non-product-related production and processing methods. In addition, some voluntary standards do seem to have an impact on market access.

The report concludes with a brief discussion of some ongoing debates and the potential role of governments with respect to voluntary social and environmental standards. The first issue of debate is local flexibility versus global credibility of certification programmes. Involvement of a variety of stakeholders in standard-setting is important to ensure that the standard does not unintentionally discriminate against some categories of producers or processors. Equally, standard requirements should always be directly linked to the ultimate objective of the standard and not include superfluous criteria or be too prescriptive on how the objective may be reached. Local specificity may be further taken into account through a system of generic standards that are complemented by local or crop-specific standards, or by a system of minimum and progress standards. In the verification systems, special arrangements may be made for smallholders, such as internal control systems

The increased use of third-party certification has led to the development of a “certification industry”, with its own economic interests. Certification is always a means, and should not become an end in itself. All actors involved should continuously work to minimize certification costs and time involved, without compromising quality and credibility.

Developing countries and smallholders may face specific constraints when trying to take advantage of social and environmental certification and the increased market access or price premiums they may deliver. In some countries a lack of local certification bodies increases certification costs. Furthermore, requirements for traceability favour large commercial farms. Some standards, such as SA8000, that focus on the working conditions of hired labourers, are not relevant for smallholders reliant on family labour. In contrast, the fair-trade system is especially developed to help small-scale producers in developing countries, but the potential benefits are curtailed by a limited market. Finally EurepGap certification may become obligatory for those producers wishing to sell to its retailer members. This may pose serious problems for those producers that do not have access to laboratories to execute the tests required, and problems may be expected in fulfilling the extensive documentation criteria.

Governments assume various roles in relation to voluntary social and environmental certification. First of all, they provide the legal environment in which those systems operate. Governments may also legally protect the use of certain terms used for product labelling. More actively, government agencies may act as standard-setting or accreditation bodies. Governments may also actively facilitate certification through: facilitation of local certification bodies; support to organizations advocating implementation of standards; subsidies or tax incentives to producers implementing standards; or through training of extension staff in the requirements of the standards.

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ACRONYMS AND ABBREVIATIONS

ACB	Accredited Certification Body
ACG	Guanacaste Conservation Area [Costa Rica]
ACP	Country in Africa, the Caribbean or the Pacific that has signed the Cotonou agreement with the European Union
ADIPCO	Cocolá Development Association [Guatemala]
AEEAZ	Agricultural Ethics Assurance Association of Zimbabwe
ANACAFE	National Coffee Association [Guatemala]
APEMB	Association of Ecological Growers of the Baturité Mountains [Brazil]
APPTA	Talamanca Small Farmers' Association [Costa Rica]
ASEAN	Association of Southeast-Asian Nations
ATO	Alternative Trade Organization
CAN	Conservation Agriculture Network [now SAN]
CIF	cost-insurance-freight [standard contract terms]
CIMS	<i>Centro de Inteligencia sobre Mercados Sostenibles/Sustainable Markets Intelligence Centre</i>
COLEACP	<i>Comité de liaison Europe-Afrique-Caraïbes-Pacifique</i> [Association of stakeholders in EU-ACP horticultural trade]
Coocafé	<i>Consortio de Cooperativas de Caficultores de Guanacaste y Montes de Oro RL</i> [Costa Rica]
CSA	Community-Supported Agriculture
CSR	Corporate Social Responsibility
CTE	Committee on Trade and Environment [of the WTO]
DCC	Day Chocolate Company
DED	<i>Deutscher Entwicklungsdienst</i>
EPOPA	Export Promotion of Organic Products from Africa
ETI	Ethical Trading Initiative
EUREP	Euro-Retailer Produce Association
EurepGap	EUREP Good Agriculture Practice
FAO	Food and Agriculture Organization of the United Nations
FECAFEB	<i>Federación de Cafetaleros Exportadores de Bolivia</i>
FEDECOOP	<i>Federación de Cooperativas de Caficultores RL</i>
FFTU	Farmers Fair Trade Uganda
FLO	Fairtrade Labelling Organizations International
FOB	free-on-board [standard contract terms]
FONAES	National Fund for Support of Solidarity Enterprises [Mexico]
GAP	Good Agricultural Practice
GATT	General Agreement on Tariffs and Trade
GMO	genetically-modified organism
IBS	Ifoam Basic Standards
ICFTU/ITS	International Confederation of Free Trade Unions/International Trade Secretariat
IEC	International Electrotechnical Commission
IFAD	International Fund for Agricultural Development

IFOAM	International Federation of Organic Agriculture Movements
IIED	International Institute of Environment and Development
ILO	International Labour Organization
IMO	<i>Institut für Markökologie</i> [organic certification body, Switzerland]
IOAS	International Organic Accreditation Service
IPM	integrated pest management
IPPC	International Plant Protection Convention
ISEAL	International Social and Environmental Accreditation and Labelling Alliance
ISMAM	<i>Indígenas de la Sierra Madre de Motozintla San Isidro Labrador</i> [Mexico]
ISO	International Organization for Standardization
ITC	International Trade Centre
IUF	International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations
JAS	Japanese Agriculture Standard
KKL	Kuapa Kokoo Limited [Ghana]
KNCU	Kilimanjaro Native Cooperative Union [Tanzania]
LBC	Licensed Buyer Organization [in Ghana cocoa industry]
LCU	Lango Cooperative Union [Uganda]
MAFF	Ministry of Agriculture, Forestry and Fisheries [Japan]
MAPO	<i>Movimiento Argentino de Producción Orgánica</i>
MFN	Most Favoured Nation [GATT/WTO context]
NGO	non-governmental organization
NOP	National Organic Program [United States of America]
NT	National Treatment [GATT/WTO context]
PIC	Prior Informed Consent
PMO	Produce Marketing Organization
PPM	Production and Processing Method
SA8000	Social Accountability 8000
SAI	Social Accountability International
SAI-Platform	Sustainable Agriculture Initiative Platform
SAN	Sustainable Agriculture Network [formerly CAN]
SASA	Social Accountability in Sustainable Agriculture project
SERRV	Sales Exchange for Refugee Rehabilitation Vocation
SNV	Netherlands Development Organization
SPS Agreement	Agreement on the Application of Sanitary and Phytosanitary Measures
SSE	Single Strain Juice Equivalent
TBT	Technical Barriers to Trade
UCIRI	Union of Indian Communities in the Isthmus Region [Mexico]
UNCED	United Nations Conference on Environment and Development
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
USDA	United States Department of Agriculture
VREL	Volta River Estates Limited [Ghana]
WHO	World Health Organization
WTO	World Trade Organization

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GLOSSARY OF BASIC CONCEPTS ASSOCIATED WITH CERTIFICATION PROGRAMMES

Accreditation The evaluation and formal recognition of a certification programme by an authoritative body.

Audit, auditor, auditing body See: inspection, inspector, inspection body.

Certification A procedure by which a third party gives written assurance that a product, process or service is in conformity with certain standards.

Certification body An organization performing certification. Sometimes referred to as the certifier or the certification agency. The certification body may use an existing standard or may set its own standard, perhaps based on an international and/or normative standard.

Certification label A label or symbol indicating that compliance with specific standards has been verified. Use of the label is usually controlled by the standard-setting body.

Certification programme A system of rules, procedures and management for carrying out certification. Sometimes referred to as a certification system. One certification body may execute several different certification programmes.

Control, control body Terms commonly used by the trade when referring to inspection and an inspection body.

Inspection An on-site visit to verify that the performance of an operation is in accordance with specific standards of a certification programme.

Inspector The person appointed to undertake the inspection, and may be an independent operator or an employee of the certifier.

Inspection body The body performing the inspection part of certification. Where a certification body performs its own inspections, the certification body is also the inspection body.

Licence A document issued under the rules of a certification programme, by which a certification body grants a person or body the right to use certificates or certification labels for its products, processes or services in accordance with the rules of the relevant certification programme.

Standards Documented agreements containing technical specifications or other precise criteria to be used consistently as rules, guidelines or definitions, to ensure that materials, products, processes and services are fit for their purpose. Standards include environmental standards; organic standards; labour standards; social standards; and normative standards.

Environmental standards are standards for materials, products and production processes to ensure that negative impacts on the environment are minimal or kept within certain limits.

Organic standards are standards for production and processing of organic food products.

Labour standards are standards for working conditions to ensure workers rights are respected.

Social standards can be used to mean labour standards, but can also include standards on other social aspects of organizations and production facilities, such as the relation with neighbouring communities.

Normative standards are generic (general or non-specific) standards or guidelines to be used as a framework by local standard-setting or certification bodies when formulating a specific standard for their certification programme. Normative standards are also referred to as Standards for Standards, e.g. the IFOAM Basic Standards and FAO/WHO Codex Alimentarius guidelines.

1. INTRODUCTION

This publication discusses various aspects of voluntary environmental and social standards and certification programmes operational in cash crop production systems, especially in the tropics.

Over the past 20 years the number of standards and certification programmes for agricultural production have grown fast. Producers who want to export are confronted not only by a plethora of import regulations, but also within those import countries by different niche markets for which additional requirements have to be fulfilled. From another point of view, their products may already comply with such requirements, and such niche markets may offer opportunities for increased market access or even price premiums.

At the other side, consumers are confronted with more and more product labels, and although consumer demands are often at the basis of such labels, consumers may be overwhelmed by the number. For environmental and social labels, they may be barely aware of what the labels actually mean and whether they are credible.

For governments, trying to serve producers, traders and consumers, it might not always be clear what role they could or should take on with respect to these developments. Voluntary environmental and social standards are mostly advocated by non-governmental organizations (NGOs) and implemented by the private sector. Yet such voluntary environmental and social standards affect areas that are of concern to many governments, such as the environment, labour conditions, access to niche markets and price premiums.

This paper gives an overview of the existing internationally operating voluntary environmental and social standards and certification programmes that are of relevance to cash crop production, particularly tropical and horticultural crops. Information is provided about the organizations behind the initiatives, the scope of the standards and the verification systems. Attention is given to market developments and potential impacts at producer level. Relevant provisions of World Trade Organization (WTO) agreements are discussed in relation to the existing standards and programmes. Finally, the paper discusses some issues around the standard-setting process and verification methods that are also relevant for other sectors and industries.

The Raw Materials, Tropical and Horticultural Products Service of FAO hopes this paper will be a useful source of information for governments, NGOs, private companies and individuals, and will help decision-making related to environmental and social standards, certification and labelling issues.

2. A BIT OF HISTORY

There have been several historical developments that have had an impact on the development of today's range of voluntary social and environmental standards and related certification and labelling programmes in agriculture. This chapter briefly mentions some of those developments to help gain a better understanding of the current situation.

2.1 FOOD LABELLING¹

Evidence from the earliest historical written records indicates that governing authorities were early concerned with codifying rules. The rules were mainly aimed at protecting consumers from dishonest practices in the sale of food. Assyrian tablets described the method to be used in determining the correct weights and measures for food grains, and Egyptian scrolls prescribed the labelling to be applied to certain foods. The second half of the nineteenth century saw the first general food laws adopted and basic food control systems put in place to monitor compliance. In the Austro-Hungarian Empire between 1897 and 1911, a collection of standards and product descriptions for a wide variety of foods was developed as the Codex Alimentarius Austriacus. The present day Codex Alimentarius draws its name from the Austrian code. In the early 1900s, food trade associations made the first attempts to facilitate world trade through the use of harmonized standards.

In the 1950s, as more and more information about food and related matters became available, there was greater apprehension on the part of consumers. Whereas, previously, consumers' concerns had extended only as far as the “visibles” – underweight contents, size variations, misleading labelling and poor quality – they now embraced a fear of the “invisibles” such as micro-organisms, pesticide residues, environmental contaminants and food additives, as well as a broader interest into the way products were grown and processed. In response to these fears and interests, food packaging materials displayed more and more information.

2.2 LABOUR STANDARDS AND SOCIAL ACCOUNTABILITY²

The history of labour standards goes back to the creation of the International Labour Organization (ILO). The need for such an organization had been advocated in the nineteenth century by two industrialists, Robert Owen (1771-1853) of Wales and Daniel Legrand (1783-1859) of France. Their ideas were incorporated into the Constitution of the International Labour Organization, adopted at the end of the First World War. The initial motivation was humanitarian. The condition of workers, more and more numerous and exploited, was less and less acceptable. Second, without an improvement in their condition, the workers would create social unrest. The third motivation was economic. Because of its inevitable effect on the cost of production, any industry or country adopting social reform would find itself at a disadvantage vis-à-vis its competitors. Simultaneous reform through the International Labour Organization would avoid this problem.

The ILO is a tripartite organization that brings together representatives of governments, employers and workers in its executive bodies. The first annual International Labour Conference, in October 1919, adopted the first six International Labour Conventions, which dealt with hours of work in industry, unemployment, maternity protection, night work for women, minimum age and night

1. FAO/WHO, 1999.

2. The first two paragraphs in this section draw on ILO, 2000.

work for young persons in industry. A few years later, the International Court of Justice declared that the ILO's domain extended also to international regulation of conditions of work in the agricultural sector. In 1948, the International Labour Conference adopted Convention No. 87, on freedom of association and the right to organize.

More recently, some initiatives have developed verifiable labour standards on the basis of (core) ILO conventions. In the agriculture sector, the most important are the SA8000 standard of Social Accountability International and the Base Code of the Ethical Trading Initiative. Also, other standards that will be discussed later, such as environmental and fair-trade standards, have included labour conditions requirements based on ILO Conventions.

2.3 SUSTAINABLE AGRICULTURE AND LABELLING

In 1983, the United Nations appointed an international commission to propose strategies for “sustainable development” – ways to improve human well-being in the short term without threatening the local and global environment in the long term. Its report, *Our Common Future*, published in 1987, was widely known as “The Brundtland Report”. At the 1992 United Nations Conference on Environment and Development (UNCED, or the Earth Summit) in Rio de Janeiro, the international community adopted Agenda 21, a global plan of action for sustainable development³. The Commission on Sustainable Development was created in December 1992 to ensure effective follow-up of UNCED.

Chapter 14 of Agenda 21 deals specifically with Sustainable Agriculture and Rural Development (SARD). FAO was appointed task manager to monitor the implementation of Chapter 14.

Chapter 4 of Agenda 21 is titled *Changing consumption patterns*, and includes the following sections:

4.20. The recent emergence in many countries of a more environmentally conscious consumer public, combined with increased interest on the part of some industries in providing environmentally sound consumer products, is a significant development that should be encouraged. Governments and international organizations, together with the private sector, should develop criteria and methodologies for the assessment of environmental impacts and resource requirements throughout the full life cycle of products and processes. Results of those assessments should be transformed into clear indicators in order to inform consumers and decision-makers.

4.21. Governments, in cooperation with industry and other relevant groups, should encourage expansion of environmental labelling and other environmentally related product information programmes designed to assist consumers to make informed choices.

One of the best known environmental labels on food is the organic label. Although one could argue that organic agriculture has been practised for thousands of years in all parts of the world, “certified organic” finds its origin in Europe. In the 1920s, the teachings of Rudolf Steiner inspired people to practice what is now commonly known as bio-dynamic agriculture. In the 1960s, ecological or organic agriculture became known beyond this small group of pioneers, and a consumer base started to build up. The development of organic agriculture was undoubtedly influenced by Rachel Carson's book *Silent Spring*, which in 1962 exposed the hazards of the pesticide DDT and had a great impact on the wider public's awareness of the negative aspects of intensive agriculture methods in general, and the dangers of uncontrolled pesticide use in particular. As the organic sector developed, organic farmers' associations wrote their own standards, more to communicate what they had learned rather than to codify what constitutes “organic farming”. The need to codify the parameters of organic farming only became necessary when consumer demand for organically grown products increased, organic products became available in conventional food outlets and price premiums provided incentive for fraud.

3. UNCED, 1992.

Other, more recent, environmental labels on food include the *Rainforest Alliance Certified* label (formerly ECO-OK); the Smithsonian Institute's *Birdfriendly coffee* label, and various declarations of the use of "integrated production methods" and integrated pest management (IPM). Also, the International Organization for Standardization (ISO) has developed an environmental management systems standard, ISO 14001.

2.4 FAIR TRADE

At the London Economic Conference in the 1930s, the League of Nations recognized two important issues. First, the importance of increasing the purchasing power of primary-commodity producers by keeping the export prices of raw materials at fair remunerative levels. Second, that protectionist measures often led to over-production, provoking downward pressure on prices.⁴ It was not until the creation of the General Agreement on Tariffs and Trade (GATT) in 1947 that an organization for trade finally came into existence. GATT focused on removing barriers to trade by commitments for the reduction and elimination of import quotas and tariffs. Dissatisfaction by many developing countries with the single focus of GATT on tariffs and quota reductions led to the creation of UNCTAD (the United Nations Conference on Trade and Development) in 1964. Developing countries called for "Trade not Aid" during the UNCTAD Conference in 1968, in Delhi. This slogan referred to the need to bridge the gap between foreign exchange available to developing countries through their exports and the foreign exchange needed for their imports.⁵

The first "fair-trade" activities led by NGOs were in the United States of America, with Ten Thousand Villages and SERRV beginning to trade with poor communities in developing countries in the late 1940s. In Europe, Oxfam started importing and selling crafts made by Chinese refugees in Hong Kong in the late 1950s. In 1964, Oxfam created the first Alternative Trading Organization (ATO). Parallel initiatives were taking place in The Netherlands, with the establishment of the importing organization S.O.S Wereldhandel (now Fair Trade Organisatie) in 1967. At the same time, Dutch third world groups began to sell cane sugar with the message "By buying cane sugar, you ... give poor countries a place in the sun of prosperity". These groups went on to sell handicrafts from developing countries, and in 1969 the first Fair Trade shop opened.⁶ The ATOs established direct relations with small-scale poor producers and paid (or claimed to pay) them a higher price for their products.

In the early 1980s, prices for many primary agricultural commodities collapsed, and small-scale coffee producers in particular faced a hard time. In The Netherlands, a fair-trade label (Max Havelaar Keurmerk) was developed and in 1988 the first fair-trade labelled coffee was sold. This is considered the beginning of the second generation of fair-trade initiatives, with the labelling organizations having no economic interests in the labelled products. This model has allowed fair-trade products to be sold through conventional channels.

4. Coote, 1992.

5. Corea, 2001.

6. Bowen, 2001; Douglas, 2002.

3. THE CONCEPTS OF STANDARDS, CERTIFICATION AND LABELLING

3.1 STANDARDIZATION

One of the main objectives of standardization is usually that everybody adheres to the same standards, i.e. the same procedures or product specifications. This may ease logistical procedures, facilitate trade, prevent consumer deception and improve quality. It is easy to see how standardization facilitates trade and other logistical procedures, if only by looking at the complications that different weight measurement systems can cause. However, increase in quality is not an automatic result of standardization. This will only be achieved when the advocated standard is a “high” standard, i.e. the requirements are an improvement in relation to common practice.

3.2 STANDARDS

Standards are defined by ISO as

... documented agreements containing technical specifications or other precise criteria to be used consistently as rules, guidelines or definitions, to ensure that materials, products, processes and services are fit for their purpose.⁷

From this definition it becomes clear that standards are not only used for standardization, but also as “guidelines”, i.e. for capacity building.

Product standards are specifications and criteria for the characteristics of products. *Process standards* are criteria for the way the products are made. Social and environmental standards in agriculture are essentially process standards. These process criteria might or might not influence the characteristics of the end products.

Process standards can be further divided into *management system standards* and *performance standards*. Management systems standards set criteria for management procedures, for example for documentation or for monitoring and evaluation procedures. They do not set criteria for the performance of the management system in terms of what actually happens in the field or the packing station. Performance standards, in contrast, set verifiable requirements for factors such as the non-use of certain pesticides, or the availability of sanitary services.

Setting international standards has proven to be very difficult due to the variety of circumstances that exist around the world. This is especially true for agricultural practices, which have to respond to differences in climate, soils and ecosystems, and are an integral part of cultural diversity. In response to this diversity, international environmental and social standards are often normative standards, i.e. generic standards or guidelines to be used as a framework by local standard-setting or certification bodies to formulate more specific standards. It has to be noted that environmental and social standards in agriculture usually do not have the purpose of standardization per se, but are developed to improve environmental and social sustainability in the variety of existing farming and agro-trade systems.

7. ISO, 1996.

3.3 CERTIFICATION

Certification is a procedure by which a third party gives written assurance that a product, process or service is in conformity with certain standards.⁸ Certification can be seen as a form of communication along the supply chain. The *certificate* demonstrates to the buyer that the supplier complies with certain standards, which might be more convincing than if the supplier itself provided the assurance.

The organization performing the certification is called a *certification body* or certifier. The certification body might do the actual inspection, or contract the inspection out to an inspector or inspection body. The certification decision, i.e. the granting of the written assurance or “certificate”, is based on the inspection report, possibly complemented by other information sources.

Certification is always done by a *third party*. The verification is done and the assurance is provided by a party without direct interest in the economic relationship between the supplier and buyer. An internal control is a first-party verification. When a buyer verifies if the supplier adheres to a standard, it is a second-party verification.

It is important to note that third-party verification does not automatically guarantee impartiality or absence of conflicts of interest. First, the standard-setting can be done by any party. The producer (first party) can set the standard, in which case the producers’ interests are likely to be reflected in the standard. Also the buyer (second party) can set the standard, in which case business interests will be reflected in the standard. Second, if the standard-setting and certification body are one and the same body, this can also cause conflicts of interest. The standard-setting body would like to see high implementation rates of its standard, or have a bias against certain types of producers for ideological reasons, which can influence certification decisions. Third, a conflict of interest might arise depending on who pays for the certification costs. Commercial certification bodies face competition from other bodies and they might lose clients if they are too strict.

3.4 ACCREDITATION

The system of rules, procedures and management for carrying out certification, including the standards against which it is being certified, is called the certification programme. One certification body may execute several different certification programmes. To ensure that the certification bodies have the capacity to carry out certification programmes, they are evaluated and accredited by an authoritative body. Certification bodies may have to be accredited by a governmental or parastatal institute, which evaluates compliance with guidelines set by ISO, the European Union or some other entity for the operation of certification and inspection bodies. In addition, standard-setting bodies might accredit certification bodies for the scope of their particular standard. When the standard-setting body has developed normative standards, they will evaluate whether the specific standard used by the certification body is in line with the generic standard and whether they are satisfied with the method of verification.

Certification and accreditation comes at a cost. The implementation of standards usually requires investments, but sometimes results in a reduction in production costs in the longer term. The possible effects of standard implementation and certification costs on production costs, revenues and farm economics will be discussed in more detail in Chapter 6.

3.5 LABELS

A certification label is a label or symbol indicating that compliance with standards has been verified. Use of the label is usually controlled by the standard-setting body. Where certification bodies certify against their own specific standards, the label can be owned by the certification body.

8. ISO, 1996.

While the certificate is a form of communication between seller and buyer, the label is a form of communication with the end consumer. For this communication to be effective, the label must be meaningful. For the Consumers' Union in the United States of America, a meaningful label is not only backed up by a good certification system without conflicts of interest, but the system must also be transparent, information on the content and the organization behind the label must be accessible and there should be opportunities for public comment. The Consumers' Union also advocates that the meaning of the label must be consistent across the range of products that carry that label.⁹

3.6 ECONOMICS OF ENVIRONMENTAL AND SOCIAL LABELLING

ECONOMICS OF INFORMATION¹⁰

Labelling has the opportunity to create niche markets in which higher prices may be obtained. The underlying economic theory for labelling products can be traced back to Stigler's¹¹ work on the economics of information. In Stigler's work, information is portrayed as a valuable resource, and in particular, information on prices. Determining the prices demanded by each seller for a product is a time-consuming task. Nelson¹² contends that the problem of determining quality levels is even greater than that of determining price levels. In addition, as quality might not be visible at the moment of purchase, there is an incentive for sellers to promise high quality products but market poor quality products, as pointed out by Akerlof.¹³ Thus, in some markets, the consumer faces more uncertainty with respect to quality than with respect to prices.¹⁴

Economists distinguish between search, experience and credence attributes of products. Search attributes are those characteristics that consumers can examine before purchasing the product, such as price, size and colour. Experience attributes are those that can be evaluated after purchasing the product, such as taste.¹⁵ Product attributes that consumers cannot evaluate even in use are called credence attributes.¹⁶ Environmental impact of production methods and labour conditions along the supply chain are credence attributes.

Suppliers may make claims for the experience and credence attributes of their products in the form of advertising, but suppliers will only undertake advertising as long as they see this as a means to increase market share, and will only disclose information that is advantageous to them. Aldrich argues that this results in explicit claims for all positive aspects of goods and causes consumers to be suspicious of goods without claims.¹⁷ Consumers are likely to be more sceptical about a supplier claim regarding credence attributes, because they know they are not in a position to control its validity even after purchase. Labelling on the basis of third-party verification can transform credence attributes into search attributes, i.e. those attributes that can be checked by consumers at the moment of purchase.¹⁸

If information on the quality per unit of food is evenly distributed between producers and consumers, then the market equilibrium will be efficient.¹⁹ Consumers are able to purchase the goods that best match their preferences and society's resources are used efficiently. If, however, information is asymmetric, then this market equilibrium will not be efficient. An example might be when

9. Rangan, 2002.

10. This section draws on FAO, 2001.

11. Stigler, 1961.

12. Nelson, 1970 and 1974.

13. Akerlof, 1970.

14. Andrews, 1992.

15. Nelson, 1970.

16. Darby and Karni, 1973.

17. Aldrich, 1999.

18. Caswell, 1998.

19. FAO, 2001.

producers cheat on quality standards. Asymmetric information in particular may be a problem in markets for foods with negative credence attributes (e.g. pesticide residues, or use of child labour in the production process). In these cases, firms may have no incentive to disclose information and consumers may end up purchasing goods that do not match their preferences. In this case, the market does not work efficiently: goods that would be profitable with full disclosure may go unproduced while those of lesser value to consumers are produced instead.²⁰ This is where certification (= third-party verification) and labelling can create an efficient market by removing asymmetry of information, provided that the labels used are meaningful.

VARIABLES DETERMINING THE EFFECTS OF LABELLING

Several studies have tried to model the effects of labelling on demand, prices and production levels.²¹ Inevitably, several assumptions have to be made for modelling purposes, and some of those assumptions are discussed below in the light of some of the characteristics of organic labelling, with the purpose of gaining better insight into the variables determining the effects of labelling programmes. The discussion will focus on organic labelling as this is currently the most important “environmental” market segment for tropical and horticultural products. Organic certification and agriculture will be more fully introduced in the next chapter, together with other standards and labelling programmes.

The first assumption many models make is that before the introduction of labelling the product was not differentiated. For organic products, differentiated markets already existed before organic labels were introduced. Organic farming originated from concerned farmers who developed alternative marketing channels within their communities, through farmers markets and box schemes. In box schemes the producer or natural food store assembles (organic) food baskets that may be delivered at home or collected by the consumers, typically once a week. Also, price premiums already existed, as documented by the US Department of Agriculture (USDA) for several crop sectors in the 1970s.²² Such a pre-labelling market segmentation could have balanced supply and demand to some extent and reduce the chance of over- or undersupply at the moment of introduction of the label.

The second assumption is that there is a homogeneous product that can be produced as either environmentally friendly or environmentally unfriendly. For organic agriculture, it has proven to be quite difficult to “define” organic and there is a whole continuum from high external input ‘industrial’ agriculture, through all kinds of “integrated methods”, to organic agriculture and beyond. The availability of other environmental claims on products, whether backed by third-party verification or not, might also have impacts on consumer response to the organic label and to price premiums.

Some models assume that concerned consumers only purchase labelled products, but acknowledge that this assumption is somewhat rigid. In the organic market reality, even the so called “heavy users” do not buy 100 percent organic or fair-trade. Consumers are likely to buy both labelled and unlabelled versions of a product, as a function of changing availability and price over time and place. Thus, consumers might go occasionally to specialized shops where there is a wide range of organic products available, but normally buy in supermarkets where there is only a narrow range available.

Furthermore, models may assume that the numbers of concerned and unconcerned consumers are fixed. Some consider the influence of the label on willingness to pay a premium for the consumer that already is concerned. Others acknowledge that willingness to pay may vary among concerned consumers, i.e. if price premiums decrease, more consumers are willing to buy the labelled product. However, the presence of labels may in itself increase consumer awareness and create more concerned

20. Golan, Kuchler and Mitchell, 2000.

21. *Inter alia*, Mattoo and Singh, 1994, and Sedjo and Swallow, 1999, studied eco-labelling in a partial equilibrium model. Marette, Crespi and Schiavana, 1999, use cartel theory, and Mason, 2002, models certification as a noisy test.

22. USDA, 1980.

consumers. Indeed, many consumers only learned about the existence of organic farming methods and the difference from conventional methods through the label and the associated publicity.

One of the most important assumptions is that all products from all environmentally friendly production units will be automatically labelled. However, when the supply from certified units is larger than the demand, part of those products will be sold on the conventional/unlabelled market. Experience in the organic market shows that this happens before organic prices fall to conventional price levels. In this case, there will be no incentive for more producers to convert to organic as they would probably not be able to sell in the organic market segment. However, existing certified producers would in general not exit certification and they would continue to receive a price premium for part of their production. Due to the nature of organic production systems, there is not only a certain inflexibility on the part of conventional producers to switch to organic production methods, but also an inflexibility to move back to conventional methods.

Furthermore, demand for food products such as coffee and bananas is quite inelastic in the markets under consideration. Concerned consumers might be willing to pay more for labelled products, but this does not mean that if the price premium declines, they will buy more of the labelled product. However, price declines are likely to persuade marginally concerned consumers to shift from unlabelled to labelled products. In addition, if one organic labelled product has a much higher premium than another organic product in the same category, concerned consumers might substitute the more expensive product for a cheaper one. Thus, in the organic market segment, some “traditional vegetables” have a larger share than in conventional markets because they are hardier and therefore easier to grow using organic production methods. Especially due to the potential of expansion of the consumer base with marginally concerned consumers, demand for organic products may well be more price elastic than demand for conventional food. Indeed higher price elasticities were found in Denmark for organic dairy produce compared with conventional food.²³

A final consideration concerns price transmissions along the chain. It is known that, in general, price transmissions are imperfect. Organic consumer price premiums may be lower or higher than organic premiums for primary producers. Many observers of organic markets believe premiums are usually higher at retail level than at producer level. The effects of labelling on prices is even more difficult to analyse taking into consideration the existence of various prices for the same conventional product that depend mainly on branding. Organic consumer prices are often within the range of the most expensive conventional brands.

23. Wier, Hansen and Smed, 2001.

4. OVERVIEW OF EXISTING STANDARDS AND CERTIFICATION PROGRAMMES

There are an increasing number of company codes of conduct, some of which reach down the commodity chain to producers. In addition, consumers' concerns have given rise to a number of certification or labelling initiatives, or both, some led by NGOs and others led by the business sector or governmental institutions. They often refer to international treaties and conventions, sometimes translating them into verifiable standards for direct implementation by producers or traders, or both.

4.1 TYPES OF STANDARD-SETTING ORGANIZATIONS

Standards may be set by governments. Governmental standards are usually called regulations, except when developed and administered by semi-independent agencies. They may in turn be based on international agreements or guidelines set by intergovernmental bodies, such as the FAO/WHO Codex Alimentarius Commission. Intergovernmental guidelines are normally generic in nature. This allows national governments to set more specific standards adapted to the needs and situation of the country. Examples of governmental environmental standards in agriculture are the Codex guidelines for the production, processing, labelling and marketing of organically produced food, and national organic regulations that may or may not follow these guidelines. National regulations may in turn choose how to arrange the certification system, whether to accredit private certification bodies or to keep the certification in the hands of governmental bodies. Governments may develop a national product label, for exclusive use or for use alongside labels of certification bodies. Such standards are voluntary in the sense that one can choose not to certify and not to carry the label. However, when using the certificate and/or label, producers and traders have to comply with the regulation.

A second type of standard-setting organization may be the industry itself. These may be the producers themselves (i.e. the first party), or actors further down the chain, the buyers or retailers (i.e. the second party). By definition, certification involves a third party with no stake in the business being certified. Therefore, in this publication, only those industry standards are discussed that use a third party to carry out verification.

The producers, generally in an association or cooperative, might have an interest to set a standard and invite a third party to verify implementation in order to demonstrate to a wide range of buyers that they fulfil certain requirements generally in demand in the market. Such an assurance programme may save time and money, compared to assuring each buyer individually. An example of such producer-set standards are those standards set by national producer associations under the COLEACP harmonized framework. Another example would be the first organic standards set by organic producer associations, which not only served to assure consumers but also functioned as a learning tool for the producers.

At the other end of the chain, if a group of buyers recognize that they have basically the same requirements for certain products, they may set a standard together. This would encourage producers to implement such standards more quickly, as it becomes clear that a large part of the market requires them. An example of such a buyers' standard is the EurepGap protocol.

Also with a stake in the industry itself, but from a different perspective, are the trade unions. Their main mode of work is through negotiating collective bargaining agreements for individual enterprises, and this sits uneasily alongside setting general standards. Nevertheless, the International

Confederation of Free Trade Unions (ICFTU) has established a kind of generic code, and trade unions may be involved in multi-party coalitions that are setting standards.

Many environmental and social standards are set by NGOs. NGOs may be advocacy groups, but can also be broad stakeholder groups. Standard-setting NGOs may themselves be an umbrella organization of various smaller NGOs, each with their own constituencies. Whether a standard set by NGOs becomes generally accepted will depend on many factors. Among them, the public recognition of the NGO setting the standard; the standard-setting process, especially stakeholder consultation; the “implementability” of the requirements; and the publicity around the standard. As with governmental standard-setting bodies, NGOs may choose to do the verification themselves, or to accredit certification bodies.

Finally, governments, the private sector and NGOs may form two- or three-party coalitions to set standards. For example, governments, industry and consumer organizations are all represented among ISO members, and the Ethical Trading Initiative (ETI) is a tripartite organization with government, NGO and trade union representation.

In the rest of this chapter, an overview of the main voluntary social and environmental standard-setting and certification programmes for tropical and horticultural crops are presented. Only those standards are included that are implemented internationally. For each programme, the organizations behind the initiative are briefly introduced, after which the scope of the standard, the certification system and the labelling system (if any) are discussed. They are grouped according to the type of standard-setting organization, although in the case of multi-party organizations, the choice has been somewhat arbitrary. The overview is not exhaustive, especially for those standards that are not accompanied by a certification programme.²⁴

4.2 STANDARDS WITH GOVERNMENT INVOLVEMENT

ORGANIC STANDARDS AND CERTIFICATION

Organic production is holistic management of the agro-ecosystem, emphasizing biological processes and minimizing the use of non-renewable resources. Although the terms “organic”, “ecological” or “biological” have developed in Europe and North America to distinguish organic from conventional agriculture, many low-input traditional agriculture systems in other parts of the world are also *de facto* organic systems. In this respect the term “organic by default” has been introduced, and even “organic by neglect”. However, these terms do give the false impression that any agriculture systems in which no agrochemicals are used would automatically comply with organic standards, which is not necessarily the case.

Development and scope of organic standards²⁵

Inspired by the ideas of Rudolf Steiner (in the 1920s), Sir Albert Howard (in the 1930s) and Lady Eve Balfour (in the 1940s), farmers themselves developed organic farming methods on a learning-by-doing basis. As the organic sector developed, organic farmer associations wrote their own standards, more to communicate what they had learned than to codify what constitutes organic farming. On-site inspection did not commence until the mid-1970s, and farmer associations subsequently developed their own certification systems serving their own members. In time, these certification units became more independent to avoid conflicts of interests and to increase confidence among the growing group of consumers.

The International Federation of Organic Agriculture Movements (IFOAM) was founded in 1972. IFOAM has its headquarters in Bonn, Germany. IFOAM formulated the first version of the IFOAM Basic Standards (IBS) in 1980 and has revised them biennially ever since. IBS serves as a

24. For a more in-depth description and comparative analysis of the ETI, FLO, organic, SAN and SA8000 standards, see Courville, 2000 (reviewed by Piano, 2001).

25. The paragraphs on the historic development of organic standards draw on Rundgren, 2002.

guideline, on the basis of which public and private standard-setting bodies can develop more specific organic standards.

While the market for organic products has been growing, supply has lagged behind, and the resulting price premiums have provided an incentive to cheat. In reaction, many countries have developed national organic regulations to be able to protect honest organic producers and consumers against misleading organic claims. The first organic regulations were adopted in the United States of America (the States of Oregon (1974) and California (1979)). In Europe, France was the first country to adopt an organic regulation (1985). EU Regulation 2092/91, covering the labelling of organic foods, was adopted in 1991. Other national standards important for international trade are the Japanese Agriculture Standard (JAS) organic standards for plant products (2000) from the Japanese Ministry of Agriculture, Forestry and Fisheries (MAFF) and standards of the US National Organic Program (NOP) developed by USDA in 2002. With a view to harmonization, Codex formulated guidelines for the production, processing, labelling and marketing of organically produced food, adopted in 1999 for vegetal products. The guidelines were revised in 2001 to include provisions for livestock and livestock products. The Codex guidelines are voluntary; member countries can choose to what extent they follow them.

Organic standards cover all crops and almost all livestock. Standards for fish farming, bee-keeping and harvesting of wild products are increasingly being developed by the various standard-setting bodies. Organic standards for plant production typically include: criteria for conversion periods; seeds and propagation material; maintenance of soil fertility through the use and recycling of organic materials; and pest, disease and weed control. The use of synthetic fertilizers and pesticides and of genetically engineered organisms is prohibited. There are also criteria for the admission and use of organic fertilizers and natural pesticides.

During the last revision of IBS, the standards for ecosystem management were strengthened to include issues of landscape, contamination control and soil and water conservation. There are ongoing discussions on whether the standards should also include criteria for labour conditions and other social issues, to which currently only a general reference is made.²⁶ Processing, packaging and traceability standards usually include requirements to prevent mingling of conventional and organically produced products, and criteria for additives and processing aids. Because long travel distances contribute to the use of external inputs, it is debated whether criteria for local sourcing and means of transport should be developed (the “food miles” debate).

In addition to the organic standards and certification systems, an international voluntary Code of Practice for Organic Trade has been developed by the IFOAM traders group, and launched in February 2003. The core of the Code of Practice are eight principles, including “transparency and accountability of negotiations” and “equitable distribution of returns”. Any organic trader can sign up to the code and participate in a continual self-assessment process.²⁷

Certification and accreditation

IFOAM/IOAS

The International Organic Accreditation Service (IOAS) accredits certification bodies that have organic certification programmes that comply with IBS and the IFOAM Accreditation Criteria for certification bodies. Because IBS is a generic standard, IOAS requires that certification bodies elaborate some standards in more detail. In 1999, the IFOAM Accredited Certification Bodies (ACB) signed a multilateral agreement to facilitate acceptance of products that were certified by an ACB. However, the agreement contains an “additional requirements” clause that those products should also comply with standards beyond IBS that the “accepting” body might have in its own standards.²⁸

26. Schmid, 2002; Riddle and Coody, 2002.

27. IFOAM, 2003.

28. Commins, 2002.

EU regulations

EU regulation EEC 2092/91 provides for national accreditation of certification bodies or certification by national authorities.²⁹ Certification bodies are usually required to conform to European standard EN 45011 or ISO Guide 65, both of which are standards for the operation of certification systems. The organic guarantee system of countries outside the EU may be recognized as being equivalent, and those countries appear on a “third-country” list. The list may specify production units or inspection bodies within the country for which equivalency is determined. For imports from non-listed countries, importers may obtain an authorization from individual EU member states for each imported product. The importer must show evidence that the product was produced and inspected according to rules equivalent to EU organic standards and was certified by a certification body that operates in compliance with ISO Guide 65.³⁰ Administrative procedures to obtain such import authorizations may differ considerably between countries. Since 2002, an original certificate has to be sent with the goods.

US National Organic Program

NOP is administered by the USDA and requires that all products sold in the United States of America as “organic” must be certified by a certification body or a state certification programme that is accredited by the USDA. NOP came into force in October 2002, and currently (March 2003) has 81 accredited certification bodies, of which 30 are registered outside the United States of America. Foreign accreditation agencies may also be recognized by USDA to perform NOP accreditations. Recognized accreditation programmes as of March 2003 were those of Denmark, France, New Zealand, Quebec and the United Kingdom.³¹ Certification bodies in those countries may be assessed by their own government agency to determine if they fulfil NOP requirements. For certification bodies in the NOP system, ISO Guide 65 accreditation is voluntary.³²

Japan Agricultural Standard

In early 2000, MAFF enacted the JAS, which took effect in April 2001. Henceforth, organic products of vegetal origin sold in Japan needed to bear the JAS seal and to be certified by an approved and registered certification body. The JAS rule requires that each processing or packaging plant has a qualified “Grading Manager” responsible for reviewing the audit trail and an operating procedure and grading report to demonstrate that the audit trail is JAS-compliant.³³ As of May 2002, there were 62 Registered Certification Organizations from Japan and 6 Registered Foreign Certification Organizations. A particularity is that de-certification decisions fall under the direct responsibility of MAFF and are not the responsibility of the certifying body. In addition, MAFF has recognized the EU, USDA and Australian organic guarantee systems. Even so, Japanese traders and processing companies still need to get a “government or corresponding organization’s certificate” to use products certified under those systems.³⁴

Internal control systems

Many organic regulations³⁵ and the IFOAM/IOAS system allow for group certifications. In that case the farmer group must establish an internal control system that ensures that all individual members comply with the standard, and which includes a documentation system. The role of the

29. EEC, 1991.

30. Commins and Kung Wai, 2002.

31. USDA, 2003.

32. Anonymous, 2002b.

33. Weinberg, 2002b.

34. Anonymous 2002a.

35. Additional countries and administrative units that have regulations are: Argentina, Australia, Bulgaria, Canada, People's Republic of China, Costa Rica, Czech Republic, Hong Kong Special Administrative Region, Hungary, Iceland, India, New Zealand, Norway, Slovak Republic, Slovenia, Republic of Korea, Switzerland, Taiwan Province of China, Thailand, Tunisia and Turkey. Other countries are in the process of formulating regulations.

certification body then becomes to control whether the internal control system works properly. Continuing discussions are being held on the requirements for such systems and the so-called “re-inspection rate” (i.e. the percentage of individual farmers to be “re-inspected” by the external body).

International harmonization of organic standards and certification systems

The current plethora of different standards and different requirements for certification and labelling increases certification costs for producers wishing to export to multiple markets. It also poses logistic challenges for international organic trade. Especially for compound products with ingredients from several origins and with various potential markets, the administrative problems multiply. In an effort to harmonize existing organic guarantee systems, a taskforce has been formed by IFOAM, FAO and UNCTAD. This International Taskforce on Harmonization and Equivalence in Organic Agriculture started work in 2003, and is to serve as an open-ended platform for dialogue. It will work on proposals related to mechanisms for the establishment of equivalence of standards, regulations and conformity assessment systems for the consideration of governments, the Codex Alimentarius Commission and other relevant bodies.

Label and market

There are countless organic labels, reflecting the many organic certification programmes. However, in those countries with an organic regulation, the use of organic claims is subject to strict criteria. For compound products, it is usually stipulated that only when a high percentage (90–100 percent) of the ingredients come from certified organic facilities may the product be called organic. If the “organic percentage” falls below the specified level, it is in many cases allowed to specify organic ingredients in the ingredient list. In general, organic claims should be accompanied by information on the certification body and the system or regulation under which these products are certified. The IFOAM accredited seal may appear on the product only as part of the logo of the certification body and in the bodies own promotional material. The use of the European and the USDA logo is voluntary, provided the requirements for use are fulfilled. In Japan, the use of the JAS logo is compulsory if any organic claims are to be made.³⁶

World retail sales of organic products were estimated by the International Trade Centre (ITC) to be US\$19 billion in 2001, up from US\$10 billion in 1997. In 2003, the European market was expected to reach US\$10–11 billion in total organic sales, North America US\$12 billion and Japan US\$400 million. Before the JAS regulation came into effect there was an undifferentiated “green market” in Japan, and the share of organic within this green market was unknown. As a consequence Japanese figures were usually highly overstated.³⁷ More details on the organic markets for selected horticultural and tropical commodities are given in Chapter 5.

THE SMITHSONIAN “BIRD FRIENDLY” SHADE COFFEE³⁸

The Smithsonian Migratory Bird Center is part of the Smithsonian National Zoological Park, a United States of America governmental institute for wildlife research and conservation. The Smithsonian Migratory Bird Center aims to protect migratory birds and their habitats, and its activities extend throughout the Americas. The centre claims to look both at the way human-made changes affect bird populations and the way bird habitat preservation will affect human populations.

Development and scope of the standard

The guidelines for shade coffee have been developed by the institution’s scientists. Their field work focused on the Americas and they acknowledge limited knowledge about shade systems in Africa and Asia, and therefore further research would be required before the standards could be adopted and applied beyond the Americas. During the initial standard-setting process there was hardly

36. Schmid, 2002; Riddle and Coody, 2002; Weinberg, 2002a.

37. Kortbech-Olesen, 2003.

38. Smithsonian Migratory Bird Center, 2003; Consumers Union, 2002.

any stakeholder involvement, but, in 2003, the Centre invited public comments on the standards. The standards are mainly requirements additional to organic criteria, as organic certification is a prerequisite for bird friendly certification. Criteria focus on the species composition of shade trees, canopy structure, secondary plant diversity and buffer zones. The certification programme began in 1999.

Accreditation and certification

The Smithsonian institute accredits organic certification bodies that are accredited by the USDA against ISO Guide 65 for bodies operating product certification systems.³⁹ In addition, inspectors should be trained and individually accredited by the Smithsonian Migratory Bird Center. Inspection may be done at the same time as the organic inspection. The certification system allows for certification of collective operators with an internal control system.

Label and market

Coffee from certified production facilities may carry the “Bird Friendly” label. The label is exclusively used in the United States of America. The centre does not publish data on sales volumes of labelled coffee, but estimates are included in the figures for labelled coffee presented in Chapter 5.

ISO 14001

Although ISO 14001 is not a *de jure* intergovernmental standard, it is *de facto* as governments are involved in or endorse the ISO system as a whole. ISO has long been recognized as the major standard-setting body for voluntary international harmonized industry standards. ISO declares itself to be a not-for-profit, non-governmental organization. Its member bodies are either governmental, parastatal, tripartite or non-governmental bodies, the last-named group often consisting of industry representatives. There can only be one ISO member per country. ISO was founded in 1947 and has its Central Secretariat in Geneva. Only recently has ISO started to develop environmental standards, and has started work on social responsibility.

ISO has been mentioned several times in preceding paragraphs with reference to its guidelines for the standard-setting and certification process. The most important ISO standards in this respect are the ‘definitions’ (Guide 2), guides for standard-setting (Guides 7 and 59), for accreditation (Guide 61) and for certification bodies (Guides 62, 65 and 66). However, this section deals with the environmental management standard ISO 14001.

Development and scope of standard

ISO/TC 207 is the ISO Technical Committee responsible for developing and maintaining the ISO 14000 series. TC 207 consists of business and government experts from 55 countries. The first standards of the series were published in 1996.⁴⁰ The standard that can be implemented by companies and against which companies can be certified is ISO 14001 *Environmental management systems – Specification with guidance for use*. ISO 14004 gives guidelines on principles, systems and supporting techniques for the implementation of environmental management systems, including guidance that goes beyond requirements of ISO 14001. Other standards in the ISO 14000 series are “tools” for implementing an environmental management system and deal with environmental monitoring and auditing, labelling and product life cycle assessment.

ISO 14001 has been written to support implementation of environmental management systems in many different types of organizations, including manufacturing and service companies, government agencies, associations and NGOs. Requirements for certification are the development of an environmental policy, including an implementation and communication plan, definition of responsibilities, staff training activities, documentation and monitoring. Apart from compliance being

39. Smithsonian Migratory Bird Center, 2002.

40. ISO, 1998a.

required with local (environmental) rules and legislation, the standard does not set specific performance targets. Instead, ISO 14001 aims at continuous improvement.

Accreditation and certification

ISO itself does not certify nor does it accredit certification bodies.⁴¹ Certification against ISO 14001 is carried out by either governmental or private certification bodies on their own responsibility. Usually they are required (by the country in which they operate) to be accredited by their national accreditation authorities, typically members of the International Accreditation Federation. Because ISO only sets the standards and has no authority to control accreditation and certification activities, the ISO logo can not be used in connection with certification or certificates, nor used on labels.

Label and markets

A growing number of farms are being certified against the ISO 14001 standard. However, products from these facilities can not be labelled as ISO 14001 certified, because the product itself is not certified. However, an indication on the product that the producing *firm* is ISO 14001 certified, including indication of the certification body would be allowed. Use of such reference would fall under the control of the certification body. More and more of such “ISO 14001 certified firm” claims can be found on products.

ISO 14001 is rapidly becoming a default certification for plantations. Managers of such large production units often claim that ISO 14001 has been very useful for them in structuring their documentation, providing environmental management tools and, in some cases, reducing costs. Because there is no price premium and the certification can be costly and requires extensive documentation, ISO 14001 might be less attractive for smaller agricultural operations.

4.3 STANDARDS SET BY INDUSTRY

EUREPGAP⁴²

This is a private certification system driven by 22 large-scale retail chains in Europe, that form the core members of the Euro-Retailer Produce Association (EUREP). The EUREP Good Agriculture Practices (EurepGap) scheme brings those 22 retailers together with large-scale fresh produce suppliers and producers. Furthermore, there are associate members from the input and service side of agriculture (mainly suppliers of agrochemicals, certification bodies and consultancy firms). The associate members may participate in meetings but they are not part of the EurepGap decision-making process. Initially, the EuroHandelsinstitut e.V. (EHI) acted as international secretariat. In March 2001, EHI founded an independent daughter company, FoodPLUS GmbH, a commercial company that acts as global body, serves as legal owner of the normative document, and hosts the EUREP Secretariat.

Development and scope of standard

The EurepGap Fruits and Vegetables standard was developed by the EurepGap Technical Committee – Fruits and Vegetables. This Committee used to be dominated by retailers, but now consists of half retailers and half supplier representatives. Other standards are currently under development by other Technical Committees. So far only the Fruits and Vegetables standard is operational. In the rest of this text the term EurepGap is used to indicate “EurepGap Fruits and Vegetables”.

EurepGap has the declared aim of increasing consumer confidence in the safety of the food. The main focus of the EurepGap norms is on food safety and traceability. The norms also address some environmental (integrated pest management (IPM) practices) and some social (issues on workers health) dimensions, although these have been criticized for being rather vague. EurepGap was also aimed at harmonization of requirements for food hygiene and for Maximum Residue Limits (MRLs)

41. ISO, 1998b.

42. FoodPLUS, 2002; M. Andersen, RUTA/FAO, pers. comm.

for pesticides in food. This harmonization effort has only partly been successful, considering that not all retailers are involved and that the standards refer to existing governmental regulations, which are not the same across Europe.

The EurepGap system is targeted at large-scale producers (that at least is the experience so far in Latin America), who have the human and financial resources to implement and monitor the EurepGap “management system”.

Certification and accreditation

Certification bodies wishing to certify against EurepGap need to be accredited by FoodPLUS. A prerequisite for accreditation is an ISO 65/EN 45011 accreditation. A particularity of the EurepGap system is the possibility of the issuing of non-accredited certificates. Each applicant certification body is given a period of six months to complete the required accreditation, which includes the issuing of non-accredited certificates as a practical exercise. In communications with the retailer, such non-accredited certificates are said to be also accepted.

In addition to the certification costs, certified producers have to pay an annual fee to FoodPLUS (around €25 a year). Farmer associations that have already implemented an existing farm assurance scheme with third-party verification can benchmark that scheme against EurepGap. If the farm assurance scheme is accepted as equivalent and is accredited, the farm audit for that scheme would serve as an EurepGap audit as well.

It is also possible for a so-called “Produce Marketing Organization” (PMO) to get a group certification. A PMO can be a cooperative or other group of growers that have a legal entity that takes over responsibilities of EurepGap implementation for the associated and contracted growers through an internal control system. Detected non-compliance of one farmer in the group may lead to de-certification of the whole group.

Label and market

There is no product label associated with EurepGap certification and no premium. The market for products from EurepGap certified produce consists of the 22 EUREP retailers. Certification will not be a guarantee for being “listed” by those supermarkets, but may become a prerequisite. It was said that some retailers would require EurepGap certification for fresh fruits and vegetables as early as January 2003. However, in spring 2003, information on the EurepGap web site read: “Some retailers are saying that all their suppliers must be EurepGap certified by 2004. Others do not have a deadline, but will in time question why preferred suppliers are not EurepGap certified and perhaps review their decision to do business with them”.

Although there is no product label, EurepGap is currently preparing the rules and prerequisites for carrying a reference to EurepGap at individual box level. This might lead to appearance of EurepGap references in European supermarkets, albeit not on the individual products.

COLEACP HARMONIZED FRAMEWORK

The COLEACP is an inter-professional association of exporters, importers and other stakeholders in the EU-ACP⁴³ horticultural trade.⁴⁴ To improve market recognition of ACP produce and to respond to market demands for environmentally and socially responsible conditions of production, COLEACP took the initiative to encourage horticultural export associations to move towards harmonization of their Codes of Practice. The COLEACP Harmonized Framework is meant as a minimal set of food safety, environmental and social standards to be incorporated into national codes. At the time of writing (December 2002), 13 fresh produce trade associations were participating, coming from 9 African and Caribbean countries.

43. Country in Africa, the Caribbean or the Pacific that has signed the Cotonou agreement with the European Union.

44. COLEACP, 2001.

Development and scope of the standard

The standard was developed on the basis of a comparison of existing codes from the participating organizations and a benchmarking analysis against existing codes in Europe. A Monitoring Committee, including representatives of each of the participating associations, reviews the Framework annually.

The Harmonized Framework is a “generic standard” or a “standard for standards”. The Framework applies to all exports of fresh horticultural produce: fruits, vegetables, floriculture products and herbs, but excludes processed products. The requirements cover the whole production chain from farm to export, i.e. production, harvesting, post-harvest treatments, packaging and storage. National trade associations may set more stringent standards for certain parameters or may develop additional sets of requirements to meet specific circumstances.

The Framework contains standards for *food safety* during crop production and during harvesting and post-harvest handling and facilities. *Environmental standards* include criteria for the selection, use, storage and transportation of pesticides and fertilizers; use of integrated crop management; occupational health and safety; water, soil and waste management; protection of flora and fauna; energy use; packaging materials; and record keeping. *Labour standards* address contracts, remuneration and working hours; disciplinary and grievance procedures; freedom of association and collective bargaining; no discrimination; protection of interests of children; special conditions for female employees; no forced labour; no harsh or inhumane treatment; occupational health and safety; access to health care services and sanitation; and worker accommodation. Furthermore, the framework contains a chapter on *relationships with outgrowers*, including standards on production and purchasing policy; technical advice; and support for implementation of the code.

Accreditation and certification

Any association wishing to claim that their standard complies with the Harmonized Framework must submit their code annually for verification by the Harmonized Framework Monitoring Group. This can be considered a type of accreditation mechanism.

Being a generic standard, the Harmonized Framework does not involve any certification or labelling programme. However, the Framework does require that national codes have a certification system with annual audits executed by third-party, independent auditing teams. These may be internationally recognized auditing bodies or in-country audit teams that in turn are externally verified. In-country auditors will have to attend the COLEACP auditor training course, and external auditing bodies will have to be approved by the Harmonized Framework Monitoring Group.

However, due to a lack of resources, COLEACP had to suspend the activities of the Monitoring Group. Nevertheless, national producer associations continue to work with the Harmonized Framework. An example of a national code operating according to this system is the well known Silver and Gold standards of the Kenya Flower Council. Another example is the Code of Practice for the Zimbabwe Horticulture Industry, from the Horticultural Promotion Council of Zimbabwe. Because they are national sector initiatives, they fall outside the scope of this publication.

Label and market

There is no label associated with the Harmonized Framework. Some of the programmes of associated associations have developed a label that is granted to certified producers. Despite the attempt to increase recognition for all participating schemes, there seems still to be quite some variation in levels of recognition obtained by individual schemes in the European markets. Specific market data related to certified produce are lacking.

4.4 STANDARDS SET BY NGOs

Although IFOAM is an NGO, the organic movement and IBS were dealt with earlier, together with governmental organic regulations.

RAINFOREST ALLIANCE CERTIFIED

The Sustainable Agriculture Network (SAN; formerly the Conservation Agriculture Network (CAN)) is a coalition of ten conservation-oriented NGOs in the Americas.⁴⁵ The programme initially focused on the environmental impact of production methods and on habitat conservation, but has increasingly incorporated standards for community relations and labour conditions. The Rainforest Alliance is the main force behind the initiative, and its Costa Rican office is the secretariat of SAN (the Rainforest Alliance head office is in New York).⁴⁶

Development and scope of standards

The product-specific standards have been developed together with producers, mainly from Costa Rica and other Latin American countries. The programme has set standards for five tropical crops: bananas, citrus, coffee, cocoa, and ferns and ornamental plants. Currently “whole farm” standards are being developed, for farms that grow additional crops for which no crop-specific standards currently exist. Promotion and uptake of the standards has mainly been confined to the Americas.

Environmental standards include the prohibition of clearing of primary forest and requirements for soil and water management and conservation and buffer zones; detailed requirements for the use, storage and transport of agrochemicals; integrated pest management; criteria for waste management and recycling; and requirements for a monitoring system. With respect to the *Social criteria* the certified company should respect all ILO conventions ratified by the country in which they operate. For those issues for which the ILO conventions are not ratified the certification standards apply directly. These include requirements for a social policy and communication to workers; contracts and wages; no discrimination; no child labour below 14 and specific conditions for young and disabled workers and pregnant women; no forced labour; freedom of expression and the right to organize and collective bargaining; occupational health and safety; working hours; training; accommodation; and linkages with local communities.

Accreditation and certification

There is no accreditation system. In most cases the certification is done by the local SAN member. The Rainforest Alliance operates the certification system in Costa Rica and Honduras and in countries where there is no SAN member. All auditors, also those from SAN members, are trained by the Sustainable Agriculture Programme secretariat, i.e. the Rainforest Alliance. The producers pay for the auditing and certification costs depending on service delivered (i.e. actual auditor days and travel, etc.) and on top of that a fixed amount per hectare.⁴⁷

Label and markets

The former “Better Banana Project” and “ECO-OK” seals are currently (2003) being replaced by a new label: “Rainforest Alliance Certified”. The seals are used mostly in public relations activities of certified producers, and in relations between producers and buyers (importers, wholesalers and retailers). The label is administered by the Rainforest Alliance, and they charge a fee for use of the label on products, although this fee may be waived.

Until now the labels have been little used directly on the product, except for coffee and orange juice in the Americas and Japan. Companies that consider their own trade mark to be a quality mark are hesitant to use an additional label. Furthermore, in Europe, the ECO-OK label could not be used because the term “eco” is legally reserved for organic claims. In addition, in the trade chain, the large banana companies (Chiquita and Reybanpac) did not separate bananas from certified facilities from

45. CAN, 2001; Rainforest Alliance, 2003.

46. Other SAN members are Conservación y Desarrollo (CyD) in Ecuador; Centro Científico Tropical (CCT) in Costa Rica; Toledo Institute for Development and the Environment (TIDE) in Belize; SalvaNatura in El Salvador; Instituto Para la Cooperación y Autodesarrollo (ICADE) in Honduras; Fundación Interamericana de Investigación Tropical (FIIT) in Guatemala; Pronatura Chiapas in Mexico; Fundación Natura in Colombia; and Imaflora in Brazil.

47. CAN, pers. comm.

bananas from non-certified facilities. That meant that not until all production facilities and independent suppliers of the company had been certified could a claim be made towards end-consumers.

In 2002, a chain-of-custody protocol was developed and tested on coffee mills. The new label is already used on coffee and in future might be used more directly on end products. Because many products from certified facilities are not labelled, there is no clear market segment for Rainforest Alliance Certified products.

FAIR TRADE

The fair-trade initiatives try to provide better market access and better trading conditions for small-scale farmers. This includes a price premium for producers to be invested in social and environmental improvements. For larger production units an additional aim is to improve the conditions for workers. The Fairtrade Labelling Organizations (FLO) International was founded in 1997 as an umbrella organization of 17 national fair-trade labelling initiatives. Now also producers and traders are represented on the board and on various committees.

Development and scope of standards

Since its inception, FLO has established product standards, starting with coffee. In 2002, FLO established a framework of generic standards differentiated for smallholder production and plantations, complemented with product-specific criteria where appropriate. The standards encompass: labour standards; standards for farmer associations and cooperatives; and trade standards, including minimum prices, for licensed traders. *Labour standards* to be complied with by plantations and factories include freedom of association; criteria for wages and accommodation; occupational health and safety standards; and no child or forced labour can occur. Standards for *farmers' associations* and cooperatives set criteria for a democratic participative organizational structure. *Trading standards* stipulate that traders have to pay the FLO minimum price plus the fair-trade premium, partially pay in advance when producers ask for it, and commit themselves to a long-term trade relationship. *Environmental* criteria are included in the crop-specific standards.

Currently, product-specific standards exist for coffee, tea, cocoa, cane sugar, honey, bananas, other fresh fruit, fruit juices, bananas, rice and sports balls. Standards for wine and cut flowers are being developed. In 2003, FLO was expecting to develop generic standards for environmental criteria and for the determination of minimum prices. Currently, these prices are set in different ways: for coffee, for example, the minimum price established by the International Coffee Organization a few decades ago is the reference, while minimum prices for bananas are set country-by-country on the basis of production costs.⁴⁸

Accreditation and certification

In 2002, FLO was reorganized to allow for a greater separation between its four functions of promoting fair-trade in general, producer support, standard-setting and certification. Since January 2003, the certification unit is a legally independent certification body. Inspection is done by local auditors, while the certification decision is taken at FLO headquarters in Bonn, Germany. FLO will also recognize Certimex, an organic certification body in Mexico, as an inspection body for FLO. This will further reduce certification costs.⁴⁹ The national fair trade labelling initiatives grant licence fees to traders of fair-trade labelled products (against a fee) and monitor the trade flow to control that the label is used correctly. Furthermore, the national initiatives promote the label and fair trade in general. Part of the licence fees are channelled to FLO to cover the certification costs. This makes it possible to certify producer organizations free of charge.

48. FLO, 2003.

49. Zonneveld, 2003.

Label and markets

Since 2003, the various national fair trade labels in Europe are being replaced by the new International Fairtrade Certification Mark. In the United States of America and in Canada, the national labels will continue to be used for the time being. The international label will greatly reduce logistical costs as products will not have to be packaged separately for each destination.

Year-on-year growth of fair-trade volumes has been around 20 percent for the last few years. The biggest volumes have been reached for bananas, with a total of 30 000 tonnes traded in 2001, and for coffee, with 14 000 tonnes traded. The largest fair-trade markets are Switzerland and the United Kingdom.⁵⁰

SA8000

The Social Accountability Standard SA 8000 is a workplace standard developed by Social Accountability International (SAI) in 1998.⁵¹ SAI was founded by the Council on Economic Priorities, a corporate social responsibility research institute based in the United States of America, that operated from 1969 to 2001. In 1996, SAI convened an international multi-stakeholder Advisory Board to develop the SA8000 standards. The SAI Advisory Board includes experts from trade unions, businesses and NGOs. SAI is based in New York.

Development and scope of standards

The standard promotes the implementation of International Labour Organization (ILO) conventions covering social justice and working conditions. These include prohibition of child or forced labour, enforcement of safe and healthy working environments, rights to freedom of association and to collective bargaining, and criteria on working hours, wages, freedom from discrimination and the requirement for a social management system.

The standards were initially developed for the manufacturing industry, and approved for use in the agriculture sector in 2000. The standards were revised in 2001 and another revision of the guidance documents is underway.

Certification and accreditation

SAI accredits certification bodies to audit production facilities. Accreditation requirements include: demonstrated adherence to ISO/IEC Guide 62; documentation on how to obtain information about working conditions from regional interested parties, NGOs and workers; information on how it will determine the sufficient wage level; and documentation on how it ensures that audit personnel are trained in the components and application of SA8000. The individual auditors performing the inspections must be accredited as well.

Companies that do a substantial amount of sourcing from contracted suppliers can join the Signatory Member programme, which requires that the company issue a plan for moving company-owned and supplier facilities to SA8000 certification over time, and report publicly on progress. SA8000 was approved for use in the agriculture sector in 2000, and so far 15 agriculture facilities have been certified, covering growing, packing and processing of bananas, pineapples, canned fruit, coffee, tobacco and wine.

Label and markets

The SAI-SA8000 label is not used on products. Certified facilities and signatories may use the label in their communications. Consequently there is no differentiated market for SA8000-certified products. The “market” could be understood to be those large buyers, e.g. retailers, that are Signatory Members and consequently try to move their suppliers towards SA8000 certification.

50. FLO, pers. comm.

51. SAI, 2003.

4.5 STANDARDS WITHOUT CERTIFICATION PROGRAMMES

ICFTU/ITS BASIC CODE OF LABOUR PRACTICE

The International Confederation of Free Trade Unions (ICFTU) was set up in 1949 and has 231 affiliated organizations in 150 countries, with a membership of 158 million.⁵² It is a confederation of national trade union centres, each of which links together trade unions of that particular country. It also maintains close links with Global Union Federations, which link together national unions from a particular trade or industry at international level, such as the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF).

Development and scope of standard

The text of the code was developed by the ICFTU/ITS Working Party on Multinational Companies, with consultations with various trade union organizations and other interested individuals and organizations. The Basic Code aims to establish a minimum list of standards that ought to be included in all codes of conduct covering labour practices. These could be company codes of conduct, especially codes that are meant to apply to the international operations of a multinational company. The purpose of the Basic Code is to promote the primacy of international labour standards and to incorporate freedom of association and the right to collective bargaining. It is not intended that collective bargaining agreements should be limited to the provisions of the code.

The Basic Code is also meant to encourage the use of consistent language in codes of conduct and to assist any trade union in negotiations with companies and in working with NGOs in campaigns involving codes of conduct.

The content of the code follows the same ILO conventions as the SA8000 standard. Because the ICFTU Basic Code is a generic code and not meant for certification purposes, it is not as detailed with respect to verifiable indicators. Although not meant for certification, it can be used as a benchmark for evaluating any codes of labour practice adopted unilaterally.

ETHICAL TRADING INITIATIVE

The Ethical Trading Initiative (ETI) is a multi-stakeholder alliance in the United Kingdom.⁵³ It has a tripartite structure in which NGOs, unions and the private sector are represented, with support from government. The ETI focuses on ethical sourcing by companies, in particular retail chains. Although the ETI is a national initiative, and strictly speaking outside the scope of this paper, the sourcing and impact are international. The ETI is a learning initiative to gain insight into how social standards can be developed and implemented.

Development and scope of standards

ETI has developed a Base Code of nine principles, based on ILO conventions. The Base Code was first published in 1998, and is similar to the SA8000 standard. The ETI conducts various pilot projects to learn about: monitoring implementation of the Base Code; implementing core labour standards as part of supply chain management in a given country; applying the Base Code in circumstances that have been identified as potentially problematic; and particular aspects of implementing the Base Code. Pilot projects conducted in the agricultural sector so far are a horticulture project in Zimbabwe and a project in the wine industry in South Africa. A pilot project on bananas in Costa Rica has been stopped at mid-term due to the inability of the three parties of the Costa Rican tripartite steering committee to agree.

The horticulture pilot project in Zimbabwe resulted in the formation of the Agricultural Ethics Assurance Association of Zimbabwe (AEAAZ), a tripartite association of local business, trade unions

52. ICFTU, 1997, 2003.

53. ETI, 2003.

and development agencies. AEAAZ plans to implement a system of monitoring and verification of its own code, which is currently in draft form.

Accreditation, certification, label and market

Companies involved in the ETI execute internal business evaluation programmes to assess compliance with the ETI Base Code and subsequently try to address non-conformities encountered in the evaluations. There is no certification system and consequently no label or specific market.

SUSTAINABLE AGRICULTURE INITIATIVE PLATFORM

The Sustainable Agriculture Initiative Platform (SAI-Platform) was founded in 2002 by three major global food industry companies – Unilever, Nestlé and Danone – to actively support the development of sustainable agriculture and to communicate it worldwide. By 2003, there were already 16 food industry companies that were member of the SAI-Platform. The platform defines sustainable agriculture as a productive, competitive and efficient way to produce agricultural raw materials, while at the same time protecting and improving the natural environment and socio-economic conditions of local communities.

SAI-Platform aims for recognition and implementation of sustainable practices for mainstream agriculture (not niche markets) on a worldwide scale. The individual SAI-Platform members are free to decide whether or not to participate in assessment processes, and are free to take any specific action, such as with respect to implementation.⁵⁴ The SAI-Platform held its first General Assembly in April 2003, and created three working groups to develop guidelines for cereals, coffee and palm oil.

For tropical and horticultural crops, the work by Unilever on sustainability indicators is relevant. In pilot projects, good agricultural practices are developed and parameters are defined to evaluate performance for each indicator. The ten indicators are: soil fertility and health; soil loss; nutrients; pest management; biodiversity; product value; energy; water; social and human capital; and local economy. Guidelines for best practices have been developed for tea (plantations and smallholders), palm oil, peas and spinach, and are being developed for tomato, rapeseed and sunflower. The guidelines are specific for the country in which the pilot project that developed them operates or operated, but always conform to the ten sustainability indicators.⁵⁵

There is no certification system or label associated with SAI-Platform, but its members form a large part of the total market for food products. Suppliers to these firms may be asked to participate in pilot projects or in general to implement guidelines developed by the platform or one of its members.

“RACE TO THE TOP” PROJECT⁵⁶

Being a national initiative, and not having formulated a real standard, the “Race to the Top” project nominally falls outside the scope of this paper. However, the “Race to the Top” project is worth mentioning because it has a potential impact on producers and on the above-mentioned certification initiatives. “Race to the Top” is a collaborative project of major United Kingdom multiple retailers and an alliance of farming, conservation, labour, animal welfare and sustainable development organizations. The project is coordinated by the International Institute for Environment and Development (IIED), and will offer supermarkets independent benchmarking against indicators grouped in seven modules: environment (emissions and waste); giving a fair deal to producers; wages and conditions for workers; communities (local sourcing); nature (on-farm); animal welfare; and healthy food. In 2002, indicators and measures were developed, and, in 2003, baseline data were to be collected against which progress could be measured. The “Race to the Top” project has the potential to develop into a certification scheme for food retailers.

54. SAI-Platform, 2003.

55. Unilever, 2002.

56. IIED, 2003.

4.6 COLLABORATION IN LABELLING INITIATIVES

Certification bodies increasingly seek multiple accreditations, so that they can offer more certification schemes to their clients. This may potentially lessen the burden for multiple-certified farmers with respect to documentation requirements and certification costs. Certification bodies could potentially cover two programmes with one integrated audit. However, it is not always easy to really integrate the audits, because the various certification programmes have different reporting requirements, and sometimes even contradicting demands on farmers. It is therefore encouraging that some of the labelling and accreditation programmes are increasingly collaborating.

ISEAL ALLIANCE⁵⁷

The International Social and Environmental Accreditation and Labelling (ISEAL) Alliance is an effort of leading international standard-setting, accreditation and labelling organizations that are concerned with social and environmental criteria in product and renewable resource management certification. These include SAN, FLO, IFOAM, IOAS and SAI. The main goals of the ISEAL Alliance are to attain credibility and recognition for the participating organizations, to defend common interests and to promote continuing professional improvement of member activities.

ISEAL members have their origins in civil society and claim a diverse range of stakeholders in their decision-making structures. In addition, their standards and accreditation programmes are truly international in nature and focus on non-product-related process and production method certification. These characteristics combine to make ISEAL member organizations unusual within the fields of conformity assessment and voluntary labelling instruments. As such, members have prioritized the need to monitor and have input into policy development to ensure that interpretations of regulatory issues and voluntary frameworks are favourable to member programmes, and that these types of conformity assessment programmes are recognized as legitimate.

A programme of peer review will be implemented for both standard-setting and accreditation. For accreditation, participating organizations will be assessed against ISO/IEC Guide 61:1996 *General requirements for assessment and accreditation of certification/registration bodies* and ISEAL Guidance. For standard-setting, a similar guidance document (a Code of Good Practice for Voluntary Standard-setting Procedures) is being developed through a multi-stakeholder discussion process, to complement Annex 3 of the Technical Barriers to Trade (TBT) Agreement of the WTO and relevant elements of ISO Guide 59. Their approach is to start with those internationally recognized standard-setting procedures, and adapt them to be more appropriate to voluntary process and production method (PPM) standards.

A long-term objective for ISEAL is to act as a broker in the harmonization of members' systems. This begins with the harmonization of procedures for setting standards and carrying out accreditation, and will move to the harmonization and elimination of duplication in areas where members' standards overlap.

SASA PROJECT⁵⁸

Four ISEAL members – FLO, IFOAM, SAI and SAN – also undertake the Social Accountability in Sustainable Agriculture (SASA) project. The objectives of the project are to enhance cooperation among the organizations and to develop guidelines and tools for social auditing for a wide range of agricultural production systems and product chains. Additional sub-objectives are to examine supply chain actors' impacts and responsibilities, to address the particular needs of smallholder producers, and to explore the possibilities for integrated audits for multiple certification programmes.

57. ISEAL, 2003a.

58. ISEAL, 2003b.

In order to achieve these objectives, the four organizations are conducting a series of pilot exercises in different crops around the world, in both developing and industrialized countries. Around each pilot audit a consultative e-mail discussion and a local stakeholder meeting are organized to ensure broad input into the project. In combination, pilot activities help the development of best practice recommendations for verifying safe and decent workplace conditions in diverse agricultural settings. Examples of critical social issues that have been recognized as posing challenges for social auditing are working hours in seasonal production systems and freedom of association and right to collective bargaining.

Apart from the pilot audits, workshops are organized to focus on specific standards or certification procedures, such as smallholder group certification for social audits. In addition, to facilitate auditing against multiple standards during one inspection visit, an integrated audit template is being developed, together with recommendations for joint training of inspectors.

5. PRODUCTION AND MARKETS

National agricultural census data and official import statistics normally do not distinguish between certified and non-certified land and products. Therefore, the figures presented in this chapter are estimates, based on multiple information sources.

Differentiated markets mainly exist for those certified products that are also labelled. Of the programmes discussed in the foregoing chapter, only organic and fair-trade certified products are labelled, together with a small amount of SAN-certified coffee. Markets for these labelled products are initially discussed in general in section 5.1, following which the markets for organic and fair-trade bananas are discussed more in detail in section 5.2 as a case study. Finally, in section 5.3, the less differentiated “markets” for non-labelled SAN, SA8000 and EurepGap certification are discussed.

5.1 MARKETS FOR LABELLED PRODUCTS

ORGANIC PRODUCTION AND MARKETS

According to the SÖL-Survey of February 2003⁵⁹, almost 23 million hectares are managed organically worldwide. More than half of this area is extensive grazing land. Leading countries with tropical climates are Brazil (275 500 ha certified), Uganda (122 000 ha) and China (around 100 000 ha). The percentage of agricultural land cultivated under organic management is highest in Costa Rica, at two percent, followed by Uganda (1.4 percent) and Belize (1.3 percent). The main certified organic tropical products are coffee, banana, cocoa, cane sugar, tea, cotton and pineapple.⁶⁰

Local markets for these products are usually very limited, although there are some markets in developing countries, including Argentina, Brazil, People’s Republic of China and Egypt. In Latin America, the most popular form of local organic trade is the farmers’ market. Most Latin American countries also have specialized stores, and supermarkets are beginning to sell organic products, mainly fresh fruits and vegetables. Also, box schemes and home delivery systems exist. Often there are no price premiums obtained on the local market. Inspired by the Japanese Teikei and American Community Supported Agriculture (CSA), similar CSA systems (la Comunidad Sustenta a la Agricultura) have been set up, e.g. in southern Brazil and around Lima in Peru. In this system, a group of around 40 consumer families supports a farm and shares in the planning, risks and pricing decisions.⁶¹

In Asia, specialized stores exist in Malaysia and the Philippines. In India, especially in the big cities, the market for organic products is growing.⁶² In Africa, the largest markets are South Africa, with supermarkets starting to sell organic products, and Egypt, where Sekem has developed local markets for organic cotton and tea. Efforts continue towards establishing local markets in Kenya, Malawi and Uganda.⁶³

59. Yussefi and Willer, 2003.

60. Yussefi and Willer, 2003.

61. Lernoud, 2003.

62. Yussefi, 2003.

63. Walaga, 2003.

Most certified tropical organic products are produced for export markets. The main markets are Europe, Japan and the United States of America.

The United States of America is the country with the largest market for organic foods and beverages in the world. Organic retail sales were estimated by ITC at close to US\$9.5 billion in 2001 and were expected to reach US\$12 billion in 2003.⁶⁴ Fresh fruit and vegetables are the leading food category. The United States of America retail food market for organic fresh produce is segmented into two primary sectors. The natural food store segment accounted for US\$833 million in organic fresh fruits and vegetables in 1999, whereas the conventional supermarkets accounted for US\$618 million. Together they represented US\$1.45 billion in organic fresh produce sales in 1999. This was 22 percent of the total organic food sales in the United States of America in 1999.⁶⁵ Additional sales of domestically grown fruits and vegetables takes place through direct marketing channels. A survey by the Organic Farming Research Foundation in 1997 found that organic farmers sold produce from 23 percent of their vegetable acreage direct to consumers.⁶⁶ Probably the relative importance of direct sales has fallen since then due to the growth of sales in natural food stores and supermarkets. According to the Nutrition Business Journal, total sales of organic fruits and vegetables increased to US\$2.2 billion in 2000.⁶⁷

In 2001, the size of the organic food market in Europe was estimated to be US\$9 billion. Forecasts for 2003 were between US\$10 and 11 billion. Most of the sales take place in the countries of the European Economic Area, with Switzerland well in the lead. Switzerland has the highest organic share of total food sales.⁶⁸ The EU market for certified organic fruit and vegetables was estimated to be US\$1.3 to 1.5 billion in 2000, accounting for 15–20 percent of total retail sales of organic products. This market enjoyed rapid growth in the late 1990s, but growth had slowed in 2002.⁶⁹

Before the new JAS regulation of April 2000, no clear definition of “organic product” existed in Japan. Both “organic” and “more environmentally friendly grown” products were referred to by one and the same term. It is estimated that the JAS regulation resulted in only one percent of those “green” products qualifying for the organic label. According to ITC,⁷⁰ it is estimated that the retail value of genuine certified organic products was around US\$400 million in 2003, or less than 0.5 percent of total food sales in Japan. Sales of organic fruit and vegetables have been curtailed by the new JAS regulation. In addition, imports of fresh produce undergo strict phytosanitary controls and many containers are fumigated. Fumigation results in the products losing their organic label (they are then marketed as “no chemical, fumigated”).⁷¹

Organic products tend to command impressive premiums at retail level in developed countries. However, premiums in excess of 50 percent usually have underlying supply constraints and are often temporary and unpredictable. In immature markets, prices may be very unstable, with price premiums varying from 0 to 100 percent in a short time. Long-term high premiums often reflect severe production problems related to chronic endemic pests and diseases that cannot be managed effectively by existing biological and cultural techniques. Situations where organic production costs are as low as, or lower than, conventional production costs will frequently see little or no organic price premium received by farmers, especially as the market matures.⁷²

64. Kortbech-Olesen, 2003.

65. FAO, 2001.

66. Organic Farmers Research Foundation, 1997.

67. Dimitri and Greene, 2002.

68. Kortbech-Olesen, 2003.

69. Youssefi and Willer, 2003.

70. ITC, 2002.

71. D. Nordeng, Ecocert-Qai Japan Ltd., pers. comm.

72. FAO, 2002.

Balanced expansion of supply and demand will be one factor in maintaining the organic price premium. Current consumer premiums not only reflect higher producer prices, but also higher post-harvest handling and traceability costs (e.g. segregated transport and storage), and inefficiencies in the chain due to smaller volumes and lack of information.

RAINFOREST ALLIANCE LABELLED PRODUCTS

Of the products sold from certified farms by the Rainforest Alliance/SAN, only part of the coffee appears on the United States of America and Japanese market with a Rainforest Alliance label. Central America is the main origin of Rainforest Alliance labelled coffee.

FAIR-TRADE PRODUCTION AND MARKETS

The fair-trade initiatives initially aimed to include a wide variety of origins, both to spread benefits and to be able to tell diverse “stories behind the product”. The result has been a highly dispersed producer base, with complex logistical procedures and lack of economies of scale.

Total FLO-labelled sales volumes increased 21 percent in 2002, to reach 58 800 tonnes. The income for the national initiatives from trade licences for the use of the label increased to €4.5 million in 2001. Sales diversified, with coffee accounting only for 57 percent of licence income, down from 71 percent in 1997, while total coffee sales increased during the same period.

Because certification costs are paid out of the trade licence fees, the certification of new producer groups has to be carefully coordinated with traders. The supply base for FLO-labelled products can not be expanded ahead of market demand. Sometimes this leads to missed market opportunities, because products can not be delivered immediately after a trader has expressed interest. Especially for products for which a standard still needs to be developed, a longer lead time is needed. The recently developed generic standards should reduce the time required for crop-specific standard development. FLO is also looking for an alternative financing structure for its certification activities, to be able to certify producers independently of market developments.

MARKETS FOR SELECTED LABELLED PRODUCTS

In Table 1, estimates are given of import volumes in major markets for labelled bananas, coffee, tea and citrus juice, representing the bulk of labelled tropical and horticultural products. More information on the markets for organic and fair-trade bananas is given in the next section.⁷³

73. For more information on the markets for organic citrus, see FAO. 2003a, and for more information on the markets for fair-trade tea, see FAO. 2003b.

Table 1

Sales and import figures for major markets for selected labelled products

Imports (tonnes)	North America	Europe ⁽³⁾	Japan	Total ⁽⁴⁾
Bananas 2002⁽⁷⁾				
Organic	48 000	87 500	5 400	141 300
Fair-trade	–	36 600	Balangon ⁽⁶⁾	36 600
Total⁽¹⁾	48 000	115 000	5 400	168 400
Market share ⁽²⁾	1.1%	2.9%	0.6%	–
Total 2001	39 000	97 500	5 000	141 500
Coffee 2002⁽⁸⁾				
Organic	11 000	13 500?	2 000	26 500
Fair-trade	2 300	13 500	9	15 800
Shade ⁽⁵⁾ (2001)	2 700	100	150	2 950
Total⁽¹⁾	14 000	19 500	2 000	35 500
Market share ⁽²⁾	0.9%	0.7%	0.5%	–
Total 2001	8 800	19 000	1 400	29 200
Tea 2001⁽⁸⁾				
Organic	2 000	2 000	No data	> 4 000
Fair-trade	26	1 039	12	1 077
Total⁽¹⁾	2 000	2 500	No data	> 4 500
Market share ⁽²⁾	2.2%	1.2%	–	–
Fresh citrus 2002⁽¹⁰⁾				
Organic	64 000	130 000	2 000	196 000
Market share ⁽²⁾	2%	2%	0.1%	–
Citrus juice 2002⁽¹⁰⁾				
Organic (SSE)	30 000	24 000	No data	54 000
Fair-trade	0	1387	0	944
Total	30 000	25 390	No data	> 55 400

NOTES: (1) Totals do not always add up because part of fair-trade is also organic (percent organic fair-trade estimated and subtracted from total), except for orange juice, for which currently no organic fair-trade juice is available. Thus, for 2001, it is estimated that 15 percent of fair-trade bananas were organic, and 25 percent in 2002 (newly introduced fair-trade bananas are often organic). (2) Market share is calculated as total certified as percentage of total market. (3) EU(15) + Switzerland + Norway, excluding sales in Italy by CTM Altrmercato without the FLO/Transfair label. (4) Total including other destinations (mainly New Zealand and eastern Europe). (5) Shade coffee includes Rainforest Alliance, ECO-OK and Smithsonian "Bird Friendly" labels. Smithsonian "Bird Friendly" coffee is also organic and may be double counted. (6) Fair-trade bananas on the Japanese market, imported since 1989 from the Philippines by an ATO, Alter Trade Japan. Balangon bananas were also sold as organic, and it is unknown how these have been affected by the recent JAS regulation.

SOURCES: (7) Industry sources, FLO and some official statistics (Dominican Republic and Aduanas, Peru). (8) Organic: for Europe – SIPP0/FiBL/Naturland (2002); for United States of America and Japan: World Bank (2002) and ITC (2002). Fair-trade: FLO. Shade: Giovannucci (2001). (9) SIPP0/FiBL/Naturland (2002); CFC/FAO (2002); FLO. Note that a lot of organic tea is not exported (e.g. domestic organic market in China). Total organic tea production is estimated to be around 9 000 tonnes. (10) FLO; FAO (2003).

5.2 CASE STUDY: THE MARKET FOR ORGANIC AND FAIR-TRADE BANANAS

SOURCES OF SUPPLY

The main supplier of organic bananas is the Dominican Republic. In 2002, its exports topped 60 000 tonnes, exceeding exports of conventional bananas. However, the Dominican Republic exports decreased for the first time since it started exporting organic bananas, due to a drought that curtailed production at the beginning of 2002. The second-largest producer of organic bananas is Ecuador, with about 24 000 tonnes in 2002, after two years of high growth rates.

Peruvian exports have increased dramatically since 2000 and are still growing. Many small-scale growers have completed their conversion periods and Peru exported nearly 19 000 tonnes in 2002, up from less than 1 000 tonnes in 2000. Mexico was for a long time the second-largest exporter of organic bananas, but due to lower growth rates than Ecuador and Peru, it now comes only fourth, with about 14 000 tonnes in 2002.

Other origins of organic bananas are Colombia, Guatemala, Honduras and the Canary Islands (Spain). Growth rates in the Canaries have also been high, albeit from a very low base.

Fair-trade bananas come from Colombia, Costa Rica, the Dominican Republic, Ecuador, Ghana, Peru and the countries in the Windward Islands. There are one or two registered producer groups in each country.

MARKET SITUATION

Organic

An overview of the growth of the organic banana market during recent years is given in Table 2 and Figure 1. Growth rates have been very high, but organic imports still represent only about 2.5 percent of the total European banana market and just over one percent of the North American market.

Demand has been to a large extent driven by perceived health benefits of organic products relative to conventional products. So far, there has been no scientific proof that eating organically-grown food is healthier than non-organically grown food. However, a study in the United States of America did indicate that children with diets of predominantly organic foods have less pesticide residue intake than children with conventional diets.⁷⁴ Other motives for choosing organic bananas are taste, concerns for the environment and, to a lesser extent, altruistic motives (concerns for health hazards for labourers in banana plantations due to pesticide applications).⁷⁵

Fair-trade

So far, fair-trade bananas have only been sold in Europe. Total fair-trade banana imports increased from around 12 500 tonnes in 1997 to about 36 600 tonnes in 2002. From 1998 to 2001, this increase has been due mainly to an increase in the number of countries where fair-trade bananas are sold and to a steady increase in fair-trade imports into Switzerland (see Table 3). In many countries, sales declined after initial success. For example, in The Netherlands, fair-trade bananas gained a 10 percent market share within a few months after introduction in November 1996,⁷⁶ but now account for only about two percent of the total Dutch banana market. A similar development was observed in Germany, where FLO-labelled bananas have almost disappeared. However, after the successful introduction in the United Kingdom in 2000, fair-trade bananas have continued to prove popular with British consumers. and in Belgium sales recovered in 2001 and are on the rise again. The negative trend has also stopped in Denmark.

Table 2

Estimated fresh organic banana imports per year by region or country.

Region or country	Imports ('000 tonnes) ⁽²⁾					Annual growth		
	1998	1999	2000	2001	2002	1999-2000	2000-2001	2001-2002
USA and Canada	13 ⁽³⁾	16	24.5	39	48	53%	60%	23%
Europe ⁽¹⁾	13	23.5	46.5	73	87.5	98%	57%	20%
Japan	3	5.5	6.5	5	5.3	18%	-23%	6%
Other	–	–	–	0.5	0.5	–	–	–
Total	29	45	77.5	117.5	141.3	72%	52%	20%

NOTE: (1) EC(15) + Switzerland + Norway

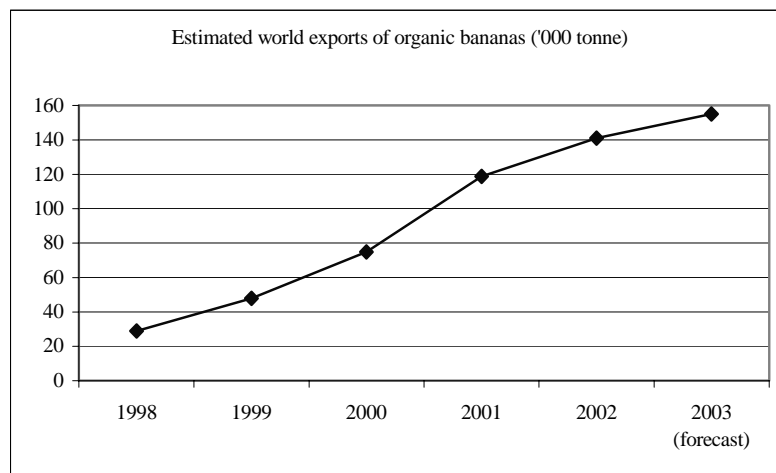
SOURCES: (2) Based on industry estimates, country surveys and official country statistics, unless stated otherwise.

(3) Sauv , 1998.

74. Curl, Fenske and Elgethun, 2003.

75. Zanolli and Naspetti, 2001.

76. Eurofruit, 1997.

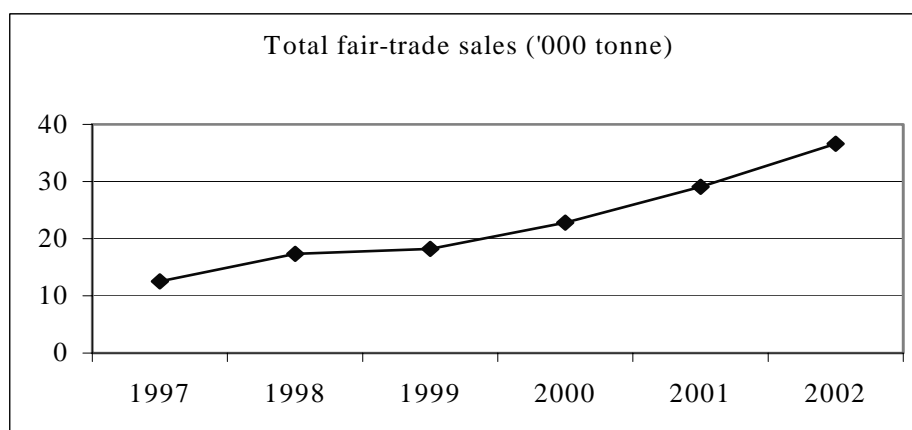
Figure 1 Growth of world exports of organic bananas since 1998**Table 3**

Imports of fair-trade labelled bananas into Europe

Country	Imports (tonnes)					Annual growth		
	1998	1999	2000	2001	2002	1999-2000	2000-2001	2001-2002
Switzerland	7 500	10 778	11 403	13 170	15 090	6%	15%	15%
United Kingdom	–	–	5 557	9 701	11 426		75%	18%
Finland	–	–	–	1 707	2 833			66%
Netherlands	5 200	4 180	3 603	2 303	1 996	-14%	-36%	-13%
Austria	–	–	–	–	1 775			
Belgium	849	431	401	925	1 314	-7%	123%	42%
France	–	–	–	82	696			750%
Sweden	50	301	570	568	586	89%	0%	18%
Denmark	725	847	493	294	365	-42%	-40%	24%
Luxembourg	–	74	179	168	178	142%	-6%	6%
Norway	–	–	–	33	154			367%
Germany	3 042	1 580	617	101	117	-61%	-84%	16%
Italy ⁽¹⁾	–	–	–	20	82			310%
Total	17 366	18 191	22 823	29 065	36 612	25%	27%	26%

NOTE: (1) In Italy in 2001 the alternative trade organization CTM Altromercato started selling fair-trade bananas from FLO-certified producers complying with FLO trade criteria, but without the label of Transfair Italy. These figures were not available and therefore not included in this table, but are part of the fair-trade demand in Italy.

SOURCE: Data supplied by FLO.

Figure 2 Growth of fair-trade banana sales since 1997

Switzerland is still the largest market for fair-trade bananas and, somewhat surprisingly, this market continues to grow. Fair-trade bananas are distributed and promoted by mainstream supermarket chains and have a market share of about 20 percent. The success is partly attributed to the high consumer awareness of fair-trade issues and the active promotion by the two main supermarket chains. Other factors include no or low consumer price premiums⁷⁷ and a generally open market for imported bananas, without quota restrictions.

In Finland – a small banana market – fair-trade banana sales in the launch year (2001) were very good and reached 2 830 tonnes in 2002, estimated to be 5 percent of the total Finnish banana market.

About 25 percent of fair-trade bananas are estimated to be also certified organic, and this share is growing. In Norway, for example, the recently introduced fair-trade bananas are all organic. Some of the FLO-registered producers (e.g. in Ecuador and Ghana) are converting all or part of their production to organic to be able to supply this demand for “double certified”. The strategy followed by Agrofair, the main importer of fair-trade bananas, and 50 percent owned by the producer associations, is to negotiate for package deals for the sale of both fair-trade and “double-certified” bananas. In this way a market is assured for those fair-trade producers who, due to climatic conditions and surrounding conventional production, are unable to convert to organic production methods.

The fair-trade labelling organization Transfair Japan is not involved in the import of bananas. However, there have been fair-trade bananas on the Japanese market since 1989, imported from the Philippines by the ATO Alter Trade Japan. Those “balangon” bananas were also sold as organic, and it is unknown how these have been affected by the JAS regulation.

PRICES

Organic

Very few data are available on prices for organic bananas. For fresh produce in general, reported consumer price premiums ranged from zero for cauliflower in Italy in January 2002⁷⁸ to 175 percent for a vegetable basket in the United Kingdom.⁷⁹ Reported organic banana consumer prices in Italy ranged from €2.00/kg in February 2002 to €4.71/kg in September of the same year. The average price over the period February to November 2002 was €3.15/kg. Prices varied more in specialized stores compared with supermarkets, but the average price was the same for both types of outlets.⁸⁰ Wholesale prices in Italy ranged from a minimum of €1.40/kg to a maximum of €1.75/kg in 2003.⁸¹ In North America, Dole entered the market strongly in 2001⁸² and it may be expected that they can keep prices relatively low due to their efficient distribution system and economy of scale.

A trader indicated that FOB and CIF prices have remained quite stable, with CIF prices in Europe at around €17/box. This despite an oversupply at the end of 2002, when too many organic bananas had been imported into Europe and traders had difficulties in selling them on. Centro de Intelligenza sobre Mercados Sostenibles/Sustainable Markets Intelligence Centre (CIMS) reported FOB prices for the first quarter of 2003 of US\$5.4 to US\$8.5/box, depending on origin, and in general there was an organic premium of US\$1/box.⁸³ FOB prices for exports from Peru were reported to have

77. Max Havelaar Stiftung, Switzerland, 2001, pers. comm.

78. AIAB, 2002.

79. Ross, 2002.

80. Osservatorio Nazionale dei Prezzi dei Prodotti Biologici, Italy.

81. C.C.I.A.A., Bologna, Italy.

82. Industry sources.

83. CIMS, 2003.

been from US\$5.5/box in 2001 to US\$6/box in 2002. Producer prices for organic bananas in Peru were as low as US\$2.3/box in 2002.⁸⁴

Some sources state that producer prices cannot decrease below the current level if organic banana production is to be profitable. Production capacity for organic bananas is much greater than the volume currently sold, especially in Peru, but traders prefer not to flood the market so as to avoid further pressure on retail prices. Producers therefore have to sell bananas from certified plantations on the conventional market. Competition between producers is said to be mainly on quality, with overcapacity giving traders the opportunity for being increasingly demanding.

Fair-trade

FLO fair-trade prices are set on the basis of production costs. FLO has estimated the average production costs per country, and the calculated costs take into account “extra” costs that might arise due to criteria for fair-trade certification, such as the “living wage” for workers. The minimum fair-trade price to be paid by licensed traders is the production price plus a fair-trade premium. Part of this premium may be used by the farmer association or plantation management to improve the organization or product quality, or to make other investments important for long-term economic sustainability. The other part of the premium is to be used for environmental and social improvements.

MARKET PROSPECTS

Organic

Total market share of organic and fair-trade bananas has reached 1.1 percent in North America and 2.9 percent in Western Europe. In Switzerland, the 20 percent share of fair-trade bananas, coupled with non-fair-trade organic bananas, probably brings the total to over 30 percent. An important factor limiting the growth of organic banana sales has been the limited supply. However, in 2001, supply caught up with demand and overcapacity was reported in 2002.

The share of organic fresh fruit and vegetables in conventional supermarkets in the United States of America in 2000 was approximately two percent. Therefore the potential market for organic bananas in North America can be estimated to be at least 2–2.5 percent of the total banana market. This would translate into volumes of 85 000–100 000 tonnes for North America, compared with 48 000 tonnes in 2002. With current growth rates, these volumes would be reached in 2005.

For the longer term, FAO has projected that North American consumption of banana would be approximately 4.6 million tonnes in 2010. Assuming that 5 percent of this volume will be organic, the market potential for organic bananas will be around 230 000 tonnes. This would mean sustained growth rates of close to 25 percent year on year. Such growth rates have been observed for the United States of America organic sector as a whole since 1985.

In western Europe, growth of the organic banana market has slowed down, which is not very surprising after the dramatic growth in 1999 and 2000. Market shares of organic bananas have long been significantly lower compared with other organic fruits. However, the high growth rates have resulted in organic and fair-trade bananas having a current share of close to 3 percent, which is believed to be close to the shares of other organic fruit. Sales are expected to continue to grow at around 10 to 15 percent per year, the growth rate of other organic fruit during the last years. This would result in around 5 percent market share in 2005 and around 8 percent market share in 2010 in western Europe (EC15 + Norway + Switzerland), taking into account projections made by FAO for the total banana market.

It is reported that there are still considerable areas under conversion towards organic certification, especially in Ecuador and Peru. These areas will add to the already existing overcapacity and those producers will consequently have problems in selling their produce on the organic market, and may not find an organic price premium, while still facing the annual certification costs. They may

84. S. Soldevilla Canales, former head of the *Programa de producción de banano orgánico en el valle del Chira*, Peru. 2003. pers. comm.

face the difficult decision of whether to exit certification to avoid the certification costs but with the risk that if the market improves in the future they will have to undergo the three-year conversion period once again (unless they can demonstrate that no agrochemical were applied during the non-certified period).

Fair-trade

The fair-trade market will depend greatly on the ability to supply organic fair-trade bananas. Market prospects for fair-trade bananas look positive. High growth can be expected in France, where consumer awareness and recognition of the Fairtrade mark has increased dramatically during the last two years and two supermarket chains started to sell fair-trade products. Other countries where growth can be expected are Austria, Finland, the United Kingdom and Italy, although in the last-named probably without the FLO seal. The market for fair-trade bananas in the Netherlands is expected to shrink even further. The country where fair-trade bananas were so successful introduced for the first time seems to have lost all interest. However, decreased sales in the Netherlands will probably be easily outweighed by increases in other countries. Sales in Germany are expected to stay at current low levels, given the general economic situation in the country and the fierce price competition among supermarkets.

The introduction of a new EC import regime in 2001 did not greatly affect the fair-trade market. The fair-trade organizations are not sure that they will profit from the transition to a tariff-only import system, expected to be implemented in 2006 or 2008. The fair-trade producer groups in ACP countries are likely to face consequences differing from those in non-ACP countries. Much will depend on the new tariff rates for the various origins. For fair-trade and organic importers, that are relatively small-scale enterprises compared to conventional importers, the abolition of the quota licences could be an improvement because they would no longer need to provide bank guarantees, which currently can be three times the expected turnover.⁸⁵

IMPLICATIONS FOR BANANA PRODUCERS

Although supply is currently more than enough to cover demand, some problems remain on the supply side. Industry sources report that organic control of Black Sigatoka disease and crown rot remain major technical constraints for growing and transporting organic bananas. More research on organic control methods for the two diseases would be highly welcome.

Furthermore, strict phytosanitary rules and inspections pose challenges for the organic banana sector, notably in Japan, New Zealand and the United States of America. In addition, the different organic regulations in the main markets, including different standards, but above all different inspection and certification requirements, cost a lot of time and money for producers and traders.

Retail price differentials against conventional bananas might go down as the organic trade is trying to reduce inefficiencies in the distribution. Also, the number of rejects at various points along the supply chain is reported to be high and traders try to reduce this by selecting for higher quality at farmgate level and through better control of post-harvest and transport damage.

For producers, the main commercial risk of conversion to organic production is that they might not be able to find an organic market outlet and might have to sell the organic bananas as conventional, despite higher production costs. Another risk is that farmgate prices might go down. New entrants may only find a buyer if they are able to deliver higher quality for the same price as their competitors. It will be difficult to compete on price, if the higher costs of organic production have to be covered, especially just after a costly conversion period.

To enter the fair-trade market is very difficult. Most registered fair-trade producers are still selling a considerable part of their produce on the conventional market. The growth in this niche market will therefore predominantly come from producers already registered. New producer groups applying for certification have to demonstrate that they will be able to sell into a new fair-trade

85. Personal communication from an importer.

market, so that they will not have a negative influence on associations already registered. That said, Agrofair, the main importer of fair-trade bananas into continental Europe, recently added another small-scale producers' group to its supplier base, notably to supply organic fair-trade bananas.

5.3 MARKETS FOR CERTIFIED BUT UNLABELLED PRODUCTS

Certification systems like SA8000 and EurepGap, and part of the SAN programme, certify production facilities, but this does not (so far) lead to a label on the product. Therefore consumers can not make a conscious choice for these products. The "market" for these certification systems are much more at wholesale and buyer level.

SAN-CERTIFIED PRODUCTS

Many SAN-certified products do not carry a label at the consumer level. Only part of the coffee is sold labelled, mainly in the United States of America market. The rest is finding its way into the conventional market. However, this does not mean that no specific market exists. In the case of bananas, SAN convinced managers of Chiquita in Costa Rica to collaborate with them in the Better Banana Project. At that time Chiquita was being heavily criticized by NGOs for poor environmental and social performance. After the first certifications of Chiquita plantations in Costa Rica the Chiquita management in Cincinnati could be convinced that it was possible to collaborate with an NGO on environmental improvements. An additional incentive was probably that this would be good for their public image and could quieten NGO criticisms, which, especially in Europe, had cost Chiquita some negative publicity.

So the "market" for this certification is functioning much more indirectly than in the case of organic and fair-trade certification and labelling. Consequently, there are no figures available for market share. However, with Chiquita's own plantations being 100 percent certified and most of its largest suppliers as well, the market share of SAN-certified bananas coincides more or less with the market share of Chiquita. However, recently, industry sources reported that Chiquita is increasing the share of outsourcing, which in turn may increase the number of non-certified plantations it sources from.

Other independent certified producers who do not sell to Chiquita would add only a little bit to SAN-certified "share". Certified areas of and volumes produced at SAN-certified production units are given in Table 4.

Table 4

Area of SAN-certified production units and volumes produced

	South America ⁽¹⁾	Central America ⁽²⁾	North America ⁽³⁾	The Philippines	Total
Area (ha) in April 2003					
Bananas	15 826	22 940	150	1 701	47 509
Citrus	–	2 900 ⁽⁴⁾	–	–	2 900
Coffee	7 023	10 940	267	–	18 229
Volume produced (tonnes) in 2002					
Bananas	441 000	791 000	4 500	51 000	1 287 500
Citrus	–	14 164	–	–	14 164
Coffee	–	6 737	368	–	7 106

NOTES: (1) Colombia, Ecuador and Brazil. (2) Costa Rica, El Salvador, Honduras, Guatemala and Panama. (3) Mexico and United States of America. (4) Cultivated area. Total area certified is 7 050 ha.

SOURCE: Sustainable Agriculture Network/Rainforest Alliance.

SA8000-CERTIFIED PRODUCTS

The market for SA8000 certification is even more difficult to define. SA8000 reporting can be judged as part of general corporate social responsibility (CSR) initiatives. Indeed, progress on SA8000 implementation is usually reported in the annual CSR reports nowadays issued by many of the bigger companies.

The number of certified agricultural facilities grew from 5 in June 2001 to 15 in December 2002. Of those, 7 were involved in tobacco production or processing, 4 were pineapples and other fruits, two were bananas, one was coffee processing and one was a winery. Certified agricultural facilities were located in Africa, Asia, Europe and Latin America. Apart from the agricultural facilities, there were another 8 certified facilities involved in food trade and distribution, among them two facilities of Coop Italy.

Of the major multinationals in the fresh produce industry, Dole is a SA8000 Signatory Member (Corporate Involvement Programme, Level Two), meaning they have committed themselves to work towards SA8000 certification of their own and supplier facilities, and have to report publicly on progress. Despite its commitment, the number of Dole's certified facilities has fallen from three to two because they sold the Pascual Hermanos facility in Spain, which was, in June 2000, the first agricultural facility to be awarded SA8000 certification. Chiquita also reports on SA8000 implementation progress in its CSR report, but is not a Signatory Member yet (Corporate Involvement Programme, Level 1: Explorer). However, already one of the Chiquita divisions (Costa Rica) has been certified SA8000.

The rather slow uptake of SA8000 in agriculture is said to be due to the difficulties in implementing SA8000 in the agricultural sector, according to SAI. In particular, the maximum working hours provisions seem to be difficult to adhere to for seasonal crops. It might also be that the market pressure for SA8000 is not as high yet as, for example, in the textile industries.

That said, Coop Italy might play a catalytic role for the adoption of SA8000 in agriculture. Coop Italy is actively pursuing the sale of more organic fair-trade products in its shops, as well as products from SA8000-certified facilities. They may therefore stimulate their suppliers to become SA8000 certified. Coop Italy has already exerted pressure on one of its pineapple suppliers in Kenya to improve labour conditions. This was in response to a worker and consumer campaign targeted at that supplier. To increase pressure, the campaign made use of the fact that the buyer – Coop Italy – was SA8000 certified.⁸⁶

In fact, the Signatory Membership system (Corporate Involvement Programme) could potentially stimulate SA8000 implementation through buyer pressure in much the same way as EurepGap, albeit on a much more relaxed time scale as there are no deadlines. The main procedural difference from the EurepGap system is that the standard has not been set by the buyers themselves and that Signatory Members also commit themselves to implementing the standard in their own facilities and administrative offices. This apart from obvious differences in the content of the standards.

EUREPGAP

In the case of EurepGap “the market” is the group of 22 European retailers behind the initiative. EurepGap hardly opens new markets for producers as it is aimed at implementation by existing suppliers of the retailers involved. In 2003, EurepGap declared:⁸⁷

Achieving global consistency is ambitious and we need to be in it for the long run. Some retailers are saying that all their suppliers must be EurepGap certified by 2004. Others do not have a deadline, but will in time question why preferred suppliers are not EurepGap certified and perhaps review their decision to do business with them.

86. Mutunga, Gesualdi and Ouma, 2002.

87. FoodPLUS, 2003.

The suggestion of the possibility of de-listing by a retailer has enough power to convince producers that they should seek certification.

At the time of writing there were 5 European assured producer schemes approved as equivalent to EurepGap. EUREP reported in December 2002 that a total of 3 889 growers were certified, with a total acreage of 61 425 ha. Of those certified growers, 39 were located in Latin America, 316 in Africa (255 in South Africa) and 3 in Asia.

6. IMPACT ASSESSMENT OF SOCIAL AND ENVIRONMENTAL CERTIFICATION

Implementing standards and entering certified (and maybe labelled) markets have complex impacts on the economic performance of the farm. Production costs, yields and producer prices may each be affected positively or negatively, and have to be analysed together. Furthermore, initial investment costs are likely to be very farm specific. New crops or activities may be introduced into the system, complicating cost–benefit analysis even further.

There are no systematic studies available that assess the impact of certification programmes over a wide range of farms, crops and locations. However, the number of case studies is growing that have studied – more or less comprehensively – impacts on various costs and profitability aspects. This chapter tries to give an overview of documented case studies on the impact of certification on producers in developing countries. The selected cases all concern horticultural and tropical crops, and they focus on certified farms producing for the market, whether for local urban centres or for export.

This method of collecting ‘evidence’ has two dangers. First, mainly positive cases tend to be reported on, if only because failures will stop being a case. Second, no field verification could be done. Reported data have been cross-checked with other sources wherever possible. Third, most documented cases are those cases that were supported through a project with donor assistance. This is the main reason why less information is available on the implementation of SAN, SAI and ISO 14001 standards, but it can also be assumed that private organic initiatives are under-represented.

The focus of each case study, and hence the methodology used, varies between the cases. Some have focused on yields, others on profitability, others again on success factors and the role of supporting organizations. For each type of certification, an overview table is given of the data on yields, production costs and profitability in comparison with similar conventional production systems. In the description of each case, additional information is given.

6.1 CERTIFIED ORGANIC AGRICULTURE

The FAO publication *Organic agriculture, environment and food security* addresses the impact of organic agriculture, certified and non-certified. The study notes that profitability of organic systems may seem high in one season because of the price premiums received for the marketed crop, but low in the subsequent season because animal feed or green manure crops are grown. Therefore it is essential to take the whole rotation into consideration when assessing profitability of organic systems.⁸⁸

In Table 5, an overview is given of case studies of certified organic production by smallholders in developing countries.

88. FAO, 2002.

Table 5

Overview of farm economic data from case studies of certified organic cash crop production in developing countries

Case	No. of farmers	Cost of production	Yield	Price premium	Net profit	Remark
FRUITS AND VEGETABLES						
1. El Salvador, Las Pilas, vegetables	66	Extra labour demand	?	yes	?	Difficult to compare conventional 2-seasonal system with year-round organic rotation.
2. Peru, Alto Piura, mango	200 (of which 64 certified)	Production costs/box: -33% Harvesting costs: -82%	Similar or slightly up	-18% (organic pulp versus conventional fresh)	Profit/box +170%	For pulp plant, no grading necessary.
3. Uganda, tropical fruits	10–20	Similar (certification paid and owned by exporter)	Similar	none	similar	Certification of existing system, for market security.
4. Dominican Republic, bananas	> 450	+8%	Similar	+22-29%	+50%	Quality problems and market power of exporter makes future unsure for small-scale producers.
5. Costa Rica, Talamanca, banana + cocoa APPTA	1 100	Higher (labour)	Higher	150% (cocoa)	Positive in terms of return on labour	3 production systems: a) cocoa + fruits + trees b) banana + fruit + trees c) cocoa + bananas + fruit + trees
COFFEE						
6. Brazil, Baturité mountains	158 (of which 110 certified)	Higher	?	Only during three years	Higher during three years	Certification abandoned due to loss of premium export market after three years.
7. Costa Rica, paired study	10 pairs of 1 conventional + 1 organic	Average: +4.5%	Average: -22%	Average: 20% ±7	Average: - 4.5%	High variation between pairs.
8. Guatemala, Cuchumatanes Highlands	370	At least +15% (project subsidy for certification costs)	+38% to +67%	+30% in 2000 and +18% in 2001 (green coffee)	Higher	Road construction reduced transportation costs (also benefits conventional farmers).

Case	No. of farmers	Cost of production	Yield	Price premium	Net profit	Remark
COTTON						
9. India, Maikaal Project	>1 000	-30% to -40%	+20%	25%	Higher	
10. Uganda, EPOPA	24 000	Similar (certification paid and owned by exporter)	Similar	15–30% (on farmgate price)	Up <30% (also extra profit for exporter).	Basically, certification of existing production system
SUGAR CANE						
11. Argentina	600	Similar per ha +34% per tonne in 2001	-25%	+75% in 2001. +35% in 1998.	+118% in 2001.	Main benefit: sugar mill stayed open
TEA						
12. Sri Lanka, Biofoods, tea and spices	443	?	?	Tea: 100% (including fair-trade premium?) Spices: 10–30%	?	Certification paid by exporter or other agency

ORGANIC FRESH VEGETABLES FOR LOCAL SUPERMARKETS IN EL SALVADOR

Based on the report of Damiani, 2001a.

History and organization

In the late 1990s, two North American NGOs, CLUSA and Technoserve, stimulated the creation of three farmer cooperatives in Los Planes and Las Pilas, El Salvador. The climate in the area is suitable for organic vegetable production and the NGOs identified opportunities for marketing to supermarkets. In total, 66 farmers participated. One of the most important motivations for them to adopt organic methods was concern for possible health problems associated with conventional chemical inputs. Farmers formerly grew on a two-season basis, with irrigated vegetables in the dry season and maize in the rainy season. The farmers had sold their conventional vegetables through middle agents, who sold them at the market “La Tiendona” in San Salvador. Through the projects, the farmers have been selling to some of the main supermarket chains in El Salvador.

Investment and changes in farming methods

Because the supermarkets required a constant flow of product, the farmers needed to have irrigation infrastructure, which was a condition imposed by CLUSA and Technoserve when creating the farmer groups. The groups had to programme their production so that they could harvest every week and carefully forecast harvest and distribute harvesting quotas to individual farmers. The supermarkets also required a higher quality than traditional markets, and more uniform colour, size and taste. Some specific investments had to be made, especially the building of terraces and contour planting for soil conservation. Both CLUSA and Technoserve helped the groups to obtain funds for constructing the collective packing facilities and a greenhouse to produce lettuce plantlets.

Farm economics

It is difficult to make a comparison between year-round organic vegetable production and the seasonal maize-vegetable system. Due to the higher labour demand, the farmers reduced their total cultivated area slightly. Farmers who had continued to grow the same crop reported yields falling substantially in the first two or three years, and then recovering and stabilizing slightly below the yields from conventional methods. The study indicated that prices paid by the supermarkets were higher than at La Tiendona, and that there was also a premium for being organic. Most organic farmers were men, which is potentially explained by the need for stable forms of land tenure to make soil conservation investments that pay back only in the long term, and the requirement for irrigation infrastructure (women in the region may be disadvantaged because of tenure inequalities). Another explanation may be that soil conservation measures required considerable physical work and most farmers do not have resources to hire labour. The three packing facilities led to the creation of wage labour, and they employed in total 45 workers, most of them women.

ORGANIC MANGO PULP FROM ALTO PIURA, PERU

Based on the report of Cardoza, 2001.

History and organization

The Asociación de Productoras y Productores Ecológicos del Alto Piura, in north Peru, organizes small-scale farmers with, on average, 2.1 ha under irrigation, with mainly fruit trees. Since 1993, the NGO Centro IDEAS has promoted organic agriculture in the valley. At the time of reporting, IDEAS provided advice to around 200 farmers, with a total area of 3 000 ha. Of those producers, around 32 percent were certified. One of the higher volumes produced is mango. In 1999, a North American importer (Douglas Stewart) ordered one container (20 tonnes) of organic mango pulp, but this could not be delivered because certification was obtained too late. For the next year, however, proper preparations were made and it was agreed that the mangoes would be processed at the plant of Agrobackus in Motupe-Lambayeque. The farmers and the plant were inspected and received the certification in time.

Investments and changes in farming methods

One of the most adopted organic techniques is the use of mulch. In 2000, some 60 ha of fruit orchards were installed or renovated. Installation of a fruit orchard costs US\$500/ha. For pruning and grafting of new varieties on old trees, US\$175/ha is required. Also, incorporation of organic material is an important investment. Centro IDEAS provided technical assistance through demonstration plots for smallholders, training of coordinators and promoters, participatory research, and 1-to-1 investment (what the farmer invests, IDEAS doubles).

Farm economics

After installation, maintenance of 1 ha of mango costs on average US\$400 for an organic orchard, compared with US\$1 015 for a conventional orchard. Organic mango yields are around 25 tonnes/ha. For fresh conventional mangoes, variable production and harvesting cost were new soles 7/box, while they fetched an average price in the city of new soles 9/box. For organic mango for the Agrobakus plant, variable costs were new soles 2/box and the price received was new soles 7/box, resulting in a considerably higher profit margin. Harvesting costs in particular were lower (down from new soles 5.5 to new soles 1/box), mainly because no grading was necessary for the pulp plant. Annual certification costs for the whole group were US\$1 300, which would average only US\$20 per farm.

ORGANIC TROPICAL FRUITS – A BUSINESS OPPORTUNITY IN UGANDA

Based on the report of Kidd, Tulip and Walaga, 2001.

History and organization

The export of organic fruits from Uganda has developed without any donor support. Two exporters, Bio Tropical Garden and AMFRI Farm, have organized 10 to 20 farmers in the form of an outgrower scheme. The farmers do not receive much technical information beyond what is prohibited. The exporters had already been dealing with the same farmers in conventional production.

Investments and farm economics

The farmers did not have to change their practices much. The exporters pay for certification (no complex internal control system, but group certification with simple records and 100 percent inspection) and own the certificate. Surplus that the exporters do not buy is sold on the local conventional market or the conventional export market. The farmers do not receive a price premium; the premium is used by the exporter to cover the costs of certification, with some increased profit margin. The benefits for the farmers is the known, secure market outlet.

ORGANIC BANANAS FROM THE DOMINICAN REPUBLIC

Based on the report of Damiani, 2002c.

History and organization

Since the late 1980s, banana production in Azua has been characterized by little use of chemical inputs. Due to the dry climatic conditions, there has been no problem with Black Sigatoka. A national marketing firm, Plantaciones Tropicales, established links with small-scale producers and a certification firm. The first exports were made around 1988. A second production and marketing firm, Horizontes Orgánicos, was established in Azua, working according to biodynamic principles. In 1994, a technician from Horizontes set up her own firm, SAVID. SAVID and Horizontes started to sign contracts with small-scale producer associations, and SAVID expanded its activities to other parts of the Dominican Republic.

Large-scale organic banana production grew steadily in other parts of the country and by 2001 Azua produced only 10 percent of the total production. In Azua, production is still 80 percent in the hands of small-scale producers, with an average of 1.25 ha each. Most farmers are organized in associations, but they are weak. The marketing firms have set up, managed and financed the internal control system and own the certificate. The contracts with the producer associations were initially for

longer periods – up to three years – but they recently became shorter to avoid problems from price variations.

Investments

The Dominican Centre for Export Promotion (CEDOPEX) has organized workshops and participated in fairs, promoting organic exports in general. The owners and agronomists of the two marketing firms introduced new organic technologies and varieties. The firms initially had to rely on ships that transported other products, which was expensive and negatively affected product quality. Eventually, SAVID was able to convince banana ships to include the Dominican Republic in their routes. The firms obtained advance funds from buyers and used them for the provision of short-term credit to farmers to purchase inputs. The firms also provided technical assistance to improve product quality. However, due to the limited resources of the small-scale farmers, tasks were frequently delayed and improvements in the irrigation system have not been possible.

Farm economics

Compared to conventional small-scale banana producers, organic producers face on average 8 percent higher total production costs (US\$2 560/ha compared to US\$2 370/ha for conventional production). These costs reflect the higher labour demands, for example, 50 percent more for weed control compared with “modern” techniques. Although the monoculture requires substantial amounts of organic fertilizers and pesticides, total organic input costs were lower than conventional input costs. As a result, labour costs form 71 percent of total production costs in the organic system, compared to 51 percent in the conventional system. Yields were similar to conventional yields, at 14 tonnes/ha. Low yields were explained by the use of insufficient amounts of organic fertilizers, the inadequate maintenance of the irrigation system and a serious drought in the late 1990s.

The marketing firms exported about 70 percent of the production, with a significant premium, and sold the rest on the domestic market as conventional. Because the farmers had limited market information, and because SAVID and Horizontes were the only exporters, with SAVID accounting for 80 percent of all organic banana exports, small-scale farmers had a relatively weak negotiating position. The more so because the marketing firms owned the organic certificate, although Horizontes has been encouraging the associations to take over the internal control system and certification.

Despite this weak negotiating position, farmers received an organic premium of about US\$1/box in 2001 and 2002. In 2001, organic farmers received US\$4.5/box (compared with US\$3.5 for conventional bananas, a factor of +29 percent) and in 2002 it was US\$5.5/box (compared with US\$4.5; +22 percent). Part of the production was sold in the fair-trade market, for which farmers received an additional US\$1.75/box. As a result of the price premium, the modest increase in production costs and similar yields, net revenue was 52 percent higher for organic banana producers (US\$1 720/ha compared with US\$1 130/ha for conventional). However, farmers had to sell a significant portion on the domestic market during summer, when international demand is low.

Due to the greater availability of organic bananas on the international market, buyers have become increasingly demanding in terms of quality, which the small-scale producers find difficult to meet. The marketing firms have been expanding production on their own plantations, further reducing the share of small-scale farmers in total organic banana production in the country.

COCOA AND BANANA PRODUCTION IN TALAMANCA, COSTA RICA

Based on the reports of Damiani, 2002b, and Deugd, 2001.

History and organization

Talamanca is part of La Amistad National Park and the Talamanca-Caribe Biological Corridor. The smallholder farmers in Talamanca grew cocoa in a system that included shade trees and rainforest. In the late 1970s, attack by a fungus, in combination with low world market prices, led farmers to abandon the crop. The Talamanca Small Farmers' Association (APPTA) was created in 1987, with the assistance of ANAI, a NGO from the United States of America. APPTA has currently around 1 100 producer members. Through ANAI, contacts were made with buyers of organic cocoa in

the United States of America, who were looking for regions where cocoa had been abandoned, with the idea of obtaining organic certification without a costly conversion period. In its initial phase of conservation activities, APPTA had created local committees in the different villages to carry out reforestation activities. APPTA used these committees as a basis for the internal control system. Later, APPTA negotiated successfully with a Costa Rican firm that makes banana puree for baby food (Gerber) to sell organic bananas. By 2000, APPTA was exporting 210 tonnes of organic cocoa (of which 24 percent to Europe) and it was selling 1 300 tonnes of bananas annually.

Investments and changes in farming methods

Nowadays, most farmers have 1 ha of cocoa + fruits and tubers + shade, and 1 ha of banana + shade. In addition, they usually cultivate an area of basic grain. The main investment was the certification itself. Since 1995, all certification firms operating in Costa Rica have to have offices in Costa Rica. It was hoped this would decrease certification costs, but this was not observed. The other important investment was the renewed maintenance of formerly abandoned cocoa plants, which was labour demanding. This especially affected single women, who did not have the resources to hire wage labour. For APPTA as an organization, the presence of credit was essential to be able to pay its members at delivery. This credit was provided by the North American buyer of the cocoa, in the form of seed capital.

Farm economics

In 2000, APPTA paid US\$1/kg for organic cocoa to its members, compared with an average conventional price in the region of US\$0.40/kg. Organic bananas were bought at US\$81/tonne for an average production of 12 tonnes per farm. A study by Deugd (2001) evaluated the micro-economic performance of the production systems predominant among APPTA members. Three systems were studied: a cocoa–banana system; a banana system; and a cocoa system. All these included fruits and trees, although banana systems are usually less mixed. The cocoa–banana system generated US\$11.6/labour day; the banana system, US\$14.9/labour day; and the cocoa system, US\$5.50/labour day, compared with a wage in the area for similar work of US\$7.27/day. Although the return on labour in the cocoa system is less than for wages, the net annual income out of this system was US\$264/ha, an important supplement to family income, especially for households that do not have access to other job opportunities.

Environmental impact

According to Deugd (2001), the degree of erosion and leaching were minimal, due to the thick ground cover. Some studies found that although not as diverse as the natural forest, the shaded systems were much more ecologically diverse than the monocultures in the lowland,⁸⁹ and as many bird species were found as in the natural forest.⁹⁰ Deugd concluded that the extraction of nitrogen, phosphorus and magnesium was more or less compensated for, but the potassium balance was negative, with a loss of about 47 kg/year. By 2001, a project of the University of Costa Rica had started in collaboration with APPTA to identify materials and practices to increase inputs into the soil, especially potassium.

ORGANIC SHADE COFFEE FROM THE BATURITÉ MOUNTAINS IN NORTHEAST BRAZIL

Based on the report of Saes, De Souza and Otani, 2001.

History and organization

Most coffee in Brazil is sun-grown. However, farmers in the Baturité mountains of Ceará had kept some shade, because the local climate conditions, with seasonal heavy rains and a dry season, did not permit sun-grown coffee. During the 1990s, the yields in the area went down from around 10 bags/ha to 5 bags/ha, mainly due to a lack of pruning and coffee plant aging. In 1990, the Baturité

89. Guiracocha, 2000; Parrish *et al.*, 1999.

90. Parrish *et al.*, 1999.

Mountains Environmental Protection Area was created. One of the activities was the Projeto Café Ecológico, carried out by the NGO CEPEMA Foundation, with links to a Swedish NGO. The project started in 1995, with technical assistance, the provision of new coffee plants and fruit and shade tree species. In 1996, the Associação dos Produtores Ecologistas do Maçico de Baturité (Association of Ecological Growers of the Baturité Mountains, APEMB) was founded, involving 158 growers, of which 110 were certified. With help from a Swedish organization, APEMB found a buyer in the Swedish roaster Classic Kaffe.

Investments and change in farming methods

APEMB worked on quality improvements, mainly through the introduction of better drying practices and bean selection. In the first years, the Banco de Nordeste provided financial support to pay for the certification costs, amounting to US\$5 000.

Farm economics

Compared with sun-grown coffee elsewhere in Brazil, the shade-grown coffee gives lower yields, due to lower plant density (3 000 plants/ha) and lower yields per plant. However, yields vary a lot, from 1.3 bags/ha to 12 bags/ha, with an average of 5.8 processed bags/ha. APEMB exported 6 tonnes in the first year, which increased to 30 tonnes in 1999, 60 percent of the total amount produced. They received US\$160/bag, compared with US\$100-110/bag on the conventional market (45-60 percent higher price). Part of the premium was due to being able to sell as arabica, whereas before they had sold the coffee as “Conillon” (robusta), which fetches a much lower price. During those three years, the world supply of organic coffee increased dramatically, and the next year Classic Kaffe decided to discontinue buying from APEMB. APEMB failed to find a new buyer and, due to a lack of financial resources, they could no longer pay for certification.

New strategy

Given the problems in marketing, CEPEMA redefined the project’s strategies and started to develop a network for the local marketing of coffee, fruits and vegetables. This would avoid high certification costs, while potentially receiving modest price premiums. The project envisaged making use of growing tourism and planned to deliver baskets (a box scheme) to the district capital, Fortaleza. Reports in the news confirmed that the sale of “Café Ecológico *Pico Alto*” was launched in March 2003 in Fortaleza.⁹¹ The coffee is promoted as being “certified” by CEPEMA and the fact that it had once been exported is exploited in the publicity as a proof of quality.

ORGANIC COFFEE IN COSTA RICA

Based on the report of Lyngbaek, Muschler and Sinclair, 2001.

Research methodology

The study compared ten paired organic and conventional smallholder coffee farms in Costa Rica. Criteria for organic farms were that they had to have been under active organic management for at least three years. Four of the organic farms were not certified, and sold to the conventional market. The conventional farms were selected for proximity to their organic counterpart and for similarity of altitude and area under coffee. Fixed costs could not be included due to a lack of data, but were probably very limited and of minor importance. Yields, variable production costs, farmgate prices and net income were studied during three years (1995–1998).

Farm economics

On average, organic coffee yields per hectare were 22 percent lower and yields per plant 17 percent lower. However, large variations existed between pairs. For three pairs, organic yields were higher; for two pairs, the yield was similar; and for the remaining 5 pairs, the organic yields were considerably lower. Variable production costs were on average 4.5 percent higher for organic farms, mainly due to higher labour costs for preparing and applying organic fertilizers. The conventional

91. ADITAL, 2003.

farms had higher labour costs for harvesting, a cost directly related to production levels. Despite lower average yields and slightly higher variable costs, the average net income from coffee was on average only slightly lower (-4.5 percent) for organic farms. Large differences between pairs were also observed for net income, with three organic farms performing better than their conventional counterpart. The authors calculated price premiums that would be necessary in each case to at least equalize net income for each of the two paired farms. These hypothetical premiums ranged from 14 to 53 percent (leaving out the two extremes). Costs for certification were not included in the study because farms were either not certified or the costs were borne by a supporting programme or the processing plant. Where certification costs were borne by an outside entity (three farms), the certification costs were probably indirectly borne by the producers through a lower price premium obtained from the plant.

ORGANIC COFFEE FROM HUEHUETENANGO, GUATEMALA

Based on the reports of Damiani, 2002a, and Cifuentes, undated.

History and organization

In 1996, the Peace Accords were signed and shortly thereafter the Cuchumatanes Highlands Rural Development Project started in the Department of Huehuetenango, one of the poorest of Guatemala. The project resulted in the creation or revival of three associations: Cocolá Development Association (ADIPCO); the San José Quixabaj Agricultural Cooperative; and the Agricultural Cooperative Chojzunil. Coffee producers of ADIPCO, Quixabaj and Chojzunil traditionally used little or no chemical inputs. The project's marketing component identified organic coffee as an alternative for the three associations. The project contacted AGEXPRONT, an association of exporters of non-traditional products. The project became a member of AGEXPRONT's sub-commission on ecological products and through AGEXPRONT they made links with EXCAGUA in Guatemala City – a conventional and organic coffee exporter to Europe. The associations obtained their first full organic certificates in 1998 and 1999.

Investments and changes in farming methods

The most important investment the farmers had to make during conversion were soil conservation measures and the introduction of new species of shade trees. In addition, the associations needed to make investment for the collective processing of coffee, separate from conventional coffee. In the first two years, 70 percent of the certification costs were paid by the project and an environmental organization. The project paid for an extensionist to organize the internal monitoring system. The project also trained farmers, who qualified as “promoter” and who could graduate as a “credit manager” and finally as an “extensionist peasant”. Those farmers accompanied the internal inspection teams that visited twice yearly.

Farm economics

While other coffee farmers in Guatemala, who had used chemical inputs, experienced substantial yield decreases during the first years of organic management, the coffee farmers of ADIPCO, Quixabaj and Chojzunil did not. To the contrary, they observed yield increases of 38 percent–67 percent in five years (from 0.86 tonnes/ha to 1.40 tonnes/ha according to Cifuentes). This can be explained by the low inputs and low yields prior to conversion, and the better shade and application of organic fertilizers and soil conservation measures. This also meant higher production costs, mainly in the form of more labour and higher harvesting costs due to the increased yield. According to Cifuentes, there were initial quality problems, resulting in low prices received from the initial buyer. After resolving these, and selling via EXCAGUA, prices increased from US\$20 to US\$25 per tonne (+25 percent). Damiani found that in 2000 the price received for the green coffee was 30 percent higher than conventional smallholder prices, and 18 percent higher in 2001. Cifuentes found that average family income had increased from US\$1 250/year to US\$1 970/year.

External circumstances

In 2000, a road was built connecting the communities with the city of Barillas. This reduced transport costs by half and transport time from one day to 4 hours, which benefited organic and conventional farmers alike. The project also benefited from research activities by the National Coffee Association (ANACAFE). ANACAFE took into account producers' requests, and consequently the research programme shifted from increasing productivity to decreasing production costs. As a result, ANACAFE had been working on compost and *bocashi* as an alternative to chemical fertilizers, manual control of *broca* (a coffee berry borer, *Hypothenemus hampei*) and the use of natural enemies for some parasites. In addition, ANACAFE trained 16 extensionist in organic coffee production and contacted Mayacert to provide workshops on organic certification.

MAIKAAL COTTON FROM INDIA

Based on the reports of Caldas, 1995; Myers, 1995; Myers and Stolton, 1999; and Parrott and Marsden, 2001, who drew on Caldas, 2000, and Barauah, 2000.

History and organization

In 1992, an alliance between farmers, their spinning mill (owned by Maikaal Fibres), sales agents and an organic consultant set up on-farm trials and an experimental farm with organic cotton cultivation. The following year, 200 farmers joined the on-farm trials, and seven years later more than one thousand farmers, with more than 6 000 ha in total, joined the scheme. The majority of the farmers were small-scale cotton growers holding on average two ha of land. Organic cotton is the main crop, grown in rotation with food crops.

Investments and changes in farming methods

Conventional cotton was grown according to standard technical "packages", including chemical fertilizers and pesticide spraying from 10 to 25 times in a growing season, and there were reports of development of pesticide resistance in whitefly. For the organic cotton, several rotations and crop associations have been developed, and multipurpose trees planted around field boundaries. Various organic fertilizers are used, based on soil analysis. Pests are closely monitored and controlled by a combination of pheromone traps, providing habitats for natural predators, release of beneficial insects and entomopathogens, and the use of botanical pesticides. An alternative credit system was established, financed by Maikaal Fibres, that provides cash and in-kind credit at no interest. Compliance with the developed guidelines is monitored by the Maikaal extension service, and certification to international organic standards is carried out by IMO.

Farm economics

Initial yields dropped, but in 1995 yields had recovered to former levels, and after seven years organic cotton yields were 20 percent higher than conventional cotton. Farmers have a guaranteed market and receive a 25 percent premium. Yields of the rotational crops are also up to 20 percent higher. In addition, soil quality has improved. Irrigation and labour requirements have been reduced, resulting in 30–40 percent lower production costs. The combined effects of lower production costs, equivalent or higher yields and price premiums result in higher farmer margins. External biological inputs, when necessary, are ordered in bulk to reduce costs. In some areas, former retail pesticide suppliers have become suppliers of bio-inputs.

THE EPOPA PROJECT AND ORGANIC COTTON FROM UGANDA

Based on the reports of Walaga, 1997; Malins and Nelson, 1998; Van Elzakker and Tulip, 2000; Van Elzakker and Leijdens, 2000; and Kidd, Tulip and Walaga, 2001.

History and organization

The majority of cotton producers in Uganda are small-scale, resource-poor farmers. The Export Promotion of Organic Products from Africa (EPOPA) project started in 1994 with the Lango Organic Cotton Project in Lira and Apac districts. The project area was chosen because of the presence of black ants that were able to control most pests. EPOPA provided an interest-free loan to

the Lango Cooperative Union (LCU), then just emerging out of the government-controlled cooperative movement. Farmers joined the scheme on a village group basis, called Primary Societies. Once a village was accepted, farmers were provided with seed on credit, the costs being deducted from the price paid for the cotton. In 1996, Farmers Fair Trade Uganda (FFTU) was set up by a Netherlands-based trading company.⁹² FFTU attempted to purchase directly through the Primary Societies, which gave LCU the feeling that its position was undermined. FFTU also had problems in accounting for crop finance, and reverted to purchasing through LCU. However, financial problems continued and poor timeliness of arrival of FFTU funds resulted in a significant part of the cotton being sold as conventional. Despite the financing problems, the number of participating farmers rose quickly, from 200 in 1994 to an estimated 7 000–8 000 farmers in 1998. Inspection and certification is done by the Swedish certifier KRAV or the Dutch SKAL, using group certification. Other organic cotton projects were added to the EPOPA programme, such as in Adigo parish, Apac district, with Outspan Enterprises as the exporter. The number of farmers involved increased to some 24 000 in 2000. While the government initially opposed organic cotton, officials began to see positive results and started exempting some areas from pesticide promotion campaigns.

Investments and changes in farming methods

There is little difference between organic and conventional smallholder production methods, except that conventional producers may occasionally use small amounts of mineral fertilizers and chemical pesticides. However, it was also reported that farmers had to start using formal rotations, green manure and integration of livestock. For three years the project provided technical assistance, market support and a reducing share in the certification costs. Exporters are not used to involving themselves with farmers, let alone providing extension services. Especially in the first year, the exporters needed assistance to become accustomed to this new role. However, the project avoided paying for costs that would normally be covered by an exporter.

Farm economics

The organic premiums received by farmers participating in the Lango project were 10 percent in 1994/95, 14 percent in 1995/96 and 50 percent in 1996/97. In Adigo parish, farmers have obtained 15–30 percent higher prices, with no significant increase in production costs. On average, organic cotton receives a 20 percent organic premium on export prices. Approximately half of this goes to the farmer, implying a premium over farmgate prices of 15–20 percent. The export premium also pays for the field staff employed by the exporter, and exporters also achieve higher profit margins. The cost of inspection and certification, organized and paid for by the exporters, although initially high, has now fallen substantially due to economies of scale. In general, the exporters holds the certification and this means that the farmers can not sell their produce as organic to any other buyer. However, they are allowed to sell to other conventional buyers. The higher price for organic cotton has had a positive influence on the conventional price and forced buyers of conventional cotton to offer other incentives, such as supply of farm tools, in order to ensure their supplies. Farmers indicated that the extra cash obtained from organic cotton is spent on houses, school fees, domestic utensils, livestock, farm tools and clothes. A recent evaluation estimated that EPOPA has increased the incomes of more than 24 000 farmers by US\$50/year on average. Since 2000, the cotton projects continue on their own. Of note is that the Tanzania EPOPA project, managed by the same organization, was considered a failure. The key difference being the business approach of the local coordinator in Uganda, while elsewhere the activities were driven more by notions of participation and process rather than profit.

92. Although using the term “Fair Trade”, FFTU is not working with FLO-certified fair-trade labels.

ORGANIC SUGAR FROM SMALL-SCALE PRODUCERS IN MISIONES, ARGENTINA

Based on the report of Serrano, 2002.

History and organization

Argentina has achieved Third-Country status from the EU since 1992. The relative weight of small-scale farmers (*minifundistas*) in the organic agriculture sector has been very low. Organic sugar cane production in Misiones is the only case in Argentina where a large number (600) of small-scale farmers (with total farm sizes in the range of 5 to 50 ha each) have adopted an organic crop. Farmers started to grow sugar cane organically in 1997, when the only sugar cane mill in the region decided to shift from conventional to organic sugar production. The mill had declared bankruptcy in 1995, and had been managed thereafter by IFAI, an autonomous agency of the provincial government of Misiones. The macro-economic situation made it very difficult to compete with neighbouring countries on the conventional sugar market, and the shift to organic production was a way to keep the mill open. The idea for the organic alternative came from the NGO Movimiento Argentino de Producción Orgánica (MAPO), which also provided the link with the buyer.

Investments and change in farming methods

The mill has been diffusing fast-growth cane varieties that could outgrow weeds after harvest. At harvest the leaves are cut more carefully for ground cover and to prevent contaminating the sugar with leave impurities (the organic buyer appeared to be more demanding on quality). The certification process started in 1997, and by 2001 almost all the mills' sugar was organic. Right from the start, the mill could produce small amounts of organic sugar because the three-year conversion period was waved by the regulatory agency for land that had laid fallow for several years (*capoeira* land). Certification costs are paid by the mill, and are quite high. Under Argentinean law, external inspectors have to visit 100 percent of the farmers, so certification costs can not be brought down through implementation of an internal control system. In fact, each farmer is usually visited twice a year. The certification costs come to US\$120 per plot per year, but a competing agency offered to do the same for half the price. The mill and IFAI try to diversify the variety of organic crops that sugar cane farmers produce and they have already organized a group of 20 farmers that sell organic fresh vegetables to one of the largest supermarket chains in the provincial capital. The diversification is also important for developing better rotation cycles. Credit was made available through a provincial rural development fund, funded by IFAD, to increase the organic sugar cane area. However, in 2001, credit was used for only 150 ha, while the mill estimated that 450 ha of expansion were realized from farmers' own resources.

Farm economics

Organic sugar cane production requires more labour, but total production costs per hectare are similar to conventional production costs due to savings on agrochemicals. Productivity decreased from 60 to 45 tonnes/ha. This was more than compensated for by the organic price premium (35 percent in 1998 and 75 percent in 2001) and net profit for farmers even doubled in the same period, from \$Arg 168/ha to \$Arg 367/ha. However, because the mill is the only one in the region, farmers do not perceive the high price premiums. Farmers deliver sugar cane between June and August, when they get paid only a part, covering harvest and transportation costs, and the balance not until November-December. This results in poorer farmers being short of cash during that period, and having to seek additional wage work, and not doing the weeding necessary at that time. The viability of the organic sugar cane allowed farmers who had also produced tobacco and who were concerned about their health to grow sugar cane as the only cash crop. The mill estimated that around 40 farmers had made this choice. However, the main benefit of the shift to organic was that the mill could remain open, safeguarding the sugar economy, including 50 local trucks, income through demand for wood as the mill's energy source, and the mill's work force (53 permanent workers and 75 temporary). Although the mill improved its revenues due to the shift to organic, it was still not profitable, with a net annual deficit of US\$400 000 that has been covered by the provincial government. The main reason being the mill has been operating at only 50 percent capacity. The mill is pressing farmers with small plots of sugar cane to increase their area or leave sugar cane production, because the

certification costs for small plots are relatively higher. Larger-scale farmers with more than 15 ha of sugar cane (>50 ha total farm size) that shifted to organic were those that had significant parcels of good quality fallow land (*capoeira*), which guaranteed relatively high productivity. In contrast, larger-scale farmers without good quality fallow land dropped sugar cane production and shifted to other crops, such as citrus.

ORGANIC TEA FROM BIO FOODS LTD., SRI LANKA

Based on the report of Ediriweera, 2002.

History and organization

Bio Foods started as a registered company in 1990, organizing small-scale tea and spice producers in mid-country around Kandy. It was buying from a total of 443 farmers spread over 11 villages and with a total of 704 acres (285 ha). Bio Foods consists of an extension and local (internal) inspection section, produce collecting centres, processing factories, an export and an administration section. The farmers are organized at village level in farmer committees. The main products are green, black, flavoured and herbal teas, spices and coffee.

Investments

Bio foods has provided the committees with training in soil fertility, plant protection, compost preparation, internal control systems, fair-trade quality control, and saving schemes. All products are certified organic, by SKAL, Naturland, IMO or JAS, depending on the country of import and the requirements of the buyer. Certification costs are paid for by Bio Foods and the certificates are owned by them. However, Bio foods is reimbursed by the Small Organic Farmer Association for certification costs for those farmers who are member of SOFA. The tea producers of Bio foods are also registered by FLO and part of the tea is sold under fair-trade conditions, in which case the buyer has a fair-trade licence from an FLO member. The conversion periods and installation of the internal control system per group of farmers has been reported to vary from one to 5 years. A major obstacle has been the different requirements of each certification body concerning the structure and functioning of the internal control system.

Farm economics

The organic price premium for green leaf is reported to be 100 percent [this may include the fair-trade premium]. Organic spices have fetched premiums of 10–30 percent. Bio Foods also provides the farmer societies at village level with other benefits, such as roofing materials, chairs, cattle, soil inputs, nursery plants and facilities for their children's education, as well as easy-term loan schemes. Despite these positive results for the small-scale farmers, Bio Foods has doubts as to the long-term sustainability of the company. It has been difficult to find buyers who are willing to sign forward contracts with guaranteed prices or volumes. However, they continue buying all certified raw material from the farmers and processed finished products are stored until a buyer is found. Some farmers in Sri Lanka have given up on organic farming due to unstable prices and demand. By guaranteed buying of their produce, Bio Foods ensures that farmers continue to comply with the organic standards.

6.2 DISCUSSION AND CONCLUSIONS FROM ORGANIC CASES

From these cases, it becomes clear that traditional low-input farmers may expect productivity gains from organic agriculture methods. However, higher yields are usually accompanied by higher production costs, mainly in the form of increased labour demand. In particular, the introduction of new soil conservation methods, such as terracing and preparation of organic fertilizers, were often mentioned as increasing total labour demand. If soils were depleted under former land use management, these labour requirements can be expected to be higher.

The organic premium received usually covers these higher production costs and certification costs and the result is increased net profit. In former low-input situations, the increase in productivity might in itself compensate for higher production costs, without the need to access premium markets through certification.

It must be noted that in many cited cases the usual three-year conversion periods were shortened or waived completely, because the certification body was satisfied by evidence of former low or non-use of chemical inputs. This is an important advantage, leading to quicker returns on investments and less risk that price premiums will have come down by the time certification is obtained. However, Kidd, Tulip and Walaga (2001) observed a growing trend in certification for export markets of applying the same standards as in Europe, with less flexibility for shortening or waiving the conversion period.

In the few cases cited of conversion from high-input production systems, initial yield declines have been observed, usually recovering to levels slightly below the original conventional yields, and sometimes above original levels. Effects on production costs per hectare have been varied (lower, similar and higher). In these cases, given the initial investment costs and decline in yields, access to premium markets is essential – usually requiring certification.

In all cases, returns on investments in organic agriculture, especially in soil conservation methods and in conversion from high-input situations, occur in the long-term only. Tenants and sharecroppers without a guarantee of continued access to the land are unlikely to make this investment. A farmer interviewed by Damiani (2001a) reflected on the long-term investments to be made:

It would have been impossible for me to do organic vegetables if I were not the owner of the land. Anyone can rent a piece of land to cultivate cabbage or tomato with fertilizers and pesticides just for one year, but one has to wait for years to see the fruits of starting with organic crops. You work a lot with not much return the first year, but the soil gets better year after year because of the organic fertilizers and the crop rotation, and the productivity keeps growing. You cannot do all this effort one year and then leave others to obtain the gains of your effort.

Another important characteristic of many of the cases is the use of group certification involving an internal control system. It was observed by many authors that this was important to reduce the costs of certification. Such group certification has been reached in two distinct ways. First, through farmers' associations, with farmers participating actively in decision-making and monitoring, in which cases the certificate is owned by the association. In many of those examples, the certification costs were subsidized by donor organizations, subsidies usually declining after the initial years. The second system is exemplified by Uganda, where the exporter organizes and pays for the certification. Kidd, Tulip and Walaga (2001) argue that although this has the disadvantage that farmers are not allowed to sell to other organic buyers (but they are allowed to sell to any conventional buyer), this option is preferable where producer organizations do not exist or are weak. In general, given the importance of group certification for smallholder producers, the unclear status of group certification with regard to the EU regulation (and possibly also NOP and JAS) is observed as a barrier for further development of organic exports from smallholder producers.

It was often observed that the quality requirements of the new organic market were higher than for the former conventional market. This may be easy to understand for those cases where the organic status allowed more upmarket sales, away from local wholesale markets or middle agents (e.g. vegetables in El Salvador and coffee in Brazil and Guatemala). The reverse case was observed for mangoes from Peru, where switching to organic agriculture allowed sales to the less demanding pulp plant. In the case of sugar from Argentina, the organic processor demanded a 'cleaner' product. In the Dominican Republic, price premiums were apparently not enough to justify the necessary investments to significantly improve the quality of organic bananas grown by small-scale producers, and it is increasingly difficult for them to compete in the nowadays more demanding international organic market.

6.3 FAIR-TRADE

Because fair-trade initiatives started with a clear development perspective, many producer groups have also received initial technical assistance in addition to benefits through market access and price premiums.

An overview of the results of the reviewed case studies can be found in Table 6. Some coffee cooperatives included in this chapter are also certified organic.

FAIR-TRADE BANANAS FROM VOLTA RIVER ESTATES LTD., GHANA

Based on the reports of Blowfield and Gallat, undated, and Budu, in FAO, 2001.

History and Organization

Volta River Estates Ltd. (VREL) was formed in 1988 as the first commercial banana producer in Ghana. The operation collapsed in 1990 as a result of Black Sigatoka disease. VREL was restarted in 1993, with 140 ha and 23 workers. VREL began to export again in 1994 under its own Ghanapack label, and only then discovered that it had to pay a licence fee for access to the EU market. This, together with a long-running dispute over land and labour on its initial two sites, meant that the company was verging on bankruptcy. In 1996, it established contact with the Dutch NGO Solidaridad and the Max Havelaar Foundation. At that time they were starting the Oké label for fair-trade bananas in the Netherlands, but were unable to get import licences for bananas from Latin America. VREL was accepted as a registered fair-trade supplier. In 1997, VREL exported 3 700 tonnes and by the end of 1997 VREL had 280 ha under production, had largely resolved its labour problems and was employing 900 people. The bananas are sold to Agrofair, a fair-trade licensed importer in the Netherlands. Agrofair is 50 percent owned by the fair-trade producers, including VREL, and the other 50 percent by Solidaridad and a ripening company. Agrofair sells the bananas in the Netherlands, Belgium and Switzerland.

Investments

VREL had difficulties establishing itself in the Swiss fair-trade market due to quality problems, which were in turn the result of shipping-related problems. This resulted in 20 percent of the bananas being sold on the domestic market, where they fetch only 30 percent of the export price. Until January 2003, the various countries had different fair-trade labels and VREL had problems getting the right label on the right produce. Because no herbicides are used, VREL has a high worker per hectare ratio (3:1 compared with 1:1 on many plantations). Also, no pesticide-impregnated bags are used. VREL workers are represented by the Ghana Agricultural Workers' Union (all plantation workers must join this union under Ghanaian law) and they agreed a collective bargaining agreement in early 1998, which included a six-year plan for pay increases and a grievance procedure. VREL provides informal training. In 1999, the key positions in the company were still held by expatriate managers (from before FLO registration), but there are a growing number of Ghanaians in positions of responsibility. Workers are aware of fair-trade and VREL is producing local-language leaflets explaining this further.

Table 6

Overview of farm economic data from case studies of fair-trade registered producer organizations

Case	No. of farmers	Cost of production	yield	Price premium	Net profit	Remarks
FRUITS AND VEGETABLES						
1. Ghana, Bananas VREL	900 workers	Higher	?	Much higher (on local market 30 percent of export price)	?	Without fair-trade no access to EU market
COCOA						
2. Ghana, Kuapa Kokoo	30 000	Producer level: No change. Cooperative: lower overhead	No change	+8% in 1998 +100% in 2000. Premium received for 2–5% of total sales		Main effect through development of viable farmer export company
COFFEE						
3. Bolivia, Fair-trade and/or organic		? higher labour costs especially for organic	? similar	+136% (fair-trade organic, 14% of sales) +113% (fair-trade, 7% of sales) +44% (organic, 40% of sales) (2000 figures)	Higher	Organizational problems: not all cooperatives access niche markets
4. Costa Rica, COOCAFE (including 9 co-ops)	Each co-op has 140 to 530 members	Producer level: ? Cooperatives: higher	Similar	Producer price Sarapiquí co-op: +25% to +60% Cooperatives retain 30% of premium	Producer level: Higher Cooperative level: Higher	Producers also enjoyed better services from their cooperatives.
5. Mexico, UCIRI also organic	4 800	Higher	+100% on average	Organic and fair-trade premiums	?	
6. Mexico, Café Mam, also organic	1300	+47% (incl. higher harvesting costs due to increased yields)	+30–50%	45% in 2000 and 65% in 2001.	family income +30% increase on average	ISMAM calculates average premium from organic, fair-trade and conventional sales
7. Tanzania, 4 cooperatives	Kagera union: 40 000	Same	Same	Fair-trade premium on 5–10% of total sales, used for projects	Similar	Benefits on cooperative level to compete with private traders

Farm economics

Production and exports have been variable. Exports rose in 1998 to almost 5 000 tonnes, but declined in 1999 to 3 290 tonnes, and then recovered to 5 000 tonnes in 2001. VREL started producing organic bananas on a new site in 2002. Agrofair reported that production levels were down in 2003 due to conversion of the whole area to organic production methods.⁹³ There is a one-month delay between harvesting and payment. Agrofair is able to pre-finance all orders with loans from a Dutch development bank. VREL also needs to pre-finance EU import licences, which can amount to over US\$1 million/year and accounts for over 50 percent of the CIF price. The fair-trade premium has been largely absorbed by these licences and as a result could not be used for social and environmental improvements.

The fair-trade minimum price for bananas is set by FLO on the basis of calculated costs of production. For Ghana, this was US\$8.5/box, which is US\$1.25 higher than for Latin American fair-trade producers. There was oversupply of fair-trade bananas at certain times of the year and consequently Agrofair sold part on the conventional market or in eastern Europe, sometimes at prices insufficient to cover production costs. Being part of the fair-trade movement, VREL has had access to soft loans for expansion, with interest rates as low as 2 percent, while commercial interest rates in Ghana were nearing 50 percent. As external finance is equal to 150 percent of turnover, this is a very important effect.

Worker benefits

VREL has created about 900 permanent jobs, with priority given to people in the vicinity. However, the first two sites were established on land previously used for smallholder intercropping. Although those smallholders were given precedence to join the workforce, today most workers come from other communities. Because part of the land was previously not under production it can be assumed the livelihoods opportunities have increased in the region. Blowfield and Gallat (no date) reported that wages were higher than the national minimum, but not significantly different from day rates of casual labour in the area. Budu⁹⁴ reported that VREL workers' household income was significantly higher than total household incomes in other regions of Ghana.

A Solidarity Fund provided workers with basic food for reduced prices and interest-free loans. Overtime was paid at ILO-approved rates. VREL provided boots and protective clothing and a health clinic on each site. Workers were also reimbursed for hospital treatments. A quarter of the shares of VREL were now owned by the workforce and held in trust by Solidaridad. However, workers did not really benefit from these shares because the company had yet to make a profit in 1997. Interviewed workers said that employment by VREL was preferable to dependence on smallholder farming or casual labour.

DIVINE COCOA FROM KUAPA KOKOO, GHANA

Based on the reports of Bayley, Mavrotas and Nyanteng, 2000; Mayoux, 2000; and Tiffen, 2002.

History and organization

Just when the cocoa market in Ghana was being liberalized, world market prices reached new lows. Under the new circumstances, it seemed interesting to farmers to organize themselves into their own buyers' cooperative and export direct. Kuapa Kokoo (= good cocoa farmer) Limited (KKL) was formed in 1993 as a farmer-owned business. The basis is primary village societies, which are democratically run by members and are represented at management level. TWIN (United Kingdom) offered operational and financial advice and a start-up loan, and SNV (the Netherlands) provided village-level training of committees and bookkeepers. Within three years the company had grown from 2 000 to 8 500 farmers, and in 2000 KKL had around 30 000 members organized in 462 village societies. KKL established a reputation for honesty (not "fixing" the scales) and reliability (cheques

93. Agrofair, 2003.

94. in FAO, 2001.

did not bounce). Since 1996, there have been no international staff on the management teams or in the formal structures. However, TWIN and SNV were crucial in the start-up phase, providing knowledge of international marketing of high quality cocoa and by giving KKL credibility and evidence of the liberalization process to the cocoa farmers.

Investments

KKL also set up a separate Farmers' Trust, run by elected farmers and selected Ghanaian advisers, and funded through grants, profits and fair-trade social premiums. In 1998, TWIN, Kuapa Kokoo Union and the Body Shop formed a joint venture, the Day Chocolate Company (DCC) to market the *Divine* chocolate bar to United Kingdom-based supermarkets. Despite a very competitive United Kingdom chocolate market, where the three biggest chocolate producers enjoy the benefits of long established brand names and large promotional budgets, the *Divine* chocolate has been quite successful. Bayley, Mavrotas and Nyanteng calculate a fair-trade retail price premium of 44 percent for the *Divine* bar.

Also in 1998, two credit schemes were set up: Kuapa Kokoo Women's Revolving Scheme, funded by grants from various donors, and Kuapa Kokoo Farmers [Savings and] Credit Scheme, operating through individual contributions in cash or kind and run by elected contributors and society executives.

Farm economics

The impact of fair-trade in Ghana coincided with the general liberalization of cocoa marketing. The Produce Buying Company, the former monopoly buyer, lost market share to the new Licensed Buyer Companies (LBCs), of which Kuapa Kokoo is one. The market is still regulated through a minimum producer price, taking into account production costs. The LBCs still sell to the Ghana Cocoa Board (Cocobod). The LBCs are paid an estimated profit margin of 15 percent on top of the producer price and estimated costs. It has been government policy to gradually increase the producer price (through reducing government tax), and between 1993 and 1998, real conventional producer prices increased even as international prices fell.

Cocobod has instituted a special arrangement for the fair-trade market. All cocoa originating from KKL is marked, and when a fair-trade importer places an order, Cocobod ensures that KKL cocoa is supplied. Cocobod is then paid the market price whilst the fair-trade premium is paid into the Kuapa Kokoo Farmers' Trust. Initially, fair-trade sales accounted for 15 percent of total KKL sales, but due to the growth of overall volume this has declined to two percent. The question is whether KKL would not have been as successful without the fair-trade market.

Nevertheless, KKL is the only farmer-owned buying company. The LBCs employ purchasing clerks, whereas KKL uses the village societies' executive committees to collect the cocoa, resulting in lower overheads. Members of the executive committees of the primary societies receive training and benefit from a modest commission per bag handled. The lower overheads allows the paying of a modest 1 percent premium over the government guaranteed price; an end-of-year bonus, depending on the profit; and cedi 400/bag to the village society, for cooperative development. The fair-trade premium is used to fund community projects through the Farmers' Trust.

Other benefits

The Farmers' Trust has sponsored medical programmes, scholarships, schools and freshwater wells. This means that benefits extend beyond Kuapa Kokoo members, who in general make up 7-10 percent of a medium-sized village. It must be said that other LBCs have developed similar projects. Apart from the women's credit scheme, KKL aims to enhance women's participation through affirmative action. Cocoa in general is viewed as a man's crop because of the land ownership structure. Senior staff and board members benefit from capacity building and exposure to the international market through links with DCC.

FAIR-TRADE COFFEE IN BOLIVIA

Based on the report of Eberhart and Chauveau, 2002.

History and organization

Despite its potential to produce high quality arabica coffee at high altitude, Bolivia has lost its international markets. The trade was dominated by middle agents who paid a uniform producer price with no incentives to increase quality. As a result, the coffee has been subject to a 20–30 percent penalty against the reference price of the New York Coffee Exchange. In 1991, with help from Centre International de Coopération pour le Développement Agricole (CICDA), France, ten cooperatives founded the Federación de Cafetaleros Exportadores de Bolivia (FECAFEB). First missions from Max Havelaar Foundation had promised to help with commercialization. FECAFEB had to represent the organized coffee producers and provide technical assistance and credit.

Because of the yet weak organization, the Max Havelaar Foundation decided not to register FECAFEB, but instead registered three of the more stable cooperatives: CORACA Irupana, CENCOOP and COAINE. CORACA has been supported by the Bolivian NGO Qhana, and has developed a long-term relationship with the ATO Oxfam Belgium, their sole export destination. COAINE appeared to be the only organization with the entrepreneurial capacity to negotiate with the private importers, and came to deliver the majority of the fair-trade coffee. From 1992 to 1998, COAINE experienced strong growth. With help from NGOs, new and smaller groups were organized and registered, but they channelled their coffee through COAINE.

Most coffee is delivered in consignment; the cooperative itself does not buy the coffee but functions only as an export channel, and farmers are only paid afterwards. Therefore most farmers sell part of their coffee to merchants who pay immediately and adjust prices on a daily basis. When market prices are high, this may lead to the cooperative running short and being unable to fulfil coffee contracts. In 1998, a conflict within COAINE erupted around the manager. In the same year, the controls by FLO noted a lack of transparency and the sale of coffee from non-registered groups under the fair-trade label. FLO suspended COAINE from the coffee register, but COAINE was registered again after the manager was replaced.

Investments

Investments were mainly in organizational structures and quality improvements. Furthermore, a DED/FECAFEB project promoted organic certification, and in 2002 almost 1 300 farmers from 18 cooperatives were certified. Quality improvement is now integrated in the organic methods. Investments for conversion to organic certification were the preparation of compost, especially for the nurseries, and the installation of anti-erosion barriers.

Farm economics

In 2000, fair-trade and organic sales were 61 percent of total sales from the cooperatives (organic, 40 percent; fair-trade, 7 percent; organic fair-trade, 14 percent). However, of the 16 registered organizations, 6 did not export at all under fair-trade conditions. In times of high world market prices (1994 and 1995), the fair-trade price was similar to or slightly higher than conventional Bolivian prices, but, in 2000 and 2001, the world market price was very low and premiums very high. Compared with the conventional prices received by the same cooperatives, the premiums in 2000 ranged from 21 percent to 97 percent for organic, from 106 percent to 123 percent for fair-trade, and from 109 percent to 195 percent for organic fair-trade. Premiums were even greater in 2001. These very high premiums were incentives to circumvent the minimum price set by FLO. Certain importers asked the cooperatives to sell several containers of non-labelled coffee below the market price in return for a container under fair-trade conditions. It is almost impossible for FLO to prevent this practice as the fair-trade minimum price is paid for the labelled container and they have no control authority for the non-labelled containers. Of course, such practices are not used by ATOs, who do not trade in conventional coffee.

The General Assembly of the cooperatives decides how to use the fair-trade premium above the minimum price, and it is almost always distributed to the farmers. However, the villages decide regularly to make communal investments, paid for by a contribution from each family. The most important effect of fair-trade has been the assistance of the fair-trade price in achieving quality improvements. The best quality is now also sold on the conventional quality coffee markets, escaping the Bolivian low-quality penalty. Of the private importers, only three have provided pre-financing, but pre-finance might not have been asked for. One of the ATOs had proposed pre-financing but this offer was declined by the cooperatives. In conventional low-quality coffee, longer-term contracts do not exist. In contrast, the ATOs and the smaller private importers of “origin coffee” do have a long-term relationship with the producers.

Organizational results

FECAFEB was relatively successful in channelling 40 percent of the total coffee from the cooperatives, mainly thanks to the fact that the manager of COAINE was also manager of FECAFEB. After the conflicts in COAINE, she started on her own as a private broker and most of the buyers, including those of fair-trade labelled coffee, followed her. As a result FECAFEB was in crisis, until they made an agreement with the old manager in 2001. Despite FLO promoting direct buying from cooperatives, the private importers of fair-trade labelled products continued to prefer to buy via brokers.

No big impact on democracy and transparency within the registered producer organizations has been observed in Bolivia. This can be attributed in part to the low educational level of the producers, and in part because the system has been too flexible. Only in the case of serious dysfunction, as described above, was the organization de-listed. The results seem better when the coffee is bought by ATOs, who visit regularly. In the end, the organic label, with its stricter individual identification, has contributed to a new institutionalization of the organizations, with stricter rights and obligations.

In the smaller groups, the elected manager has to (partially) abandon their own economic activities, with no compensation. This necessarily leads to a high rotation (annually) of managers, who typically are inexperienced in handling large sums, up to US\$200 000/year. Frequently, major decisions are taken by consensus between all members, with the disadvantage that several days may be required to convene a meeting, and this is not adapted to the response speed expected by importers.

FAIR-TRADE COFFEE FROM COCAFÉ, COSTA RICA

Based on the report of Ronchi, 2002.

History and organization

Small-scale farmers dominate coffee production in Costa Rica, with 92 percent of producers in 1996 having farms smaller than 5 ha. Until the mid-1990s, most cooperatives were members of the Federación de Cooperativas de Caficultores RL (FEDECOOP). In 1988, six cooperatives founded an exporting association, Consorcio de Cooperativas de Caficultores de Guanacaste y Montes de Oro RL (Coocafé). One of its members, the tiny Coope Cerro Azul, already had a working relationship with the ATO S.O.S Wereldhandel (now Fair Trade Organisatie). In 1989, Coocafé started exporting to fair-trade importers. More cooperatives joined and Coocafé had nine members at the time of reporting. From 1992, Coocafé also started exporting their first roasted coffee brand, and now sells three brands: Café Paz (to the United States of America and Japanese fair-trade markets), Café Forestal and Café Auténtico. All exports were effected through FEDECOOP until Coocafé’s own exporting arm was established in 1997. In the same year, FLO was established and formulated their coffee standards and pricing mechanism.

Farm economics

The study did not analyse production costs and yields. It does however mention the planting of more shade trees (extra costs) and use of less pesticides and herbicides (savings). From 1993 to 1998, on average, 52 percent of export volumes went to fair-trade markets. Coocafé pays the producers on

the basis of the normal New York differential price. Of the extra revenues from the fair-trade sales (due to higher fair-trade minimum price or the fair-trade premium), 70 percent is divided among the primary producers. As a result farmers of Sarapiquí cooperative received in the period 1989 to 1995 a 25–60 percent higher liquidation price and on average a 39 percent higher coffee income than other coffee farmers in the region.

The other 30 percent of extra revenue from fair-trade are used to operate the Social Capital Fund and the Development Fund, used for producer credits and investments in facilities for the production of organic fertilizer and other environmental improvements. In 1995, the Government of Costa Rica decided that all coffee processing plants should convert to use of “clean technology”. Conversion costs for Coocafé cooperatives ranged from US\$38 000 to 70 000, and resources were drawn from the Social Capital Fund. In addition, Coocafé pays out 13 percent interest on each cooperative share in the Funds, and the cooperative can access the funds for a 3 percent commission to Coocafé. The sales revenues of the three roasted brands in addition pay for an Educational Extension Fund and the Fundación Café Forestal, through which environmental projects are initiated.

Ronchi (2002) noted that, while a quarter of the cooperatives in Costa Rica had closed down in the preceding decade, all the Coocafé cooperatives had land buying projects for members with tiny holdings and for members’ children. This suggests that the profitability of the fair-trade market induces increased supply.

Organizational development

Indirect benefits of fair-trade for cooperatives is that Coocafé represents them on some important national bodies. However, the information exchange with FLO could be improved. The only contact that the member cooperatives may have with FLO are informational requests of a confidential nature, while they feel a lack of reciprocity in information exchange. As the fieldwork for the report discussed here was carried out in 1999, the re-organization of FLO might have improved transparency. Many producers had a limited awareness of fair-trade. In interviews, they mentioned the better prices received and the services provided by their cooperatives, but had no clear idea of the role of fair-trade therein.

SMALLHOLDER COFFEE FROM UCIRI, MEXICO

Based on the reports of Pretty, Morison and Hine, 2003, and SAFE, 2001.

The Union of Indian Communities in the Isthmus Region (UCIRI) was organized in Oaxaca for the cultivation and marketing of organic coffee, to reduce dependency on credit. Organic coffee cultivation demands more labour, mainly for erosion control measures, such as half-moon terraces for each tree. Formerly the coffee beans were depulped into waterways, causing significant water pollution; now farmers return the pulp to the fields after composting, along with animal manure, lime and green plant material. This has improved yields by 30–50 percent, to a production level of 600–1 200 kg/ha. The fair-trade premium is used in particular for improving schools. UCIRI also runs public transport and medical insurance systems, and owns several shops.

CAFÉ MAM HIGH ALTITUDE COFFEE, ISMAM, MEXICO

Based on the reports of Damiani, 2001b, and Mendoza Zazueta, [2001].

History and organization

Indígenas de la Sierra Madre de Motozintla San Isidro Labrador (ISMAM), Chiapas, initially comprised 200 small-scale indigenous farmers and focused on collective work and marketing. European buyers showed interest in organic coffee, and ISMAM got in touch with UCIRI (see previous case) and certification agencies. In 1993, ISMAM sold the first organic harvest through UCIRI, and a year later started exporting direct. By 2001, ISMAM had 1 300 members, with a total area of certified coffee of 5 000 ha, an average of 3.8 ha/farmer.

To carry out the internal inspection and documentation, ISMAM created a “Certification Department”. ISMAM turned the “collective work groups” created by the church into local committees with a formal representation in ISMAM and part of the monitoring system. ISMAM asked every local committee to select one of its members to be trained and become a “promoter”. This member had to organize meetings and visit each member at least once a month and collect information as part of the monitoring system.

In 2001, exports reached almost 2 900 tonnes. The organization had a recognized coffee mark registered as Gourmet “Café Mam”, high altitude coffee. ISMAM acquired a roasting and packing plant with a processing capacity of around two tonnes/hour. Mendoza points out that it had been working well below its capacity and it had to compete with transnational enterprises.

Investments

The church played a key role in ISMAM’s development and one of the priests became an official advisor to ISMAM. The governmental “Alliance for the Countryside” programme provided subsidies of 25–50 percent for investments of individual farmers. ISMAM received funds from the National Fund for the Support of Solidarity Enterprises (FONAES) from 1992, which it used initially to purchase storage and processing facilities. Between 1998 and 2001, FONAES funded the modernization of processing facilities and provided credit to ISMAM members. In addition, the Rural Credit Bank has financed ISMAM’s activities over a long period, including a loan for expansion of processing facilities, a revolving credit line for three years for the purchase of coffee from its members, and credit for ISMAM’s individual producers. For the credit lines provided to ISMAM they had never had a default, while credit to individual members showed very low default rates (two percent by the end of 2001).

Farm economics

The traditional methods used in their shade coffee production were similar to organic methods and the most important change was the application of soil conservation measures and introduction of new tree species, demanding primarily labour for constructing terraces. The production costs per hectare increased significantly, about 47 percent higher than the traditional low-input conventional production, but 46 percent of these higher production costs were due to the higher yields obtained (30–50 percent), which increased harvesting, processing and transportation costs. When compared with production costs of larger-scale farmers using high-input conventional methods, the production costs of organic coffee were 11 percent lower for the same yields.

ISMAM obtained a 30–87 percent premium on the organic market between 1993 and 2001, and has sold about 30 percent on the fair-trade market since the mid-1990s, thus obtaining even higher prices. This allowed ISMAM to pay its members an average 45 percent price premium in 2000 and a 65 percent premium in 2001. Producers may choose if they wish to be paid at delivery or later (*remate*), the latter option giving a higher price. The persons interviewed by Mendoza said that the majority chose half and half, because they needed cash to pay for the hired labour needed for harvesting. Mendoza estimated that through ISMAM family incomes had increased on average by 30 percent. The setting up of a local certification body in the second half of the 1990s (Certimex) contributed to a decrease in certification costs for organic farmers in Mexico in general.

COFFEE FROM COOPERATIVES IN TANZANIA

Based on the report of Jones et al., 2000.

Background history

Government involvement in cooperatives in the late 1970s and early 1980s resulted in a highly politicized cooperative structure. The failure of the approach led in 1991 to the re-introduction of member-based cooperatives. This coincided with the adoption of coffee market liberalization policies and the entry of private traders into the coffee market. The market share of private traders increased from less than 10 percent in 1993/94 to more than 70 percent in 1998/99, at the cost of market shares of cooperatives. There were now around 20 private traders, many of which were subsidiaries or agents

of multinational companies. The new licensing system required traders to provide full and final payment at delivery. This also forced cooperatives to raise their advance payments and abolish input credits because they could no longer be sure they would be repaid, as farmers could choose another buyer. As most farmers were considered not creditworthy by banks, the lack of credit facilities has been a major problem. Liberalization resulted in more competition, and the proportion of auction prices transferred to producers increased from 50 percent in 1990/91 to around 70 percent in 1998/99. Together with relatively high world market prices in 1995–1997, this resulted in higher producer prices, but producer prices dropped by 50 percent in 1999/2000.

Fair-trade history and organization

The Kagera Cooperative Union was the first cooperative selling to fair-trade channels, in 1990. The Kagera cooperative bought robusta coffee from about 40 000 farmers in Kagera district and sold between 6 and 11 percent as fair-trade. Initially, Kagera cooperative also bought arabica from the Kilimanjaro Native Cooperative Union (KNCU), and sold it to fair-trade markets. This was felt to be inappropriate and in 1993 KNCU was registered and was to gradually take over its fair-trade export from the Kagera cooperative. KNCU had 96 primary societies. The farmers had been selling increasingly to private buyers and were selling only half of their coffee to KNCU. From that, 10–15 percent was sold as fair-trade. The third cooperative selling to fair-trade channels was the Karagwe District Cooperative Union, but in 1997 several members of its management were charged with corruption and the cooperative was suspended from the FLO register. After a new management team was appointed, the cooperative was re-admitted in 1998, but now bought only a small proportion of the coffee in the district. The Kagera Cooperative introduced the Arusha Cooperative Union to the Max Havelaar Foundation. In 1996 they exported one container to fair-trade markets, but were then unable to obtain credit for pre-financing and could buy only limited amounts of coffee. In 2000, they were considered creditworthy again and hoped to resume exports and fair-trade.

Farm economics

Since most of the fair-trade organizations and importers deal with the cooperatives, the farmers themselves are only dimly aware of fair-trade. Given that only a small portion is sold as fair-trade, the price premium hardly affects the average price received by individual farmers, and in most cases the premium is not paid direct but used for projects. For example, KNCU has an elected “premium committee” that asks the primary societies for suggestions for the use of the premium. In three years of operation the premium had been used for a book on quality husbandry, a study tour to Kenya for 50 members, and farmer-to-farmer extension. If world market prices are high, Tanzania arabica is even higher because of premium quality, and fair-trade organizations will struggle to buy at all. Despite a negligible direct effect on income, the fair-trade minimum price has been reported to increase conventional prices by around 3 percent at the moment the unions buy back their members’ coffee at the auction to fulfil fair-trade orders.

Organizational development

The most important fair-trade benefits were reported to be the pre-financing, the capacity building and trade facilitation. The pre-financing is important as the inability to match advance-payment levels of private traders has been the reason why most cooperatives lose market share. However, the pre-finance received from fair-trade channels is only a small proportion of the finance that cooperatives require to purchase their members coffee. Fair-trade has been a significant factor in the setting up of export departments within the cooperatives, also used for (limited) direct exports to conventional markets, which reduces dependence on auctions and brings increased knowledge of the international coffee market.

6.4 LESSONS LEARNED FROM THE FAIR-TRADE CASES

In all the cases involving farmer cooperatives, it is clear that the fair-trade price premium is only part, and often only a small part, of the benefits derived from the fair-trade system. The success in self-organization seems to be far more important, resulting in better bargaining positions, better credit worthiness and economies of scale. The fair-trade system contributes to these organizational

successes through capacity building, an initial guaranteed market, linkages with the international market and learning-by-doing in exporting. In addition, and similarly to the organic cases, fair-trade contributed to quality improvements.

In the analysis, one would ideally like to separate the contribution from the fair-trade marketing system from the contribution of additional development aid activities. If benefits result mainly from the marketing system, an increase in market share for fair-trade products would be necessary to be able to repeat such successes with other farmer groups. In contrast, if benefits result mainly from the additional aid activities, one could also replicate the approach taken by these activities without needing a fair-trade market. However, it seems both have been mutually supportive and highly interlinked.

A concern for the future development of fair-trade is the reported general lack of knowledge about fair-trade among individual members of large cooperatives. One could have doubts regarding the “effective democracy” of large cooperatives, and suspect the emergence of a new “management class”. The latter is not bad per se, as any organization would benefit from having professional management, as long as it is effectively and democratically controlled by the members.

Maybe of importance for long-term development is the perception of many consumers that paying a higher price is directly improving farmer incomes. As can be concluded from these cases, that is not always the case. Those consumers would have to be convinced that the development of organizational capacity of farmer groups and the credit and educational projects financed by the premium are contributing to longer-term improvements in living standards.

As noted earlier, in Chapter 5, the supply from FLO-certified producers is much higher than demand. This is one of the main reasons that the fair-trade premium does not always directly improve farmer incomes. Often a low percentage of total production is sold in the fair-trade market, e.g. in the cases of coffee from Tanzania and cocoa from Ghana. A higher market share is required to be able to have a more direct impact on income.

Matters are different in the case of organic fair-trade. Due to the more individual certification controls, the farmers are much more aware of the “labelling” and the organic fair-trade premiums are significant. UCIRI and ISMAM have also managed to sell a large part of their products under their own labels, and therefore there has been a direct impact on farmer incomes.

For hired labour situations, the case of VREL is the only example here, but can not serve as a typical case from which conclusions can be generalized. Without fair-trade, VREL would not have obtained EU import licences, so fair-trade saved VREL. Surely, such an impact is difficult to replicate.

6.5 OTHER STANDARDS

There are much fewer documented case studies that contain information on costs of compliance and impact with reference to other standards discussed in Chapter 3. An overview of some cases is given in Tables 8 to 10.

Table 8

Overview of economic farm data for a farm that implemented the SAN standard

Case	No. of farmers	Cost of production	Yield	Price premium	Net profit	Remark
CITRUS						
Costa Rica, Del Oro SAN and organic	1	SAN: amortization of investment costs 1.5% of total production costs Organic: amortization of conversion period 1.3% of total. Total costs per ha +9.7%	SAN: similar Organic: initially -50%, after 3 years -36%	SAN: none Organic: (US\$0.42 × pps)/box ⁽¹⁾	Very variable depending on conventional and organic prices	SAN: incl. costs for norm development. Organic: lack of initial research

NOTE: (1) pps = pound per solid.

Table 9

Overview of economic farm data of farms that implemented the SA8000 norm or the ETI Base Code

Case	No. of farmers	Cost of compliance	Yield	Price premium	Net profit	Remark
WINE – SOUTH AFRICA						
Fairview SA8000	5 + winery	Winery: US\$20 854 (management system), US\$5 064 (initial investment), then US\$3 648 annually Farmer: 1.3% of turnover	No change	No	Winery: similar (costs not onerous) Farmer: minus 1.3% of turnover	No data on yields or profits
Graham Beck Wines	1 (estate)	US\$673 (planning), then US\$3 207 annually	No change	No	Similar (costs not onerous)	No data on yields or profits
Sonop Savisa	1 (estate)	US\$1 460 (planning), then US\$11 406 annually	No change	No	Similar (costs were 0.1% of turnover)	No data on yields or profits
Vredendal Cooperative	160 + cellar	Winery: US\$2 918 (planning), then US\$38 491 annually Farmer: US\$1 459 (planning), then US\$12 446 to 14 719 annually	No change	No	Winery: less Farmer: much less (bankruptcy?)	No data on yields or profits

Table 10

Overview of economic farm data for a group of suppliers who implemented the EurepGap standard

Case	No. of farmers	Cost of production	Yield	Price premium	Net profit	Remark
PINEAPPLE						
Ghana, suppliers Blue Skies	18	On average total costs were equal, – fixed costs increased +7.8% – variable costs decreased	Similar, Reject rates rose insignificantly	None (guaranteed market)	On average +7.8%, statistically not significant and large variation	Costs of training, certification and laboratory analysis borne by exporter

SUSTAINABLY GROWN ORANGES FROM COSTA RICA

Based on the reports of Andersen and Somaribas, 2003, and Peris Moll, 2003.

History and organization

Del Oro had a total area of 7 000 ha, of which 3 000 ha was under citrus, and the rest being forested land. Del Oro was owned by the Commonwealth Development Corporation (now called the CDC Group plc). Del Oro was a young plantation and therefore annual production had been increasing continuously as more and more trees matured, with a check in 1998 and 1999 due to El Niño. The company had five plantations, all certified ISO 14001. The collaboration with SAN started in 1996, with the development of SAN norms for citrus production. They were certified at the end of 1997. Transition of one farm into organic production started in 1998, and was certified organic in 2000. The cost–benefit analysis was carried out for crop years 2000/01 and 2001/02.

Investments for SAN certification

Investments were made for infrastructure, including housing, toilet facilities, and storerooms for machinery and agrochemicals. A recycling plan was developed, as well as an occupational health programme, which included the purchase of pesticide application gear. They formerly applied the herbicide paraquat together with the fertilizers, and the change to a less toxic herbicide also meant an extra application round. The total annualized implementation costs, including the extra work hours, came to US\$47 850, equivalent to US\$16/ha/year, representing 1.5 percent of total production costs. Some of these investments would have had to be made at a later stage anyway due to the introduction of new legislation or stricter enforcement of existing rules. However, the costs might have been different as the SAN norms had more precise specifications.

Investments for organic certification

When starting conversion to organic for one of the plantations, Del Oro stopped giving chemical fertilizers, but did not have an organic management plan ready. This lack of research proved very costly due to a sharp drop in production. After eight months they started to consciously apply organic fertilizers in the form of chicken manure, foliar fertilizers and liming. Together with a slight increase in weed and pest control costs, total costs for the transition period were calculated at US\$1 484/ha. When annualized, the amortization of these transition costs came to 1.3 percent of total production costs.

Help in public relations

In 1998, Del Oro made an agreement with the neighbouring Guanacaste Conservation Area (ACG) that they would transfer 1 200 ha of the company's forested lands to the conservation area over a 20-year period. It was also agreed that Del Oro would pay for various benefits that derived from neighbouring protected area, such as natural pest control and clean water coming from the forests. The largest payment to the park was for the biodegradation of 1 000 truckloads of orange waste from the juicing plant. The waste was planned to be deposited every year in a different, selected, site within the conservation area, with the aim of regenerating soils and the flora, and in particular to get rid of the introduced African *jaragua* grass, which was out-competing the endemic flora. The agreement between Del Oro and the park was big news. However, the heaps of fly-infested mulch drew criticism. As a result, Del Oro has spent US\$100 000 in legal fees and public relations to defend the deal, but to no avail. The SAN secretariat supported them publicly during this period, and this was highly valued. The agreement was cancelled in 2000.

Farm economics

After achieving SAN certification, Del Oro tried to sell juice as SAN-certified in the United States of America and in Costa Rica, but without much response in the market. They did not make a market analysis at the time, but it was their feeling that SAN was not recognized by the consumers. Today, Del Oro is selling the juice as conventional (mixed with juice from non-certified oranges that they buy from local producers). For 2000/01 and 2001/02, an analysis of production costs and revenues was made. A noise in the analysis was the application of compost. After the waste from the

plant could no longer be used in ACG, it was turned into compost. This resulted in Del Oro applying compost at US\$2.50/tree, whereas market prices for good quality compost amounted to only US\$1/tree. The distortion was aggravated by Del Oro using the compost on selected farms to artificially increase production costs for tax purposes. Therefore, compost costs were omitted entirely from the analysis.

In 2002, total production costs for the SAN-certified farms were US\$1 028/ha, and US\$1 128/ha for the SAN-organic certified farm, i.e. 9.7 percent higher. Variable costs before harvest were US\$352/ha and US\$486/ha, respectively, i.e. 37 percent higher for the organic farm. Yields were on average 24 tonnes/ha for SAN-certified farms, compared with 15.5 tonnes/ha from the organic farm (which had dropped below 10 tonnes/ha in 2000). As yields on the organic farm were still recovering, these yield differences were expected to reduce. It must also be noted that one of the worst performing farms was chosen for conversion to organic management. The price premium was US\$0.42 × pps per box (pps = pound per solid). This resulted in a net profit for the organic farm of US\$573/ha, falling in the middle of the profit ranges for the other four farms, which ranged from US\$284/ha to US\$878/ha. Organic yields were expected to improve, but the organic market was starting to get oversupplied and in the 2002/03 season some of the organic production was sold as conventional. SAN certification costs for the whole of Del Oro were US\$25 000/year and organic certification costs by two different certification bodies came to US\$9 000/year for a single farm.

Other benefits

The management learned a lot during the development and implementation of the SAN standard, and again during the organic conversion period. After SAN certification they were disappointed that SAN withdrew from advising, to avoid conflicts of interest with their function as certification body.

ETHICAL WINE FROM SOUTH AFRICA

Based on the reports of Collinson, 2001, and Nelson, Ewert and Martin, 2002.

History and context

During the last ten years, the South African wine industry has faced a deregulation of the industry, transition to democracy, extension of labour legislation to agriculture, and the opening of international markets. The cooperative sector, until then protected by minimum prices, planting quotas, absence of labour rights and geared towards producing cheap white wines, found it difficult to adjust. For many of them their survival was at risk and the jobs of many farm workers with them. The estate and private cellar sector welcomed the changes and took advantage of the international market, mainly the United Kingdom. Overall, the wine industry has expanded, but employment growth has not been as large as increase in wine area, due to increased labour productivity.⁹⁵

Under the traditional “paternalism” system, all power lies with the farmer, who has the moral obligation to care for their workers and their families. Although the system was not without welfare benefits (e.g. free housing), most labourers worked for long hours for low pay. The new labour laws improved working conditions, especially regarding working hours, leave and unfair dismissals, but also stimulated casualization and the use of contract labour.

Almost all the farms that adopted labour codes and took part in the cost-of-compliance study were known to provide relatively good working conditions and salaries. Fairview is a non-estate, producing wine from own grapes and from grapes bought from other growers. The owner has a reputation for being one of the best employers and in 1999 decided to seek SA8000 certification. To comply, he had to impose labour standards on the five grape suppliers. Graham Back Wines is similarly progressive and unusually large, so that it can employ a human resources manager. Sonop Savisa has been Swiss owned since 1992 and been steadily improving worker welfare, allowing farm workers to own and manage their own residences, community facilities and a small area of vineyard.

95. Ewert *et al.*, 1998.

Vredendal Cooperative combined a winery with a wholesale operation. It had 160 farmer members in an area not noted for high levels of worker welfare. Apart from Fairview, all farms and cooperatives participated in the ETI wine pilot trial.

Methodology

Collinson (2001) conducted a cost-of-compliance study and measured or estimated all costs associated with actions necessary to meet the standards. The estimated ETI compliance costs were predictions, because none of the participants had yet emerged from the monitoring process and been declared compliant. As a consequence, the author had to make many assumptions concerning the interpretation of the standard by those who would verify it, especially on “decent housing” and “living wage”. The author further assumed that all the workers would have their wages increased by the amount equivalent to the difference between the pre-compliance actual wage of the lowest paid worker and the basic living wage. Verification (inspection) costs were in the ETI pilot borne by ETI and its supermarket members, and therefore not taken into account.

The impact study by Nelson and colleagues (2002) involved five code-adopting companies, including the four involved in the cost-of-compliance study, and compared them with five “similar”, non-adopting companies. First impact indicators were identified through focus-group discussions with workers and three worker household case studies. For the impact study itself, a total of 161 workers were interviewed, 122 working on code-adopting farms (of which 63 were permanent workers) and 39 on non-adopting farms (of which 33 were permanent).

Costs of compliance

Costs for Fairview in the pre-certification year came to US\$20 850 for planning the management system. Compliance costs were US\$5 060 initially, and then US\$3 650 annually, mainly for a chemical store and protective gear for workers. Cost for suppliers to Fairview represented 1.3 percent of their total turnover. For Graham Back Wines, estimated costs came to US\$670 for planning and US\$3 200 annually, mainly for increasing the wages of non-permanent staff. Sonop Savisa planning costs were calculated to have been US\$1 460, after which the firm would incur US\$11 400 annually for increasing worker wages. The Vredendal winery planning costs were calculated at US\$2 920, after which the winery would have to spent an extra US\$38 490 annually on increased wages and the amortization of a new chemical store. A Vredendal farmer member would face US\$1 460 in planning costs and from US\$12 450 to US\$14 720 annually thereafter for improvements in worker housing.

Except for the Vredendal cooperative, the costs would not be a big problem; they would range from 0.1 percent to 1.3 percent of turnover. However, for the Vredendal winery the costs would markedly reduce profit and for the Vredendal member farmer the costs would be so high that they would lead eventually to bankruptcy. Improvements in worker housing to comply with the ETI (as interpreted by the author) can only be implemented very slowly to ensure those same workers will not lose their jobs.

Impact and benefits

The identification of priority needs by workers revealed that the core provisions of the codes do address some of the priority needs (housing, wages and no harsh treatment or abuse). Other needs, such as job security, continuous training and information on company performance, are not addressed in the code, as are some needs relating to the domestic sphere. In contrast, issues that are addressed by code provisions, such as occupational health and safety, freedom of association, child labour and hours of work, were not highlighted as important issues.

The impact study revealed that the code-adopting companies on average exported a higher percentage of their wine and obtained higher revenues than non-adopting firms. It is important to note that the majority of the adopting companies probably decided to implement the code because they were already focusing on social issues, and not the other way round. The main reason given by managers for adopting the code was to facilitate access to specific markets.

All managers of the code-adopting firms knew what the codes were about, but only three managers of the non-adopting firms had heard about the codes, and had no detailed knowledge of them. Just over half the employees at code-adopting farms had heard of codes of practice, but only eight had more detailed knowledge.

One company had experienced public relation benefits because it was used in presentations as an example. The cooperative farm viewed the ETI as a neutral third party who could introduce changes in working conditions while protecting the management from becoming the object of inter-member conflict. Labour arrangements have always been regarded as sacrosanct by the farmers and no business of the cooperative management. Given the legacy of “traditional” labour conditions on the cooperative farms, the code has probably had its biggest impact there. Immediately after signing up to the ETI pilot project the cooperative members had introduced written contracts and improved health and safety practices, and had launched a programme for incrementally improving the housing stock.

Of the other companies, one had put an immediate end to gender discrimination; another no longer allowed any children to work on the farm, even if this had always been voluntary; and a third farm had upgraded health and safety regulation. Managers noted that some social issues, especially employees’ domestic problems, were not addressed by the code. As the majority of permanent workers live on the farm, these problems do not remain purely domestic.

When comparing the position of workers at adopting and non-adopting companies, in adopting companies the labour force was more educated and more workers had been sent on training courses. Fifteen percent of workers at non-adopting companies were provided with alcohol (in the past it was common to pay partly in alcohol rations), while only 3.5 percent of workers from code-adopting farms reported this. Employment conditions were considerably more favourable at code-adopting farms, i.e. more use of written contracts, more provision of protective clothing, health care subsidies and education on HIV and AIDS. On code-adopting farms, 87.5 percent of employees reported that their interests were being represented by a worker’s committee, while for non-adopting companies only 15 percent was represented. In contrast, membership of trade unions was five times higher at non-adopting companies. It was concluded that workers on adopting farms were better off, but this was mainly due to a policy of social responsibility existing before code implementation.

EUREPGAP-CERTIFIED PINEAPPLES FROM GHANA

Based on the report of Foli Gogoe, 2003.

History and organization

Pineapple is currently the largest non-traditional export earner of Ghana. The value of pineapple exports grew 37.5 percent between 1997 and 2001, to reach US\$13.2 million. This despite one exporter reporting that the price had fallen between 1993 and 1998, from US\$0.65/kg to US\$0.45/kg. Use of agrochemicals is based on calendar applications following recommendations made by a consultant in the early 1990s. There are 60 registered pineapple exporters in Ghana, of which 9 supply about 72 percent of total exports. Of total exports, 45 percent is obtained from smallholder farms, either outgrowers, individuals or group associations (mostly grouped for training rather than group marketing). Domestic financing has always been a constraint. In 2001, domestic annual interest rates varied between 50 and 60 percent, coupled with double-digit inflation. When the EurepGap protocol was launched, Blue Skies was one of the first processors-*cum*-exporters in a developing country to take it up, in order to maintain its current market share in the United Kingdom. Growers aspire to sell to Blue Skies as the company offers the best price, pays weekly, and offers training programmes. However, disadvantages of Blue Skies are the high percentages of rejects, less transparency in weighing and no preferential access to loans or credit.

Investments

The EurepGap protocol has 250 control points, half of the criteria referring to the correct use of chemicals during crop production and post-harvest treatment. For the EurepGap certification process, Blue Skies operates as a Produce Marketing Organization (PMO). They spent close to

£ stg 51 000 in going through the process. Initially there were 36 farmers to be taken through the process in two batches of 18 farmers each. The first 18 farmers were selected on the basis of their ability to consistently supply and meet orders (and quality requirements). The farm size varied between 5 and 2 000 acres (\approx 2–800 ha). Blue Skies paid three different prices, depending on consistency of supplies, quality and negotiation skills of the supplier. Although not directly related to farm size, a certain correlation between size and price was observed. The farmers were trained over a two-year period, by the agronomic team of the company that had been trained by a foreign consultant in implementing the EurepGap protocol. The EurepGap checklist had to be adapted to be relevant for the Ghanaian context, of which the necessary authorities were informed. Growers faced high initial investments costs in constructing and upgrading structures such as toilets and baths, chemical stores, shelters and offices. Some growers (especially the larger ones, who were also exporters of fresh whole pineapples), had certain infrastructure already in place and spent relatively less money on this. About one-fifth of the growers managed to obtain bank loans to meet the initial investments costs, and as a result the interest and repayments on loans increased as part of the fixed costs. In special cases, Blue Skies increased the orders from growers to improve their financial position to enable them to meet these infrastructure costs. As a result of EurepGap, Blue Skies standardized the type of herbicide (less toxic) and quantities used. Before EurepGap some growers used a nematicide with cardolufos, a WHO class 1b ingredient, that is no longer used.

Farm economics

After certification was obtained, data were collected on cost of production before and after EurepGap implementation, using a participatory budgetary approach. Income data were obtained on the basis of receipts and market intelligence. In addition, qualitative data were collected through interviews. The results showed an incremental benefit of 7.8 percent in profits between the without and with EurepGap periods. The difference was, however, not significant and there were wide variations among growers, (indicating some had experienced greater profit growth, while others might have had reduced profits). Average total production costs remained the same, but the budget structure changed. On average, fixed costs increased by 7.8 percent, mainly due to a significant increase in depreciation of buildings. This was compensated by a decrease in variable costs. In interviews, farmers reported huge savings on agrochemicals, but the study results showed that those savings were actually quite modest (on average 5.4 percent for weed control, 9.4 percent for fertilizer use and an increase in pesticide costs due to increased prices). Harvesting costs fell due to a decrease in the use of Ethephon for de-greening, to meet maximum residue limits. Blue Skies even tried to stop the use of Ethephon altogether, but this led to higher rejects because farmers were less able to determine the correct time for harvesting, which led Blue Skies to make the Natural Ripening Programme voluntary. Farmers faced extra costs for the removal of the mother plant immediately after its useful life, before leaving the land fallow to prevent disease build up on the field. Potential benefits from this would be only experienced in subsequent years, which could lead to reduced pesticide costs. Labour costs increased due to provision of pension schemes and better medical care. Other costs related to EurepGap implementation were borne by Blue Skies, such as training, soil, water and blood analysis, and the certification and inspection costs. One indirect effect of the EurepGap certification was the average increase in field size, because certified farmers were guaranteed a market by Blue Skies and therefore planted more.

Other benefits and effects

For the 80 percent of the farmers who did not keep records before, the necessary bookkeeping was valued as of immense benefit. Additional effects of EurepGap implementation was that farmers and workers spent longer on farm, made possible by shade, potable water and sanitary provisions, which led to better supervision. Farmers were proud that their farm looked clean and farmers (especially smallholders) and workers had gained knowledge about agrochemical handling. Agrochemicals were now stored properly and protective clothing was used, all reducing health risks related to agrochemical use.

6.6 DISCUSSION

Because there is only one example for each standard, it is difficult to draw general conclusions from the case studies. However, the Del Oro case is quite representative for SAN standard implementation in so far that there is no price premium or label involved and that after standard implementation the situation is quite static.

From the wine cases, it is clear that cost of compliance to the SA8000 and ETI standards depends very much on the starting situation and on the exact interpretation of the standard. Costs of compliance change dramatically if the living wage or housing conditions are specified differently.

The fact that code requirements only partly matched workers priorities in South Africa is not a surprise. First, parts of the areas covered by the code, but not considered a priority by workers, are probably requirements that the South African companies comply with by default, i.e. problems such as forced labour do not occur. Second, some priorities of workers that are not covered by the code may be difficult to address through codes, such as job security and needs related to the domestic sphere. Third, the codes are international and priorities of workers may differ from place to place. Fourth, some problems may be formulated in different terms. For example, the priority of addressing wages may include – but not necessarily in this case – the notion that a sufficient wage would remove the need for children to supplement family income, but at the same time “child labour” as such may not be mentioned as a priority issue.

It should be noted that Blue Skies should be considered a special case in the way EurepGap has been implemented. The external consultant employed normally works on implementation of organic standards and this might have influenced the interpretation of the EurepGap standard. In this case, Blue Skies guaranteed the farmers a market as a strong incentive for implementation. It must be noted that the retailers promoting the standard will ultimately ask EurepGap certification as a prerequisite, but are not prepared or able to guarantee a market for certified suppliers. As long as only a minority of suppliers have obtained certification, these suppliers will have an advantage over their competitors. However, over time, this advantage can be expected to be eroded as more and more suppliers obtain certification. Before making the requisite investments, individual growers may want to consult their buyers to make sure EurepGap will give them an advantage in the market.

7. THE WTO AND ENVIRONMENTAL AND SOCIAL STANDARDS, CERTIFICATION AND LABELLING

Disclaimer

The opinions expressed in this Chapter are solely those of the author and do not constitute in any way an official position of FAO.

7.1 INTRODUCTION

Social and environmental certification and labelling programmes use market incentives to encourage management improvements above the minimum level required by law, to implement laws that are otherwise difficult to enforce, or to suggest a framework in circumstances where formal laws may not exist. The programmes often refer to international treaties and conventions, sometimes translating them into verifiable standards for direct implementation by producers or traders, or both.

The complementary role of these initiatives alongside (inter)governmental regulatory frameworks and the success of some of these labelling initiatives in gaining a substantial market share have given rise to debates on the extent to which these certification and labelling initiatives are subject to WTO provisions and whether they violate them or not. This chapter reflects on the GATT/WTO legal aspects of social and environmental standards and voluntary certification and labelling programmes in agriculture.

All literal transcriptions of WTO texts⁹⁶ and dispute panel reports are provided in italics. If provisions are presented in roman font this means the text given here is a summary or interpretation by the author.

7.2 BASIC PRINCIPLES OF THE WTO

WTO is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible. WTO, established in 1995 and currently with more than 130 members, is the successor of the General Agreement on Tariffs and Trade (GATT). The GATT Agreement of 1994 is now the principal WTO Agreement for trade in goods. The system encourages countries to settle their differences through consultation. Failing that, they can follow a stage-by-stage procedure that includes the possibility of a ruling by a panel of experts, and the chance to appeal against the ruling.⁹⁷

GATT ARTICLES I AND III: NON-DISCRIMINATION OF LIKE PRODUCTS

Articles I and III of GATT are the basic principles of WTO and advocate non-discrimination in trade.

Article I is titled *General Most-Favoured-Nation Treatment*, and includes the following:

96. WTO, 1994.

97. WTO, 2002a.

1. *With respect to customs duties and charges [...], and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, [...], any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.*

Article III is titled *National Treatment on Internal Taxation and Regulation* and includes the following:

1. *[...] internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, [...] should not be applied to imported or domestic products so as to afford protection to domestic production.*

4. *The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use.*

The Most-Favoured-Nation (MFN) principle (§I) means that WTO members are bound to treat the products of one country no less favourable than the *like products* of any other country. The National-Treatment (NT) principle (§III) means that once goods have entered a market, they must be treated no less favourably than *like products* of national origin.⁹⁸

The term *like products* has been defined in past dispute panel decisions to mean products with the same or similar physical characteristics or end uses. This has resulted in a debate on Production and Processing Methods (PPMs). WTO allows countries to adopt trade measures regulating *product characteristics or their related processes and production methods*, but does not allow trade restrictions on the basis of *unrelated* PPMs (i.e. PPMs not related to product characteristics such as the quality or safety of a product).⁹⁹

The 1991 report of the GATT dispute settlement panel in the “Dolphin-Tuna” case¹⁰⁰ interprets the MFN and NT principles for labelling rules regarding unrelated PPMs. Although the report was never adopted, it is one of the few Panel reports on PPM-labelling to guide further interpretation. Although the report was not adopted, the Panel’s decision concerning voluntary single-issue environmental labelling remains largely unchallenged.¹⁰¹ The report states:

... the labelling provisions of the DPCIA do not restrict the sale of tuna products; tuna products can be sold freely both with and without the “Dolphin Safe” label. [...] provisions governing the right of access to the label [should meet] the requirements of Article I:1.

So the report states that labelling on the basis of unrelated PPMs is allowed under GATT, as long as the labelling is voluntary, because it does not restrict trade. The right to use the label was not considered an advantage granted from the government – any advantage would depend on the free choice of consumers. However, the criteria for certification and labelling should be applied in a non-discriminatory way to all applicants.

The panel report also made clear that GATT Article I was relevant for labelling schemes. For Article III, this is less clear. Appleton argues that it is not certain that Article III was meant to apply to voluntary schemes as they may not be regulations or requirements in the sense of Article III.1. And

98. Adapted from FAO, 2000: 103–104.

99. After FAO, 2001: 60–63.

100. GATT, 1991.

101. Appleton, 1997: 145.

even if they are, it is not sure they will be viewed as *affecting* the internal sale, offering for sale, purchase, transportation, distribution or use of products, because of their voluntary nature.¹⁰² This should be determined on a case-by-case basis.

GATT ARTICLE XX: GENERAL EXCEPTIONS

In cases where standards, certification or labelling schemes would violate Article I or III, they could still comply with GATT rules if one of the General Exceptions of Article XX applied. In Article XX the permitted exceptions to the implementation of the other GATT Articles are listed. Nevertheless, such exceptions should not be applied arbitrarily or be unjustifiably discriminatory between countries where the same conditions prevail.

The most relevant exceptions listed in GATT Article XX are:

... nothing in this Agreement shall be construed to prevent adoption or enforcement by any Member of measures:

(a) necessary to protect public morals;

(b) necessary to protect human, animal or plant life or health;

...

(d) [...] relating to the protection of patents, trade marks and copyrights, and the prevention of deceptive practices;

...

(g) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption.

7.3 THE AGREEMENT ON TECHNICAL BARRIERS TO TRADE

GATT has become the WTO's umbrella agreement and applies in all cases. In addition, specific agreements have been negotiated that address specific aspects of trade. The Agreement on Technical Barriers to Trade (TBT) is the most relevant agreement for standards and certification programmes. TBT applies the MFN and NT principles to technical regulations and standard-setting practices, and to conformity assessment procedures. Of note is that TBT comes before GATT in the hierarchy of the WTO Agreement.¹⁰³

7.3.1 DEFINITIONS OF REGULATIONS AND STANDARDS

The interpretation of the terms and their definitions as set out in TBT Annex 1 is crucial for understanding the other TBT provisions, and has led to many debates. This section examines the definitions of regulations and standards, and whether environmental and social standards and certification programmes are covered by these definitions. TBT sets different rules for "regulations" as opposed to "standards", so it is necessary to determine whether a given standard or certification programme is covered by one of these terms in the TBT context.

The definitions

TBT Annex 1 states [emphasis added by author]:

Technical regulation = Document which lays down product characteristics or their related processes and production methods, including the applicable administrative provisions, with which compliance is mandatory. It may also include or deal exclusively

102. Appleton, 1997: 153.

103. This means that, in the event of a conflict with provisions of GATT, the TBT Agreement will prevail (Appleton, 1997:87, 91). Appleton draws on Roessler, 1995.

with terminology, symbols, packaging, marking or labelling requirements as they apply to a product, process or production method.

Standard = Document approved by a recognized body, that provides, for common and repeated use, rules, guidelines or characteristics for products or related processes and production methods, with which compliance is not mandatory. It may also include or deal exclusively with terminology, symbols, packaging, marking or labelling requirements as they apply to a product, process or production method.

Explanatory note: [...] Standards prepared by the international standardization community are based on consensus. This Agreement covers also documents that are not based on consensus.

It should be noted here that although most of the following discussions concern cases of certification or labelling, the definitions also cover regulations and standards not associated with any claim or label.

Mandatory or voluntary?

Compliance with national regulations for organic agriculture and labelling of organically produced products is only mandatory if one chooses to label a product as organic. Hence one could argue that compliance is voluntary, but also that compliance is mandatory if organic products are considered as a distinct product category. In a paper presented to the TBT Committee and the Committee on Trade and Environment (CTE), in 2001, Switzerland questioned the justification of the distinction between mandatory and voluntary standards or regulations. They argued that if a standard has the effect of market segregation, compliance with the standard becomes de facto mandatory for a producer wishing to enter the new market segment.¹⁰⁴ Some countries agreed that in some cases voluntary schemes could be dubious in their voluntary or mandatory nature, or that voluntary schemes could have a bearing on competitiveness or the perception and choices of consumers. Many members, did not wish to consider this an issue for (re-)negotiation nor did they feel the need for clarifying documents, but they were prepared to discuss the issue for a better understanding.¹⁰⁵

The notification by the EU in February 2001 of a draft regulation relating to imports of organic products¹⁰⁶ means the EU probably considered it a mandatory technical regulation in the TBT sense.

Unrelated PPM labelling

Social and labour standards concern PPMs that do not affect the end characteristics of a product, and environmental standards also normally contain such standards. In the TBT Committee it has been debated whether non-product-related process and production methods (unrelated PPMs) *labelling* was covered by the definitions of regulations or standards. Some countries believe that this is not clear because the first sentence of each definition speaks of related PPMs, but the second sentence on labelling omits the word “related”.¹⁰⁷ Others believe that unrelated PPMs were not the subject of the provision. Some countries were concerned over the proliferation of labelling requirements for unrelated PPMs.

Switzerland noted that this matter is further complicated because in practice it can be difficult to decide whether a label gives information on related or unrelated PPMs. For example, a large quantity of organically produced carrots will on average contain less pesticide residues than conventional carrots, but when comparing one single organic carrot with a conventional carrot, there

104. WTO, 2001a.

105. WTO, 2001b, 2001g.

106. WTO, 2001c.

107. WTO, 2001a.

might be no difference. Hence it is not clear whether the organic labels give information on related PPMs (affecting the product itself) or unrelated PPMs.¹⁰⁸

Appleton notes that during the negotiations the second sentence was never treated as a stand-alone provision. Therefore Appleton argues that unrelated PPMs labelling is not covered by the TBT. How schemes that concern both related and unrelated PPMs will be treated must be established by practice. One possibility would be that Members would apply the TBT to the product-related standards and the GATT to the not-product-related standards.¹⁰⁹

NGO standards

A particularity is that the TBT defines a standard as *a document approved by a recognized body* but does not define the phrase “recognized body”. Webb argues that because the word “approved” is used, “recognized body” may mean the body developing the standards but may also mean another body using the standard.¹¹⁰ However, in most of the literature it is understood that the standards developed by NGOs (at least those related to product characteristics) are covered by the TBT definition of standards.

ARTICLE 4: PREPARATION, ADOPTION AND APPLICATION OF STANDARDS

From the above discussion it could be concluded that voluntary environmental standards do fall under the TBT definition of a “standard”, at least for the product-related requirements within the standards. For labour standards that concern only requirements that are not linked to the end characteristics of the product, the TBT would not apply. For certification and labelling schemes with reference to such labour standards it would depend if the second sentence of the TBT definition of a “standard” is read as a stand-alone-provision or not.

Because the TBT is applicable to at least part of the voluntary environmental and labour standard-setting and certification initiatives, it is useful to examine the requirements for standards in the TBT.

TBT Article 4.1 reads:

Members shall ensure that their central government standardizing bodies accept and comply with the Code of Good Practice for the Preparation, Adoption and Application of Standards in Annex 3 to this Agreement (referred to in this Agreement as the “Code of Good Practice”). They shall take such reasonable measures as may be available to them to ensure that local government and non-governmental standardizing bodies within their territories, as well as regional standardizing bodies of which they or one or more bodies within their territories are members, accept and comply with this Code of Good Practice. In addition, Members shall not take measures which have the effect of, directly or indirectly, requiring or encouraging such standardizing bodies to act in a manner inconsistent with the Code of Good Practice. The obligations of Members with respect to compliance of standardizing bodies with the provisions of the Code of Good Practice shall apply irrespective of whether or not a standardizing body has accepted the Code of Good Practice.

Although the definition covers NGO standards, NGOs cannot be challenged directly before the WTO. The WTO can only regulate government action. In the event of a dispute, there could be questions as to whether a Member has taken “reasonable measures” to ensure that those NGOs comply with the Code of Good Practice. Analogous language found in the GATT requiring countries to take such *reasonable measures as are available to them* has been interpreted by dispute panels to require

108. WTO, 2001a.

109. Appleton, 1997: 93–94, 124. Appleton quotes Mr Eglin, Director of the TBT and Environment Division during the Uruguay Round negotiations on the interpretation of the second sentence of the definitions.

110. Webb and Morrison, 2002.

governments to take all constitutionally-available measures. There is ongoing concern and debate about what the term “constitutionally available” actually requires of governments.¹¹¹

At the same time, NGOs, as for any other organization, normally have to comply with a variety of national laws and regulations in the countries where they operate. Therefore these “reasonable measures” should not be of too great concern to NGOs, as they would already be operational and not mean anything new for them.

CODE OF GOOD PRACTICE FOR THE PREPARATION, ADOPTION AND APPLICATION OF STANDARDS

Standardizing bodies are encouraged by the WTO to accept the Code of Good Practice for the Preparation, Adoption and Application of Standards (TBT Annex 3). The Code is discussed here and sometimes a comparison is made with the TBT Articles for *technical regulations*. The latter are presented in text boxes.

General provisions of the Code of Good Practice

The text of the Code of Good Practice starts with a few general provisions, among which:

B. This Code is open to acceptance by any standardizing body [...] and bodies that have accepted or withdrawn from this Code shall notify this fact to the ISO/IEC Information Centre in Geneva.

These provisions give directions on how standard-setting NGOs should behave, but still only the member nations themselves can be held responsible for compliance or non-compliance with the WTO agreement.

The MFN and NT principles

The first substantive provision of the Code reads:

D. In respect of standards, the standardizing body shall accord treatment to products originating in the territory of any other member of the WTO no less favourable than that accorded to like products of national origin and to like products originating in any other country.

This combines the NT and the MFN principles and applies them to standards. This provision adds arguments to the view that unrelated PPMs labelling is not allowed because the label would differentiate between *like products* and in the market place this would almost always mean a less or more favourable treatment. However, the Dolphin-Tuna Panel report argued that advantages are not given by the authority granting the label, but advantages might arise through the free choice of consumers.

The Code continues with:

E. The standardizing body shall ensure that standards are not prepared, adopted or applied with a view to, or with the effect of, creating unnecessary obstacles to international trade.

Because of the mandatory nature of *technical regulations* these are supposed to be more trade restrictive and hence more specific conditions have been set under which such regulations are allowed (see Box 1).

111. After FAO, 2001: 60–63.

Box 1. Legitimate objectives for trade-restrictive technical regulation

According to TBT Agreement Article 2 (2.2 and 2.3), technical regulations shall not be more trade restrictive than necessary to fulfil a legitimate objective. Such legitimate objectives are *inter alia*: national security requirements; the prevention of deceptive practices; and protection of human health or safety, animal or plant life or health, or the environment. In addition, according to Article 2.5, a Member shall upon the request of another Member explain the justification of that technical regulation.

The “legitimate objectives” are a reference to the General Exceptions of GATT Article XX. In a case where regulations for the labelling of organically produced products were considered to be trade restrictive, it could still be argued that they are fulfilling the legitimate objective of preventing deceptive practices. The question has been raised whether the objective of “consumer information” is covered by “preventing deceptive practices”.¹¹²

International harmonization

The Code of Good Practice states that a standardizing body shall adopt existing or imminent international standards where relevant; make reasonable efforts to harmonize standards at the international level; avoid duplication or overlap with the work of other standardizing bodies; and make every effort to achieve a national consensus on the standards they develop.

In Annex 4 of the report of the Second Triennial Review of the TBT¹¹³, principles were formulated for the development of *international* standards. The annex contains provisions regarding publication and consultations, non-discriminatory membership rules of international standardizing bodies and non-discriminatory and impartial access to participation in the development of standards. The impartiality and openness of any international standardization process requires that developing countries are not excluded de facto from the process. In addition, the Annex states that international standards need to be relevant and respond to market needs and that they should not give preference to the characteristics or requirements of specific countries when different needs or interests exist in other countries.

It has been feared that the international harmonization principle would prevent the development of “higher” standards once an international standard existed, and so “water down” environmental and organic regulations. In the “beef hormone dispute” within the scope of the SPS Agreement, the Dispute Settlement Body Panel had ruled that “based on” international standards meant “conform to” international standards, but the Appellate Body did not agree with that, and ruled that “a measure based on a standard might not conform to that standard, as where only some, not all, of the elements of the standard are incorporated into the measure”.¹¹⁴ See also Box 2 for interpretation of TBT “harmonization” Articles for *regulations* in the light of this ruling.

Of particular note is that the TBT does not indicate with whom the burden of proof lays to decide whether there exists a relevant international standard and whether a regulation or standard is in accordance with the international standard. If a dispute arises, there could be questions about what constitutes a relevant international standard.¹¹⁵

With the increasing number of standards and certification programmes, the provision to avoid duplication and overlap becomes more important. It also raises the question of whether this in effect prevents an environmental certification programme from adopting labour standards if such standards are already covered by another programme.

112. WTO, 2001a.

113. WTO, 2000.

114. WTO, 1998.

115. After FAO, 2001: 60–63.

Publication and consultation provisions

The Code requires that a standardizing body shall publish work programmes every six months and shall indicate for each standard the international standards that have been taken as a basis. Before adopting a standard, the standardizing body shall allow a period of at least 60 days for the submission of comments by interested parties. Upon request, the standardizing body shall promptly provide a copy of a draft standard that it has submitted for comments. Once the standard has been adopted it shall be promptly published. The standardizing body shall consider any complaints and make an objective effort to solve them with respect to the operation of this Code. ISO/IEC members shall make every effort to become member of ISONET.¹¹⁶

Box 2. International harmonization of technical regulations

Analogous to the Appellate Body interpretation of SPS Agreement Article 3.1, 3.2 and 3.3 in 1998,¹¹⁷ TBT Articles 2.4, 2.5 and 2.9 could be interpreted as follows:

- 2.4 Members shall base technical regulations on relevant international standards, but this does not imply they should conform to or be in accordance with these standards.
- 2.5 If they are in accordance with (or conform to) relevant international standards they will be presumed not to create an unnecessary obstacle to trade.
- 2.9 If they are not in accordance with the international standards Members shall notify other Members and allow for comments.

The EU has noted that the international standardization process can be painfully slow and therefore not responding in a timely manner to regulatory needs. As a result the EU has made relatively limited use of international standards as the basis for technical regulations.¹¹⁸

TBT Article 2.7 states that *Members shall give positive considerations to accepting as equivalent technical regulations of other Members, even if these regulations differ from their own, provided that they are satisfied that these regulations adequately fulfil the objectives of their own regulations.* [Emphasis added]

This suggests that, provided the objectives are legitimate and are based on a risk assessment that considers scientific information (Article 2.2), a Member is allowed to set "higher" standards.

OTHER TBT ARTICLES RELEVANT FOR STANDARDS

Articles 5 to 9: Conformity Assessment

Articles 5 to 9 of the TBT Agreement set out requirements for conformity assessment. The articles are preceded by the heading *Conformity with Technical Regulations and Standards* [emphasis added]. Whereas Articles 2 and 3 refer only to regulations, and Article 4 only to standards, the heading above Articles 5 to 9 refers to both regulations and standards. Therefore it has to be assumed that the requirements for Conformity Assessment apply to both *regulations* and *standards*. This means that for standard *preparation, adoption and application*, Article 4 refers to the Code of Practice, and acceptance of the Code is optional, but for *conformity assessment* of standards (i.e. including certification and labelling programmes), compliance with Articles 5 to 9 is obligatory, at least for governmental bodies.

116. ISONET is the information network of the ISO/IEC, and is monitored by the central ISO Secretariat in Geneva. In many countries, the ISONET information centre and the WTO enquiry point for standards and regulations are one and the same.

117. WTO, 1998.

118. WTO, 2002b.

Articles 5 and 6 of the TBT Agreement set out requirements for conformity assessment bodies of central governments.

Article 5 requires *inter alia* that:

- conformity assessment procedures by governmental bodies should be non-discriminatory for like products (MFN and NT principles), including processing time and fees, taking into account communication, transportation and other costs arising from differences between location of facilities and the conformity assessment body;
- conformity assessment procedures shall not be more strict or be applied more strictly than necessary to give the importing Member adequate confidence that products conform to the applicable technical regulations or standards;
- information requirements are limited to what is necessary to assess conformity and determine fees;
- confidentiality is respected in the same way as for domestic products and in such a manner that legitimate commercial interests are protected;
- a complaints and corrective action procedure should exist; and
- international harmonization is sought and notifications of procedures are made, in a similar way as for technical regulations and standards.

Article 6 requires that Members shall accept conformity assessment procedures in other member countries provided they are satisfied with the level of equivalence. Prior consultations may be necessary to assess technical competence of the relevant conformity assessment bodies and agree on limitations of the acceptance of the conformity assessment results of those produced by designated bodies in the exporting member country.

Articles 8 and 9 require Members to take reasonable measures to ensure also that non-governmental bodies and international systems in which relevant bodies within their territory participate comply with Articles 5 and 6. Central government bodies should rely on non-governmental bodies and international systems only if those bodies and NGOs comply with Articles 5 and 6. Non-governmental bodies are exempt from the obligation to notify proposed conformity assessment procedures.

Article 12: Information and differential treatment of developing countries

Each member shall have an enquiry point, which has to be able to provide information on any regulations, standards and conformity assessment procedures in its territory. They should also take reasonable measures to be able to provide information on those standards and conformity assessment systems developed, adopted or operated by non-governmental bodies and on relevant international bodies and systems.

Members shall in the preparation and application of technical regulations, standards and conformity assessment procedures take account of the special situation of developing countries to ensure that no unnecessary obstacles are created to exports from developing countries. Members shall take reasonable measures to facilitate active participation of developing countries in international standardizing bodies and conformity assessment systems and ensure that, upon request, international standards are developed for products of special interest to developing countries. Members shall provide technical assistance to ensure that regulations, standards and conformity assessment procedures do not create unnecessary obstacles to the expansion and diversification of exports from developing countries.

The TBT Committee is empowered to grant specified time-limited exceptions from obligations under this Agreement [to developing countries].

Article 14: Dispute Settlement

Article 14 of the TBT Agreement states that the settlement of disputes shall follow the normal GATT procedures. According to Article 14.4, the dispute settlement procedure can also be invoked in case a member has not achieved satisfactory results under Articles 3, 4, 7, 8 or 9 (concerning local or non-governmental bodies or international bodies and systems), and its trade interests are significantly affected. In this respect, such results shall be equivalent to those *as if the body in question were a Member*.

It is not clear whether this means that Members could be held responsible for NGOs on their territory not complying with the TBT Agreement. This would also depend on the interpretation of “reasonable measures as are available to them” in Article 4.1.

7.4 IMPLICATIONS OF TBT AND GATT PROVISIONS FOR VOLUNTARY ENVIRONMENTAL AND SOCIAL STANDARDS, CERTIFICATION AND LABELLING

The discussion above can be briefly summarized as follows. Voluntary environmental standards do fall under the TBT definition of a “standard”, at least for the product-related requirements within the standards. For the preparation and application of labour standards that concern only requirements that are not linked to the end characteristics of the product, the TBT Agreement would not apply. For conformity procedures and labelling schemes concerning non-related PPMs, the TBT could still apply, and this would depend upon whether the second sentence of the TBT definition of a “standard” is read as a stand-alone-provision or not.

Standard-setting bodies (at least governmental bodies) should comply with the Code of Practice for the Preparation, Adoption and Application of Standards. The standards they develop should be non-discriminatory and not restrict trade; be based on international standards where appropriate; efforts should be made for international harmonization; and interested parties should be offered the possibility to comment before adoption of the standard.

According to GATT Article I, non-product-related standards should not grant any advantage to products of one country in comparison with products from another country. It is not clear if Article III also applies, requiring that once goods have entered a market they must be treated no less favourably than like products of national origin. In general, *voluntary* standards are considered not to violate these provisions.

Conformity assessment and labelling procedures for product related criteria, and maybe even for non-product related criteria, should comply with Articles 5 to 9 of the TBT Agreement. These *inter alia* require that the provisions governing the right of access to the label should be non-discriminatory, not be more strict than necessary, internationally harmonized as far as possible, and a complaints and corrective action procedure should exist. Non-governmental bodies are exempt from notification obligations.

NATIONAL REGULATIONS

Organic agriculture regulations

It is not clear whether organic labelling regulations are considered to be about related or unrelated PPMs. Evidence is growing that, on average, organically produced products contain less pesticide residues than conventional products. Therefore organic labelling can be considered at least partially product-related and the TBT would apply.

National regulations for organic agriculture and the labelling of organically produced products could be either considered technical regulations or standards, depending on the interpretation of the word “mandatory”. In both cases, they are likely to comply with the TBT and GATT. A parallel could be drawn with the Dolphin-Tuna case, where the Panel report (unadopted) stated that “*the labelling provisions [...] do not restrict the sale of tuna products; tuna products can be sold freely with and*

without “Dolphin Safe” on the label. [...] provisions governing the right of access to the label [should meet] the requirements of Article I:1” [MFN Principle]. Organic certification and labelling programmes would not be considered trade-restrictive because products can be sold freely with and without the organic label and they could be considered to fulfil legitimate objectives such as preventing deceptive practices. However, the provisions governing the right of access to the label should be non-discriminatory. The regulations should be based on international standards (the CODEX guidelines or IFOAM Basic Standards) whenever appropriate. Members should notify each other whenever they propose new organic regulations or review existing ones that are not in accordance with these international standards. Members may be allowed to set stricter standards than other Members provided they can justify this with a risk assessment using scientific information. This latter interpretation, however, is still highly debated and certainty can only be decided by a dispute settlement on this matter.

The ongoing discussions on the notification by the EU in February 2001 on import requirements and certification of organic products could clarify what the TBT provisions will mean in practice for national regulations for labelling of organically produced products.

The draft Regulation aims to provide for traceability of consignments of organic products from the time they leave the inspection system in a third country until they are registered by the first consignee under the inspection system within the E.U. A certificate accompanying imported consignments of organic products has to ensure that these consignments are effectively originating from a production/processing regime of which the equivalency has been recognized.

The notification was made under Article 2.9.2, meaning the regulation was considered mandatory. The United States of America expressed concerns on the unclear procedures for implementation of the new certification requirements for countries that did not have an equivalency agreement with the EU.¹¹⁹

National regulations on social responsibility

In January 2001, Belgium notified the TBT Committee of a draft law aiming to promote socially responsible production. The aim of the law was to create a label that companies could (voluntarily) affix to their products if these products met core labour standards recognized by the ILO. These criteria were to be monitored by accredited bodies and a committee for socially responsible production was to be set up to monitor the allocation of labels and procedures for assisting developing countries that wished to use the label. Control bodies would be accredited against EN 45004/ISO 17020 criteria (criteria for the operation of inspection bodies) and/or by Social Accountability International for the scope of the SA8000 norm.¹²⁰

In subsequent TBT Committee meetings it was stressed that the labelling would be voluntary. It therefore should not have been submitted under Article 2.9.2 (as a regulation) but under Annex 3 for standards. However, Annex 3 stipulates that standard-setting bodies should notify the ISO/IEC Information Centre. The Belgian Parliament did not consider itself a standardizing body and therefore had chosen to notify the TBT Committee directly to fulfil the purpose of the notification procedures, i.e. to inform other Members.¹²¹

The ASEAN countries expressed their concerns that the law was based on an arbitrary requirement of adherence to certain ILO conventions that would result in discrimination of products based on non-trade criteria. They were concerned about the discriminatory nature of the law as it would only be applicable to imported products and thus violate the National Treatment principle.¹²²

119. The notification could also have been made under Article 5.6.2, because it deals mainly with conformity assessment procedures. Article 5.6.2 is relevant for both regulations and standards, whereas Article 2.9.2 is only relevant for technical regulations. WTO, 2001c.

120. FOD Economie, KMO, Middenstand en Energie, 2002.

121. WTO, 2001d.

122. WTO, 2001e.

Indeed, the draft law was amended to allow also Belgian companies to request the label, and comparable labels awarded by other countries or by international organizations can be recognized, provided these labels offer equal guarantees. The amended law was adopted and published in March 2002.¹²³ Regulations on how the law will be executed in practice, especially inspection and certification procedures, are being developed.

Another example of a proposal for governmental regulation was a voter initiative in Berkeley, California, that had qualified for the November ballot, but did not pass. The initiative proposed a coffee policy, requiring all coffee sold in Berkeley to be either fair-trade, shade grown or organic.¹²⁴ This would have been mandatory, even if the cited certification initiatives themselves are voluntary, and hence would have been considered a regulation of a local government.

STANDARDS AND LABELLING SYSTEMS DEVELOPED BY NGOS

Standards developed by NGOs (with or without labelling programmes) could be considered “standards” in the TBT sense. Whenever an NGO publicly accepts the Code of Good Practice it should comply with it. Members should take reasonable measures to ensure that certification and labelling systems operated by NGOs comply with Articles 5 and 6 of the TBT Agreement (on conformity assessment).

The ISO system

The ISO/IEC system is explicitly recognized in the TBT as providing internationally accepted standards. ISO declares itself to be a not-for-profit non-governmental organization. Its member bodies are either governmental, parastatal or non-governmental bodies, the last-named often consisting of industry representatives. ISO has long been recognized as the major standard-setting body for international harmonized industry standards.

Only recently has ISO started to develop environmental standards and has started work on social responsibility. Their environmental management system standard (ISO 14001) has very quickly been implemented in a wide range of sectors. Critics from environmental and social-oriented NGOs state that some interests, such as those of workers and the environment, are not well represented in the ISO system and therefore ISO would not be the best organization to set international standards in these fields. More widely, it has been recognized that ISO 14001 has a limited scope because it deals only with management systems. In view of the harmonization requirements of the TBT Agreement, it could be argued that standardizing bodies wishing to set environmental management system standards should consider adopting ISO 14001, but for more performance-oriented standards, ISO 14001 is less relevant.

ISO standards and guidelines on standard-setting procedures and conformity assessment procedures are being widely adopted by other standard-setting bodies and by accreditation and certification bodies.

IFOAM

As with national regulations on organic agriculture and labelling of organically produced products, certification and labelling programmes of IFOAM members would not be considered trade-restrictive. For the second revision of IBS (August 2002), IFOAM fulfilled the obligations on publication and consultation as it published the draft revision on the web and allowed for two rounds of public comments. IFOAM promotes the harmonization of standards at the international level by the Mutual Recognition Agreement of its IOAS-accredited certification bodies; by its own active involvement in the preparation of CODEX guidelines; and by its participation in the ISEAL Alliance and SASA project. With the international membership of IFOAM and international participation in the standards revision of August 2002, it can also be assumed that the provisions governing the right of access to organic labels administered by IFOAM members are non-discriminatory by intent. So it

123. Belgisch Staatsblad/Moniteur Belge, 2002.

124. Nieves, 2002; Hill, 2002.

seems IFOAM complies with all provisions of the Code, except one: the notification of acceptance of the Code to the ISO/IEC Information Centre in Geneva. They do not appear on the lists of bodies who notified the Centre.¹²⁵ This might be due to the fact that only national standardizing bodies are registered on this list.

Compliance with Articles 5 and 6 is not relevant for IFOAM as such because IFOAM does not perform conformity assessments. However, it is relevant for all certification bodies operating organic certification programmes and for IOAS. IOAS and its accredited certification bodies probably comply to a large extent with Articles 5 and 6 because the accreditation guidelines and criteria of IOAS are based on ISO guidelines and have been developed through an international process.

Of note is that ISO listed IFOAM in its Directory of International Standardizing Bodies. This is a list of organizations having standardization activities that qualify as international standardizing bodies as defined in the ISO/IEC Guide, but it is not a formal recognition of those bodies.¹²⁶ IFOAM stated in a press release on the ISO listing:

We have developed a transparent, democratic, and consensus-building process for international organic standards-setting which involves all key stakeholders and fulfils the criteria of the WTO Code of Good Practice.¹²⁷

SAN, FLO, SAI and ETI

Most of the SAN standards are environmental standards, and also part of the FLO standards are environmental. Although these might have to be examined individually, it could be assumed that at least part of these environmental standards would be somewhat product-related, in which case the TBT would apply. At the same time, the SAI SA8000 and the ETI Base Code are labour standards, and entirely non-product related. As discussed above, the TBT articles on conformity assessment might still apply, but for preparation, adoption and application of the standards, GATT Article I (and possibly also Article III) would apply.

SAN, FLO, SAI, and ETI have made no public declaration of acceptance of the TBT Code. However, FLO, SAI and SAN are members of the ISEAL Alliance. ISEAL is developing a peer review programme for accreditation and standard-setting activities. For standard-setting, a normative document is being developed based on Annex 4 (International Standards Development Guidelines) of the Second Triennial Review of the TBT, and based on related ISO Guides.¹²⁸ Furthermore, the labour standards included in SAN, FLO, SAI and ETI standards are all based on ILO conventions, thereby fulfilling an important requirement of the Code. For the restrictions on pesticide use, FLO and SAN also refer to international mechanisms, such as the Prior Informed Consent procedure.

SAN, FLO and SAI not only set standards, they are also directly involved in conformity assessments. SAI operates an accreditation system. SAN and FLO do the certification themselves and are both in a process of separating certification activities from their other functions. The FLO certification unit became a legally independent body from January 2003, and will operate according to ISO guidelines for certification bodies.¹²⁹ Members are obliged to take “reasonable measures as are available to them” to ensure the certification units of SAN and FLO comply with Articles 5 and 6. Likewise, they should ensure compliance by certification bodies that certify against SA8000 (if the TBT would apply). So far, no actions are known of governments urging or forcing NGOs to comply with the TBT Agreement, and this would also be unprecedented.

ETI does not operate a conformity assessment programme. Companies involved in ETI internally assess their own facilities, and sometimes those of their suppliers, for compliance with the ETI Base Code, but because these are internal business decisions, this does not fall under the TBT. A

125. ISO, 2001.

126. WTO, 2002c.

127. IFOAM, 1999.

128. ISEAL Alliance, 2001.

129. FLO and SAN, personal communications, 2002.

relevant discussion in this respect is on the increasingly global nature of some companies. How “internal” are decisions of companies if they affect thousands of suppliers worldwide?

Due to the voluntary nature of these initiatives, they are not trade restrictive. They also do not grant an advantage, as any advantage resulting from the label would be the result of the free choice of consumers. Therefore they are likely to comply with Article I of GATT, and with Article III, should the latter be considered applicable.

7.5 ONGOING DEBATES AT WTO LEVEL

LATEST DISCUSSIONS

During the last two years, labelling systems have been discussed in every session of the TBT Committee. Due to the proliferation of mandatory and voluntary labelling schemes, these discussions are expected to gain in importance. Labelling, including ecolabelling, was discussed also in the CTE, but most representatives felt discussions on labelling should be held in the TBT Committee and only strictly *eco*-labelling issues should be discussed in the CTE, although discussions on trade-related environmental standards and regulations also fall within the CTE mandate.¹³⁰ In October 2001, Costa Rica submitted a paper on organic agriculture to the CTE. In general, organic agriculture was seen as an example of synergies that could exist between trade, development and environment. The need for effective and transparent certification systems was emphasized.

The Doha Ministerial Declaration instructed CTE to give particular attention to labelling requirements for environmental purposes. Work should include the identification of any need to clarify relevant WTO rules. The CTE was to report to the Fifth Session of the Ministerial Conference (Cancun, Mexico, 2003). However, the outcome of this work should not add to or diminish the rights and obligations of members under existing WTO agreements, in particular the SPS Agreement.¹³¹ No instructions were given to discuss standards and labelling issues in the TBT Committee. An unofficial explanation on the WTO Web site said that the CTE would examine whether existing WTO rules stood in the way of eco-labelling policies, and that parallel discussions were to take place in the TBT Committee.¹³²

In the TBT Committee, many Members have objected to any re-negotiation of TBT provisions. However, in the TBT Committee, as well as in CTE, some members have requested more structured discussions on labelling issues, and several papers have been submitted to this end.¹³³ Informal workshops have been organized. In a paper submitted in June 2002, the EU asks explicitly that the TBT Committee examine the need to clarify the WTO rules with respect to labelling.¹³⁴ Other Members, however, have expressed the opinion that no clarification was needed.

OUTSTANDING ISSUES

Considering past opinions expressed in the TBT Committee, discussions regarding social and environmental standards and certification will probably concentrate on labelling. Discussions might include the following topics:

- Whether labelling systems always fall under conformity assessment procedures and therefore have to comply with Articles 5 and 6 or not. If the answer is “yes”, NGO-administered voluntary labelling schemes should also comply with Articles 5 and 6.

130. GATT, 1994.

131. WTO, 2001f.

132. WTO, 2002d.

133. *Inter alia* WTO, 2002e (Communication from Canada); WTO, 2002f (Submission by the European Community); WTO, 2002g (Submission from Japan.); WTO, 2002h (Submission by Switzerland).

134. WTO, 2002f.

- The interpretation of the TBT Agreement in relation to unrelated PPM labelling systems. Some argue the TBT gives provisions for related PPM labelling systems only, in which case GATT Article I, and possibly Article III, become relevant.
- Whether organic and genetically-modified organism (GMO) labels contain information on related or unrelated PPMs. If they are considered to be related to the quality and safety of the end product, mandatory labelling might be justifiable; if they were considered to be an unrelated PPM, probably only voluntary labelling schemes would be allowed.
- If “consumer information” is covered by the legitimate objective of preventing deceptive practices. If the answer is “yes”, and “the consumer” wants to be informed about unrelated PPMs used in the production process of the product, there seems to be a conflict of provisions. “Consumer information” could then be a permitted exception to the implementation of MFN and NT principles, and hence allow mandatory labelling with unrelated PPM information.
- The involvement of developing countries in international standard-setting requires considerable resources, both financial and intellectual, to participate effectively in standard-setting bodies like the ISO system and Codex Alimentarius. The danger exists that standards reflect the interests of richer countries that can afford to send delegations to the negotiations. In relation to this subject, further discussion can also be expected on what constitutes an international standard and who sets those standards.
- The de facto mandatory nature of some voluntary labelling schemes raises doubts. Voluntary labelling schemes are considered not to be trade restrictive, as imports of non-labelled products are not hampered. However, as several delegations have noted in TBT and CTE, some voluntary schemes do have an impact on market access. With the growing market for organic products, the differences in organic regulations between countries may develop into de facto trade barriers.

So far, no discussion has taken place on what is required of Members with regard to compliance for NGOs involved in standard-setting. However, the EU noted this issue briefly in its paper on labelling submitted in June 2002. The EU paper also asks for review of the Code of Good Practice, to include provisions similar to those for regulations on equivalency agreements for standards, and on withdrawing standards when the circumstances giving rise to their adoption no longer exist. Japan noted that bodies developing labelling requirements were not always the standardizing bodies that had already accepted the Code of Good Practice, and this resulted in a lack of transparency.¹³⁵

135. WTO, 2002g.

8. CONTINUING DEBATES

This chapter reflects on some issues around voluntary environmental and social certification that are currently being debated and that have not yet been touched upon in previous chapters. The discussions focus on certification of horticultural and tropical cash crop products where relevant, but most discussions are relevant for any product.

As for most of this paper, this chapter is not exhaustive and tries to give an overview of the most important issues, rather than going into excessive detail.

8.1 LOCAL SPECIFICITY VERSUS GLOBAL CREDIBILITY

Farmers operate in a variety of circumstances, in different climates and on different soils, in different socio-economic situations, with different levels of support services and infrastructure. On the other side are the consumers, who are also far from a homogenous group, with varying perceptions and priorities regarding environmentally and socially responsible production and trade. Yet the standards and certification programmes discussed here aim to be applicable and credible worldwide.

It is not surprising, then, that it has been and remains a continuing challenge to take into account local specificity in international standard-setting and in globally-operating verification systems. Standards should not be too detailed, in order to retain sufficient flexibility for more specific interpretations relevant to each local context. However, standards that remain too general and vague are difficult to explain to consumers. Likewise, the inspection and certification procedures might need to be adapted to the local situation, but too much flexibility could run counter to the need for strong credibility.

This has some implications for both standard-setting and the verification system.

STANDARD-SETTING

Standards developed in one particular country or geographical area may discriminate against producers of other countries or areas if they do not take into account different local conditions. Involvement of a variety of stakeholders in standard-setting is important to ensure that the standard does not unintentionally discriminate against some category of producers or processors. However, there is a trade-off between efficiency and participation in the standard-setting process. It should be made possible to comment on a draft standard for those who wish to do so. To this end, standard-setting bodies could make their work programmes and draft standards public. They could also actively seek participation from stakeholder groups that could be affected by the standard and that would otherwise not be aware of the development of the standard.

In general, the more prescriptive a standard, the more likely that it unintentionally discriminates against certain producers. In contrast, standards formulated in terms of performance towards its objectives are more likely to leave the “how” to the producers. An example can illustrate this. If a standard aims for “no pollution of watercourses”, the standard could prescribe what pesticides not to use, the width of buffer zones, etc. It could also set standards in terms of water quality of outflow water (maybe in relation to quality of inflow water), leaving to the producers the decision as to what that means for their pesticide use and buffer zones. However, there may be a trade-off with verifiability and certification costs. To use the same example, an inspector can easily verify the buffer zone, but to measure water quality the producer would have to pay for laboratory tests.

Another possibility for incorporating flexibility into standards is the development of generic standards at the international level, on the basis of which national, sectoral or certification-body-specific standards could be developed. In such a system, accreditation is a way to control if the specific standards are in line and in spirit with the generic standards. The disadvantage of such a system is the existence of different specific standards addressing the same issue, which may hamper trade. A good example is IBS and the accreditation system. Even though accredited by the same accreditation body, the certification bodies do not automatically accept the work by other accredited bodies, partly because some of those bodies have extra requirements. These extra requirements might be due to national legislation or consumer preferences in the market in which these bodies operate.

A different approach to ensure adequate flexibility is division between minimum and progress standards. The minimum standards would be the same wherever the standard is implemented, and would form the basis of the credibility of the label towards the consumer. The progress criteria would also be the same, but they may be implemented on a time scale that takes into account specific local circumstances and priorities. An example of this approach is the fair-trade system. A potential disadvantage of this approach is that it is difficult to sanction producers or facilities who have met the minimum standards but who are not committed to implement the progress criteria.

THE VERIFICATION SYSTEM

Some differences in verification systems may be needed to address local circumstances. For example, for smallholders whose holdings are too small to justify certification costs, internal control systems have been developed by organic and fair-trade certification systems. In this case, a group of smallholders sets up an internal monitoring system to make sure all group members adhere to the standard. The certification system then controls whether the internal system works well and re-inspects a certain percentage of the farms.

More generally, certification bodies have been calling for an inspection system that is based on risk assessment, rather than following the same procedures regardless of circumstances. This might involve more unannounced visits to facilities where the risk of non-compliance is perceived to be greater. Or, in the case of organic certification, it may allow for shortening or waiving of the conversion period on grounds of farm history evidence. In the case of social standards, a risk-based approach might lead to more interviews within a certain group of employees, rather than a completely random selection.

However, other differences in verification systems have their origin more in different administrative histories of enforcing organizations rather than that they are accommodating local specificities or specific consumer demand. These may include differences in accreditation rules (e.g. need for certification bodies to be ISO 65 accredited), in inspection frequency, in reporting formats and in traceability requirements (e.g. need for certificates to accompany the products). In the case of organic products, such differences are clearly hampering trade and there is a widely recognized need for harmonization and recognition of equivalence, or both, of guarantee systems.

8.2 ACCOUNTABILITY OF STANDARD-SETTING NGOs AND ACCREDITATION BODIES

Bendell¹³⁶ argues that standards and certification programmes are part of a wider development. Global business does not have an effective counterbalancing force of internationally enforced environmental rules or globally organized workers. Meanwhile, in most developed countries, personal identity is increasingly determined by how one spends one's money and spare time. Standard-setting NGOs represent a "consumer movement" of consumers demanding better corporate environmental and social performance. Bendell recognizes four types of NGO activity to bring about change: forcing (campaigns); promoting (research and advice); facilitating; and producing. The

136. Bendell, 2000.

standard-setting and labelling programmes are facilitating or producing change, through offering market incentives for change or providing an alternative business model (fair-trade).

However, civil society control through NGO activity has its limitations in counterbalancing global business force. First, consumer regulation through certification and labelling is only open to those consumers who have the economic means to choose more expensive “ethical” products. Therefore, this type of regulation would tend to favour their specific interests.

Second, NGOs have their own problematic lack of accountability.¹³⁷ It is understandable that trade unions are not always enthusiastic about social accountability standards and certification programmes. They view themselves as the true representatives of the workers, whereas workers may not be directly represented in the membership of the standard-setting NGOs. Only when those certification programmes deliver more space to worker organizations and collective bargaining will they be able to recognize the complementary role those NGOs could play.

Accountability to stakeholders could be – but does not necessarily have to be – assured through NGO membership structures or advisory boards. In any case, it is important to involve actors who will directly be affected in the standard-setting process, as discussed above. Accountability to consumers can be improved through transparency, disclosing information on standard content, verification methods and the organization, and, in the case of labelling, through meaningful labels.

Related to discussion of the accountability of standard-setting bodies is the accountability of certification and accreditation bodies. It is generally accepted that certification by the standard-setting body itself does create problems of conflict of interest. Therefore, most standard-setting bodies discussed in this paper, with the exception of SAN/Rainforest Alliance, have separated those functions, mainly through an accreditation programme.

Standard-setting bodies may feel not to be in the position to judge the competence of a certification body per se. Therefore they may require the certification body to be accredited by another accreditation body (usually a member of the International Accreditation Federation) against one or more ISO guidelines for the functioning of certification and inspection bodies (ISO Guides 62, 65 and 66). In such cases, the accreditation by the standard-setting body evaluates only the specific aspects of the verification of their standard, such as verification indicators.

In the ISO system, even accreditation is completely separated from the standard-setting process, and as a result ISO has no control over the use of its standards (e.g. ISO 14001). Although conflicts of interest are avoided, this has the disadvantage that when verification is not thorough, the standard may become meaningless in practice and the standard-setting body has no means to improve the situation.

8.3 THE “CERTIFICATION INDUSTRY”

Agriculture is not the only sector addressed by an increasing number of standards and certification systems. Economic activities are increasingly “codified” and adherence to codes is increasingly controlled through third-party certification. This has led to the growth of audit, testing and certification companies, which now form a profit making sector in their own right.

Although this third-party certification model does provide for greater independence in certification decisions, the model is not completely free from conflicts of interests. First of all, if the certification body is a commercial company, it will have interests in performing as many inspections and issuing as many certificates as possible, while keeping costs down. This might compromise the quality of the inspections. Second, if more certification bodies offer the same certification service, being too strict may encourage clients to go to the competition. At the same time, competition may also provide incentives to increase the quality of the service to preserve the “good name”. Any scandal as result of fraud that has not been detected by the certification body not only harms the market for the labelled product but also harms the image and market of the certification body involved.

137. Simmons, 1998.

Another frequently heard complaint about the “certification industry” – standard-setting bodies included – is the focus on details. The very act of describing a more-or-less ideal situation in the form of a standard, and performing inspections, leads to “implementation to the letter” at the cost of “the spirit”. Instead of commitment to reach the ideal through continuous improvement, it encourages viewing the certificate itself as the goal. As a consequence, original “minimum” standards become the “maximum”.

However good the system, the quality of the verification system will greatly depend on the capacity and motivation of the inspector. The inspector should not only have knowledge about the standard and certification requirements, but also sufficient knowledge about the crop and production system, the local socio-economic situation, and preferably speak the local language. There is ongoing debate about how much “sufficient” is in this respect. The anecdote of the organic inspector who in the middle of the coffee field asked where the coffee plants were is an example of incapability of both the inspector and the certification body. At the same time, there are also limits to what can be required of inspectors, who have to cover a multitude of production systems, countries and standards. Especially in the case of “new” standards, it might not be possible to find an inspector with experience in both the standard, the production system and the country.

The use of local or regional inspectors is to be preferred over inspectors from elsewhere, as they should be more familiar with the local situation, and this also reduces the cost of inspection significantly. However, local inspectors will have to be able to report in a language understood at the certification body’s office, which might be in another country. Furthermore, conflicts of interest must be avoided: the inspector should not have familial or economic ties with the facility to be inspected, nor be otherwise liable to bribery or coercion.

Auditing of social and labour criteria pose specific challenges. Boundaries between compliance and non-compliance with certain standards are often more vague than with environmental criteria. This leaves a grey area in which the interpretation of the standard on the spot by the auditor is more important. Some people argue that it is impossible to be perfectly objective, and that this should be acknowledged by the certification bodies. Participatory workplace assessments have been proposed as a possible tool in monitoring social standards. However, such methods are time consuming and increase inspection costs considerably. To address these specific problems, the Social Accountability in Sustainable Agriculture (SASA) project, mentioned in Chapter 4, seeks to identify best practice in social auditing.

An important means of ensuring reliable and serious verification is the accreditation of certification bodies. As mentioned earlier, accreditation may have two aspects, which may be monitored through two different accreditation services. One aspect is the monitoring of the general operation and organization of the body, for which ISO has developed guidelines. Another aspect is that accreditation for social or environmental standards concentrates on indicators, particular auditing methods and special auditing skills, defined by the standard-setting body.

A final issue concerning the certification industry is that of the fees asked for certification services. There seems to be huge differences in the costs of certification, depending on the certification body. However, it is difficult to compare fees, as each body calculates them differently. Some calculate on the basis of services delivered. This inevitably makes certification more expensive for remote producers because travel time and hotel costs increase. Others count on the basis of acreage. For extensive production systems, this may result in very high certification costs compared with turnover. Most bodies use a combination of service- and acreage-based calculations, and it might be worthwhile for a producer to investigate which body offers the best deal for their facility. In this respect, it is not only the price that counts, but also the services delivered. Differences in services offered might occur with respect to the possibility for multiple certifications (number of accreditations the body has), equivalency agreements with other bodies to facilitate trade, knowledge about other export and import requirements, transparency in decision-making, and timeliness of updates on changes in standards and certification procedures.¹³⁸

138. See also Van Elzakker, 2002, for a “wish list” of what producers and exporters require from certification bodies.

8.4 WHO PAYS?

Related to the cost of certification services is the discussion about who should pay. The costs associated with social and environmental certification are, first, the costs of implementing the standard (compliance costs), and, second, the certification fees. The costs of documentation and record keeping are usually considered part of the compliance costs, as they are normally part of the requirements of the standards. However, the documents themselves will not contribute to more environmental friendly or socially just production methods, but serve more as verification tools. Therefore, they could also be viewed as part of the certification costs.

In most cases, both compliance and certification costs are in first instance born by the producer or facility being certified. Where these costs have a notable impact on total production costs, they will probably be passed on through a higher farmgate price, if market conditions allow. For some programmes, the possibility of obtaining a price premium, as with organic and fair-trade certification, may be the main reason to pursue certification. In the case of fair-trade, the certification costs are borne by the trade, through the payments of licence fees to the national fairtrade initiatives. Still, the costs of compliance are the responsibility of fair-trade producer groups. The case studies in Chapter 6 give the impression that those compliance costs are mainly in the development of a democratic organization and more than compensated for by the fair-trade minimum price and price premium.

The discussion on who should pay for more environmentally friendly and socially just production is more debated when a label and price premium are absent, in particular when a buyer is trying to convince suppliers to implement a certain standard, as with EurepGap, the SA8000 corporate involvement programme and ETL. As shown by the case studies in South Africa, adjusting minimum wages or housing conditions may be very costly. If a buyer in Europe or the United States of America asks their suppliers to conform to these norms, should they not also pay for it? And may these buyers then pass on the costs to the consumers? How would you persuade consumers to pay more without a label to demonstrate compliance? Or would shareholders be prepared to receive less dividend, and would retailers be content with a lower margin?

Maybe the first question to ask in this discussion is why those buyers ask suppliers to implement these standards. Somehow, they must value products from complying sources more than from non-complying sources. This may be a genuine interest in the environment and the welfare of workers, or more a question of corporate image. In both cases, it could be argued that their appreciation of compliance should be expressed also in the trade relation. This could be in the form of a higher farmgate price, or in other, more favourable, terms of trade, such as longer-term contracts, better pre-finance arrangements, etc. However, in an oversupplied market, buyers, especially supermarkets, can impose requirements without providing compensation. The only appreciation of standard implementation could be that the buyer is unlikely to shift to other suppliers.

If the costs of compliance and certification are not passed on along the supply chain, it may well be that only the larger and wealthier producers will be able to implement such standards. This in turn will lower the impact of the standards on the environment or working conditions. Or, if a standard becomes the rule rather than the exception, it may exclude small-scale and poor producers from the market altogether.

8.5 POTENTIAL AND CONSTRAINTS FOR DEVELOPING COUNTRIES AND SMALLHOLDERS

As can be discerned from Chapter 5, on markets, and Chapter 6, on impact at farm level, the standards and certification programmes discussed offer both potential benefits and challenges for producers in developing countries in general, and for smallholders in particular.

GENERAL POTENTIAL AND CONSTRAINTS

A general constraint for producers and exporters in many developing countries is the lack of a local certification body, or a local office of an internationally operating body. This means operators have to turn to foreign certification bodies. As discussed in the section on the certification industry, the use of local inspectors is generally preferred, not only to lower certification costs but also because of greater local knowledge. However, a certification body needs to invest time and financial resources in finding a competent local inspector and educate that person in the details of the standards and verification methods.

Therefore, when the number of operators to be inspected in a certain country is few, foreign bodies may send inspectors rather than hiring a local consultant for short periods. This results in higher certification costs, because travel and hotel costs are part of the fee. When there are enough clients, a foreign body may employ a locally-based inspector on a more permanent basis. Only when the “certification market” is big enough can operators justify a local office that can handle the payments through local banks and with somebody to answer the phone in the local language.

Some standards require laboratory tests for soil analysis, water quality assessment or pesticide residue analysis. If these tests are requested, the laboratory itself usually need to have an accreditation, much the same as the certification body. Some developing countries do not have a laboratory with enough capacity, or a laboratory that is not officially accredited. In other cases, they are too far away, too expensive or otherwise not accessible for operators who wish to be certified. Because comparable tests are increasingly needed for other purposes (for example, to meet SPS Agreement requirements), the laboratory capacity in developing countries has steadily improved over the years. Still, in some countries, producers may find it impossible to comply with such certification requirements and standard-setting and certification bodies should consider alternatives so as not to discriminate against those producers.

In general, the voluntary social and environmental standards and certification programmes offer the potential of greater access to markets. These may be in the form of “preferred supplier” status for some large buyers, a better image in the market place in general, or access to a specific niche market with price premiums. However, such potential is not a static fact, as market requirements can change rapidly, and what may be a valued certification today may lose importance in future. For example, the ISO 14001 certificate initially made a difference in negotiations with buyers, but after almost all large- and middle-sized companies had obtained this certificate, it lost its advantage.

POTENTIAL AND CONSTRAINTS IN RELATION TO SPECIFIC CERTIFICATION PROGRAMMES

With respect to organic agriculture, both markets and impacts are variable. With respect to exporting organic products to European supermarket chains, Harris and colleagues¹³⁹ point to the fact that some supermarkets are moving to a Category Management System for purchasing, whereby one company is given the responsibility for sourcing all produce in their particular category, both conventional and organic. The requirements for uniformity and traceability favours use of single, large commercial farms. However, in some senses, the rigours of organic certification make small-scale organic farmers more likely to be acceptable as a source of produce than smallholder conventional farmers. Buyers can be sure the production facilities have been visited once a year, and problems with pesticide residues are not likely to occur.

What can be learned from the case studies is that organic methods may improve traditional farming systems and increase yields. However, whether it is worth going through a certification process depends greatly on the market for certified organic products, and whether price premiums compensate for certification costs. For farming systems that make intensive use of external inputs, adopting organic practices may, initially, reduce yields. Effects on cost of production depend a lot on individual circumstances, such as local wages for unskilled labour. Certification may be essential to

139. Harris *et al.*, 2001.

obtain a premium to compensate for lower yields. In particular for export markets, care should be given to the choice of certification programme, and multiple certification may be necessary. Furthermore, the organic market is developing rapidly and both oversupply and undersupply situations may appear and disappear rapidly. It is difficult to judge what will be the market after the mandatory conversion period.

The fair-trade system is especially developed to offer access to export markets for what they call “disadvantaged” producers in developing countries in order to improve their livelihoods. However, even fair-trade may pose challenges in the form of organizational requirements for farmer associations. Furthermore, the fair-trade market is quite limited, which in turns limits the number of producers that can benefit from it.

The standards and certification system of the SAN/Rainforest Alliance have been developed for implementation in developing countries. However, their banana standards were developed for plantations, and smallholders may have difficulties with the extensive documentation requirements and the certification costs. At the same time, their coffee standards are implemented on farms with a range of scales of operation.

As labour standards, SA8000 and the ETI Base Code are especially geared to facilities that make significant use of hired labour. It would not make much sense to implement the standard on small farms that depend on family labour only. However, this does not mean family farms are discriminated against, as buyers are not likely to demand conformity with SA8000 from those farms.¹⁴⁰ It is merely that some may prefer large suppliers with a SA8000 certificate rather than large suppliers without SA8000.

The retailers promoting EurepGap have been widely criticized for imposing more requirements on producers without remunerating them for the extra costs involved. It was feared that producers in developing countries, especially smallholders, would find it impossible to comply with the standard and would lose their market. Indeed, the number of smallholder farmers certified EurepGap is very limited, and they are mostly outgrowers for whom the certification costs and part of the documentation is taken care of by the exporter. However, retailers seem to realize that suppliers in developing countries might need additional time. Some observers noted that they were in general satisfied if commitment was demonstrated and improvements made, even if certification was not yet obtained. It was also observed that certification bodies often spread unsubstantiated messages that producers are about to lose their European market if they do not obtain EurepGap certification, without explaining who exactly the retailers are that are supposedly requesting EurepGap. It is frequently mistakenly understood that EurepGap is an EU regulation, and most certification bodies seem to make no effort to correct this view and to explain that EurepGap is an entirely private standard.

8.6 THE POTENTIAL ROLE OF GOVERNMENTS

Governments have various potential roles in relation to certification programmes. First of all, national legislation has an impact on any programme advocating the implementation of certain standards, as it establishes the legal environment in which such implementation takes place. More specifically, governments may legally protect the use of certain terms on product labels. Government agencies may take on the role of standard-setting body or accreditation body, or both, and even that of certification body. Governments may also stimulate the adoption of certain standards through information provision, tax incentives or subsidies. In this section, each of these potential roles is briefly considered.

140. However, buyers may prefer large suppliers for other reasons, such as economy of scale.

Providing the legal environment

Almost all standards require that companies and producers adhere to national legislation, and to environmental or social legislation in particular. Often, certification programmes provide an alternative mechanism of enforcement of national laws where governments lack the means – financial or otherwise – to exercise effective enforcement. Problems may arise when requirements of voluntary standards conflict with national regulations. In any case, voluntary certification programmes can not require that stakeholders act against national legislation.

Protection of terms

In the case of organic agriculture, many governments have decided to legally protect the terms “organic” “biological” or “ecological”, and have restricted the use of those terms to those production systems and products that comply with organic standards. For terms like fair-trade, ethical trade, integrated agriculture, integrated pest management, etc., such legal control does not yet exist. The organic movement in the past has actively sought such legal protection. However, nowadays, opinions are divided on whether this has been wise. Many feel they have given control out of their hands.

Government agencies as standard-setting or accreditation bodies

The legal protection of the terms associated with organic-type production methods has resulted in governments developing their own organic regulation and becoming de facto standard-setting bodies. This is, however, not necessary; governments may also choose to recognize standards set by others. For ISO and organic standards, government agencies often do take the role of accreditation bodies, through which control can be exercised over the quality of certification services. Sometimes this role is delegated to a tripartite agency in which industry, consumers and government are represented (no unions, as such agencies do not normally deal with labour standards). If governments feel a certain standard or verification system is discriminating against certain producers or processors within its jurisdiction, it might wish to signal this to the relevant body.

Providing infrastructure

Governments may provide laboratory services that are accessible for producers against reasonable fees. They may also stimulate the setting up of local certification offices, providing one or multiple certification services. For example, Costa Rica has required all organic certification bodies operating in Costa Rica to open an office in the country. Other measures in this respect could be to ease administrative procedures or to provide tax incentives. Governments may also actively invite international bodies to organize inspector training in the country for those certification programmes they consider most important.

Giving incentives to adopt standards

If a certain voluntary social or environmental standard is in line with government policy, a government might wish to stimulate adoption of those standards. To this end, the government might provide funds to the organizations advocating those standards. Governments might also subsidize farmers who implement such standards, such as by paying for the certification costs during conversion periods, or for pre-audits in preparation for certification. Tax incentives for producers complying with the standard could be another option. This could be justified by arguing that those producers on average would cost less to society in terms of environmental pollution costs or health care for occupational health problems of workers.

Capacity building

Governments may train extension officers in the standards and the certification requirements. They may also ensure that consideration of standards is included in teaching programmes in agricultural schools and universities. Finally, they could develop public information campaigns for producers or consumers.

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Backcover:

Workplace safety and environmental sustainability can be promoted by agreed standards, certification and labelling. Relevant standards for cash crops in developing countries are reviewed here, including organic agriculture, fair-trade labelling, SA8000, Rainforest Alliance Sustainable Agriculture Programme, the ETI, ISO 14001 and EurepGap.

The origins of these initiatives, their scope and certification system are explored. In addition, stakeholder involvement, the standard-setting process, verification methods, the relation with WTO agreements and the potential role of governments are discussed. Twenty-two case studies on the impact of these standards and certification programmes on production costs and revenues for farmers in developing countries are presented, in addition to the latest data available on markets for labelled bananas, coffee, tea and citrus.

Governments, private companies and NGOs facing complex decisions regarding environmental and social standards, certification and labelling will find this material useful.