



# Corporate and Commodity Standards and the Implications for Sustainable Trade and Development

Chairman: **Dr. Corrado Pirzio-Biroli**  
Former Chef de Cabinet of Commissioner on Agriculture Franz Fischler  
Chairman of the European Landowners' Organisation Consultative Committee

Rapporteur: **Prof. Johan Swinnen**  
Senior Research Fellow, CEPS

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## 1. Introduction

CEPS is organizing a Task Force on the spread and implications of private and public standards in trade and global supply relationships. These changes significantly affect the rules and practice of conventional international production and trade and have major implications for sustainable trade and development in the context of global interactions.

## 2. Standards & Corporate Practices

Changes in consumer attitudes in the EU and other developed countries are having a major impact on the organization of commodities' trade and global production systems. Demands on corporate practices, including environmental and labor conditions, are affecting global trade and supply systems. Similarly, EU food safety crises

in the past decade, as well as the resistance against genetically altered products, have caused a tightening of process and product standards for EU food imports and supply systems, including demands for traceability and tighter SPS standards. These standards have been imposed both by public authorities and by private companies, and are having a major impact on trade and on domestic and international supply chains.

Compliance with relevant standards – whether in the area of fisheries and forest management, energy efficiency, human health and safety, hazardous waste management or labor standards – has then become synonymous in the global marketplace with the adoption of the principles of sustainable trade and development.

Both trade law and trade policy under the WTO place a high reliance on

promoting the harmonization of standards as a way of reducing or eliminating market access barriers. The EU also uses standards to improve the effectiveness of important Community policies on consumer welfare, environmental protection and the Single market. As part of its 'New Approach' and 'European Standardization', the Commission adopted on February 2007 a new internal market package for goods as part of its single market regulatory policy which aims inter alia to contribute to sustainable trade. On their part, the European Parliament and Council, recognizing the important role that standards play in sustainability, plan to further discuss this year the essential requirements for an effective revision of the 'New Approach'.

### **3. Implications for Sustainable Trade & Development**

One example of standards' impact on global trade and supply chains is the growth of fair trade products and ethical business practices. Sales of fair trade products in Europe have grown by 20% since 2000. The EU is now by far the largest market for fair trade products, accounting for 60 to 70% of global sales. Moreover, the European Parliament adopted on July 2006 a resolution that includes a number of concrete proposals for promoting fair trade, that was well-received by the European Commission.

However, the changes in standards and its implications go much beyond fair trade, and affect a much larger share of commodity trade. Many private companies, including large multinationals and smaller enterprises, are either changing their practices to address public demands and regulations or introduce their own standards, which

in many cases are more stringent than public standards. Corporate responsibility initiatives are now considered strategic tools to enhance a company's reputation and public image, creating a profitable and sustainable environment for all actors involved in the global supply chains. Conventional companies are increasingly claiming ethical values, creating intense competition for ethically traded commodities. Ethical trade is one dimension of corporate social responsibility, implying the use of codes of conduct that are developed in collaboration with NGOs, trade unions, and local governments.

It is argued that the growth of such standards and corporate practices, and the associated certification procedures, can provide developing country producers and workers benefits, including access to international markets, and enhance their capacity to compete in the global market.

Standards are therefore popular with certain sectors such as agriculture and textile, engaging with sustainable trade and development. Carrefour, for example, is working with social partners and its main competitors to eradicate child labor from its suppliers and to share experience and practice on supply chain management. Nestlé's activity in the coffee sector contributes to alleviating poverty among coffee producing communities in a number of ways. Nike and the Gap, finally, impose supplier conditions relating to workplace standards and worker treatment, and refuse to do business with companies that are unable to comply.

However, while standards can reduce transaction costs and thereby stimulate trade and development, standards are

also criticized as unnecessarily increasing production costs, and are said to be new (non-tariff) barriers for exports from developing countries. A further critique is that the growth of standards are indirectly leading to a consolidation of the processing and trading sector and the exclusion of many small-scale companies and poor producers in developing countries as the latter cannot satisfy the increased complexity of the demands being imposed on their production systems and exports.

#### **4. Policy Implications**

As consumer concern for sustainable development is increasingly being expressed through purchasing preferences, policy makers have sought to expand the number of policy tools available to efficiently and effectively address sustainability issues. Standards have emerged as an instrument that can do just that by actually using market forces to reward sustainable production processes, and to encourage sustainable consumption patterns.

Overall, these developments are highly relevant for EU policies related to trade and product standards and for the EU's international trade negotiations, especially since the Doha Round is presenting itself as a 'development round'. Commissioner Peter Mandelson said last March at a conference on trade sustainability that there are 'no simple text book answers' for developing sustainable trade policy, but that the costs and benefits have to be weighted carefully in each case. Pascal Lamy also argued in a keynote address in October 2006 – before the last meeting of the WTO Sanitary and Phytosanitary Measures Committee – that

standardizing bodies need to follow WTO guidelines in their work, including 'openness and transparency', and ensuring effective participation of developing countries.

#### **5. Aims & Substance of the Task Force**

At present, it is difficult to define sustainable trade and where it fits within the broader sustainable development agenda. CEPS task force can therefore contribute to a (better) insight into the linkages between standards, corporate responsibility and sustainable trade and development.

CEPS Task Force will focus on several questions related to the issues raised by these developments, including:

- How important are these developments in the global trade and supply chains?
- Which is the impact of these developments for poverty elimination and development in general and for EU markets?
- Which are the implications for international trade and the organization of global supply systems?
- How should the EU policy makers address the involved challenges?

A CEPS task force is ideally suited to bringing together members of the policy community (including representatives of member states, other national delegations, and the EU institutions (Commission, Council and Parliament) business and civil society groups, academics and other researchers and professionals.

## *Timing*

- 9 October 2007, 1<sup>st</sup> meeting
- January and March 2008 subsequent meetings
- Late spring 2008 Draft Final Report

## *Fee Structure*

The Task Force is principally designed for CEPS Corporate Members but participation is open to non-members as well, at a higher fee.

The fee covers participation in all workshops, documentation, lunches and three copies of all reports produced.

Participation fee for CEPS Corporate Members:	EUR 1,000
Participation fee for non-members:	EUR 5,000

## *About CEPS*

The Centre for European Policy Studies, based in Brussels, was launched as an independent research institute in 1983 to encourage the study and discussion of public affairs in Europe. It aims:

- to provide decision-makers, inside and outside government, with authoritative and independent analysis of European affairs;
- to contribute to the public debate about European institutions and policies through sound research and judgment; and,
- to create a network of leaders and thoughtful individuals who are committed to working together to enhance the development of European integration and co-operation.

CEPS is funded by corporations, public bodies, membership dues and income from activities.

## *The Chairman*

**Dr. Corrado Pirzio-Biroli**, former head of Cabinet of Commissioner on Agriculture Franz Fischler (1995-2004) and Chairman of the European Landowners' Organisation Consultative Committee.

### ***The Rapporteur***

**Prof. Johan Swinnen** is a Senior Research Fellow at CEPS and Director of the LICOS – Centre for Institutions and Economic Performance at the University of Leuven (KULeuven).

If you have any questions, please contact:

**Mr. Staffan Jerneck**

Director of Corporate Relations

Tel: 32 (0) 2 229 39 10

GSM: 32 (0) 475 903 924

Fax: 32 (0) 2 219 41 51

e-mail: [Staffan.Jerneck@ceps.eu](mailto:Staffan.Jerneck@ceps.eu)

**Prof. Jo Swinnen**

Senior Research Fellow

Tel: 32 (0) 2 229 39 11

Fax: 32 (0) 2 219 41 51

e-mail: [Jo.Swinnen@ceps.eu](mailto:Jo.Swinnen@ceps.eu)

**Dr. Eleni Kaditi**

Associate Research Fellow

Tel: 32 (0) 2 229 39 11

Fax: 32 (0) 2 219 41 51

e-mail: [Eleni.Kaditi@ceps.eu](mailto:Eleni.Kaditi@ceps.eu)