

Private Governance

A look under the hood of private environmental and ethical labels

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Whole Milk	
Serving Size 8 fl oz (240mL)	
Servings Per Container 2	
Amount Per Serving	
Calories 150	Calories from Fat 70
% Daily Value*	
Total Fat 8g	12%
Saturated Fat 5g	25%
Cholesterol 35mg	12%
Sodium 125mg	5%
Total Carbohydrate 12g	4%
Dietary Fiber 0g	0%
Sugars 11g	
Protein 8g	
Vitamin A 6%	• Vitamin C 4%
Calcium 30%	• Iron 0% • Vitamin D 25%
* Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.	
	Calories: 2,000 2,500
Total Fat	Less than 65g 80g
Sat Fat	Less than 20g 25g
Cholesterol	Less than 300mg 300mg
Sodium	Less than 2,400mg 2,400mg
Total Carbohydrate	300g 375g
Dietary Fiber	25g 30g



Nonfat Milk	
Serving Size 8 fl oz (240mL)	
Servings Per Container 2	
Amount Per Serving	
Calories 80	Calories from Fat 0
% Daily Value*	
Total Fat 0g	0%
Saturated Fat 0g	0%
Cholesterol less than 5mg	1%
Sodium 130mg	5%
Total Carbohydrate 12g	4%
Dietary Fiber 0g	0%
Sugars 11g	
Protein 8g	
Vitamin A 8%	• Vitamin C 4%
Calcium 30%	• Iron 0% • Vitamin D 25%
* Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs.	
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Total Carbohydrate	300g 375g
Dietary Fiber	25g 30g



Wood Chair	
Serving Size 1 m ³ (35.3 ft ³)	
Servings Per Chair 1	
Social and environmental profile	
Workers with health insurance	100 %
Workers under 18 years	0 %
Workplace fatality rate (persons/1000/yr)	3
Forest set-asides (% of FMU) *	15 %
Riparian Buffers (median width in m)	15
Cutblock set-asides (% of outblock)	5 %
Protected areas (% of FMU)	6 %
Annual harvest rate (% of total growth)	2 %
Harvested	Canada
Manufactured	United States
* Status of known species in FMU	
Near Threatened	5 %
Vulnerable	10 %
Endangered	3 %
Critically Endangered	7 %



C.A.F.E. Practices



What is Private Governance?

- **Instances where standards of practice (i.e. rules) are set by non-state actors**
- **Today, we are focusing on standards of practice for social and environmental objectives**
 - Private rules also exist for technical standards (e.g. ISO), finance (e.g., credit rating), and other issues
- **Our main interest is certification programs**
 - Governance rules and procedures
 - Set standards for social / environmental practices and product tracking
 - Independent verification of compliance
 - On-product label

Why the Rise of Private Governance?

- **Past two decades, widespread increase in private, non-state forms of governance**
- **Factors behind the rise**
 - Shifting role of government
 - Globalized trade and supply chains
 - Role of non-governmental organizations (NGOs)

Shifting Role of Government

- **Changing perception of what the appropriate role of government ought to be**
 - Preference for market-based instruments
 - Steering rather than rowing
- **Some see this as a broader normative and ideational shift**
 - Norm of “liberal environmentalism”
 - Neoliberalism more broadly
- **Changing ability of government to intervene**
 - Capacity or other issues prevent governments from acting on a problem
 - Collective action problems prevent governments from acting on particular issues

Globalized trade and supply chains

- **At least three relevant effects:**
 - Powerful global actors
 - 2010, Walmart revenue = US\$ 421.89 billion
 - 2010, Norway GDP = US\$ 414.46 billion
 - Home Depot: began 1990s with 145 stores in 12 states; in 2005, had 2000 stores & net sales over US\$ 80 billion
 - Need for standardization & harmonization
 - Different standards across national borders generally mean costs for multinational companies
 - Vulnerabilities
 - Health and safety
 - Brand value

Role of Non-Governmental Organizations (NGOs)

- **Also growing in size (e.g., WWF, TNC, etc...)**
- **Shift from targeting *government* to targeting *companies* directly**
 - Companies have been targets for strikes, protests, blockades, etc... but these tactics generally aim to change government policy
- **This has recently changed**
 - Companies are being targeted with the aim that they change their own corporate policies
 - Sometimes government then follows by changing laws

Who Sets the Rules?

- **Decision-making powers held by different actors across programs**
 - Company led
 - Sets the rules in consultation / partnership with other groups (e.g., Starbuck's CAFÉ standard)
 - Non-profit led
 - Sets the rules in consultation / partnership with other groups (e.g., Rainforest Alliance & SAN, or Naturland for organics)
 - Industry-association led
 - Members of association ultimate power, delegate to association to run program (e.g., Sustainable Forestry Initiative, initially; Responsible Care)
 - Non-profit-board led
 - Rotating board with power, consults with stakeholders (e.g., Marine Stewardship Council)
 - Non-profit-membership led
 - Members have ultimate power, but delegate authority to board and secretariat to make operational decisions (e.g., Forest Stewardship Council)

Setting the Standards of Practice

- **Most programs have two levels of standards**
 - A global standard that sets broad requirements
 - Specific standard for region or operation
- **Focus of standards differ**
 - Some developed to address mostly environmental issues
 - Others focused on social issues
 - Others on food safety
 - Others a bit of all of these
- **Standards also exist for tracking products**
 - Ensure that product sold came from certified source
 - Different methods for doing this
 - Physical separation, percentage claims, etc....

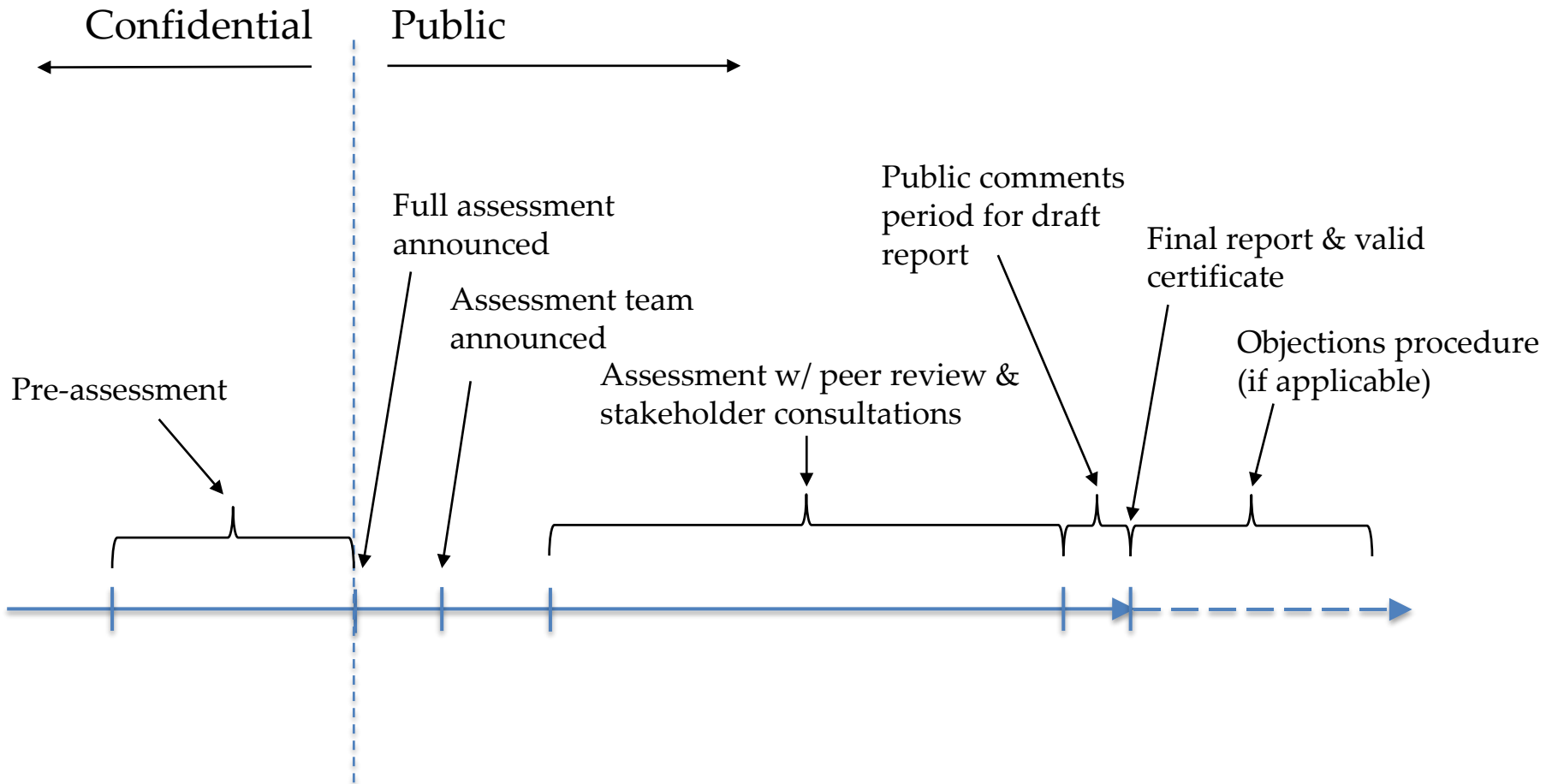
Monitoring and Compliance?

- **Varies across programs, but there are some common features**
 - Audits occur before participant can use program label
 - Assessment usually sets pre-conditions (must be done before certification awarded) and conditions (must be done within set time frame)
 - Not all programs have on-product labels, but even company initiatives increasingly have independent audits
- **Example: Marine Stewardship Council (MSC)**
 - Established to set responsible standards for capture fisheries

MSC Assessment Process

- **Assessments are conducted by accredited certification bodies**
 - Accreditation done by Accreditation Services International
 - Certifiers include: SGS, Food Certification International, DNV, etc...
- **Assessment broken into two parts**
 - Confidential pre-assessment
 - Full, public assessment
 - To pass full assessment, must score 80 or greater (out of 100) on all three principles, with average scores calculated using weights for performances indicators associated with each principle
 - No score lower than 60 allowed; scores of 60-80 trigger conditions
- **Annual surveillance, then re-assessment after 5 years**

MSC: Assessment process

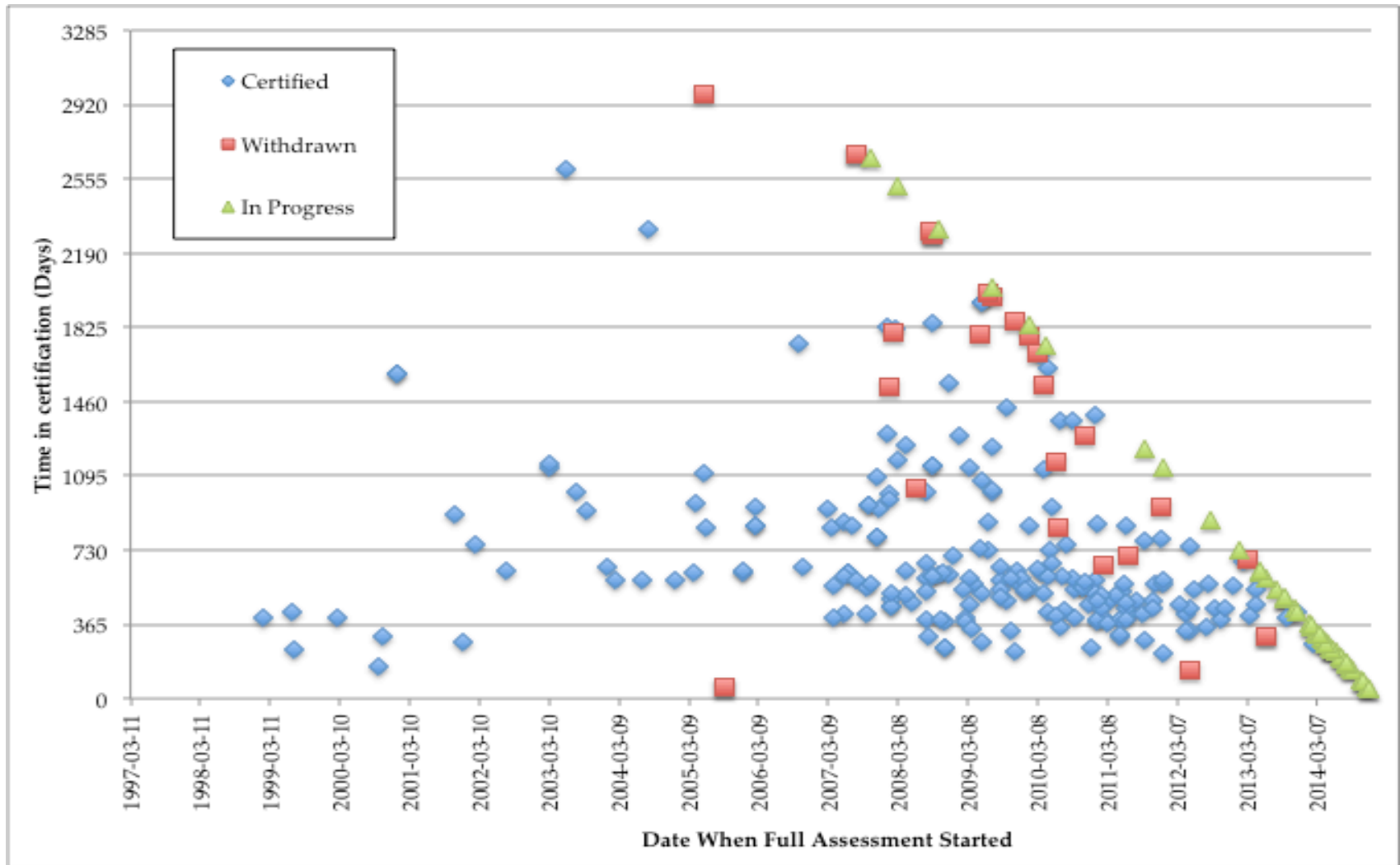


Pre-Assessments & Assessments

(Martin et al 2012 Review of Fisheries Science)

year	Pre-assessment recommendations			Fishery decision: # proceeding to full assessment		
	not recommended	cautionary	recommended	not recommended	cautionary	recommended
1997			1			1
2000	1	1			1	
2001	1	6	1		2	1
2002	2	4	3		3	3
2003	3	7	2	1	4	1
2004	2	8	2	1	7	2
2005	7	6	1	2	5	
2006	1	2	1		1	1
2007	7	18	8	1	13	5
2008	22	44	13	3	26	12
2009	45	51	22	1	21	12
2010	50	59	22	1	10	14
2011	14	8	2		1	
Total	155	214	78	10	94	52

MSC Assessments



Why do Companies Comply?

- **Why would a company voluntarily adhere to the rules of private governance if those rules imposed costs?**
- **There is no state authority backing these rules**
- **Four other sources of authority posited to matter (note, these are not mutually exclusive)**
 - Regulatory threat
 - Peer-pressure
 - Social pressure
 - Market demand / pressure

Regulatory Threat

- **Companies have reasons to prefer self-regulation**
 - Means to maintain their autonomy / flexibility
- **Several cases where threat (real or perceived) of regulations motivated creation / adoption of private governance**
 - Responsible Care in the US
 - Reaction to high profile chemical accidents (e.g., Bhopal India); desire to better manage collective reputation and preempt restrictive government rules
 - Sustainable Forestry Initiative (SFI) in the US
 - Originally motivated due to increasing government restrictions on forest operations in the US (particularly spotted owl dispute in PNW)
 - Concerns also about extension of Clean Water Act to regulation of non-point source pollution, such as silvicultural activities

Peer-Pressure

NOTHING ELSE IS GOOD
ENOUGH

Only the non-profit-making FSC label can guarantee that the wood and wood products you buy come from forests managed to the highest environmental and social standards. That's why WWF, Friends of the Earth, Greenpeace, the National Trust and the Woodland Trust all support the FSC. Look for the label, ask for FSC, buy FSC. For more information visit www.fsc.org or call 01686 413916.

FSC Forest Stewardship Council
Global Leaders in Responsible Forestry

FSC® trademark © 1996 Forest Stewardship Council A.C.
FSC® 15278-2284
Registered Charity No. 1306073

JENNIFER LOPEZ PHOTO COURTESY OF MICHAEL O'NEILL

What we give members who don't comply with American Forest & Paper Association standards.

We've set tough standards for our members.

- Promptly reforest harvested areas
- Protect water quality
- Protect wildlife habitat
- Practice sustainable forestry standards that have been endorsed by leading conservation groups like The Conservation Fund

We have an expert review panel made up of leading conservation organizations.

High standards. But 130 member companies of the American Forest & Paper Association agreed to abide by them.

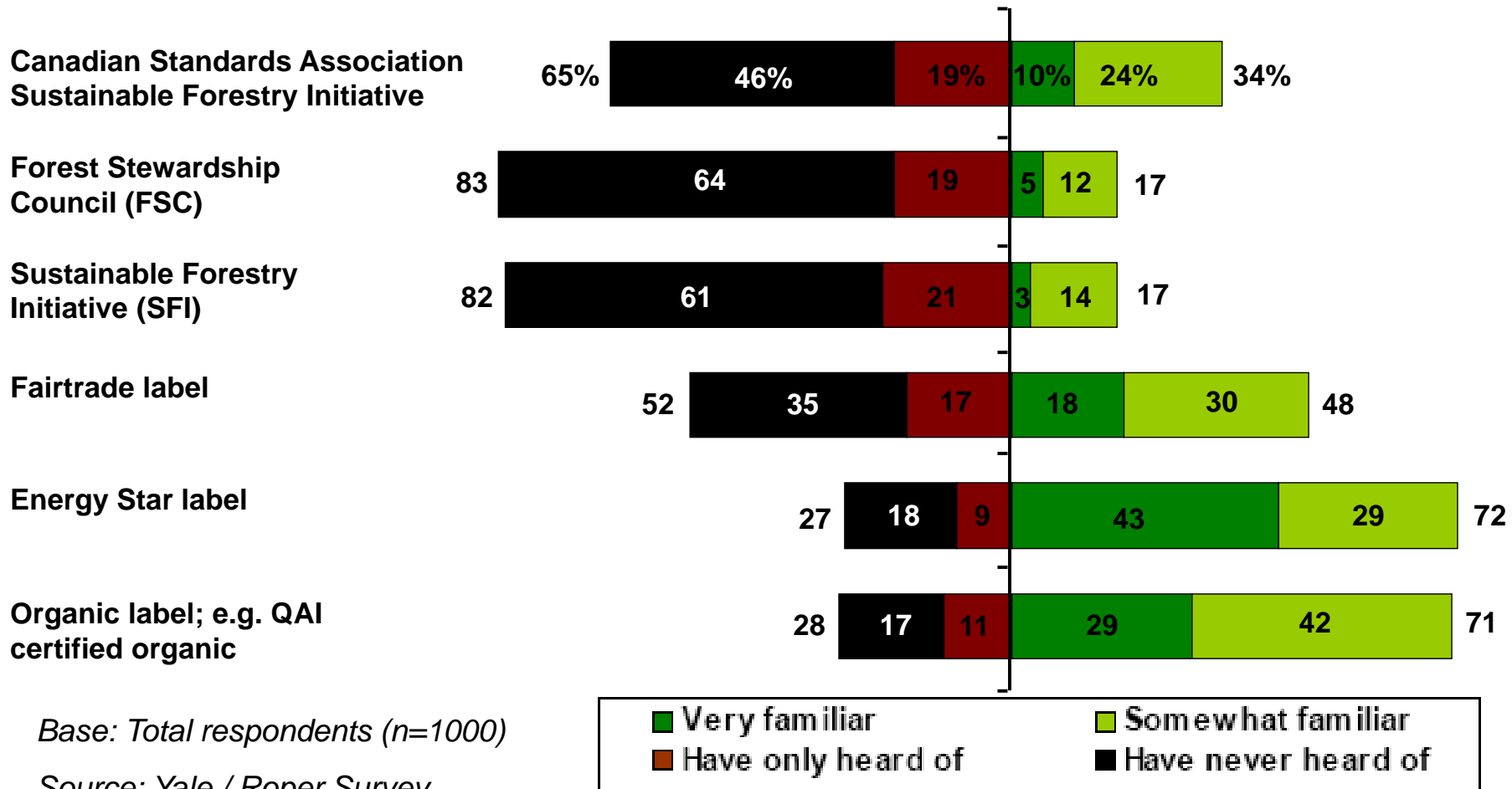
And the 15 companies that refused? They were asked to leave the organization. Just like that.

We've learned that America's forests are a resource that must constantly be nurtured and renewed. There is no compromise on that.

The American Forest & Paper Association.
Showing the World a Higher Standard.™

Market Demand

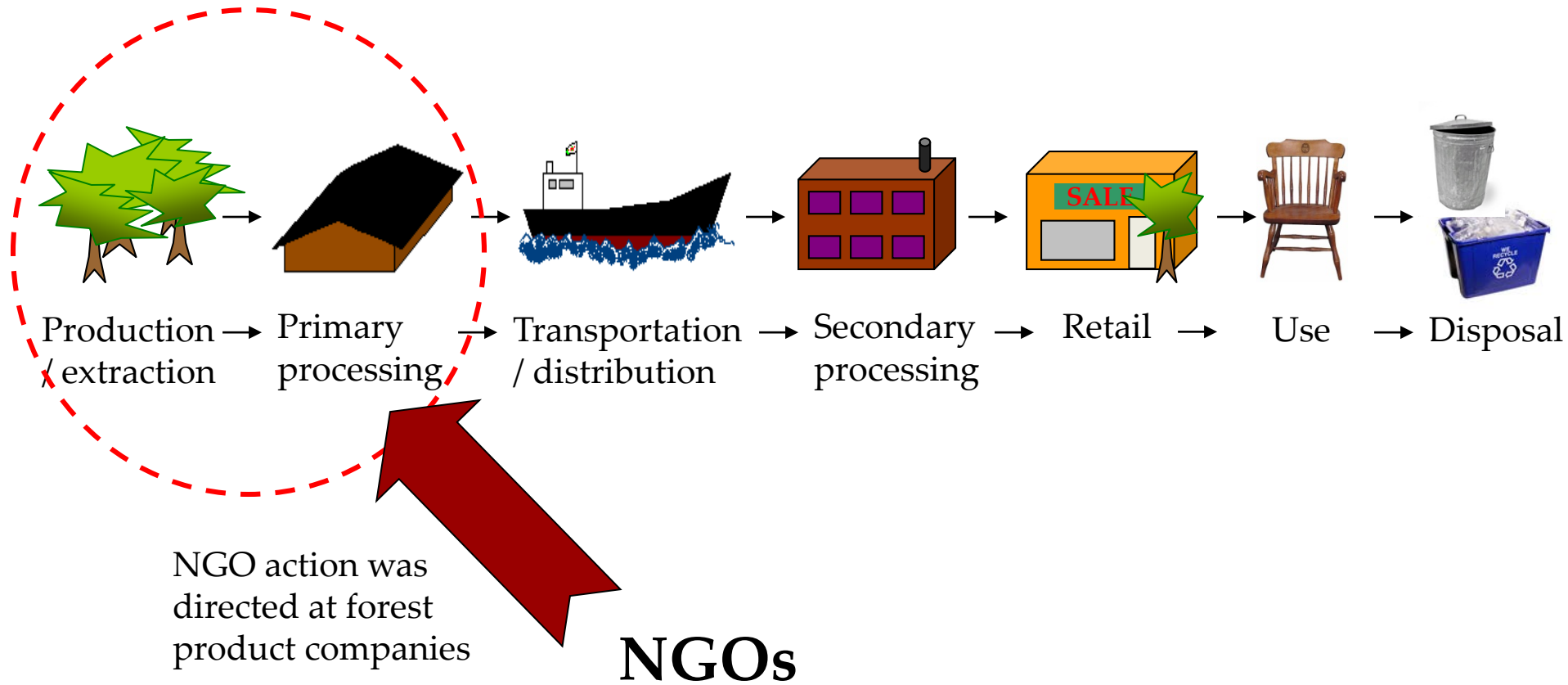
- **Consumers have played a minor role**
 - Willingness to play translates into low actual market demand
 - Knowledge also a problem (survey 2008)



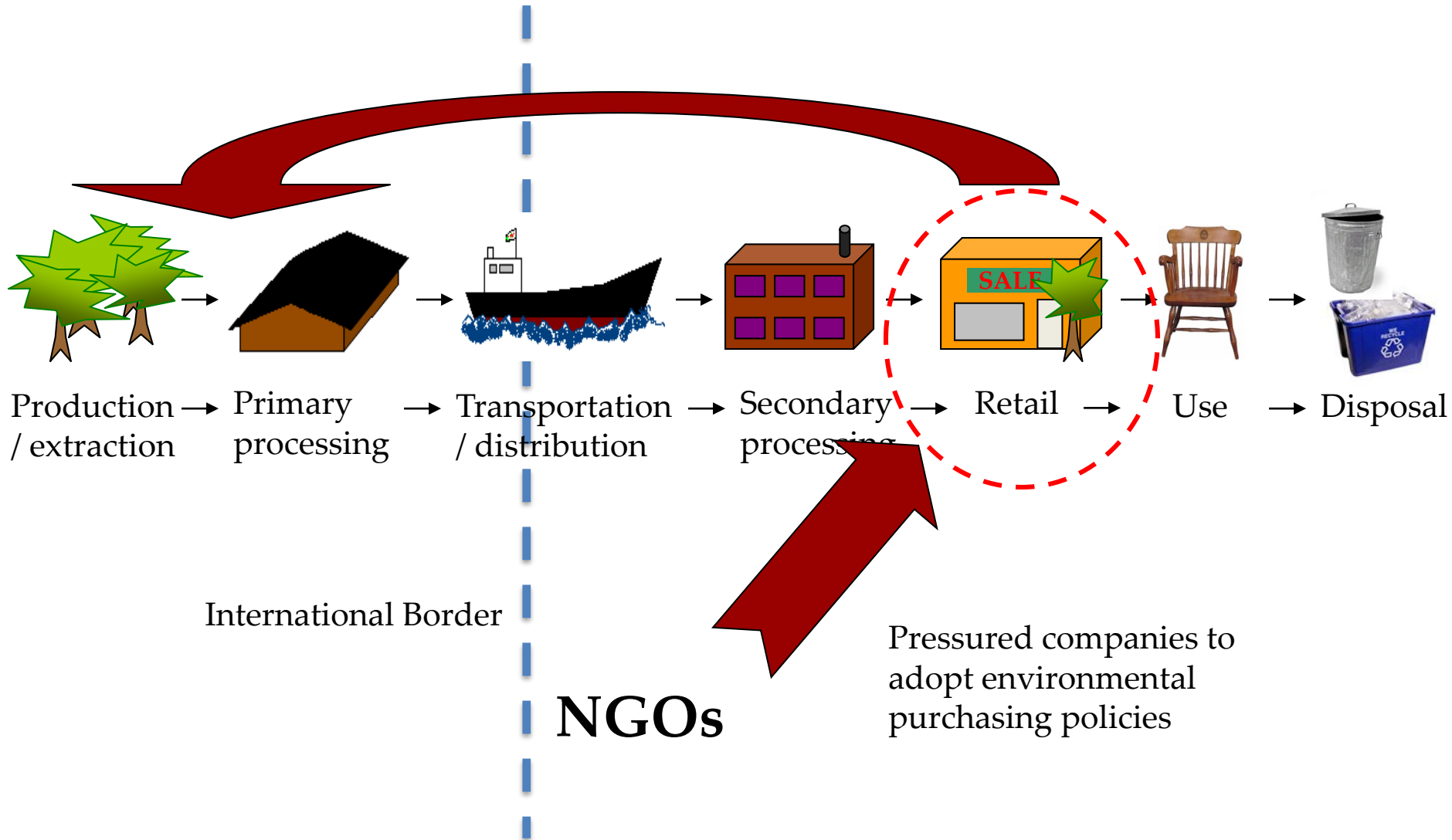
Market Pressure

- **Most consistent factor generating reasons for operators to certify has been demand generated for certification among large, concentrated points along global supply chains that are vulnerable to bad public relations**
- **NGO campaigns have shifted from targeting government to targeting companies directly**
 - Companies have long been targets
 - But changing government policy was often the ultimate aim
 - Now companies are being targeted with the aim that they change their own corporate policies; sometimes government then follows by changing laws

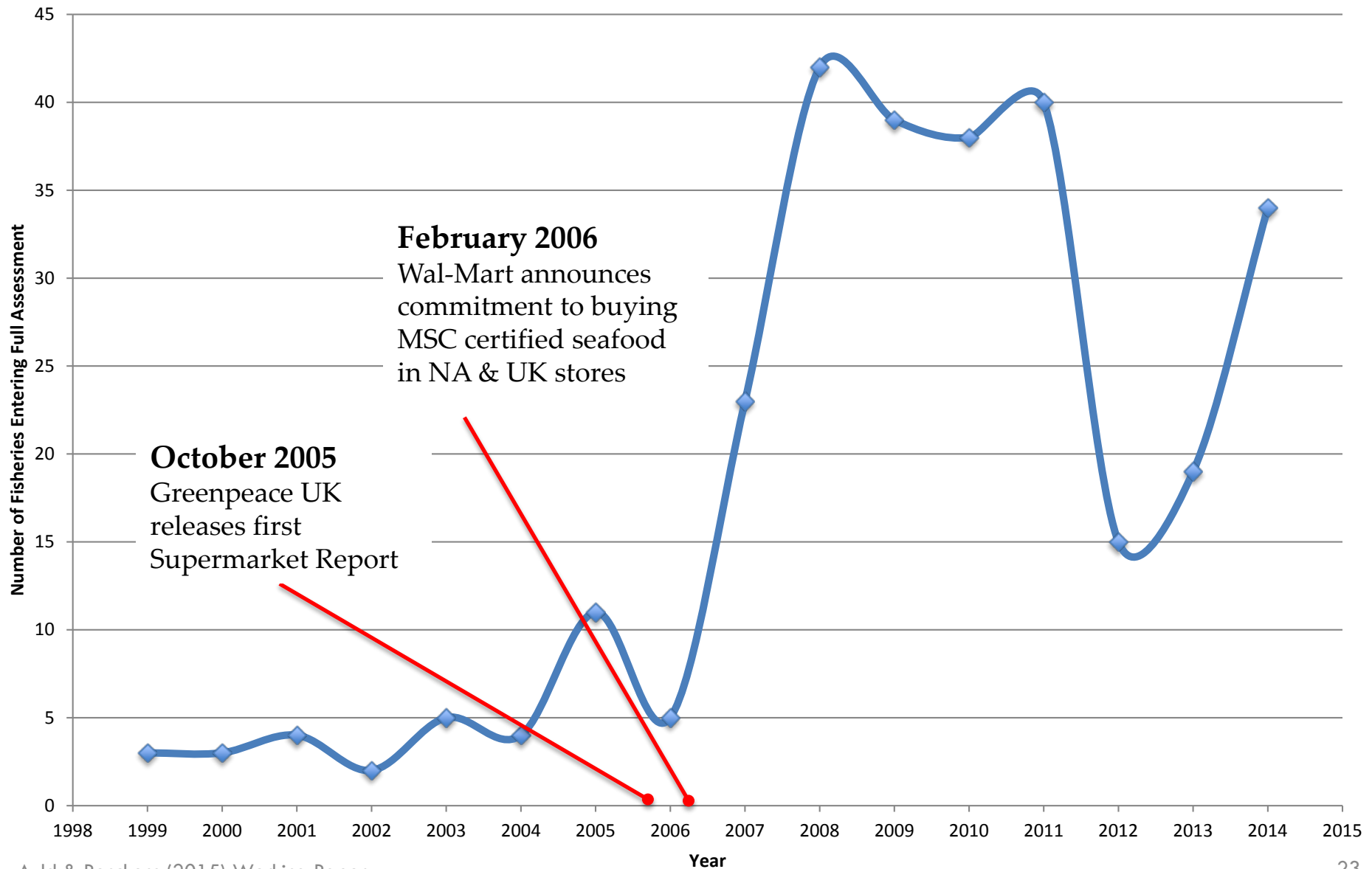
Shift in Campaigning Tactics



Turned to Upstream Retailers...



Fisheries Pursuing MSC Certification by Year



What Roles do Governments Play?

- **Governments not rule setters or enforcers, but do play several important roles**
- **Two are worth noting**
 - Governments as market participants
 - Governments as policy makers
- **It is also essential to note that the state provides a critical institutional context in which private governance operates**
 - Key point: private governance is not a substitute for the state

Government as Market Participant

- **Here governments act as an economic actor**
 - Buyer or producer of a given good, or a service provider
- **Role as buyer**
 - Many government procurement policies give varying levels of support to certified products
 - Highly contention given creates winners and losers
- **Role as producer**
 - Many state owned forests and forest operations have sought certification
- **Role as service provider**
 - Local municipality that decides to support fair trade and then provides these products through its service outlets

Government as Policy Maker

Incentive / Disincentive	Instruments		
	Information	Expenditure	Regulation
Incentives	<ul style="list-style-type: none"> • Generate information through research on the effects of certification 	<ul style="list-style-type: none"> • Financial support to increase areas / quantity produced of certified goods and quantities sold as certified in retail markets 	<ul style="list-style-type: none"> • Developing public rules (mandatory or voluntary) built from certification standards
Disincentives	<ul style="list-style-type: none"> • Create frames of certification to contain effects on conventional markets; promote national standards over global NGO-backed programs 	<ul style="list-style-type: none"> • Existing financial support for conventional practices in a sector 	<ul style="list-style-type: none"> • Restrictions on the operation of private governors or certification bodies

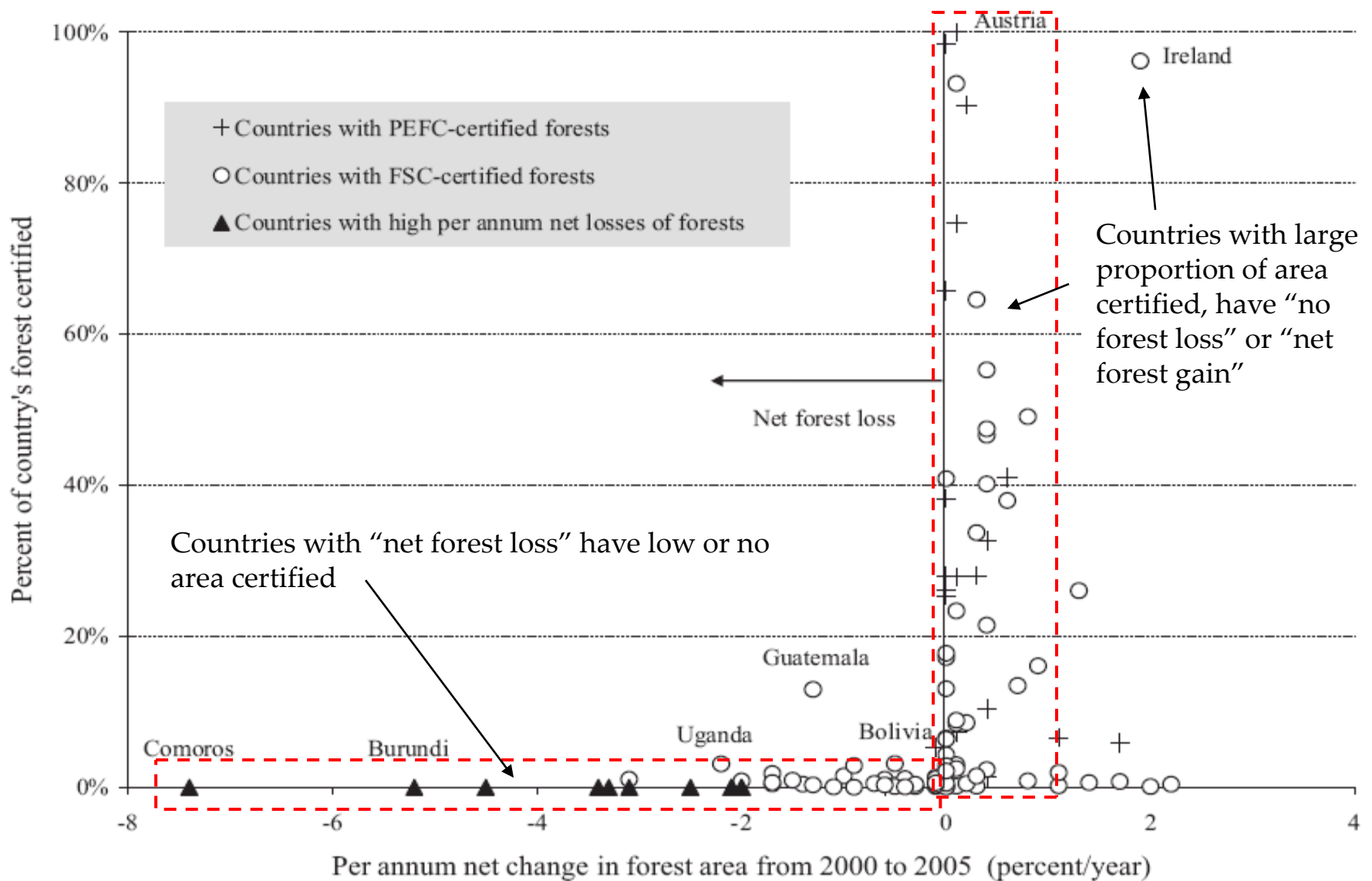
Is Private Governance Effective?

- **What about the effects of private governance? Do they help address problems?**
- **Three ways to think about this**
 - Spatial patterns of effects
 - Issue-area or problems effects
 - Longer, overtime effects
- **With each of these, we can also consider spill over and interactive effects**

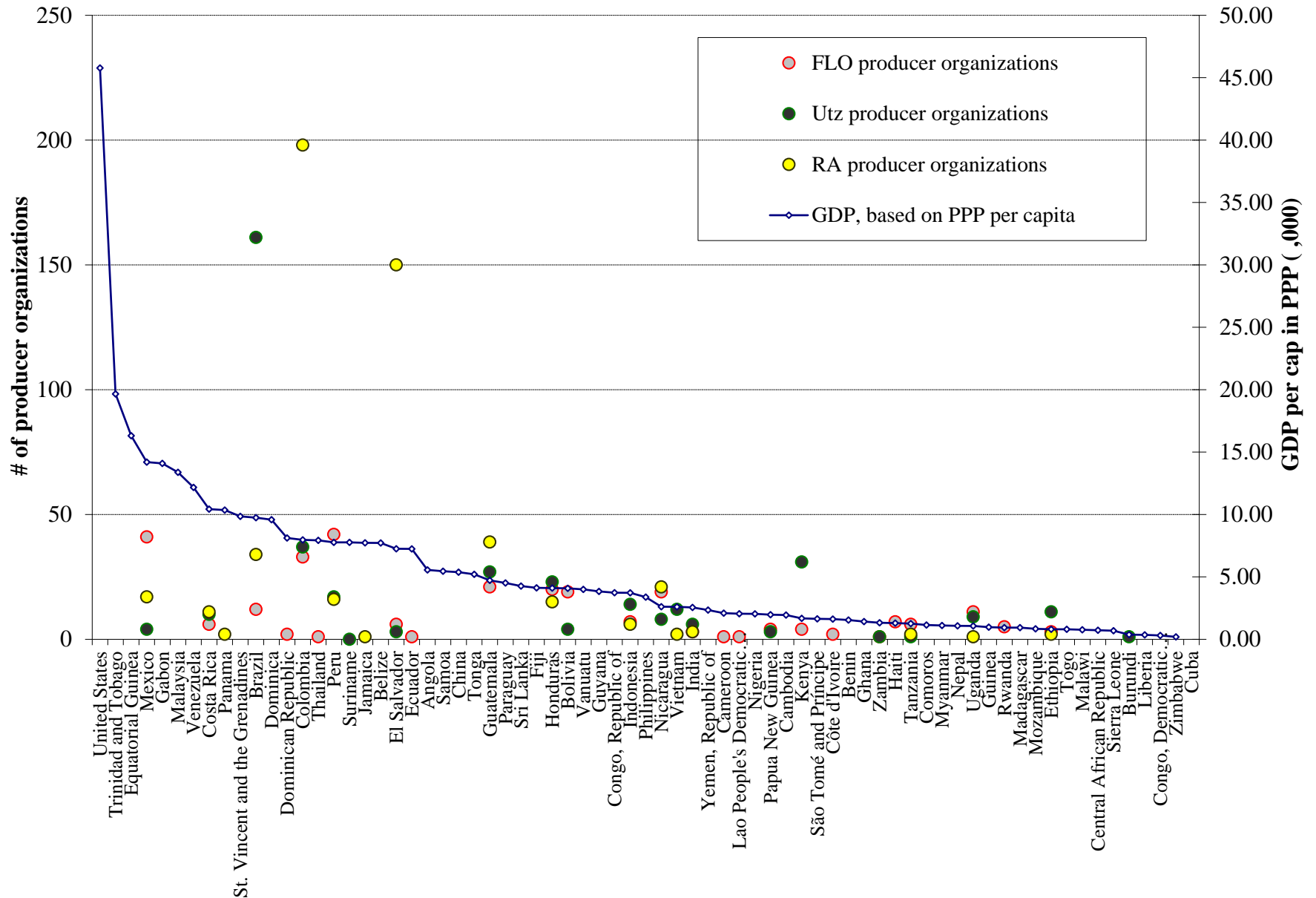
Spatial Patterns of Effects

- **Here we ask where benefits accrue on a local, regional, and global landscapes**
 - Does certification affect just the behaviour of the operator, farmer, or producer who participates, or are their spillover effects (positive or negative) that affect a larger spatial scale, such as the landscape or surrounding communities or farms?
- **Studies generally find improved practices for the operators that participate**
- **Also see positive spillovers to surrounding communities**
- **However, there is the problem of self-selection that raises concerns about broader effects**

Relationship FSC support and deforestation rates in 2007



Coffee Certification by Country, GDP/capita



Issue-Area or Problem Effects

- **Central concern here is that certification programs often develop standards that focus on a narrow but interrelated set of concerns**
- **In addressing these narrow problems, can have unintended effects**
- **Example**
 - FSC initially required 100% FSC fiber in certified paper; this created the possibility that 100% post-consumer recycled paper would be viewed as less environmentally beneficial than certified paper
 - Focus on environmental problems with wood can create perception that other construction products are better – concrete or steel

Overtime Effects

- **Effects are not static**
 - We need to understand how systems evolve and interact with other governance processes
- **Examples**
 - Focus on illegal logging in the timber sector
 - Interactions between certification competition and voluntary government forest practices rules in the US
 - Changes in management ideas & practices; such as development of methods for assessing high conservation value forests

Closing Thoughts

- **Private governance a critical new instrument**
- **Programs are spreading**
- **For governments, good to understand the limits and possibilities of private governance**
 - Opens opportunities to create synergistic relations between government rules and private rules
- **But, key to remember that there are distributional consequences built into these standards**
 - They create winners and losers

Acknowledgements & Sources

- **This presentation draws on collaborative work with Lars Gulbrandsen and Stefan Renckens**
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