

VOLUNTARY STANDARDS

Submission by Switzerland

The following communication, received on 16 October 2009, is being circulated at the request of the delegation of Switzerland.

1. The purpose of this submission is to outline the Swiss Government's strategy for ensuring that private voluntary standards contribute positively to sustainable development and for ensuring that they do not operate as unnecessary barriers to trade.

1. Context

2. Members of the SPS Committee have repeatedly expressed concerns over the growth of private voluntary standards, particularly as they relate to SPS matters. In its June 2007 regular meeting, the SPS Committee agreed to undertake consultations with Members on how to best address the issue of private voluntary standards. In its October 2008 meeting, Committee members agreed to undertake a research process as outlined in document G/SPS/W/230, with the objective of better understanding the impacts of private voluntary standards and their relationship with national and international standards.

3. In accordance with the SPS Committee's decision to undertake a comparative study on the effects of private SPS standards, the SPS Secretariat circulated a report summarizing the responses of 22 Members to a questionnaire on SPS-related private standards in June 2009 (G/SPS/GEN/932). The Swiss Government believes that private voluntary standards are currently playing, and will continue to play, a key role in determining the nature and terms of international trade, and therefore, that the appropriate design and application of such measures is critical to determining the long-term sustainability of global trade. Recognizing this, the Swiss Government has adopted a proactive approach toward private voluntary standards in order to ensure that they fulfil their potential as positive stimulus to sustainable development.

2. Background

4. Over the past two decades, growth in international trade, catalyzed in large part by the work and success of the WTO, has given rise to a growing need for common systems for managing performance across a range of businesses and economic actors. These needs have resulted in the rapid growth in the number and size of private voluntary standards designed to manage product-related and non product-related processing and production methods and which include standards on quality management, health and safety management, as well as social and environmental management related to product, processing and production characteristics.

5. In addition to the diversity of objectives captured by private voluntary standards, there is also a growing diversity of models by which such standards are developed and implemented. Private voluntary standards can range from individual firm developed standards¹ to business coalition standards,² to global multi-stakeholder standards systems.³ The impact and scope of any private voluntary standard, as well as the stakeholders involved, varies with the objectives and structure of the standard system. Given this variety, it is exceedingly difficult to generalize with respect to the market trends or impacts of such systems.

6. Nevertheless, it is worth noting that the backbone of private voluntary standards consists primarily of tools for improving communication and coordination along supply chains. To the extent that they are able to do so successfully, private voluntary standards have the potential to improve market efficiency and thus global social welfare. In principle, therefore, the growth of private voluntary standards has the potential to not only be in *accordance* with the objectives of the WTO, but to proactively promote those objectives, particularly, those of "raising living standards, ensuring full employment ... while allowing for optimal use of the world's resources in accordance with the objective of sustainable development". Moreover, the Swiss Government believes that private voluntary standards hold particular potential as instruments for stimulating sustainable economic development across emerging and least developed economies.

3. Legal Status of Private Voluntary Standards under the WTO

7. Over the course of the discussions many developing country Members have observed that private voluntary standards might be used as instruments for protectionist purposes, raising questions whether such systems should be covered by more robust rules under the WTO. At the outset we wish to remind Members that private voluntary standards, where developed and implemented independent of government intervention, are a reflection of market forces and therefore do not fall directly within the scope of current WTO rules

8. Of course, government's *often do* legitimately support or promote the development of private voluntary standards. The Swiss Government believes that such support should be limited to cases that forward the objectives of economic efficiency and sustainable development and which are in accordance with the principles of non-discrimination and "special and differential treatment" as per WTO obligations. We would like to emphasize, however, that the WTO's authority with respect to private voluntary standards only extends to the actions of WTO Member Governments with respect to such standards - not the actions of the private voluntary standards themselves. WTO law does not, and indeed should not, apply to the actions of private voluntary standards that operate independently and without government support or intervention.

4. Standards as a Stimulus for Sustainable Development

9. There are now literally thousands of private voluntary standards on the market. The number and market share of these standards has been growing at a rapid rate over the past decade. Depending on the standard and the market, annual market growth commonly ranges between 20 per cent and 100 per cent. Some examples of this growth across different segments include:

- GLOBALGAP has grown from 18,000 certificate holders in 2004 to more than 90,000 certificate holders in 2009⁴;

¹ For example, Starbuck's Café Practices.

² For example, GLOBALGAP.

³ For example, ISO 22000.

⁴ GLOBALGAP. *GLOBALGAP "Facts and Figures"*, 2009.

- Organic certification has grown from \$11 billion in 1997 to more than \$46 billion in 2007 currently accounting for approximately .008 per cent of global agricultural production with forecasted consumption growth of between 15 per cent and 20 per cent across developed country markets⁵; and
- Starbucks's Café Practices has been expanding at a rate of more than 25 per cent per annum over the past five years and now accounts for more than 75 per cent of total coffee purchases.⁶

10. These figures provide a small glimpse into the size of the market opportunity associated with private voluntary standards. Standards-based markets, as *newly developing* markets, represent a unique opportunity for less developed economies to expand their share of global markets and global profits. But the potential of private voluntary standards as instruments for catalyzing growth, prosperity and sustainable development across developing economies extends far beyond the opportunities presented by market growth alone.

Productivity, Efficiency and Competitiveness

11. The implementation of private voluntary standards usually requires the adoption of new supply chain and firm management practices. By bringing different actors together through standardized, more predictable relationships, private standards can reduce transaction costs and increase competitiveness at the national and sector levels.⁷ By requiring users to adopt better management practices at the firm level, private voluntary standards can lead to increases in firm level productivity, quality and overall profitability.⁸

Strategic Planning, Stability and Risk Management

12. Private voluntary standards revolve around improved communication of information related to product quality, production and processing methods. Within the context of private voluntary standards, supply chain relationships are therefore often characterized by better, and more frequent, information exchange. Improved information can provide a better understanding of the operation of local and global markets, thereby facilitating the ability of producers and manufacturers to foresee, adapt and profit from changing conditions within markets.

13. Management systems associated with private voluntary standards often have positive spinoff effects on reducing risk related to improved and more transparent supply chain management. By improving management capacity at the firm level, private voluntary standards can lead to better planning around risk and lead to enhanced stability - a key challenge for developing country

⁵ IFOAM. *IFOAM Statistical Yearbook*, 2009.

⁶ Data from Starbucks, September, 2009.

⁷ A recent study of 10 sub-Saharan countries reveals significant gains in national export levels and overall profitability of fresh produce following GLOBALGAP certification. See Henson, Spencer etc al. "Do Fresh Produce Exporters in Sub-Saharan Africa Benefit from GLOBALGAP Certification?" IFERG Working Paper No. 2 FT University of Guelph, 2009.

⁸ A 2005 study by IFAD observed productivity increases ranging from 10 per cent to 75 per cent over traditional agricultural methods for Indian and Chinese farmers having recently transitioned to organic agriculture. The gains were largely a result of improved management practices associated with the organic standard system. See Giovannucci, Daniele. "Organic Agriculture and Poverty Reduction in Asia: China and India Focus" IFAD Office of Evaluation: Rome, 2005. Quality improvements, and increased margins are also commonly associated with the adoption of private standards. Grape producers in India, have experienced higher margins and profitability associated with GLOBALGAP certification. See Meeta, Punjabi "Grape Exports with GLOBALGAP Certification: Case Study of Mahindra and Mahindra Initiative in India" FAO, 2008.

economies dependent on volatile international markets. Risk can also be reduced through closer and better-synchronized relationships with supply chain partners.⁹

14. Compliance with established standards provides assurances that products meet minimum quality requirements, which, in turn, can lead to longer-term supply arrangements and other preferential relationships that can protect against market volatility. Where standards succeed in reducing firm level risk, they provide a stepping-stone to increased confidence and innovation in the marketplace.¹⁰

Social and Environmental Sustainability

15. A growing number of private voluntary standards include criteria related to the protection of social and environmental sustainability. Where voluntary standards include independent monitoring and enforcement mechanisms, they can offer a robust support system for local law enforcement and meeting local social and environmental objectives. As market driven processes, private voluntary sustainability standards have the capacity to stimulate commercial investment to support local social and environmental objectives. As producers move to comply with sustainability-oriented standards, workers and local communities, not to mention the global community, all have the potential to experience improved wellbeing.

5. Challenges Facing Developing Country Producers

16. Based on the above, we believe that there are very real and growing opportunities for developing country producers to take advantage of the growth of private voluntary standards initiatives by proactively engaging and investing in such processes. Government's that have actively engaged in dialogue with businesses around standards development and implementation, and invested in standards compliance infrastructure, have shown the most progress in extracting the potential benefits from private voluntary standards.¹¹ However, we are also cognizant of the fact that the potential benefits of private voluntary standards are not always realized and that the growth of private voluntary standards also poses a considerable number of very real challenges to developing country producers. Among these, we count as of first order priority the following.

⁹ See Potts, Jason "Alternative Trade Initiatives and Income Predictability: Theory and Evidence from the Coffee Sector" IISD: 2007 for a listing of specific ways in which management practices associated with private voluntary standards have been observed to reduce risk for coffee producers. See also, Meeta, supra note 8 for a listing of ways in which GLOBALGAP certified grape farmers have experienced reduced risk in India.

¹⁰ Compliance with international standards is a source of pride for many firms. See, for example, Lawrence Busch et al "The Relationship of Third Party Certification to Sanitary and Phytosanitary Measures and the International Agrifood Trade" (Raise SPS Global Analytical Report #9) USAID: 2008.

¹¹ The development of national standards compatible with private voluntary standards, and a corresponding national support infrastructure to assist in standard compliance has been a key factor to the success of countries like Kenya (horticulture) and Peru (asparagus) in enhancing agricultural profitability at the national level. See Jaffee, Steve; Spencer Henson, "Standards and Agrifood Exports from Developing Countries: Rebalancing the Debate" Volume 3348 of Policy Research Working Papers, World Bank, 2004. See also O'Brien, Tim and Alejandra Diaz Rodriguez, "Improving Competitiveness and Market Access for Agricultural Exports through the Development and Application of Food Safety and Quality Standards: The Example of Peruvian Asparagus", InterAmerican Institute for Cooperation in Agriculture, 2004.

Compliance Costs

17. Producers wishing to enter standards-based markets have to pay costs associated with attaining compliance, verification and other fees related to system management.¹² As the number of distinct standards grows, producers are faced with growing costs in order to maintain market access. Per unit compliance costs are higher for smaller producers and therefore represent a particularly serious barrier to market access for them.¹³ In order to ensure that compliance costs are compensated by market gains, and that smaller producers are not unfairly disadvantaged, governments, standards setters and implementers need to:

- Promote harmonization across individual standards systems including the establishment of mutual recognition and equivalence schemes and shared auditing procedures;
- Facilitate the organization of SMEs and smaller producers into trading groups and producer organizations to enable economies of scale associated with standards-related requirements;
- Simplify and adapt requirements associated with standards systems to the national context in the form of national standards and related systems; and
- Provide financial support for smaller producers to make necessary investments for compliance with private voluntary standards of key strategic importance.

Governance

18. Private voluntary standards set rules for production and trade. Although private voluntary standards can provide new avenues for developing country participation in supply chain management, Northern stakeholders dominate most standards systems currently in operation. Although this reflects the fact that consumers are often driving the process towards standardization, there is a risk that developing country interests are not sufficiently taken into account in the standard development and implementation process. There is, therefore, a need for:

- Standard-setting bodies to ensure robust and credible participation of developing country stakeholders within standards development processes by sponsoring participation of developing country stakeholders in key meetings and managing an open, web-based consultation process in relevant stakeholder languages.
- Standard-setting bodies to work with national enquiry points to facilitate maximum participation in standards development processes by responding to information requests on private voluntary standards being developed nationally and internationally, and by collecting national perspectives for input into relevant private voluntary standards processes.¹⁴

¹² Initial compliance costs with private voluntary standards represents one of the most important barriers to integration for developing country producers within standards-based markets. See Henson *supra* note 7 and Giovannucci *supra* note 8.

¹³ See Disdier, Anne Celia; Belay Fekadu; Carlos Murillo; Sara Wong, "Trade Effects of SPS and TBT Measures on Tropical and Diversification Products", ICTSD: 2009 for results from surveys in Ecuador, Costa Rica, Ethiopia and Kenya where smaller producers were consistently observed to have higher SPS and TBT compliance costs across a variety of agricultural sectors; See also Potts, Jason; Michael Opitz and Chris Wunderlich, "Closing the Gaps in GAPS: A Preliminary Appraisal of the Measures and Costs Associated with Adopting Commonly Recognized "Good Agricultural Practices" in Three Coffee Growing Regions", USAID, 2007 where the costs of conforming with private voluntary standards were found to be as much as 35 times higher for small coffee producers.

¹⁴ Through prior arrangement with private voluntary standard setting initiatives, National enquiry points could serve as entry points for ensuring "national" representation in private voluntary standards processes.

- Governments and donor agencies to facilitate and support developing country participation in standards development processes by sponsoring travel, research and coordination related to the integration of developing country interests in standard setting processes.

Information

19. Despite the fact that standards usually open new information channels, they often fail to provide, or document, information related to the impacts they themselves have on producers, communities or markets. Information on the impacts of standards is a key starting point for monitoring and managing the sustainability of such systems for developing country stakeholders. There is, therefore, a need for:

- Standard-setting bodies to comply with the TBT Code of Good Practice;
- Governments and donor agencies to support processes that facilitate compliance with the TBT Code of Good Practice among private standard-setting bodies;
- Governments and donor agencies to support processes that objectively assess the impacts of private voluntary standards on markets, trade flows and community and firm level conditions;
- Standard-setting bodies to gather and report more robust information related to social, economic and environmental impacts: and
- A global database on private voluntary standards bringing together descriptive and analytic data on requirements, procedures, trade and field level impacts

Capacity

20. Compliance with private voluntary standards requires a certain degree of organizational and management capacity. Developing country businesses and producers, particularly the smaller ones, are often disadvantaged when compared with others from the developed world. Where this is the case, requirements for compliance with standards can provide more developed stakeholders with an unfair advantage. In order to avoid this,

- Governments, donors and standard-setting bodies need to build management capacity for compliance with standards and better business management practices at the national and firm levels;
- Standard-setting bodies need to proactively facilitate access to technical assistance for smaller clients located in the developing world¹⁵; and
- UN agencies should consolidate learning and experiences with respect to private voluntary standards across developing countries through the establishment of a "UN Forum" on private voluntary standards.

Finance

21. Access to finance is a key ingredient to business and economic development. Without adequate finance, producers are often unable to secure necessary inputs for production, trade finance and risk management. By requiring producers to make additional investments for standards compliance, this situation can be aggravated by private voluntary standards thereby increasing the

¹⁵ Capacity building is the cornerstone of any successful implementation of standards and therefore needs to be central to the standards development and management process. Standard-setting bodies may not be able to bear the burden of providing capacity to all worthy recipients, and, in such cases should look for ways to build capacity through established networks and institutions.

financing gap often facing developing country producers already. Although compliance with private voluntary standards often results in reduced risk and greater productivity, these assets are still under-recognized by many financial service providers. The public and private financial sectors and donors need to:

- Develop dedicated windows of financing aimed at assisting producers in meeting compliance requirements;
- Document the impacts of standards compliance on producer risk so that the benefits of working within standardized systems can be integrated within lending procedures; and
- Facilitate access to risk-mitigation instruments, such as guarantees, for standards-compliant businesses as a basis for improving access to finance.

6. Actions Undertaken by the Swiss Government in Support of the Sustainable Use of Private Voluntary Standards

22. Although the Swiss Government fundamentally believes that private voluntary standards hold significant benefits for developing countries, we also understand that this outcome cannot be taken for granted. In order to ensure that private voluntary standards contribute positively to sustainable development and lead to meaningful improvements in the wellbeing of developing country partners, public and private actors must proactively invest in processes to ensure that the special needs of developing countries are met in the development and implementation of standards.

23. Private Voluntary Standards, per se, are market instruments and therefore are not subject to the WTO rules. However, government intervention and involvement will be necessary to ensure that such standards do not lead to unsustainable outcomes. Public policy intervention in standards-based fields could render them subject to WTO rules (under the TBT Agreement or under the GATT). As such, governments should take great care to ensure that the basic principles of origin neutrality and non-discrimination are maintained through the interventions and support they provide. In addition to ensuring that the basic principle of non-discrimination is respected, governments need to take proactive steps to ensure that developing countries can take advantage of the benefits promised by private voluntary standards - capacity building and financing efforts need to be designed to directly address the specific challenges faced by the transition of mainstream markets to standards-based production and trade.

24. In 2000, the Swiss Federal Council elaborated a strategy for sustainable development which comprises in its sixth measure the recognition and promotion of private voluntary standards and/or labels. The strategy's principle is that the Confederation does take a subsidiary role as regards the promotion of private voluntary standards which are considered a private sector issue. However, the Confederation can contribute to improve the framework conditions and remove dysfunctions. Moreover, it can support initiatives of the private sector with specific instruments (information and awareness raising, consulting, harmonization of standards, mutual recognition of governmental labels, certification, public procurement, financial support of voluntary labels, improvement of framework conditions etc.). Below is a short listing of some of the initiatives the Swiss Government has undertaken to address these issues.

- (a) Supporting the establishment of organizations and initiatives promoting fair trade in the Swiss market and in the world markets in general, with the aim of contributing to a better awareness of fair-trade products and stimulating the demand. Examples are the support of fair trade carpets (STEP Label), the national Max Havelaar Label and the strengthening of the Fair Trade Labelling Organisation (FLO) as a global umbrella organization for fair trade.

- (b) Support to partner countries (e.g. India, Romania, Ukraine, and Bulgaria) in establishing national certification bodies for organic products so as to overcome market access difficulties – high certification fees and diverging certification requirements. Efforts are also being made at the international level to promote harmonization and equivalence of organic standards and certification procedures.
 - (c) Co-financing of neutral platforms for multi-stakeholder processes involving producers, the private sector and NGOs for the elaboration of sustainability criteria for the mainstream market of selected commodities and biofuels (Common Code for the Coffee Community, Better Cotton Initiative, Sustainable Cocoa Economy, Tropical Timber, Responsible Soy, Allanblackia, Sustainable Biofuel Initiative).
 - (d) Promoting the efficiency of voluntary sustainability standards, their impact measurement as well as the harmonization of capacity building measures. Examples are the COSA Program (the Committee on Sustainability Assessment) which aims to develop a rigorous assessment tool and to train producers and other stakeholders to measure and understand the costs and benefits of undertaking different sustainability initiatives. Furthermore, SECO has been supporting the project "Harmonisation and Scaling Up of Voluntary Standards Systems" implemented by ISEAL and AccountAbility which addresses three vital and interconnected success factors – improving the strategic performance of standard-setting bodies and scaling up the use of voluntary standards through their harmonization, and a holistic and integrated approach to developing country technical assistance.
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