

# Analysis of the Status of Current Certification Schemes In Promoting Conservation

CONSERVATION AND COMMUNITY INVESTMENT FORUM

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## Introduction

*This study aims to provide private foundations with a highly pragmatic decision framework for their future support of certification efforts.*

In recent years, a significant number of NGOs and industry associations have created private standard-setting bodies who officially recognize companies operating within an environmentally and/or socially beneficial framework. These certification programs aim to provide a creative, market-based solution to specific environmental and social problems. In some cases, certification serves to address persistent poverty by using the leverage of markets to improve local resource pricing and extraction practices. In other cases, it aims to eliminate specific practices or products that are environmentally destructive or unsustainable. In many cases, certification serves to preempt regulatory pressure from national or international bodies.

Not all certification schemes work - their performance history covers the spectrum from great success to failure. When asked to support proposed or existent certification efforts, foundations must evaluate a complex set of variables in order to predict success or failure. This study aims to provide private foundations with a pragmatic decision framework for their future support of environmental certification efforts. This framework should enable program officers to answer the following questions for a specific certification proposal:

- Are the essential conditions in place for a certification initiative to succeed?
- If they are, how should the certification initiative be structured?
- If they are not, should the foundation help create these conditions? How?
- Is certification the best means to achieve the desired environmental/social outcome?

This is not an exhaustive evaluation of existing certification schemes. It is an attempt to combine the current lessons learned into a set of best practices for the funders and designers of environmental certification efforts.

## Method and Breadth of Study

The CCIF team evaluated a range of certification systems currently in place (see Table 1 below). Extensive literature reviews were conducted on each of the schemes and interviews were conducted with key representatives from the certifying bodies, members of the industry, and academia.

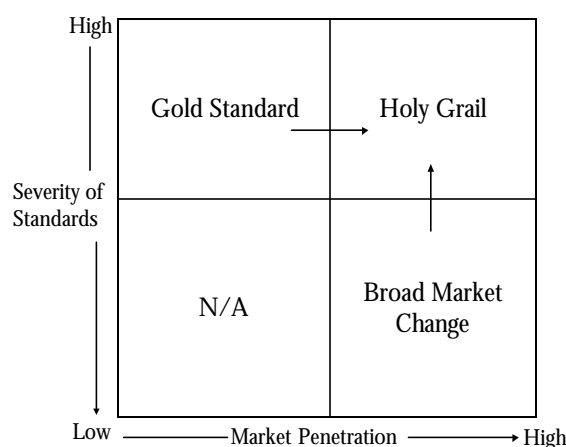
TABLE 1:  
CERTIFICATION  
SCHEMES  
EVALUATED

Certification Scheme	Product/ Process Certified	Date of Launch	Geographic Focus	Funding Sources
California Certified Organic Farmers (CCOF)	Organic farming	1973	North America	Fees and licensing
Energy Star	Electronic appliances	1992	North America	US Congressional funds
International Organization for Standardization (ISO) (e.g., ISO 14000)	Environmental management processes	1996	International	Fees and licensing
Green Globe 21	Ecotourism	1993	International	Initially supported by the World Travel and Tourism Council; now fees and licensing
Forest Stewardship Council (FSC)	Forest products	1993	International	Non-profit NGOs, foundation, fees and licensing
Marine Stewardship Council (MSC)	Food fish	1996	International	Non-profit NGOs, foundations, industry, and fees and licensing
Marine Aquarium Council (MAC)	Aquarium fish	2001	International	Foundations, industry, and fees and licensing; business plan not fully developed
SmartVoyager	Ecotourism	2000	Galapagos Islands, Ecuador	Non-profit NGOs: Conservación y Desarrollo and the Rainforest Alliance
Sustainable Forestry Initiative (SFI)	Forest products	1995	North America	American Forest and Paper Association
Sustainable Tourism Stewardship Council (STSC)	Ecotourism Feasibility Study	2001	International	Non-profit NGO Rainforest Alliance
TransFair (Fair Trade)	Coffee	1996	Americas	Foundations, fees and licensing

## Defining Success

This paper defines success as the market's broad acceptance of an ambitious set of standards and practices, leading to significant industry transformation. This is, we admit, aggressive and in most cases achievable only in the longer term. A number of strategies can be used to get to that "holy grail" (see diagram 1, below): certification efforts can begin as "gold standards" and move towards market acceptance, they can leverage broad market acceptance into tougher standards, they can simply provide documentation of mandatory compliance – but eventually, markets have to turn, and industries have to transform.

DIAGRAM 1:  
MATRIX OF  
'SUCCESS'



A few observations about the definition of success:

- Achieving the “holy grail” of mass-market acceptance of tough standards is achievable, but certifiers need lots of help – a massive regulatory driver (such as organic certification) or extremely compelling economics (such as Energy Star). Most certification schemes will have to evolve slowly into achieving this exalted status - any proposition which promises rapid market acceptance of draconian standards is quite possibly in violation with the first law of thermodynamics.
- This evolution, in many cases, is more likely to be achieved from a position of deep market penetration than from the lofty but lonely perch of “gold standard” ambition. This report assumes that in the long run, broad market penetration is essential – it is difficult to see how a certification scheme can create sufficient economic value to support itself without it.
- However, “gold standard” strategies can be a valid platform for achieving market penetration – if the effort is well funded, funders are patient, and circumstances demand it (such as FSC in South America). And, of course, as long as it is explicitly used as a strategy to achieve market penetration.

- Nobody sets out to achieve low market penetration for lax standards. However, structural difficulties make certification a blunt tool in many situations, and there are a number of certification efforts that may become stuck in the southwest quadrangle.

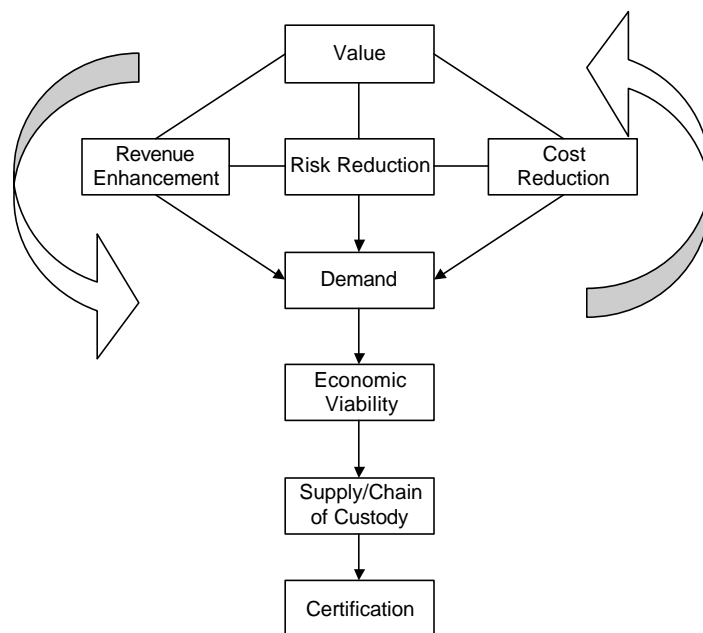
Funders have to accept that the required strategies and trade-offs can vary greatly among industries and even among regions. Measuring success will therefore require a metric that reflects the strategy – an initially controversial “gold standard” effort that has deeply influenced industry thinking may be just as successful as an effort that has found rapid acceptance.

Finally, certification should not become a catchall phrase to label products that are somehow environmentally or socially superior. Regardless of initial ambitions and strategies, certification should be defined as a set of consistent standards and practices whose application by industry simultaneously creates environmental/social and net economic benefits.

## Overall Insights

Certification serves to identify products or processes that are deemed superior in the eyes of the certifying agency. By itself, it creates neither market demand nor economic value for producers, distributors, or customers – no matter how superior the product, certification organizations cannot live by their intangible contributions alone. At some stage, they have to create economic value which can create demand for the certification, and which can finance the considerable expense of building and running a certification organization (see Diagram 2, below). Foundation support can be used as a spark in its initial stages, but there are a number of requirements that must be in place for a certification scheme to survive independently in the long term.

DIAGRAM 2:  
REQUIREMENTS  
FOR A  
SUSTAINABLE  
CERTIFICATION  
PROGRAM





The following chapter takes an in-depth look at these requirements for successful certification programs, giving conditions for each requirement to be met. Mitigation options are presented that foundations might pursue to assure these conditions are in place. In a final chapter, examples from three case studies are provided to clarify and give evidence in support of the theory.

## Requirements of Certification

*By ensuring that a set of rigorous criteria is met before funding a certification scheme, foundations are more likely to achieve positive outcomes.*

**B**efore funding a given certification scheme, foundations should test the proposal against a rigorous set of criteria to ensure that the markets are likely to support and sustain the certification efforts.

These criteria include:

- Value generation. Certification must create real and tangible value for the end consumer and/or the dominant player(s) in the industry value chain. That value may be in the form of measurable risk reduction, significant revenue enhancement, or equally significant cost reduction. Without this value, the essential “demand pull” will not occur.
- Economic viability. Certification must not threaten the real or perceived economic viability of any major player in the industry value chain.
- Rapid supply development. Industry structure must accommodate rapid growth of certified product supply, in terms of volume and product breadth – demand for certified product cannot be frustrated for more than 2-3 years.
- Broad support. Industry players, NGOs and all other significant stakeholders must support a certification scheme that is neutral, third-party driven, and fee-based.
- Competent design. The certification organization must be professionally managed, service-oriented, and designed for neutral, competent and consistent third-party certification.

A foundation can help to ensure that these requirements are met. In some cases, shortfalls can be addressed by funding various types of efforts to help create value, encourage demand, create supply, build broad support, or ensure competent design. When considering such “enabling”

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investments, it is important not to miss a step – if no economic value is created, no amount of stakeholder convening is going to help in the long run. In some cases, the situation might be hopeless and alternative tools might be used to achieve the desired environmental goal.

## 1. Certification Must Create Real and Tangible Value

Proponents of certification typically point to “willingness to pay” consumer surveys to prove the economic attractiveness of their proposal. The track record, unfortunately, is not nearly as good as the sum of these types of surveys would suggest. Most consumers are, in fact, unwilling to pay premiums or switch brands, and most producers, distributors, and retailers will not change their practices unless they have a compelling economic reason to do so. Certification can create economic value in three ways:

- Revenue Enhancement
- Risk Reduction
- Cost Reduction

Each of these components is discussed in more detail below.

### Revenue Enhancement

Certification can identify for the end consumer a product feature that justifies a significant price premium or, at least, a strong brand preference. This can create significant value for the producer. The willingness of the consumer to pay price premiums or switch brands must be evaluated with significant skepticism.

- Price Premiums

The typical argument states that “a significant share of consumers is willing to pay significant price premiums for a differentiated product”. Our survey shows that price premiums only “stick” if the certified product feature is physically obvious and immediately beneficial. For example, CCOF-certified organic produce is far tastier and healthier, allowing retailers to charge 60-100% premiums on average and to realize superior margins. High-end Energy Star appliances offer a one-year payback on price premiums due to superior efficiency. The SmartVoyager certified ecotourism tour boat operation in the Galapagos Islands, promises a very different type of ‘educational adventure’ vacation, again providing a tangible value for the premium paid.

A “significant share” of consumers should be willing to pay a price premium. This should imply either the entirety of a small market niche (i.e., rain forest trekkers) or a relatively small percentage of a huge market (i.e., organic food consumers) – as long as the cumulative value generated is strong enough to create a compelling driver for certification. The rule of thumb is that in the absence of immediate and significant benefits, the consumer will tolerate only a 5% price premium for certified products – usually not enough to pay for the effort of certification.

In some cases, consumers may be willing but not able to pay price premiums. This occurs most often with industrial customers in high-volume, low-margin manufacturing industries,

such as building, paper, energy, steel, etc. This makes certification in largely industrial commodities, such as pulp, building material, or mining products very difficult.

▪ Branding Preference

The argument frequently stated in the case of branding preferences is that “consumers will switch to the environmentally/socially superior brand”. It is true - all other things being equal, most consumers will make the “right” choice. Dominant players such as Starbucks, Unilever, or Home Depot will use certification as an extra differentiating feature on their branded product, leading to extra sales. Unless such a strong, dominant industry player recognizes the value of certification and is willing to bear the considerable expense of branding and promoting the certification label, all brand switching claims should be viewed very skeptically. Even then, these arrangements can be fickle and short-lived unless backed by solid supply and reliable pricing.

TABLE 2:  
REVENUE  
ENHANCEMENT  
CASE  
SCENARIOS

Scenarios	Characteristics	Examples
Best-case scenario	Immediate economic or health benefit for majority of large market	<ul style="list-style-type: none"> <li>▪ Certified organics</li> <li>▪ Energy Star labeled appliances</li> <li>▪ ISO</li> </ul>
Medium-case scenario	Immediate economic, health or other perceived benefit for majority of small market; dominant player willing to brand and promote certification label	<ul style="list-style-type: none"> <li>▪ Ecotourism</li> <li>▪ Fisheries</li> <li>▪ Forestry</li> <li>▪ Fair Trade</li> </ul>
Worst-case scenario	Benefit perceived by small part of the market, or market unable to pay	<ul style="list-style-type: none"> <li>▪ Mining</li> </ul>

The prospect of revenue enhancement through premium pricing or brand switching is often a very compelling predictor of certification success. Revenue enhancement is direct evidence that demand for the certified good exists, and furthermore, that there will be economical support for the initiative. For example, the Energy Star certification program has rapidly grown to include 1,600 manufacturers of electric appliances and electronic equipment, producing over 11,000 labeled products in 33 product categories. The savings for end consumers are compelling, with over 74 billion kWh of energy saved per year translating into a cumulative saving of \$60 billion. In some product segments, Energy Star certification is becoming a “ticket to play”.

Organic certification is growing at an equally rapid pace. Retailers profit from 60% price premiums on average (up to 200% for some products) most of which is not shared with growers. Growers often experience dramatically lower input costs, more efficient application of water, and higher yields. Despite the very considerable costs of the initial switch to organic

farming practices, sales have grown 20% annually in recent years – more than four times the rate of the food industry overall, with a total market volume of \$4.2 billion.<sup>1</sup>

#### Risk Reduction

Certification can serve to reduce four types of risk for large corporations:

- Market Risk
- Regulatory Risk
- Image Risk
- Natural Resource Risk

Details for each of these cases are described below.

#### ▪ Market Risk

It is undoubtedly true that some markets require certification as a “ticket to play” and this obviously provides a very strong built-in demand for a well-designed certification system. Several factors can drive such market pressure:

- Dominant buyers specify certification. For example, many suppliers of major manufacturers have to be ISO 9000/14000 certified to ensure acceptable levels of quality management and protection from environmental liability in the supply chain. Unilever has asked its whitefish suppliers to be MSC certified in order to ensure continued supply (Unilever buys approximately 20% of the whitefish sold worldwide). MSC has worked with the largest British food retailers to specify labeled fish products for their stores. A word of caution: this must be evaluated carefully. Unless the buyer is a truly dominant buyer (i.e., General Motors, Unilever, etc.), suppliers will typically find ways to avoid certification.
- Foreign markets demand certification. Some export markets require certification, such as European markets being served by B.C. timber, paper, and fishery products.
- Regulations demand specification. For example, by late 2002 all except the smallest organic growers will have to be certified by a State or private agency accredited under the new national standards set by the US Department of Agriculture.
- Consumers demand certification. Similar to price premiums, consumers may exercise their vote by willing to go without a product because of its environmental implications. Thus retention of consumers or market share can be a risk producers face. For example, MSC served to communicate Unilever’s commitment to meet their customers concern for fish produced from sustainably managed fisheries.

We are skeptical about any claims regarding market risk that are not specifically and demonstratively backed up by major buyers, import restrictions, and/or regulations.

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<sup>1</sup> Natural Foods Merchandiser.

■ Regulatory Risk

The typical argument states that “in the absence of collective action/certification, regulatory pressure will threaten the entire industry”. This appears to be the case today with marine ornamentals, certain food fisheries, regional lumber operations, as well as tourism operations such as cruise ships traveling through valuable wildlife habitats. Certification can stave off or prevent such regulatory interference entirely. For example, MAC is working to certify aquarium fish imported into the US which come from sustainably managed fisheries, in hopes of avoiding a bill restricting commerce of certain coral reef species recommended by the US Coral Reef Task Force. Cruise ships operating in such sensitive areas as off the coast of British Columbia and the Antarctic are voluntarily joining responsible tourism operations, such as the Cruise Ship Stewardship Initiative, due to increased threats of regulations.

This is an argument often cited by the certifying bodies but rarely supported. Industry has not felt a severe enough threat from regulation to accept the cost of becoming certified. While the threat of regulation looms for many industries, we have not come across an instance where certification alone was the answer to avoiding this threat. At a minimum, the regulatory risk must be great enough to threaten entire operations, and more importantly, the threat must be in the near future. If regulation can be avoided, the pressure may not be great enough to drive certification.

■ Image Risk

“Certification creates a positive perception to the public and staves off adversarial stakeholders” is the argument often cited by certification supporters as a strong driver of demand. However, we are skeptical. Although NGO threats are a marketer’s worst nightmare, we have little evidence that this has ever amounted to the kind of pressure that would warrant certification on its own. Few dominant players have been pushed into certification in the absence of economic incentives because of threatened attacks on the corporate image. However, coupled with other risks, image risk can be an additional and potentially decisive factor.

For example, in the mid-1990’s, WWF was concerned about the ecosystem effects of overfishing and the potential environmental catastrophe if something was not done. WWF persuaded Unilever, one of the world’s largest buyers of frozen seafood, to jointly develop an environmental standard for sustainable and well-managed fisheries (the Marine Stewardship Council) and to pressure the fisheries supplying their products to become MSC certified. In another example, Greenpeace’s focus on British Columbia forestry, combined with the pressure of the European export markets, has yielded a faster penetration of FSC than in the US.

■ Natural Resource Risk

Certification is often backed by the argument that “without certification, the survival of the natural resources is at risk”. The tragedy of the commons dictates that in many natural resource industries, the interests of the individual producer run counter to that of the collective. In many cases, such as certain fisheries, that is the case today. Certification can help a collective adjust each member’s individual yield management for the common good. Again, this

argument bears looking at very carefully – this is far easier said than done. The collective has to be rather dominant to enforce certification upon its members. Such collective will is typically in place only during industry-threatening crises, such as the looming disappearance of an entire fishery. Certification schemes that succeed only in times of crisis are unlikely to build a broad base of supply, or demand for that matter.

In general, we have found that the “risk reduction” argument is made rather liberally when a revenue enhancement argument cannot be made. It bears close scrutiny: in many cases, the argument lacks rigorous fact. It should be rejected unless there is solid evidence that at least one of the following conditions is in place:

- A dominant industry player with significant incentives to enforce certification throughout the value chain.
- Specific markets requiring certification are under significant pressure to do so.
- Resource pressures are high enough to support the formation of strong and lasting collectives.

#### Cost Reductions

Many certification schemes claim significant increases in efficiency for the certified industry. In some cases, such as organic agriculture, that case is well documented. For example, organic grain and soybean production in the Midwest was found to be more profitable than conventional systems, even without price premiums, due to lower input costs and higher yields in drier areas or periods.<sup>2</sup> Lower energy use and improved soil tilth and productivity have been documented for many organic farming systems.<sup>3</sup>

However, these claims are easier made than substantiated. We have found very little supporting data. For example, ISO 14000 claims to reduce costs for its members, which may very well be true, but is not backed by any empirical evidence on its cost reduction record. In fact, we were not able to unearth hard data regarding producer cost reductions for any certification scheme other than CCOF.

In general, there are several conditions that must be in place for a compelling cost reduction argument to be made.

- Improved economies of scale

Certification may involve greater economies of scale in production, marketing, or distribution resulting in reduced costs. Under the Energy Star program, for example, the agency works with its business partners to jointly establish criteria and specifications for

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<sup>2</sup> Welsh, Rick, 1999. “The Economics of Organic Grain and Soybean Production in the Midwestern United States,” Policy Studies Report No. 13, Henry A. Wallace Institute for Alternative Agriculture, May.

<sup>3</sup> US Department of Agriculture, USDA Study Team on Organic Farming, 1980. “Report and Recommendations on Organic Farming.”

products, leveraging the resources of all stakeholders to develop and market “best” standards they can all benefit from. The joint marketing of products under certification is common to many of the programs we evaluated, offering participants leverage with their own marketing efforts. For example, the membership in a cooperative of certified organic dairy or fair trade coffee products can lead to immediate and significant reduction in marketing and distribution expenses.

- Cost-effective access to new technology and/or processes

Environmental process certification can help introduce entirely new processes, such as quality control, chemical management services, and waste minimization, which lead towards greater efficiency, including lower inventory levels, less waste, lower factor costs, and improved productivity. In some cases, certification can also serve to introduce entirely new technologies that improve cost effectiveness. For example, new marine ornamental collection and transport systems that dramatically reduce mortality, or new pelagic fishing technologies that dramatically reduce bycatch.

- Lowered operational complexity

Claims are frequently made that the “general efficiency” of operations can be improved after the close scrutiny and analysis performed as part of the certification effort. However, in most cases, the “low hanging fruit” of process efficiency have already been harvested, and these claims should be viewed skeptically. If the industry being certified has a fairly disintegrated supply chain, then certification can be used as a means to improve communication and information management, ultimately streamlining and integrating the supply chain. For example, MSC certification includes a requirement for fisheries to develop a resource management plan. Highly experienced and knowledgeable experts from within the certifying bodies typically lead this effort. The result is a comprehensive plan that, prior to certification, did not exist and is one of “the most valuable reasons for becoming certified” according to many interviewees. This also appears to hold true in the marine ornamentals trade and the advent of the MAC standards in streamlining and integrating the supply chain.

## 2. Certification Must Not Threaten the Economic Viability of Any Major Player

The economic vitality of the major industry players cannot be jeopardized, or the scheme is bound to fail – even if that economic viability is at the very root of the environmental problem that is being addressed. For example, an industrial forestry company, whose margins for the past decade have been below its cost of capital, is unlikely to submit to a certification scheme that reduces yield (and margins) without compensation.

The following describes a number of warning signs in more detail.

### Low Margin Industry

Natural resource industries that are dominated by a small number of fiercely competitive, low-margin producers are problematic targets for certification. Industrial timber, mining, and some



commercial fisheries and/or aquaculture operations fit into this group. Unless these types of providers are compelled by international markets to offer certified products, they are likely to block certification with all their considerable market power.

This can be illustrated with the certified timber market. The seven leading industrial forest companies in the US have remained steadfast in their opposition to FSC certification, even when directly challenged by their single largest customer, Home Depot. Dominating producers such as these, when threatened, generally have the power to block certification. In a similar vein, fisheries typically choose to pursue MSC certification solely when there are clear market signals to do so. The Alaskan Salmon fishery pursued MSC certification in order to compete with the increasing number of farm-produced salmon.

#### Adversarial Relationship between Certifiers and Stakeholders

Where standard developers and certifiers have a highly adversarial history with industry and/or where certifiers are not neutral, third-party providers, certification schemes will most likely be perceived as a threat. The FSC, for example, historically worked with local NGO partners to coordinate specific certification standards and auditing. Many of these NGOs were the old nemesis of the industrial timber companies, who applied and maintained standards in a way that was perceived as capricious by industry. Formal endorsement of the certification scheme by the relevant NGOs, which precludes local challenges, is difficult to achieve but must be pursued in the long term. All too often, the process of certification (especially FSC and MSC) has elevated the visibility of a specific timberland or fishery, leading to vigorous local campaigns against the principals and against the certification – a wholly unintended and unacceptable consequence. MSC finds that there is much resistance from the NGO community after they have spent considerable time working with fisheries on certification. This type of controversy tarnishes the entire certification process and program.

#### Certification Standards Are Impossible

There are industries where meaningful certification is impossible due to the low standards of environmental performance. The bar is simply too high and there must be some steps in the middle to create a platform from which certification may be possible. This is especially true in much of the developing world. It makes very little sense, for example, to attack the disappearance of the Indonesian rainforest through FSC certification - there are no certifiable operations, and clear-cutting the rainforests is making far too much money.

### 3. Industry Structure Must Accommodate Rapid Growth of Certified Product

If certification succeeds in creating economic value for the dominant players in the industry value chain (including end consumers), significant demand will follow. If that demand is not satisfied with adequate supply, it will disappear. There are a number of hurdles that can limit ramping up supply quickly and thus threaten the survival of the certification scheme. The following describes the major hurdles to rapid growth of supply.

#### Threatened Dominant Producers Refuse Certification

As described above, dominant producers may have reasons to reject certification, and enough power to do so successfully. If certification poses a threat to their market structure, producers will refuse to cooperate. Unless addressed at the root, this is fatal.

#### Channel Resistance

The distribution channels may resist carrying certified product for a number of reasons. In some cases, certified product may be perceived to cast a shadow over competing, non-certified products. In other cases, it may be expensive to coordinate the ramp-up of certified product supply from many sources, or to install the infrastructure required to process and track the certified product – for example, an aquarium fish dealer has to install an entirely separate tank, pump and filter system to carry MAC-certified cyanide-free fish. Retailers may be hesitant to be a leader in the adoption of a product that requires premium pricing to cover costs.

#### Undifferentiated Products Going Through Long, Complex Value Chains

Many, if not most, natural resource industries sell undifferentiated commodity products. When these types of products – such as a 4x4 piece of lumber, or a clown aquarium fish - have to travel through a complex chain of middlemen and value added producers to reach the end consumer, certification becomes very difficult for a number of obvious reasons, including difficulties with source segregating, auditing of multiple suppliers, etc.

#### Lagging demand

If demand for certified product lags supply, the certified product will be sold unlabelled. Few producers will tolerate the extra effort for a long time. In the case that the certified market is consumer driven and requires labeling, few producers will tolerate the extra effort for a long time.

#### Tracking difficulties

In the case that certification requires it, tracking and differentiation of labeled certified products may become very difficult, and the certified products literally become lost. It is estimated, for example, that over 80 percent of FSC certified lumber is “lost” on the way to the consumer, and ends up being sold as uncertified.

The process may require that many organizations have to be certified (“chain of custody certifications”) to ensure that the certified product reliably remains separated throughout. For example, a MAC-certified aquarium fish must come from a certified sustainably managed reef monitored by scientists in the field, be net caught without the use of cyanide by certified fishers, be packaged and shipped by certified middlemen that guarantee no exposure to fish that may have been caught with the use of cyanide, and be displayed by a certified retailer in a tank, again with no exposure to cyanide.

Foundations should evaluate the complexity of the chain of custody carefully. Industries may have characteristics which predispose themselves to having complex value chains. One of three scenarios described below will emerge, offering possible mitigation opportunities.

Best case scenario: Short, fully coordinated value chain; branded products. This is typically the case when there is little non-standard value added, the product is branded, and/or the distribution logistics are simple. For example, Energy Star certifies branded appliances where the value added is through standard, but more efficient technologies, and where products go through a standard distribution chain. The products are stamped with the Energy Star logo along with the manufacturer logo. There is little chance for error.

Medium case scenario: Short or long value chain with good communication. This is best defined by those industries, such as coffee or organics, where there is a relatively clear, traceable supply chain, where value-added is clearly integral to the chain, and communication among those involved in the supply chain is common. The coffee industry has been the focus of the Fair Trade community, where farmers are seeing fair prices and the producers, roasters and wholesalers are given access to a growing number of consumers who demand social integrity in their products. Farmer cooperatives sell their lots of coffee to processors who track these lots through processing and roasting facilities and on to the wholesalers. The ability of the certification system to function effectively and efficiently is made possible by the relatively manageable supply chain.

Worst-case scenario: Long, highly disintermediated value chain. This is typically found where a non-perishable commodity product enters a great variety of value-added steps in production, distribution, warehousing, and retailing, and where there is very little communication between buyers and sellers. For example, dimension lumber often goes through five steps from the forest to the builder. It is often impossible for the wholesaler to ascertain the origin of the lumber – mill owners themselves often do not know precisely where their raw logs come from.

TABLE 3:  
CASE  
SCENARIOS

Scenarios	Characteristics	Examples
Best-case scenario: Short, fully coordinated value chain, branded products, sufficient demand	<ul style="list-style-type: none"> <li>▪ Few value-added steps</li> <li>▪ Product branded</li> <li>▪ Simple distribution logistics</li> </ul>	Energy Star Branded appliances; value added through more efficient technologies; standard distribution chain
Medium-case scenario: Long value chain with good communication, sufficient demand	<ul style="list-style-type: none"> <li>▪ Highly coordinated supply chain</li> <li>▪ Dominant coordinating industry player</li> </ul>	MSC Unilever coordinates value chain
Worst-case scenario: Long, highly disintermediated value chain	<ul style="list-style-type: none"> <li>▪ Non-perishable commodity product</li> <li>▪ Variety of value-added steps in production, distribution, warehousing and retailing</li> <li>▪ Little communication between buyers and sellers</li> <li>▪ Supply lagging demand</li> </ul>	FSC Typically five value-added steps from the forest to the builder; little communication between lumber, mill, and wholesaler; demand restricted to DIY segment

#### 4. All Significant Stakeholders must Support a Certification Scheme Which Is Neutral, Third- Party Driven, and Fee Based

A common-sense condition for all certification schemes is that the development of standards and processes are accepted by a majority of the key stakeholders involved. This is accomplished best if stakeholders are offered the opportunity to provide input into the development of a certification scheme from the outset. In addition, providing for neutral, third-party monitoring is essential to the integrity of the scheme. Finally – a financially self-sustaining program will ensure that the certification scheme remains viable and effective in the long-term.

##### Stakeholder Support

Stakeholder support is obviously essential. Claim of support should be viewed skeptically. Headquarter assurances of support in principle are not enough. Too often, local chapters will withdraw support for certification in the context of a local preservation battle – many certifiers have been attacked as “corporate pawns” by the same organizations that support the overall certification scheme.

It is questionable whether this requirement can be fully met. Complete support of NGOs generally entails standards too severe for industry to accept. A more streamlined standard development process is bound to elicit protest regarding the exclusive process and lax standards. However, foundations play a key role here. As funders of NGOs and certification schemes, they are ideally placed in the middle: they can require the developers of certification programs to develop standards as collaboratively as possible, and they can hold their NGO grantees to their promises of support. Efforts such as the consultation that was encouraged in the developing of MSC’s Principles and Criteria should be increased and emphasized in future certification processes.

Stakeholder support has to go further than passive approval. It has to have sufficient momentum to build a unified, international certification umbrella. Failure is costly: ecotourism is burdened with more than 100 “green” certification and eco-labeling programs around the world. The result, of course, is utter confusion among consumers and industry players. It has become riddled with lack of uniformity and consumer and industry confusion. The Rainforest Alliance is currently doing a feasibility study for an international accreditation body, the Sustainable Tourism Stewardship Council, to unify industry standards and promotional efforts. Although cooperation may prove difficult in the beginning, it will greatly pay off in the long run.

##### Neutral and Transparent

To avoid conflicts of interest, there must be clear firewalls. The standard developers need to be separate from the accredited certifiers, who cannot have any ties to the industry they are charged to supervise. The certification body should be independent of the parties being certified. SFI is often criticized as one of the least credible forest product certification schemes

because they are i) linked directly to the forest industry, ii) directly influence the certification and auditing process of each applicant, and iii) have no formal appeals process. The certification applicant is involved in the process, allowing them to work with the certifier to tailor the audit plan including the location, audit team, and report content.<sup>4</sup>

The certification program should also be transparent and involve an appeals process that is open to all interested stakeholders. Again, SFI has been criticized for having no stakeholder consultation or public input process. On the other hand, the organic foods industry has been commended for their stakeholder engagement and appeals process in creating the new USDA National Organic Program. All standards were up for review and comment for several years, resulting in consensus and implementation of a federal law.

The firewalls must be real. It is rarely acceptable that the standards development organization gets involved in consulting to certifiers or to industry. The practice of selling labeling rights directly to industry is also open to conflict of interest charges, unless it is very carefully separated from the certification process. Some standard setting organizations are currently hoping to get out of the accreditation business all together – the money that can be made in branding and consulting is far more attractive than the comparatively paltry accreditation fees.

#### Third-party Audits

The certification scheme should require that audits be conducted by third-party, suitably trained auditors. Programs that have been first-party audited by members of the certification program itself have been severely criticized in the past.

There is one exception to the rule: in the very initial stages of testing the standards, it might make sense to have staff of the standard-setting agency perform some audits with “friendly” participants. This allows for rapid refinement of the standards and supports development of enforceable standards. For example, many programs in ecotourism, such as SmartVoyager and Costa Rica’s Certification for Sustainable Tourism are still in their infancy and defend their use of first-party auditing because they feel they gain invaluable expertise through the process.

#### Fee-based

The scheme should have a fee-based mechanism to contribute to its sustainability. There are a number of ways the certification scheme can draw in revenue. Many certification programs enroll participants as members and charge a fee to those businesses applying for certification. This money is used to run the program, provide them with up to date information on standards and changes in the industry and, most importantly, to support the promotion of the products that are certified. They can also charge a fee to auditors for use of their standards and the right to do auditing for them. The certification program and/or auditors can also charge fees for the assessments, consultations, and auditing services they provide. Fees for the use of their logo on all goods sold and/or for retailer locations can also bring in revenue, but should

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<sup>4</sup> Fern, 2001. “Behind the logo: An environmental and social assessment of forest certification schemes.” Based on case studies by: WWF France, Taiga Consulting, Taiga Rescue Network, Robin Wood, NRDC, Fern, Finnish Nature League, and Greenpeace International.

be carefully structured to avoid conflict of interest charges. The more revenue that can be drawn from the certification program, the more likely a sustainable business will be maintained.

The difficulty arises when new and/or small firms want to join the program, and see value in doing so, but do not have the capital to pay for the certification and auditing required. The fee-based structure can account for this by charging them a reduced fee and subsidizing this by higher fees charged to larger, more established companies. For example, in the organic foods industry, CCOF charges a reduced fee to those farmers grossing less than \$20,000 per year. 86% of their revenue comes from 15% of their members.

## 5. Competent Organization

Many certification organizations lack business-driven management and the associated finance, marketing, and administrative skills. In too many cases, staffing reflects that of an NGO, with a premium placed on public relations, process development and stakeholder convening, and not nearly enough emphasis on the development and implementation of a realistic business model. Applicable criteria should include the following:

- A well-developed business plan which covers, at minimum:
  1. Value generation strategy;
  2. Evidence of industry support (including dominant partner willing to take the lead, and willingness and ability to pay for certification);
  3. Evidence of stakeholder consensus (or process for obtaining such consensus);
  4. Chain of custody description and management plan; and
  5. Bottom-up financial projection, including detailed costing and revenue model.
- An executive director with extensive leadership background in the private sector, preferably with existing commercial certification organizations.
- A chief operating officer with similar private sector experience.
- A standards development officer with ample relevant experience.
- A Board of Directors with leaders from the industry, NGO, commercial certification, and foundation communities.

The criteria and requirements laid out in this section, if systematically applied, should provide a useful “checklist” in the evaluation of a certification-funding request. In the next section we will provide recommendations and mitigation steps that follow from these criteria. In the final chapter, we will apply this checklist of criteria and recommendations to three existing

## REQUIREMENTS OF CERTIFICATION

certification efforts: Energy Star, the Marine Stewardship Council, and the Forest Stewardship Council.

## Recommendations and Mitigations

*It is important to realize that social and environmental value alone will not pull certification efforts through to success-- an initial value must be created and supported by a competent, well-developed system.*

**F**oundations are in a prime role to assure that certification schemes are developed to maximize their potential. They should exercise their leverage over non-profit certification agencies to encourage systems that are efficient, effective, and equitable. As described in the previous chapter, there are a number of factors where foundations can exercise skepticism and strict review. Recommendations and possible mitigations are discussed in this chapter to address these issues and provide alternative strategies.

### Value Creation

To be very clear: Without a solid case for economic value creation, certification efforts are likely to get off the ground very slowly, if at all. Where no such value creation can be compellingly demonstrated, foundations should seriously question the efficacy of their grant investment. When the “value case” is less than clear, it may be a wiser use of foundation funds to focus initially on creating the conditions that make certification possible. This may include:

**Recruitment.** A dominant player is generally required to make the first step in using certification to enhance branding and control market risks (i.e., Starbucks, Unilever, Home Depot, etc.). Foundations have, so far, not taken the lead in recruiting such a player. They should, either through support for targeted industry campaigns that increase market risks and gain the ear of key managers, or through direct high-level communications. This can be a highly influential area to address.

**Incubation of collectives.** Cooperatives/collectives (such as fisheries associations, coffee grower collectives, etc.) play a key role in communicating and enforcing the need for certification and voluntary industry controls to their members. They also can provide opportunities for economies of scale in production, distribution, and marketing, as well as

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providing opportunities for technology transfers and process streamlining. Foundations can play a key role in incubating and supporting such organizations.

**Documentation.** The real impact of existing certification efforts on costs, revenues, and volatility of the affected industries is largely unknown. The empirical evidence may very well exist, but with no documentation of it, this makes it a very hard “sell” to industry players. Foundations should support efforts to develop the hard evidence that makes the economic and environmental case for certification.

**Education.** There are many cases where consumers shift brands very slowly, even at price parity, because they are confused or unaware of the environmental implications of their choice. With a bit of education, consumers will make the right choice. In that case, foundations can help by funding awareness campaigns such as the extremely successful “Give Swordfish a Break” campaign launched by SeaWeb and the NRDC.

## Economic Viability

If the threat to the economic viability of major players in the value chain is real, there is little foundations can do but walk away – or help re-design the certification program. If the threat is perceived but not real, foundations might be able to fund a highly targeted campaign aimed at the highest levels of the most threatened companies. Foundations often have excellent access to the top managerial ranks of large companies, and this could be used to great advantage.

## Supply/Chain of Custody

If the best-case scenarios are not met, foundations should consider concentrating their support initially on market-based initiatives that help shorten the value chain. Using the FSC as an example, these could include:

**Creating a regional supply network.** This is focused on “re-intermediating” the value chain by systematically putting together large institutional/commercial buyers/sellers within a particular region, and coordinating among regional non-profit/private sector interventions. For example, the City of New York has recently announced a FSC purchasing requirement, which is likely to be frustrated by the unavailability of supplies. However, the state of New York has recently certified its DNR lands. A good regional non-profit brokerage could match these producers and buyers before the certified lumber gets “lost” at the mill. In addition, this organization could focus on changing public agency procurement and specifications. Foundation grant support could allow for the feasibility development and eventual start-up of a non-profit regional supply network that could eventually be fee-supported by producers and buyers.

Create a value-added operating platform for medium-sized producers. The idea is to put together a set of value-added services that can help medium-sized producers compete effectively against the industry giants. These services could include:

- Cost-effective, standardized certification of contiguous forest lands with multiple owners
- Aggregation of supply into a reliable, full line of certified forest products
- Aggressive branding and marketing of the line to major customers such as Home Depot
- Optimization of inventory management and delivery logistics

These services could be part of the FSC product offering, or, more likely, by a partnership between FSC and a national distributor/brand developer. One option might be to develop this platform, at least initially, on one large chain of custody such as specialty hardwood for furniture makers in the Southeast. Foundation grant support would allow the development of a detailed business plan covering the organizational design, product design, delivery mechanism, capital requirement, channel strategy, etc.

## Significant Stakeholders Support a Neutral, Third-Party Driven Certification Scheme

Foundations can help greatly in convening the support of key stakeholders around workable certification models. This can include:

- Convening a diverse set of stakeholders for standards development (and providing strong facilitation services)
- Brokering formal endorsements of certification schemes from relevant NGOs, with real ramifications for local chapters
- Insisting on strong firewalls in the design of certification business models
- Being alert to conflicts of interest in the business model design
- Serving as the “honest broker” in conflict resolutions between industry, NGOs, certifiers, and the certification organization itself

## Competent Organization

This is where foundations have the greatest leverage: they can make funding contingent on the development of sound business models and experienced management. Foundations should

collectively agree on the best practices required in both areas, and enforce these systematically. Too little of this has been done in the past.

The following table summarizes possible mitigations foundations can implement.

**TABLE 4:**  
POSSIBLE  
MITIGATIONS  
FOR ISSUES TO  
BE ADDRESSED

Requirements	Issues to be Addressed	Recommendations and Possible Mitigations
Value generation	<ul style="list-style-type: none"> <li>Revenue enhancement <ul style="list-style-type: none"> <li>Price premiums</li> <li>Branding preference</li> </ul> </li> <li>Risk reduction <ul style="list-style-type: none"> <li>Market risk</li> <li>Regulatory risk</li> <li>Image risk</li> <li>Natural resource risk</li> </ul> </li> <li>Cost reduction <ul style="list-style-type: none"> <li>Improved economies of scale</li> <li>Cost-effective access to new technologies/processes</li> <li>Lowered operational complexity</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Recruitment of dominant industry players</li> <li>Incubation of cooperatives/collectives</li> <li>Documentation of empirical evidence of environmental/economic values created</li> <li>Consumer education</li> </ul>
Economic viability	<ul style="list-style-type: none"> <li>Low margin industry</li> <li>Adversarial relationship between certifiers and industry</li> <li>Certification standards are impossible</li> </ul>	<ul style="list-style-type: none"> <li>Certification redesign</li> <li>Education campaign targeted at corporate managers</li> </ul>
Rapid supply development	<ul style="list-style-type: none"> <li>Threatened dominant producers refuse certification</li> <li>Undifferentiated products go through long, complex value chains <ul style="list-style-type: none"> <li>Tracking difficulties</li> <li>All members of chain of custody must be certified</li> <li>Lagging demand</li> </ul> </li> <li>Channel resistance</li> </ul>	<ul style="list-style-type: none"> <li>Support creation of a regional supply network</li> <li>Support creation of a value-added operating platform for medium-sized producers</li> </ul>
Broad support	<ul style="list-style-type: none"> <li>Stakeholder support</li> <li>Neutral and transparent</li> <li>Third-party audits</li> <li>Fee-based</li> </ul>	<ul style="list-style-type: none"> <li>Aid in convening a diverse set of stakeholders for standards development</li> <li>Broker endorsements from relevant NGOs</li> <li>Insist on business model development</li> <li>Be alert to conflicts of interest</li> <li>Conflict resolution</li> </ul>
Competent design	<ul style="list-style-type: none"> <li>Well developed business plan</li> <li>Executive Director and COO with private sector experience</li> <li>Standards development officer</li> <li>Board of Directors with relevant stakeholder leaders</li> </ul>	<ul style="list-style-type: none"> <li>Make funding contingent on sound business models and experienced management</li> <li>Foundation agreement and systematic enforcement of best practices</li> </ul>

## Evaluation of Certification Organizations

**I**n this chapter, three case studies are evaluated. Each case study is evaluated according to the five major requirements described previously. Possible mitigations that may be used are described for areas in which the requirements are not fully met.

### Energy Star

#### Background

Energy star is a government/industry partnership program that makes it easy for businesses and consumers to save money and protect the environment through energy efficiency. Currently, the label appears in over 30 energy using product categories, as well as homes, office buildings, and schools. Energy Star works with their partners to develop and promote their products and to educate consumers about their energy use options.

Energy Star's goal is to transform markets by penetrating them with highly energy efficient products. They work with their business partners to set criteria that are generally 10-20% more stringent than government regulations. By working with the manufactures to develop efficiency specifications, they take what is feasible and add a stretch goal. To qualify, products and buildings generally rank in the top 20-30% for energy performance in their category. The specifications are not static. Continuous evaluative metrics are compiled to measure the penetration in the market. High market penetration reflects market transformation and the specifications are then tightened.

Energy Star has experienced well-documented success. In 2000 alone, reductions of greenhouse gas emissions totaled 35 million metric tons of carbon equivalent (MMTCE) – the same as eliminating the emissions from almost 25 million cars; almost 160,000 tons of nitrogen oxides (NOx) emissions were prevented – equivalent to the emissions from more than 100 power plants; and reductions in emissions averaging about 33 MMTCE per year between now and 2010 have already been secured.

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#### Real and Tangible Value Created

Energy Star exemplifies a best-case scenario in value creation. Participation in the Energy Star certification program translates into significant real and tangible value for both producers and consumers. Producers receive support in promoting and marketing their products to the end consumer, such as connections to utility groups with household incentive programs for energy efficient products. They are given technical support to design more efficient products that result in true environmental benefits and money savings to the customer. Every dollar spent on these partnerships through 2000 has meant savings for partners and consumers of more than \$75 on their energy bills, cumulating in over \$60 million through 2010.

Energy Star products are differentiated by their logo with campaign support from the program for consumer awareness. The Energy Star label has become a nation wide symbol for energy efficiency and is recognized by more than 40 percent of the American public. Americans bought over 120 million Energy Star products in 2000 alone.

#### No Threat to Economic Viability

Energy Star is a voluntary program that attracts partners because of the value it has to offer. Manufacturers must invest in research and development to improve the energy efficiency of their products, but this is very much in line with their traditional operating systems. Energy Star just puts the bar a little higher.

#### Industry Structure Accommodates Supply and Chain of Custody

Energy Star represents a best-case scenario for ramping up supply quickly and competently. They certify branded products that are distributed through a fully coordinated short chain of custody. Value is added through standard, but more efficient technologies, and no change to the standard distribution chain is required. The products are stamped with the Energy Star logo at the manufacturer, allowing little chance for error.

#### Significant Stakeholders Support a Neutral, Third-Party Driven Certification Scheme

This is the one area where there may be room for improvement. Energy Star has successfully established itself as a neutral body gaining support from all significant stakeholders. The program is supported by the United States Environmental Protection Agency and the United States Department of Energy with more than 1,600 manufacturer partnerships. However, Energy Star does not have a third-party driven certification scheme that is fee-based. Audits are performed randomly by Energy Star representatives, but there is no established schedule. They trust that their manufacturers are using the energy efficient technologies they claim to. Further, there is no fee-based mechanism built into the system - Energy Star receives Congressional funding that is contingent on their performance, which is evaluated annually using environmental and economical metrics. As long as Congressional funds are used effectively, Energy Star does not have to be too concerned with the economic sustainability of their business.

#### Competent Organization

We do not know enough to comment on this.

### Conclusion

Energy Star represents a best-case scenario for most certification requirements. Significant value is created with no threat to the economic viability of the industry. The supply and chain of custody are easily certifiable and the goods are easily differentiated. The certification process could be closer to ideal, but in their case, it is not absolutely necessary. Energy Star will likely continue to successfully penetrate the market with increasingly energy efficient products and buildings.

## Forest Stewardship Council (FSC)

### Background

FSC is an international forestry certification body founded by the World Wildlife Fund (WWF). It is regarded by NGOs as the toughest of timber-related certification schemes and, generally, far superior to industry-led schemes such as the SFI. While private and industrial landowners in Europe have rapidly accepted FSC certification, it has grown slowly in Asia and North America. For local marketing and implementation of certification services, it relies on both NGO partners and commercial certification companies.

Although FSC has not been rapidly accepted by the US markets (for reasons outlined below), it has had disproportionately large indirect impact. It has established the “gold standard” for certification in the US and South America, which has put significant pressure on industry to either join or develop an alternative, high-quality standard. Furthermore, the standard was adopted by those industry players who had experienced real market pressure: Home Depot, who was targeted for in-store campaigns by various NGOs, and some Canadian producers who target the European market.

However, the only road to long-term economic sustainability for FSC is to increase its market penetration in the US dramatically. The following dynamics are at work:

### Real and Tangible Value Created

FSC plays in a tough industry. Most industrial timber companies have not earned their cost of capital in the past ten years. Environmental pressure has led to virtual closing of public lands to timber logging in wide swaths of the western landscape. Customers of the industrial companies – builders, paper mills, structural lumber producers – operate in similarly challenging conditions, where operational efficiency is the key factor for success, and where any irregularity in the quality, quantity, and reliability of supply has very serious economic ramifications.

In this environment, price premiums for certified products are generally not an option. To make matters worse, many of the large customer markets experience very little consumer demand for certified wood – it affords the homebuyer, or newspaper reader, very little in direct and tangible benefits. Only one class of industry player, the very large DIY retailers, has seen some benefit in FSC certification – it reduces their image risk, which was targeted by NGOs through in-store campaigns. However, due to Home Depot’s dependence on the very large

timber companies for their unmatched product spectrum, pricing, and reliability of supply, the major producers so far have been able to ignore Home Depot's request for FSC certification.

In the absence of compelling value creation and relatively little demand, FSC has struggled. Its major asset at this point is its relationship with Home Depot, Lowe's, and Ikea. This can be a platform to build from – only if the supply issues can be fixed.

#### No Threat to Economic Viability

Whether real or perceived, industrial timber companies see FSC as a threat to their economic viability. Without assurance of consistency in the application and maintenance of standards, and without a certain guaranteed measure of protection from the local NGOs, managers feel that FSC certification could literally put them out of business – especially in the western US.

#### Industry Structure Accommodates Supply and Chain of Custody

The current platform upon which FSC has to build – the combined market power of Home Depot, Lowe's, and Ikea – is threatened by FSC's inability to develop a reliable spectrum and volume of supply. A vicious circle is at play: the aforementioned major timber companies have too many reasons not to certify. Because only the second-tier producers certify their land, mills cannot deliver product at the variety and volume required by major retailers such as Home Depot, or by builders such as Kauffman and Broad. Mills have to sell these certified boards to specialty users – furniture makers, smaller retailers, etc., which is far more expensive for them to arrange. It is thus very tempting to simply sell the boards as regular lumber, and, in fact, that is precisely what happens - 80% of the certified logs get “lost” somewhere in the value chain. The fact that the value chain is long, complex, and almost completely disintermediated does not help either.

Significant Stakeholders Support a Neutral, Third-Party Driven Certification Scheme  
Trouble here, as well. The major environmental organizations support FSC, in principle. However, on a number of occasions, the local chapters of these same organizations have used the certification of a controversial timber tract as the occasion for a major campaign. This has led to great concern among landowners to whom FSC has been marketed as a way to prove to the world the sustainability of their practices, with all the associated public image benefits.

In addition, many of the FSC certifiers are not neutral. In some cases, the FSC contracts with local NGOs to coordinate certification - sometimes with their own foresters, sometimes with contractors. These NGOs often have been at odds with the local industrial timber operators for years. While the FSC is now moving away from this model, it has hurt their growth badly.

#### Competent Organization

We don't know enough to comment.

#### Conclusion

The survival of FSC as the gold standard of forest certification is very important. However, there are serious structural issues that must be overcome. In the immediate future, foundations should explore ways to:

- Help FSC create sufficient supply through regional supply networks in order to strengthen the Home Depot/Lowe's/Ikea platform
- Create value-added platforms for FSC producers
- Review FSC's certification delivery system
- Create additional demand from non-commodity customer segments (e.g., furniture makers)

Until these issues have been addressed at least to some degree, foundations should be skeptical of any funding request that takes FSC in additional programmatic directions.

## Marine Stewardship Council (MSC)

### Background

The Marine Stewardship Council (MSC) was created in 1996 by Unilever, one of the world's largest buyers of frozen fish, and the World Wildlife Fund (WWF). It is now a fully independent, global charitable organization with its international headquarters in London.

The MSC has developed a labeling scheme for sustainable seafood products that provides incentives for fisheries to be managed sustainably. Under the MSC Certification Program a fishery is assessed against the MSC Fishery Standard (the MSC Principles and Criteria for Sustainable Fishing). The certification, performed by independent, accredited certifiers, lasts for 5 years with an annual review by the certifier. Once a fishery has been certified, there are strict guidelines for use of the MSC Logo. Use of the MSC Logo on fishery products is only permitted where there has been independent verification that the product originated from an MSC certified fishery.

The MSC promotes equal access to its certification program irrespective of the size, scale, location type or intensity of the fishery. Further, the MSC recognizes the need to observe and respect the long-term interests of people dependent on fishing for food and livelihood.

As the first real attempt to certify entire fisheries and their supply chain (6 fisheries are currently certified with approximately 20 others in the process of certification evaluation), MSC represents a real opportunity for the long-term sustainability of this industry.

### Real and Tangible Value Created

MSC represents what can be viewed as a medium-case scenario in value creation. The need to establish a set of standards for global fisheries is evident by the rapid decline in fishery stocks worldwide. MSC standards address this real concern through a carefully designed and tested set of fisheries management standards and conditions, supported by a focused marketing and communications campaign across the supply chain. The benefits, as described by MSC, are clearly desirable for both producers and consumers:

- Evidence and recognition of good fisheries management



- Improved management of fisheries
- Preferred supplier status
- Potential for improved returns
- New markets
- Sustainable, quality products available to consumers

However, the extent of the real and tangible value created by MSC is not yet clear. While the cost of certifying a fishery is relatively high (\$20K to \$100K or more depending on the size of the fishery), these costs may very well be offset by the opportunities certification creates through risk reduction with the retention of market share and avoidance of regulations, as well as opportunities for revenue enhancement through a competitive edge over farmed fish, increased market share, premium pricing, and the improved perception MSC branding has with consumers. However, as of now, no real empirical evidence exists to support this.

Fisheries typically choose to pursue MSC certification solely when there are clear market signals to do so. An early, key signal for MSC certification came when one of the largest buyers of seafood products, Unilever, announced that their suppliers must be 100% certified by 2005. Another signal came from increasing demand in European markets, which has created incentives for a number of fisheries to seek certification. There are now more than 30 fisheries in the pipeline for certification.

In addition to economic value potential, fisheries going through the process of certification receive a great deal of support and guidance in the development of comprehensive fisheries management plans. MSC has spent considerable time marketing MSC certified products to major buyers and promoting MSC certified fisheries in the marketplace.

Finally, sound management planning provides a sort of insurance against future losses and certification itself may help to calm price fluctuations in an extremely volatile market.

Overall demand for sustainably caught fish is still in the latent stages, and MSC has its work cut out for it to both promote this demand into action, and certify enough fisheries to satisfy this demand with a variety of quality MSC certified products.

#### No Threat to Economic Viability

Fisheries are a high fixed cost, volume driven industry. Certification imposes fisheries management practices that may reduce resource risk by setting sustainable catch quotas to ensure healthy fish stocks. However, at the same time, these quotas can dramatically limit the available catch and, subsequently, revenue. This may threaten the economic viability of some fisheries. In this case, fisheries will only agree to certification if the resource or regulatory risk is great enough, or if one of their dominant buyers requires it. This is not threatening to the MSC as a whole, since the dominant players in the value chain are in the wholesale sector, whose viability is not fundamentally threatened by MSC.

#### Industry Structure Accommodates Supply and Chain of Custody

While this industry structure can be quite complicated, particularly at the consumer end, establishing a clear, coordinated value chain and promoting MSC throughout is possible. A major problem lies in the ability to certify enough fisheries and open enough channels for distribution, making the proper “mix” of MSC products available to the market. Restaurant buyers seeking to purchase the right variety of products may find it difficult to specially source certified salmon or whitefish while maintaining additional contracts with their regular suppliers.

MSC has been helped by the existence of a dominant market player, Unilever, coordinating the demand and supply of a few major species, whitefish and salmon. Unilever has given MSC a much-needed early jump on establishing a channel and demand for certain MSC fisheries. Also helpful has been the large British supermarket chain, Sainsbury's, demand for certified tuna. Another more recent development has been the partnership with the natural foods minded supermarket, Wholefoods, where a campaign was launched to educate consumers about their food fish choices. The challenge ahead is to encourage additional major players to demand MSC and at the same time to certify enough fisheries such that both the volume and variety of products can be obtained by a majority of smaller buyers.

#### Significant Stakeholders Support a Neutral, Third-Party Driven Certification Scheme

The MSC, through a long and exhaustive development process, has set up a fee-based, third-party certification delivery system that can be seen to function independent of any one entity. Unfortunately, the fact that MSC was co-initiated by a major market player (Unilever) in collaboration with the WWF has not been wholly appreciated by all players and they do not yet have the support of all the key stakeholders. MSC has found some resistance from the NGO community after having spent considerable time working with particular fisheries on certification. This type of adversity tarnishes the entire MSC process and program and creates difficulty from a long-term sustainability standpoint. MSC has to focus more of their efforts on responding to broad concerns and securing the support of these organizations.

#### Competent Organization

We don't know enough to comment.

#### Conclusion

The Marine Stewardship Council represents a certification program with considerable promise in terms of achieving its stated objectives. However, there are a good deal of challenges and hurdles that foundations might help with:

- MSC must increase its portfolio of fisheries to ensure the proper volume and variety of supply to compete in the market (particularly fisheries supplying top seafood demand).
- Maintaining support among all stakeholders is a constant challenge – there is the need for improved dialogue.
- There is a need to promote the model more effectively with additional major buyers, particularly among the restaurant industry, where a majority of seafood is ultimately

consumed. A targeted industry campaign that increases market risks for large restaurant chains could be highly influential in increasing MSC's outreach.

Foundations should cautiously explore these issues with MSC and certifying bodies with similar challenges.

## Conclusion

Certification should be defined as a set of consistent standards and practices whose application by industry simultaneously creates environmental/social and net economic benefits. In the long term, sustainable certification efforts will require broad market acceptance of these standards. The strategic trade-offs required to achieve this acceptance can vary greatly among industry sectors and regions. Funders must be clear about these trade-offs, and manage their grant investment accordingly.

In the long run, certification can only succeed if it creates economic value and has significant market penetration. Economic value can be created by helping major industrial actors enhance their revenue, reduce their operational risk, and/or reduce their cost. These benefits must not accrue to all, but to at least one of the major stakeholders in the industry value chain – this could be a dominant supplier, an industrial buyer, or the end consumer. Certification funders should demand extensive and quantitative documentation of how the economic value will be realized.

Implementation of the certification program requires very careful planning and management. Coordination of supply and demand, development of chain of custody certification, management of NGO stakeholders, and developing a sustainable income stream for the certification body are challenges that most schemes have struggled with. Funders should require a detailed operational approach to these issues.

Certain industry sectors do not lend themselves easily to a certification approach. In high volume, low margin commodity industries, major players easily perceive their very viability as threatened, and will actively block certification schemes. Complicated value chains can make certification of input materials difficult. The indifference of some industrial consumers can echo throughout an entire industry. Funders need to approach these sectors with caution and demand extensive documentation of how these hurdles are to be overcome.

In many instances, certification is the most efficient tool to develop and enforce sustainable industry practices. It is not a panacea. Funders are in a key position to enforce its focused and carefully planned application.

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