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Agricultural Outlook Forum
U.S. Department of Agriculture

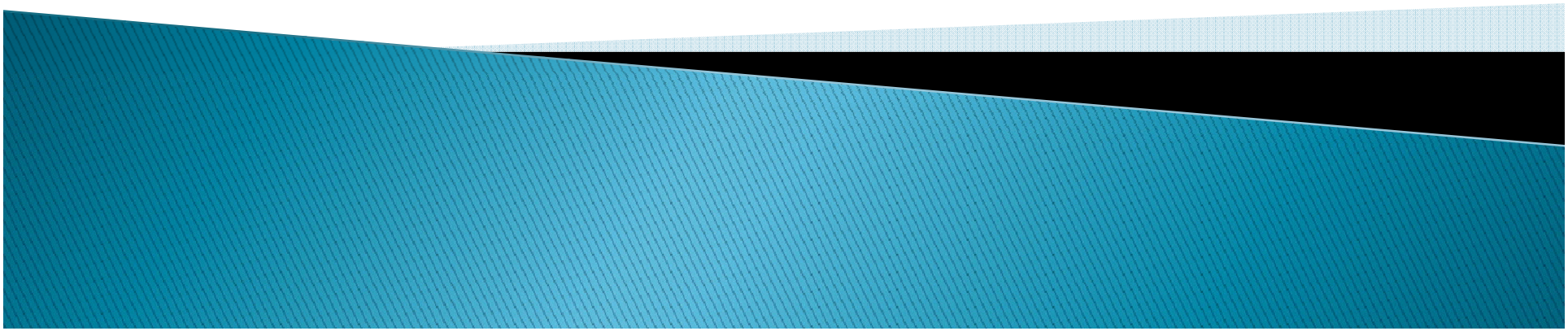
Presented: February 18-19, 2010

Global Economic Impacts of Sustainable Agriculture Certification

Donald Grubba

Global Economic Impacts of Sustainable Agricultural Certification

18 – 19 February 2010
Washington DC

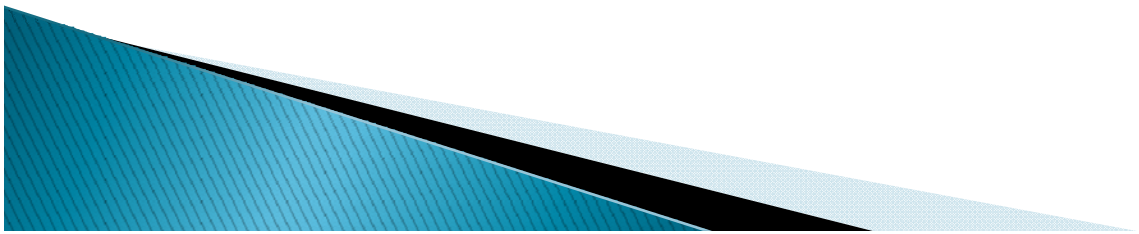


Potential Impacts to Trade from Certification Systems

- Restrictions of Use
- Local and International Impacts
- Indirect Effects
- Import Restrictions
- Tiered Value of a Single Commodity
- Commodity price fluctuation and distortion.

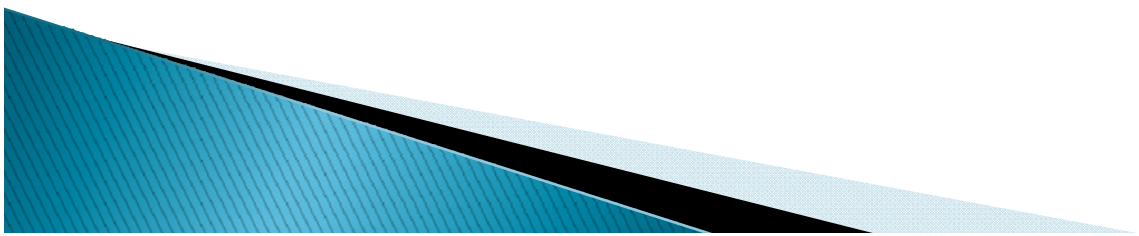
Key Influencers of Certification Programs

- Regional/National Initiatives
- NGO/Consumer Demands
- Market opportunities
- Developing Countries



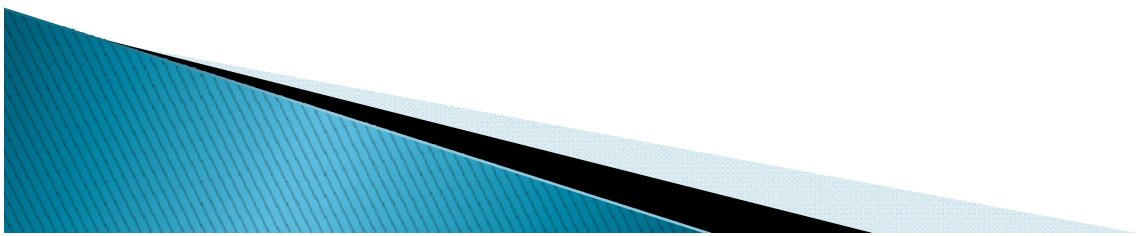
Types of Certification Systems

- **Technical compliance programs**
  - Government or Industry Driven
  - EU Fuel Quality Directive
- **Regulatory schemes**
  - EU Renewable Energy Directive (RED)
  - EPA Sustainability Criteria
- **Market driven Schemes (3rd Party)**
  - Roundtable on Sustainable Palm Oil (RSPO)
  - Roundtable on Responsible Soy (RTRS)
- **Common features?**
  - Sustainability Standards (Environmental and Social)



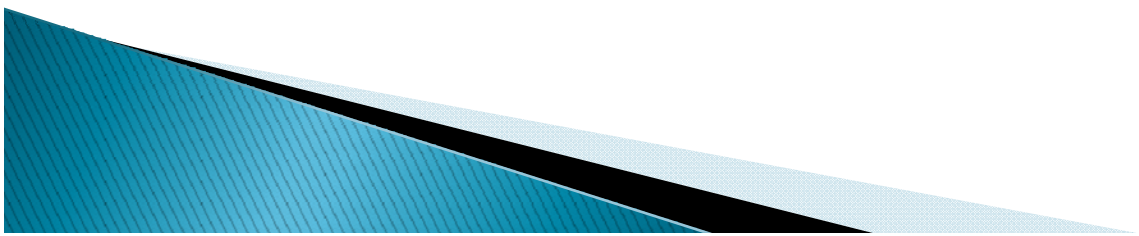
Sources of Certification Systems

- **International Standards for Sustainable Development.**
  - Ex UNEP
- **Country or Regional Standards**
  - Basis “in country agriculture”
  - Intentions vs. Outcome
  - “Broad spectrum” solution.
    - Ex. “Sustainable Biomass”
  - “Greater Good” or Level Field Intent.
  - Multiple hurdles in market for single crop.



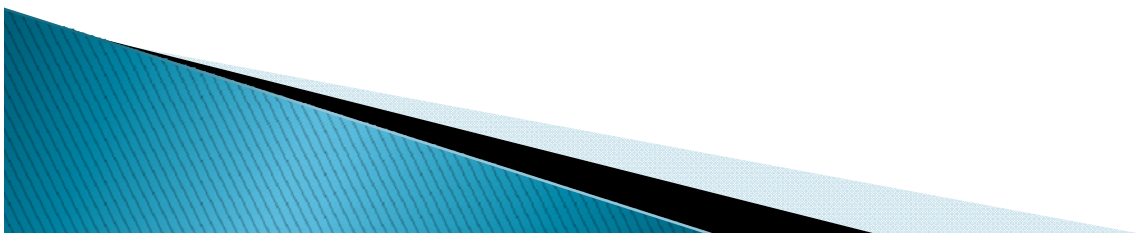
Sources of Certification Systems

- **Industry and 3rd party Standards**
  - Can be general or specific…or both
    - Crop
    - Country and/or International
  - Difficult for a Country/Regulatory Agency to pick up as own.
  - More relevant than Country/Regional standards?
    - Applicability to agricultural commodity.
  - Always the question of Industry Influence.



What Do Certifications Cover?

- Transparency of actions,
- Compliance to law
- Social and environmental compliance
- Best Practices in Agricultural Management
- Supply chains secure; volumes independently verified.
- Continuous Improvement



Aspects of Certification Programs Impacting Trade

- **Sourcing from high biodiversity areas**
  - Creatures on, above and below the ground.
  - Plants
- **Social standards**
  - Woman and Child Rights and Protection
- **Land use**
  - Tree canopy…what is a forest?
  - Soil type.
  - In the end you are looking at the carbon density of the land.
- **Greenhouse Gas Performance Criteria**
  - Not only processing and transport of crop.
  - Land use, fertilizer, effluent

Example: Third Party Multi-stakeholder Roundtable on Sustainable Palm Oil (RSPO)

- **Goal**
  - deliver certified sustainable palm oil to the world markets.
- **Two Levels of Certification Required**
  - Certification of Growing Areas
  - Certification of Supply Chains.
- **Certification**
  - Internationally recognized independent certification bodies.
- **Recommendations "vetted"**
  - Audit Review Panel of RSPO.

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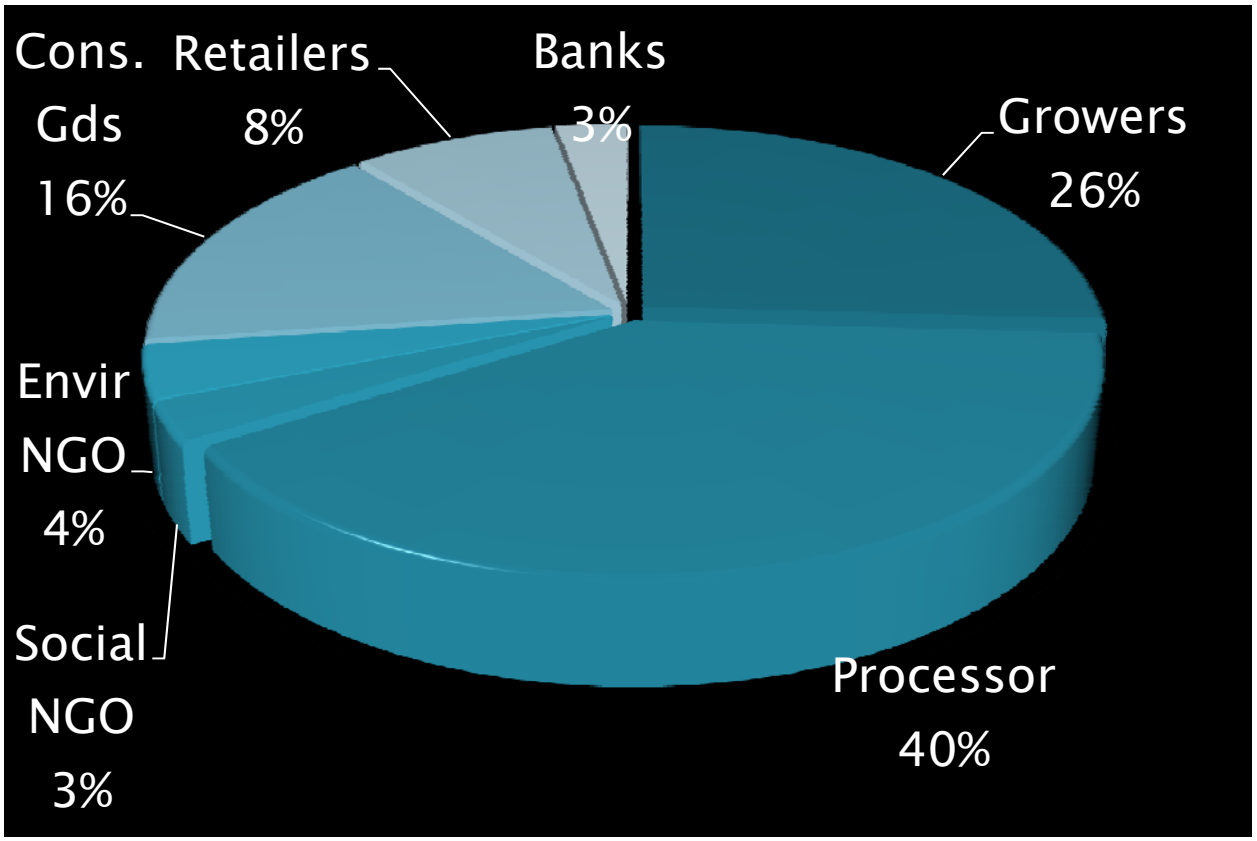
Loders Croklaan

What is certified sustainable palm oil?

- Defines sustainable palm oil production
- Basis for certification standard
- 39 Criteria to support these principles
- 112 Auditable Indices

RSPO

Composition of the RSPO

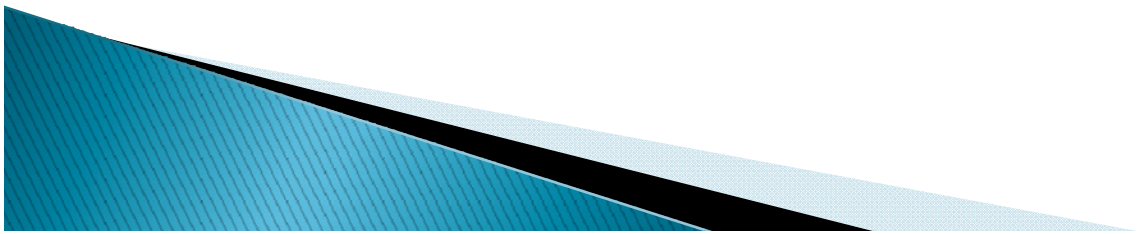


>300 Ordinary Members
September 2009

IOI GROUP
Golden Hope
Rainforest Alliance
Sawit Watch
Oxfam
HSBC
Standard Chartered
Sime Darby
WWF
THE BODY SHOP
MPOA
Unilever
MIGROS
Rabobank
IFC International Finance Corporation
GAPKI
Sainsbury's
Try something new today

Other Important 3rd Party Certification Initiatives

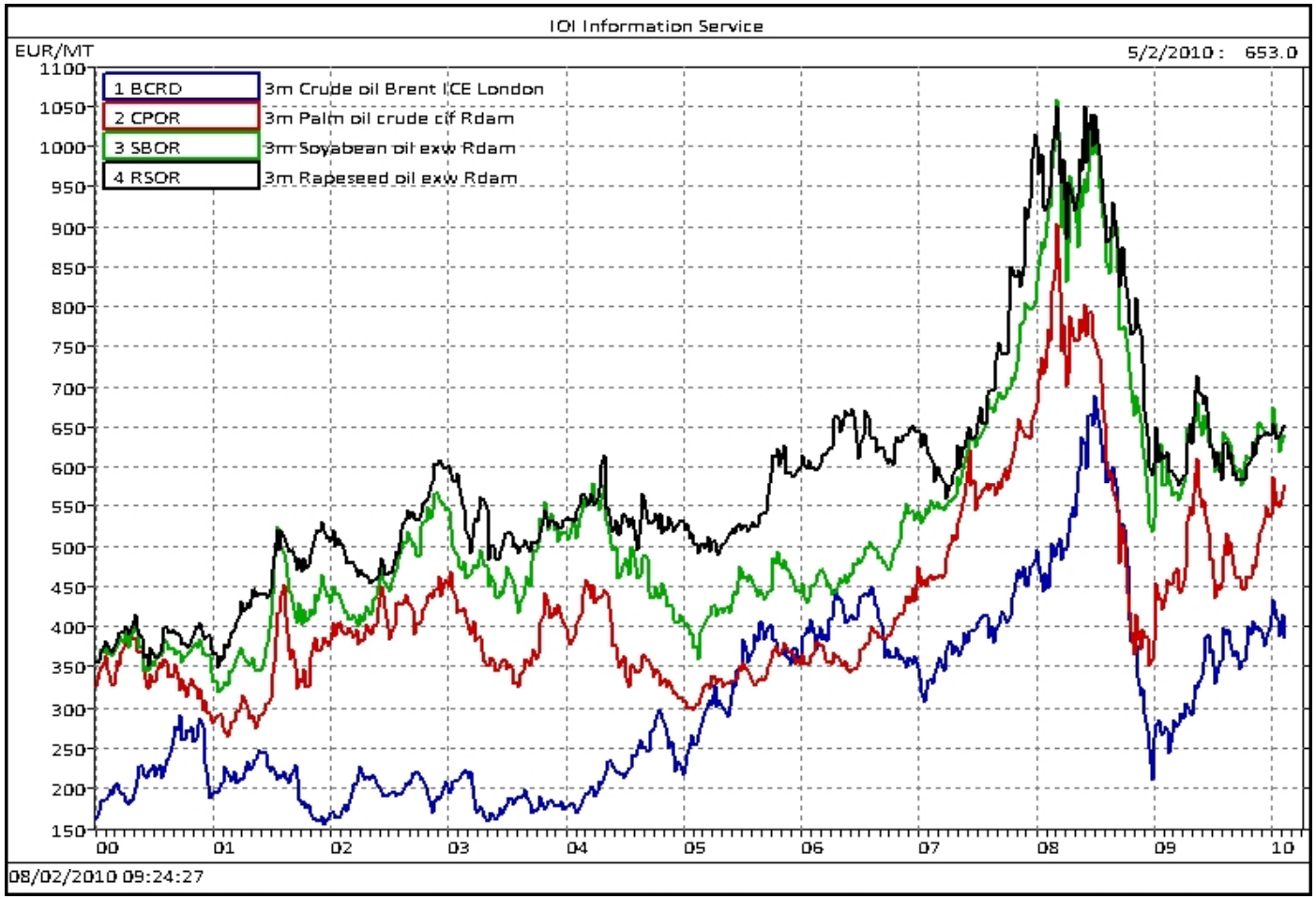
- Forest Stewardship Council (FSC) – Timber
- Marine Stewardship Council (MSC) – Fish
- Better Sugar Cane Initiative
- Roundtable on Responsible Soy
- Roundtable on Sustainable Bio-fuels



Impacts: An Example.

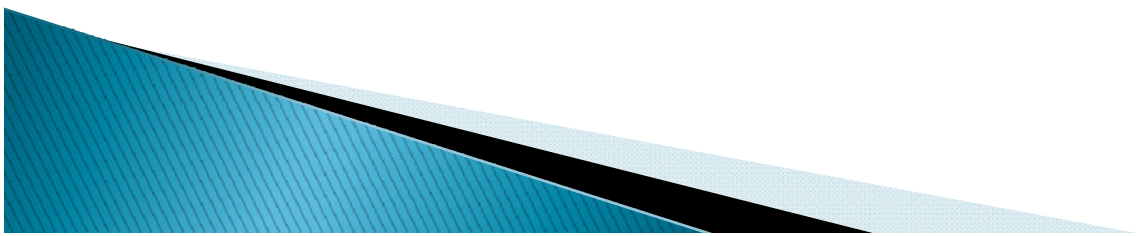
- **Renewable Energy Directive (RED) 2003**
  - 2006 – 2009 period in EU
  - Drives Rapeseed Oil Use in fuel/energy.
    - Availability and performance.
    - Sustainability Certification not required
  - Palm and Soy as a "backfill" for food.
    - Technical barriers blocked or restricted soy/palm for fuel
  - Price run up for RSO, compensated by credits
  - Disappearance and Price for RSO = Impact on Soy Palm
  - "Gaps" in the regulatory approach
    - Opening for B99 abuses.
    - Disruption of pricing for bio-fuels in EU

EU Vegetable Oil Price Movements



What could be on the horizon?

- **European Renewable Energy Directive**
  - Impact across a number of agricultural products and biomass in 2011.
- **Rapeseed qualification essentially "locked"**
  - Sustainability and GHG fronts.
- **Direct impact to RSO disappearance again.**
  - Impact to Soy and Palm?
  - Perhaps creates more space in Food or…??
- **RED allows for recognition of 3rd party initiatives**

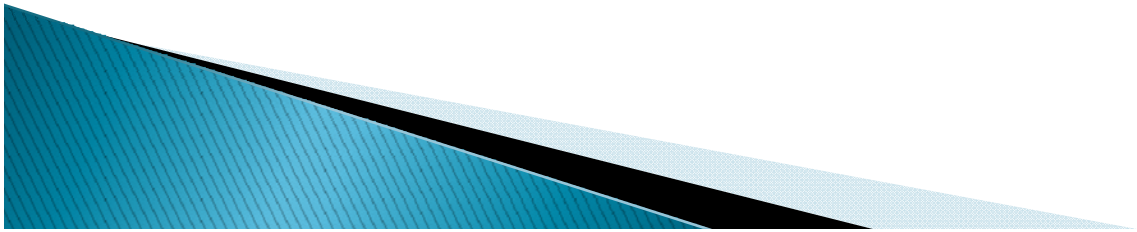


What could be on the horizon?

- **Higher prices in EU for RSO due to disappearance?**
- **Imports of Palm and Soy**
  - Certification not mandated for food,
  - Market demands will require sustainable certification
  - Timing differences
- **Premiums for Certified Agricultural Commodities**
  - RSPO (9 – 150 USD/MT) as an example
  - Would apply to food and bio-energy.
- **EPA Sustainability Requirements for Biomass**
  - Perhaps following EC model?

Key Issues

- **Sustainability Certification as Trade barrier.**
  - Ex. Agreement on Technical Barriers to Trade (TBT) or WTO.
- **Driving Environmental and Social Change Without Creating Barriers**
  - Utilize global perspective
  - Use global multi-stakeholder standards
- **Challenge in setting standards that are fair to all regions of the world.**



Is Harmonization Even Possible?

- **Likely No to Single Standard. "One Size Doesn't Fit All"**
  - Crop differences, Growing area differences, social vs. environmental importance.
- **Possible to accept 3rd party within Regional Schemes.**
  - Takes much time and effort
  - But does include all stakeholders and countries
  - Watch European Commissions Renewable Energy Directive
- **Developed vs. Developing Nations**
  - Copenhagen Highlighted the Difficulties

Where to look next?

- China
  - Sustainability (coming)
    - Own standards on Import side
  - Direct Regulatory Standards
    - Health or Quality
  - “Indirect “ Market Driven Sustainability Standards
    - Retailers and “A” Brands
- USA
  - California: Closer to Brussels than Washington, DC.
  - EPA Sustainability Requirements.
- EU
  - RED Implementation.
  - Extension of RED type criteria to Food/Non Food Uses?
  - Market Driven “head to heart” connection