Certification: differentiation of commodities or commoditization of sustainability?
By Luiz Fernando do Amaral

Commodities are undifferentiated products, usually traded in stock exchanges at international prices. Oil, sugar, iron ore and soybean are just a few examples. Is it possible to establish differences between identical products based on the way they were produced? Who has never faced a label attached to a product, claiming it was produced sustainably? But do those labels represent isolated cases or can they in fact promote better production practices within an entire industry on a global level?

There are "eco labels" for many different products: lamps, refrigerators, clothing, packaging. Currently, major agricultural commodities are at the center of this debate. Certification initiatives for soybean, pulp, sugar, biofuels and palm oil are just some examples. More recently, these initiatives gained momentum because of legislation introduced in Europe – the renewable energy directive, establishing that all biofuels consumed in the EU, and raw materials used to produce them, must be certified by 2011.

The most recognized initiatives for achieving sustainability certification are developed in a multi-stakeholder environment that unites industry, producers, NGOs and intermediate consumers. The objective is to jointly establish a standard for best production practices. Several such initiatives are in the process of developing sustainability certifications standards for biofuels and other agriculture-based products.

Among the best-known examples of these roundtables discussions are those focused on sugarcane (Bonsucro, formerly Better Sugarcane Initiative, or BSI), soybeans (Round Table on Renewable Soy, or RTRS), palm oil (Roundtable on Sustainable Palm Oil, or RSPO), biofuels (Roundtable on Sustainable Biofuels, or RSB) and forestry products (Forest Stewardship Council, or FSC). It is important to clarify that these schemes focus on production practices and, therefore, differ from the well-known ISO 9000 and ISO 14000 standards, which are management standards. They are also different from organic or non-GMO certification schemes, that reflect the characteristics of the end product.

There are arguments for and against sustainability labels. Advocates in favor of these labels argue that they promote the proliferation of sustainable practices in a sector, since there are incentives for good producers. With time, more and more agents will join, promoting generalized improvements in a given sector.

But critics believe these labels are focused on niche markets and argue that only a handful of producers, which already have better practices in place to begin with, would go on to pursue certification. Also, because of the extensive bureaucracy and complexity involved in obtaining a certification seal, small producers, or those that would in fact need to improve, would simply not bother. The conclusion would be that little would change and the status quo would be maintained.

Both arguments make sense and in practice, the end result is a combination of both viewpoints. It all depends on a series of factors, such as the complexity of the standards and even the characteristics of the production and distribution chains. This last point is crucial because it defines the best implementation model for those initiatives. The strategy can be based on a business-to-business (B2B) or a business-to-consumer (B2C) model. In other words, certification schemes can either focus on the relationship between companies or attempt to "seduce" the end consumer.

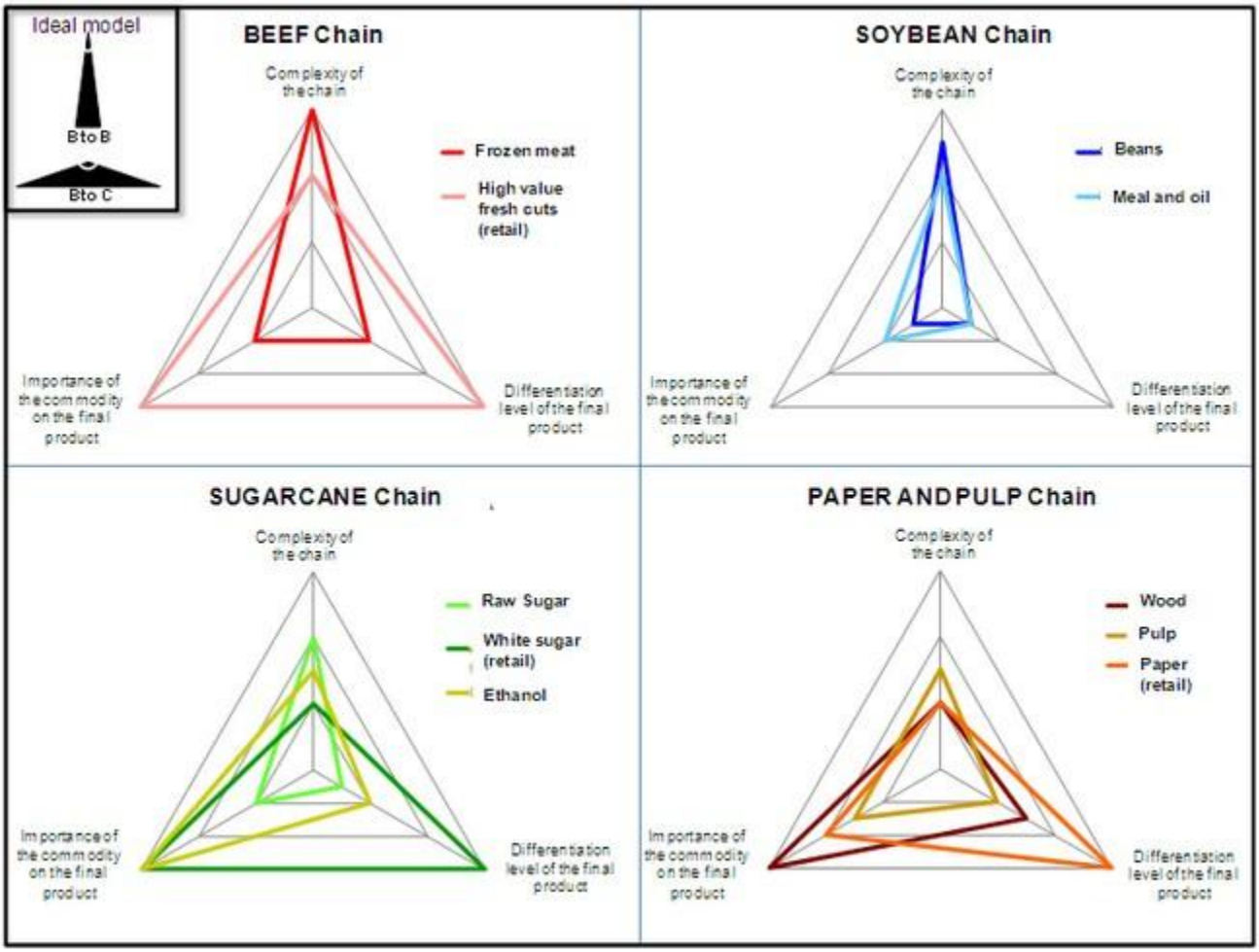
Characteristics of the production and distribution chains are also fundamental. Chains that are (a) short, (b) composed by few large companies and (c) where the feedstock is an important part of the final product, tend to work better with models that aim to impact the end consumer's decisions (B2C). On the other hand, chains that are (a) complex, (b) with several smaller agents and (c) where the feedstock is just one of many inputs on the final product, are better adapted to B2B models.

There is a tendency for sustainability certification schemes for commodities to fall under the second model (B2B). The end consumer will hardly impact the success of those initiatives. It is difficult to assume that consumers will be swayed by a label on a cookie claiming that "the soybean – that was processed into soy meal, that was used to feed the chickens, that produced the egg, that was used in this cookie – was produced in a sustainable manner." Someone who is seriously concerned about sustainability would ask: but what about the wheat flour, the milk, the plastic on the package and the energy used to produce the cookie?

Because of strategic choices or pressures from society, the real driving force behind agricultural certification initiatives is the consuming industry. This means that those schemes do not need to be elaborated in order to "seduce" end consumers, nor should they have to be.

Even within the agricultural sector, there are differences. For example, the beef sector has a production chain that is more complex than that of the pulp and paper industry. Within a sector there are also differences. A label for refined sugar, which goes directly from the mill to the supermarket, has the potential to impact the end consumer's decision, but a label for raw sugar, which is exported in bulk in large ships and used in other products, does not.

The figure below is a graphic representation of various chains of agricultural products. They differ on several characteristics, namely: (a) complexity of the production-consumption chain (number of links); (b) level of differentiation of the final product and (c) importance of the agricultural commodity in the composition of the final product. The sharper the top angle of the triangle, the less likely it would be for that certification to adopt a BtoC model or, in other words, to focus on the consumer. It is interesting to see that the majority of agriculture commodity chains fall into that category.



The best way to face all these challenges would be to create different labels and requirements within the same certification scheme. Much like sports competitions, there could be bronze, silver and gold labels. In sports, generally speaking, the public does not value the "red medal". However, athletes do as they identify it as a way to reach the "gold medal". The same logic can be applied to sustainability labels for agricommodities.

Label requirements that are more flexible and carry fewer demands could be an incentive for companies that, otherwise, would not participate in the process. Obviously, there will always be a limited number of "gold medal champions" achieving higher levels of requirements and only those would be in the spotlight. The table below summarizes those models. A "silver" label would be somewhere between gold and bronze criteria.

GOLD LABEL *Differentiation of commodities*	BRONZE LABEL *Commoditization of sustainability*
•Wide range of sustainability issues	•Focused on few, important sustainability issues
•Limited supply and demand for certified products	•Global applicability
•Eventual price premium	•*"Entry ticket"* (no premium)
•Best performance levels	•Normal performance levels
•Reduced number of certified producers	•Wide number of certified producers
•Complex verification process and very low risk of non-conformities	•Lighter verification process and higher risk of non-conformities
•Focused on bigger companies with complex management systems	•Accessibility for smaller companies and producers with lower levels of management technologies
• Very trustful traceability system	• Simplified traceability system
•Continuous improvement: important	•Continuous improvement: core part of the system

Models like this exist in other sectors, but not within major agricultural roundtables. In order for that to happen, it is important to align all stakeholder interests and positions. Producers must recognize that certification is not the end of the quest for better sustainability practices. They must also accept that only the "champions," those with top-of-the-class sustainability practices, might get premium prices. NGOs need to understand the objectives and they must not sabotage initiatives with this model (those that have the very best practices will not be the only ones certified).

End use companies must also recognize that buying certified products is part of their corporate strategy, but that will not necessarily generate marketing advantages. If there is commercial interest to seduce the consumer, companies will have to focus on the "gold label" and, therefore, consider paying producers premium prices. This would be the best way to achieve the intended results. A "gold" label would differentiate commodities, while a "bronze" seal would commoditize sustainability practices.

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