Fairer Trade, Better Business: A Policy Brief on Global Supply Chains

By the University of Warwick’s Global Governance and International Development GRPs
1. Introduction to the Issues

Global supply chains mean we have access to a range of goods and services that would have been unthinkable 50 years ago. But these supply chains also create social and environmental problems. For instance:

- How do we protect workers, often in countries on the other side of the world, from exploitation and unacceptable working conditions?
- How do we ensure that products are produced and transported in a way that minimizes negative environmental impacts?
- How can we obtain accurate information about what is happening when supply chains are so long and complex?
- How do we reconcile demand for a constant stock of products at low prices with social and environmental protection?

Scholars at Warwick are studying innovative mechanisms that attempt to tackle the social and environmental impacts of supply chains in a way that recognises the need to address the issues globally. Their work provides valuable insights for policymakers into the potential and limitations of different initiatives, as well as identifying new ideas for tackling the underlying problems. Here are some examples.

2. Product Certification

‘Private’ or non-State certification schemes can be used to regulate social and environmental issues in global supply-chains. Schemes studied by Warwick scholars include those that focus on particular commodities like palm oil, coffee, sugar and biofuel, as well as those that cut-across different commodities (e.g. Fairtrade).1

Certification processes offer possibilities for major retailers and manufacturers to adopt recognised social and environmental standards in their supply-chains and for independent third parties to be involved in standard-setting and monitoring. But there is a danger that these schemes draw resources and attention away from more comprehensive State regulatory efforts, and may not tackle deeper structural problems faced by marginalised and disadvantaged groups.2 It is therefore important to assess carefully the problems and limitations with certification processes, which include:

- **Does a proliferation of standards and schemes cause problems?** There are many different certification schemes for many products. Competition can stimulate innovation and increase a scheme’s need to prove its impact. But multiple standards can be confusing for consumers and companies themselves and lead to overlaps and duplication of efforts.3 In cases where businesses can choose between certification schemes (e.g. in the EU biofuel market), this can lead to a ‘race to the bottom’ and weaker standards and auditing practices as schemes attempt to attract more custom.4


- **What can certification achieve?** Even the most well-known certification standards reach only a small fraction of world trade in many goods (e.g. Fairtrade covers approximately 1.4million farmers and workers globally). Increased prices associated with meaningful certification standards and the fact that adoption is voluntary mean that certification schemes are unlikely to impact on the vast majority of the world’s workers in the foreseeable future.6
- **Is the product pure?** To make it easier to deal with the complexities of international commodity trade, in many cases ‘certified’ and ‘non-certified’ commodities are mixed together. A product with a label on it does not always contain palm oil, sugar, etc. that has been responsibly produced. To what extent can consumers trust these schemes? How much effort should retailers and manufacturers make actively to manage their own supply-chains?7
- **Is audit and scrutiny effective?** The transparency, inclusiveness and accountability of different certification schemes vary, but in general there tends to be much more focus on the democratic character of how the standard is set rather than how it is audited, how violations are dealt with, and how scrutiny is maintained.8
- **Does certification address the wider structural problems which are faced by many disadvantaged and marginalised groups?** For instance, a disproportionate number of women in developing countries work in the informal sector and are often not covered by certification schemes.9

Recommendations for building on current efforts include:

1. **Move beyond top-down certification:** There needs to be greater engagement between auditors and affected stakeholders aware of human rights and labour standards abuses (e.g. trade unions, civil society associations).10 Providing public access to audits for legitimate enquiries would help to hold certification schemes to account.11

2. **Stronger legal obligations:** For instance, put in place legal requirements for auditors to report violations of national law to relevant State authorities.12

3. **More co-ordination between different schemes** – There are increasing efforts to co-ordinate between different certification schemes. But these efforts need to be increased for instance through the creation of appropriate common base standards and mutual recognition of certification audits.13

4. **More focus on local context:** Private regulation has sought to demonstrate its legitimacy through an increasing ‘standardization of standards’, “certification of certifiers” and calls for demonstrating impact. Yet, Western norms of standardization often stand in conflict with the need for flexibility to implement standards in a meaningful way.14

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**Bonsucro** – Ben Richardson, an academic from Warwick, has worked with the multi-stakeholder organisation Bonsucro, which certifies sustainably produced sugarcane. He was one of the advisers when Bonsucro revised their sustainability standard and recommended that criteria around maximum working hours be introduced and clearer guidance given to the auditors about how to apply the standard to subcontracted workers. Bonsucro now certifies almost 4% of global sugarcane production.

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3. Certification processes offer possibilities for major retailers and manufacturers to adopt recognised social and environmental standards in their supply-chains and for independent third parties to be involved in standard-setting and monitoring. But there is a danger that these schemes draw resources and attention away from more comprehensive State regulatory efforts, and may not tackle deeper structural problems faced by marginalised and disadvantaged groups.2 It is therefore important to assess carefully the problems and limitations with certification processes, which include:2

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5. Is the product pure? To make it easier to deal with the complexities of international commodity trade, in many cases ‘certified’ and ‘non-certified’ commodities are mixed together. A product with a label on it does not always contain palm oil, sugar, etc. that has been responsibly produced. To what extent can consumers trust these schemes? How much effort should retailers and manufacturers make actively to manage their own supply-chains.7

6. Is audit and scrutiny effective? The transparency, inclusiveness and accountability of different certification schemes vary, but in general there tends to be much more focus on the democratic character of how the standard is set rather than how it is audited, how violations are dealt with, and how scrutiny is maintained.8

7. Does certification address the wider structural problems which are faced by many disadvantaged and marginalised groups? For instance, a disproportionate number of women in developing countries work in the informal sector and are often not covered by certification schemes.9


9. Recommendations for building on current efforts include:

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3. Corporate Reporting on Social and Environmental Performance

Increasingly corporations are required by governments to report on their own social and environmental performance across their global operations. These reporting processes are often undertaken as part of broader corporate social responsibility programmes. They can help corporations to create ownership of social and environmental issues and potentially allow stakeholders to make more informed decisions about the social and environmental impacts of different supply chains. But these reporting processes can also be seen as no more than advertising ‘puff’.

Warwick scholars have been particularly interested in the human rights reporting processes adopted by multinational corporations. The UN Guiding Principles on Business and Human Rights have stimulated a great deal of human rights reporting internationally. In the UK, changes to the Companies Act 2006, which came into force in October 2013, now require larger UK companies to report on their human rights impacts.

Investigations by Warwick scholars have identified a number of problems with current practice:

- Reporting methodologies and results are not normally made public so there is no way of scrutinizing the vast majority of practice.
- Where reports are made public, human rights reporting by companies is generally of poor quality and has serious methodological limitations.
- There is little consistency in the way companies design their reporting processes and what they report on.\(^{15}\)

Recommendations to enhance this practice in the future include:

1. **More detailed guidance** that stipulates what are the required elements of any reporting process; sets out detailed indicators and benchmarks by which to measure and compare performance; and requires meaningful stakeholder participation and independent verification of performance.

2. **Routine transparency** so that the presumption is that reports and methodologies for reporting processes are made publicly available.

3. **Independent monitoring and review** of corporate reporting by a credible independent body (e.g. the UN Working Group on the issue of human rights and transnational corporations and other business enterprises).\(^{16}\)

4. International Trade Agreements

International trade agreements signed by the European Union, as well as most other advanced industrial economies now include provisions which strive to protect labour standards, tackle human rights violations and protect the environment.

These provisions can potentially address concerns that liberalized trade will lead to a ‘race to the bottom’ on social and environmental issues, by ensuring that minimum standards are adopted and enforced by all countries who enter into those agreements.

But there are different models of protection adopted by different countries. While the US uses sanctions to punish countries that breach labour standards provisions, the EU focuses on dialogue, co-operation and capacity-building in its recent trade agreements.

The problem is that there is very little research that investigates what effects these different approaches have had in practice. In particular, there is no research that investigates the effectiveness of the EU’s approach.\(^{19}\)

5. Innovative Regulatory Mechanisms

Existing mechanisms may not be able to solve all the social and environmental problems in global supply chains. We may need to identify new governance mechanisms if we are to tackle some of the more intractable and ingrained problems. For instance, the Rana Plaza disaster highlights the failures of many traditional certification processes and the need to continue to think about novel regulatory solutions.\(^{20}\)

### ‘Benchmarking human rights at the United Nations: self-reporting by states and corporations’

As part of a bigger Warwick project on ‘Benchmarking in Global Governance’,\(^{17}\) Sharifah Sekalala and James Harrison found that, while numerical indicators and benchmarks were becoming a recognized part of the UN State human rights reporting process, this is not the case for corporations. They identify indicators and benchmarks that could strengthen future corporate reporting. For instance, not-for-profit organisation NomoGaia has developed pioneering methodologies for undertaking human rights evaluations of corporate operations in developing countries. They also argue that Oxfam’s ‘Behind the Brands’ initiative is another programme that could usefully be built upon.\(^{18}\)

### ‘Developing innovative international labour governance: the response to the Rana Plaza disaster.’

Warwick scholars, Jimmy Donaghey and Juliane Reinecke have been awarded a British Academy/Leverhulme Small Research Grant to investigate the Bangladesh Accord on Building and Fire Safety. The Accord has been developed in the Banglandeshi Garment sector as an innovative governance response to the 2013 Rana Plaza factory collapse and to prevent similar disasters occurring in the future. This research is examining the dynamics of how a range of actors collaborate in creating and implementing the Accord and evaluating its capacity for improving labour standards in global supply chains.
Warwick scholars are also working on ideas for new governance mechanisms which can tackle these issues at a global level (see box example below).

**‘Gender Law and Justice in a Global Market (2011, CUP)’**

Ann Stewart argues that the disadvantages faced by many women in the workforces of developing countries may not be solvable through certification processes or provisions in trade agreements. Instead, we need to address deeper structural problems associated with their role as carers. Campaigners are now calling for a ‘right to care’ to make this disproportional burden visible. To operationalise this, we may have to consider novel ideas such as new forms of international taxation or universal citizens’ social benefit if we are to make a difference to these structural inequalities.

Further work highlights the dangers of employing governance mechanisms that treat corporations as ‘black boxes’, and the importance of putting measures in place that address the dynamics within firms that lead individuals to make certain choices and take certain actions.

**‘Responsibility, Shared Values and Corporate Culture’**

James Dempsey argues that responsibility for corporate actions should extend beyond the corporate entity to the individuals that act on its behalf and, importantly, to the other individuals in the organisation that influence such actions by participating in the prevailing corporate culture. Governance mechanisms need to address such individual-level factors through, for example, innovative training programmes or the promotion of self-regulation through professionalisation.

**6. Key Warwick Scholars Working on these issues**

To learn more about the work of Warwick scholars in this field, see the contact details below:

- **James Harrison, (J.Harrison.3@warwick.ac.uk)**  
  Associate Professor, School of Law, Academic Lead of the Global Governance GRP and expert on human rights reporting processes and international trade agreements

- **Juliane Reinecke, (Juliane.Reinecke@wbs.ac.uk)**  
  Associate Professor, Warwick Business School, expert on certification processes, coffee, conflict minerals, fair trade and the Rana Plaza Accord

- **Ben Richardson, (B.J.Richardson@warwick.ac.uk)**  
  Associate Professor, Politics and International Studies, expert on certification processes, palm oil, sugar, biofuel and fair trade

- **Ann Stewart, (A.Stewart@warwick.ac.uk)**  
  Professor, School of Law, and Academic Co-Lead of the International Development GRP and expert on the gender dimensions of development and global supply chains

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**Endnotes**

1. On coffee and Fair Trade see work of Juliane Reinecke. On palm oil, sugar, biofuel and fair trade see work of Ben Richardson.
5. Reinecke et al, Above n.3.
8. Richardson and Fortin, Above n.4.
11. Richardson and Fontin, Above n.4
13. Reneicke et al, Above n.3 at 795
17. See http://www2.warwick.ac.uk/fac/soc/csgr/benchmarking/
18. Harrison and Sekalala, Above n.16.