

UNDERSTANDING VOLUNTARY SUSTAINABILITY STANDARDS

A strengths, weaknesses, opportunities, and threats analysis



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The Academic Advisory Council¹ provides the United Nations Forum on Sustainability Standards (UNFSS) independent advice on all aspects of Voluntary Sustainability Standards design and impact through research. The 33 academics meet every year to discuss topics of their research interests in the form of expertise.

¹ To know more about the Academic Advisory Council 2022 meeting: <https://unctad.org/meeting/unfss-academic-advisory-council-annual-meeting-2022-voluntary-sustainability-standards-swot>

ABBREVIATIONS AND ACRONYMS

AAC	Academic Advisory Council
ARSO	Africa Regional Standardization Organization
ASI	Aluminium Stewardship Initiative
EU	European Union
EMA	Eco Mark Africa
Global GAP	Global Good Agricultural Practices
GVCs	Global Value Chains
IPIECA	International Petroleum Industry Environmental Conservation Association
ISPO	Indonesia Sustainable Palm Oil
MSPO	Malaysia Sustainable Palm Oil
RSPO	Roundtable on Sustainable Palm Oil
QCI	Quality Council of India
SASSMAQ	Program of Responsible Action and the Safety, Health, Environment and Quality Assessment System
SDOs	Standard Development Organization
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
SWOT	Strengths, Weaknesses, Opportunities, Threats
UNFSS	United Nations Forum on Sustainability Standards
VSS	Voluntary Sustainability Standards
WTO	World Trade Organization
ZDC	Zero-deforestation Commitments

ABSTRACT

Voluntary Sustainability Standards (VSS) have emerged as key governance tools in global value chains and provide an avenue for enabling sustainable production and consumption practices. The rapid growth in the number of VSS over the last few decades has prompted a consequent growth in the number of studies around VSS. While extant literature focusses on a diverse set of topics centred around VSS, there is no one study that presents the strengths, weaknesses, opportunities, and threats (SWOT) of VSS. Given the growing presence of VSS, it becomes important to understand these dimensions related to VSS. This report therefore provides a succinct SWOT analysis of VSS. The report presents analyses and derives results from the work of key researchers and practitioners in the field of VSS and distils conclusions to effectively understand the use of VSS, their potential and their interactions with several upcoming trade regulations.

INTRODUCTION

Over the past few decades, Voluntary Sustainability Standards (VSS) have emerged as important tools to address key sustainability challenges. An increasing number of firms are putting these standards at the front and centre of their sustainability approaches (UNFSS, 2022). The UNFSS (2013: 3) defines VSS as “standards specifying requirements that producers, traders, manufacturers, retailers or service providers may be asked to meet, relating to a wide range of sustainability metrics, including respect for basic human rights, worker health and safety, the environmental impacts of production, community relations, land use planning and others”.

Even though VSS are voluntary by nature, their increased uptake and consumer demand for sustainable products suggest that VSS are becoming increasingly important. Moreover, they are likely to become even more prominent in the coming years as several new regulatory initiatives are imposing due diligence requirements on firms. There has been a growing consensus among many segments of society about the increasing importance of both sustainability and crisis management. This consensus is borne out by a body of academic and professional literature, the efforts of the international community at the global level, and the promulgation of laws and regulations at national and local levels.

This report presents a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis of VSS structured around the internal and external dimensions, with a development related lens. The methodological approach of this SWOT analysis derives from the Academic Advisory Council (AAC) collective research expertise among twenty-five academic experts and practitioners around the world, in the way they study and practice VSS. The SWOT framework is an essential tool designed to facilitate a realistic, fact-based, data driven outlook of initiatives, such as VSS, to distil information about internal and external forces that may generate impacts on decision-making. The SWOT is a fundamental tool for experts and practitioners to evaluate and identify current and future potentials.

On the internal dimension, the report explores the strengths and weaknesses of VSS in advancing the sustainability agenda, especially in developing countries, with a specific focus on VSS institutional design and on their impacts on the ground. The discussions ultimately distil the settings in which VSS are effective and identify areas for improvement. On the external dimension, the report highlights the opportunities and threats that VSS face as a private governance tool which interacts with other regulatory initiatives. More specifically, the report explores developments in trade policy, national standards, due diligence regulations and policy mixes and the way VSS fit in these. The report assesses the implications of these policy developments for the role that VSS can play to contribute to a consolidated regulatory framework for sustainability and identifies the related challenges especially for developing countries.

This report is divided into three chapters. The first chapter breaks down the internal dimension into two sections: VSS institutional design, and VSS consultation and mechanism. The second chapter breaks down the external dimension of VSS into four sections, in each of which the role of VSS is explored: trade policy, national standards, due diligence regulations, and policy mixes. Both chapters present extant and upcoming research relevant for the analysis of VSS internal and external dimensions. Following these two chapters that present a two-dimensional analysis, chapter three provides the conclusions.



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1 The internal dimension: VSS strengths and weaknesses

On the internal dimension of the SWOT analysis, the report highlights the strengths and weaknesses of VSS, focusing on how VSS operate and how this relates to the impact of VSS, equal value distribution opportunities via VSS, consultation mechanisms in VSS and adoption of VSS.

1.1 VSS INSTITUTIONAL DESIGN

The design of VSS has long been argued as one of the key factors that influence the effectiveness of the standards (Marx et al., 2022; Lambin and Thorlakson, 2018; Fiorini et al., 2019). However, VSS are not consistent in their design and variation occurs even among VSS that are related to the same product category. This begets exploration on how VSS are designed, set standards and enforce them, and on the effects of VSS design on their impacts on the ground and on value distribution. In terms of strengths and weaknesses, this section unravels the state of play of standard-setting and enforcement mechanisms through multi-stakeholder approaches and identifies rooms for improvement.

1.1.1 Linking VSS design and impacts

VSS have grown in number over the last decades and in some sectors, such as agriculture, the proliferation of VSS has been substantial (E.A. Elamin and Fernandez de Cordoba, 2020; Fernandes Martins et al., 2022; Tayleur et al., 2017) they have become a market reality and non-compliance can lead to the exclusion of producers from Global Value Chains (GVCs). The ITC Standards Map² is one of the repositories of VSS which currently lists more than 320 VSS and collects information about VSS design and content.

More specifically, the ITC Standards Map allows for the identification of product type, scope, and requirements a VSS covers and provides information on governance attributes of a VSS such as how standards are set and how conformity with standards is assessed.

As VSS expanded in number, researchers started focusing on the design of VSS in relation to how they set and enforce standards, more specifically through third-party audits, and highlighted that there is significant variation in the design of VSS. In parallel, impact studies on VSS have shown inconclusive evidence on the

² ITC Standards Map can be accessed at: <https://standardsmap.org/en/home>

sustainability impacts of VSS on the ground, which are heterogeneous and highly context specific. Hence, more recently, the research focus has been shifting towards understanding how variation in VSS design relates to variation in their sustainability impacts on the ground.

In that respect, a key factor linking VSS design and impacts is compliance, i.e. the extent to which standards are effectively implemented by VSS adopters. Current research puts forward that VSS can encourage compliance through their design, which in turn increases the potential for positive sustainability impacts (Marx et al. 2022). In particular, Depoorter (forthcoming) identifies 3 mechanisms or pathways through which VSS design can foster compliance: (1) the enforcement mechanism, which consists in controlling compliance and sanctioning non-compliance; (2) the market-based incentives mechanism, which consists in encouraging and rewarding compliance; and (3) the capacity-building mechanism, which consists in enhancing the ability of VSS adopters to comply with and implement sustainability standards. These mechanisms are operationalised into several design attributes and indicators that allow to evaluate the degree to which a VSS uses these mechanisms respectively to generate compliance, as well as together to assess a VSS design overall compliance-orientation.

From an empirical analysis of 13 VSS, the research finds heterogeneity in the overall compliance-orientation of the design of different VSS. In addition, VSS differ in terms of the mechanisms they use to generate compliance through their design, with some VSS relying strongly on the enforcement mechanism, while others invest more in the capacity-building mechanism to foster standards implementation. Factors such as identity elements of VSS or their history can explain these choices. The research also highlights differences in the extent to which the mechanisms are used across VSS, with the enforcement mechanism being most extensively used, which stems from an audit culture in voluntary regulatory schemes. Yet, efforts are also made to develop the capacity-building and market-based incentives mechanisms. The diversity in the mechanisms used to generate compliance through VSS design has implications for their adoption, legitimacy and effectiveness.

1.1.2 Value distribution through VSS

Equitable value distribution, deriving from the stakeholder theory, refers to the fact that the value *returned* to stakeholders should be commensurate with the value they contributed to its creation. Extant research suggests that businesses can promote equitable value distribution through:

- *Shared decision making*
- *Shared profits*
- *Shared cost of production*

Unequal value distribution leads to income and health inequality at the local, national and international levels which further challenges the achievement of key SDGs like SDG 1 – no poverty, SDG 2 – zero hunger, SDG 8 – decent work, and SDG 10 – reduced inequalities.

It is thus pertinent to analyse how VSS, through their design and work, contribute to equitable value distribution. A forthcoming review study³ done on 19 ISEAL⁴ member VSS has found that each VSS aims to promote social sustainability, decent work, economic benefits to communities etc., thereby covering one or the other aspect of equitable value distribution.

³ Review is being done by Ms. Elizabeth A. Bennett, Fellow, Carr Center for Human Rights, Harvard Kennedy School (Cambridge, MA, US), Joseph M. Ha Assoc. Professor of International Affairs, Lewis & Clark College (Portland, OR, US). For more information: www.ElizabethAnneBennett.com/ ElizabethBennett@clark.edu

⁴ More information on ISEAL can be accessed at: <https://www.isealliance.org/>

However, research indicated that in practice, VSS do not currently support strategies that promote equitable value distribution, and they rarely improve equitable value distribution. Thus, a way forward would be to encourage VSS to support strategies that promote equitable value distribution. Table 1 below provides a summary on internal dimensions of VSS institutional design.

Table 1 Internal dimensions of VSS institutional design

Strengths	Weaknesses
<ul style="list-style-type: none"> VSS can generate compliance with their standards – and thereby increase their potential to generate positive sustainability impacts – through different mechanisms in their design. In theory, VSS do aim to promote equitable value distribution, by including in their design and documents, elements like promoting social sustainability, decent work, economic benefits to communities, etc. 	<ul style="list-style-type: none"> There is variation in VSS design which further determines the potential impacts that VSS can have. VSS lack systems that support equitable value distribution.

1.2 CONSULTATION AND ADOPTION OF VSS

Significant research has been dedicated to assessing the effectiveness of VSS in fostering sustainable environmental, social, and economic outcomes. While the literature seems to indicate positive yet small effects of VSS on sustainability, the evidence remains mixed and highly context specific (UNCTAD, 2021; UNFSS, 2022). Besides, there remains an important need for reliable and systematic data to assess the sustainability impacts of VSS.

This section takes stock of the current evidence of VSS impacts on the different sustainability dimensions. The strengths and weaknesses of VSS and their potential to generate sustainable outcomes has been articulated around two key dimensions: (1) VSS consultation, and (2) VSS adoption.

1.2.1 VSS consultation mechanism

The design and content of VSS are important determinants of VSS impacts since they reflect the level of ambition of VSS in reaching sustainable outcomes through defining specific requirements that their adopters need to fulfil. VSS vary in their design and content, and hence in their potential to generate positive sustainability impacts, which has been highlighted in Section 1.1. In addition to that, VSS design and content evolve over time and in particular, many VSS have dedicated procedures to regularly revise their standards and allow for stakeholder input in the process.

In this respect, Van der Ven (2022) has studied that stakeholders' consultation mechanisms and the influence of stakeholders can contribute to inputs on the content of VSS. Although stakeholders' consultation mechanisms vary across VSS, the analysis shows that there are shortcomings in their design as they tend to exclude certain stakeholders, resources and knowledge to participate in these consultations. Hence, there is a lack of diversity in stakeholders' participation and as a result input from certain types of stakeholders is overrepresented. Besides, the research indicates that stakeholders' comments aimed at weakening standards are more likely to be integrated in the new standards' versions than comments aiming to strengthen them, which results from pressures to keep barriers to entry in certification low (van der Ven, 2022). This vulnerability to stakeholders' input constitutes a weakness of VSS, but also realistic outputs in terms of their potential to generate impacts.

There is therefore a need for a more diverse medium of stakeholders' consultation to improve inclusiveness in the processes like standard improvements, and a need for increased transparency and accountability in VSS responses to stakeholder's input.

1.2.2 Adoption of VSS

Adoption constitutes another key determinant for VSS effectiveness, since VSS that are only marginally adopted have less potential to generate sustainability impacts, even if they are ambitious in the standards content (UNFSS, 2020). Yet, ensuring widespread and meaningful adoption remains a challenge for most VSS.

In particular, three major issues in VSS adoption stand out. First, VSS continue to exclude smallholders from certification dynamics and hence from reaping potential benefits of certification. Entering certification remains costly for smallholders who are nonetheless the primary victims of, and sometimes important contributors to, sustainability issues. For example, research shows that certification of palm oil plantations by the Roundtable for Sustainable Palm Oil (RSPO) seems to have a positive although small impact on halting deforestation on these plantations, while questions are raised on the scale of smallholder palm oil growers' contribution to deforestation and on the implications of their exclusion from certification (Heilmayr R., et al., 2020).

Second, there remains a self-selection bias (or 'low-hanging fruit' bias) in certification, as VSS are more likely to be adopted by actors whose practices are already in line with VSS requirements. For example, extant research on RSPO in Indonesia highlights a bias in the adoption of RSPO certification towards plantations that have smaller forest areas and whose palm trees were planted at an earlier date, hence making it easier for managers of these plantations to fulfil RSPO requirements linked to no deforestation. This self-selection bias poses questions on the transformative potential of VSS to foster sustainability.

Third, in order to promote wider adoption, VSS often try to keep barriers to entry in certification relatively low (*ibid.*). Yet, this creates trade-offs between adoption and stringency of standards. These weaknesses call for VSS to develop more tailored approaches to certification according to the capacities of different actors.

Table 2 synthesizes the internal dimension of VSS Sustainability Adoption. To sum up, VSS are only one of the tools to ensure sustainability. To maximize their impacts, efforts are needed to strengthen their design, ensure inclusiveness both in certification and in consultation, and synergies with public policy.

Table 2 Internal dimensions of VSS Sustainability Adoption

Strengths	Weaknesses
<ul style="list-style-type: none"> • Aligning VSS design with its impacts through regular revision of standards and public consultation mechanisms. • Maintaining low barriers to entry allowing broader adoption. 	<ul style="list-style-type: none"> • Weakening of standards content through stakeholders' consultations. • Lack of inclusiveness and transparency in VSS consultation mechanisms. • Exclusion of smallholders and/or self-selection bias.



2

The external dimension: VSS opportunities and threats

The external dimension of the SWOT analysis- opportunities, and threats for VSS, revolve around four issues discussed in this section of the report: VSS interactions with national standards, VSS in trade policy, VSS in due diligence, and how VSS are integrated in broader regulatory approaches.

2.1 NATIONAL AND INTERNATIONAL SUSTAINABILITY STANDARDS

National (and Regional) sustainability standards are increasingly set up to make international standards more applicable and adaptable to local markets. However, many of the national (and regional) standards lack recognition in the international markets. This section analyses the opportunities and threats for VSS to act as complements to national standards.⁵

2.1.1 India's case on private sustainability standards

Schemes or certifications that are being nationally designed by the Quality Council of India (QCI)⁶ follow a rigorous process, as shown in Figure 1 below. For the development of the schemes, the process adopted begins with defining the principles, criteria and indicators needed for compliance and they are further classified as critical, major, or minor, depending on the degree of obligation or the time that is allowed to comply with those specific criteria. In addition, the criteria and indicators have verifiers that allow for transparency in audits and ease of audits as they indicate what must be complied with for getting certified. Lastly, these schemes have also been mapped to the SDGs so that compliers know what SDGs they are contributing to while complying with the scheme's requirements.

⁵ This section benefits from the inputs of representatives from Asia, Africa and Latin America, who shared the knowledge on the current landscape and development of national standards given their pertinence in the VSS global community in developing sustainability-related local standards.

⁶ Quality Council of India: Quality Council of India (QCI) was established as a National body for Accreditation on recommendations of the Expert Mission of the EU after consultations in the Inter-ministerial Task Force, Committee of Secretaries and Group of Ministers through a Cabinet decision in 1996. To know more: <https://www.qcin.org/>

Figure 1 Salient features of incentivization Principles and Criteria of schemes developed by QCI

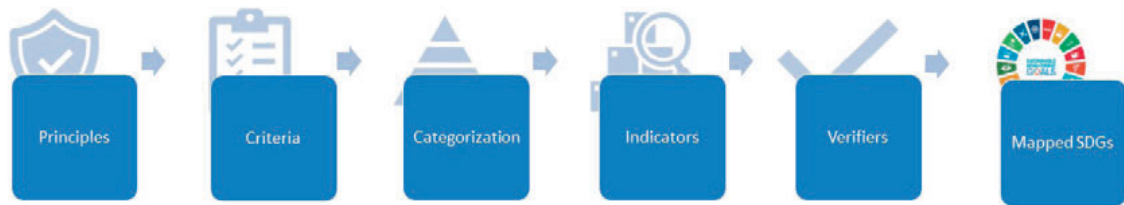


Image inspired from the Incentivization Table of Quality Council of India



The schemes developed usually have a scheme owner, who then undertakes an extensive stakeholder consultation to develop the schemes/certifications. For countries like India, there is also a focus on accreditation as part of VSS design. Accreditation brings uniformity and the certificates of accredited schemes are accepted globally. The opportunities of designing these schemes are to provide for greater market access and/or increased premiums from selling the certified products.

The opportunities of national and international VSS in India can be observed through the existing and upcoming VSS collaborations aimed to disseminate learnings on VSS, and partnerships focused on uptake of VSS across key thematic areas. There is also momentum in the government sector as the National Institution for Transforming India (NITI) Aayog, India's leading policy unit, included a section on VSS in the Voluntary National report on SDGs in 2020.

On the flipside, the threats of moving into the VSS direction nationally in India is that the uptake is limited due to lacking interest in the industry to bolster adoption, and the market uncertainties due to lack of involvement in standard setting. Additionally, VSS are still perceived as a non-trade barrier.

2.1.2 Perceptions of international VSS in China

In China, there are National Standards, Industry Standards, Local Standards, Association Standards and Enterprise Standards, and all are mostly voluntary. National Standards, Industry Standards, Local Standards for example, are issued by the public sector and cover multiple issues aligned with the SDGs such as environmental protection, water stewardship, and sustainable cities.

Given that there has been an influence of sustainability approaches in China, the opportunities identified from China's national standards is that the standards are based on the participation of stakeholders and focused on sustainability for a specific part of the supply chain, i.e., requirements for the manufacturers, whereas VSS set requirements for the entire supply chain. Thus, there are opportunities for China to strengthen its Standards Development Organizations (SDOs) by partaking in VSS activities and being involved in the development of VSS. This has been the case (in the beginning stages) for mining and rubber, and cotton.

However, a threat for SDOs in China is that they do not have much experience on activities surrounding VSS/related standards. In that sense, local participants who found it important to participate in the development of or related activities of VSS do not seem to have the capacity for such activities.

An important challenge is that despite the positive outlook of VSS, its implementation in China lacks proper supervision and has been perceived to be developed by the private sector without the jurisdiction of the WTO. This causes potential threats for Chinese suppliers to partake in international supply chains. The implementation process is not under the WTO, thus unable to show the fairness of VSS implementation.

In addition, many SMEs in China see the opportunities of VSS to enter global supply chains, but they are also threatened by perceived doubts and are often falsely misjudged.

2.1.3 The case of national standards developed for the palm oil sector in Asian countries

National standards developed in Asian countries aim to adopt global standards on safety and sustainability by learning from international standards. These standards include Indonesia Sustainable Palm Oil (ISPO) and Malaysian Sustainable Palm Oil (MSPO) for palm oil. These national standards derive from the international Roundtable for Sustainable Palm Oil (RSPO), a private sector scheme owner.

There is an opportunity in the way VSS are adopted nationally from the standpoint of “diffusion” of international VSS such as RSPO, motivated by market-access, learnings and emulations for ISPO and MSPO. However, the threat to this diffusion is that it contributes to the proliferation of VSS. Such multiplicity of standards can generate confusion for buyers and consumers about the objectives and credibility of these standards.

For the palm oil sector, the diffusion of RSPO in Indonesia and Malaysia resulted in public certification schemes for ISPO and MSPO. While RSPO attempts to raise the bar, ISPO/MSPO attempts to raise the floor to include more smallholders. RSPO's major markets include Europe, the United States and other developed markets, while ISPO/MSPO major markets are China/India and emerging markets. In terms of application, RSPO is voluntary, while ISPO/MSPO are mandatory. These characteristics are brought by the nature of the schemes, and some of the complementary characteristics include the fact that ISPO are market-driven, with participants tending to be producers from listed companies focusing on issues surrounding global warming and the environment. The ISPO/MSPO on the other hand are producer-based with participants mainly from smallholders, as the scheme focuses more on poverty reduction and more equitable development.

The opportunities behind the diffusion for RSPO is thus, to include smallholders for ISPO/MSPO, and to focus more on poverty reduction and employment which requires the public sector/ governments to grip the sector policy. However, there are threats for ISPO/MSPO stemming from the lack of recognition on international markets. In addition, there is a general lack of demand for ISPO/MSPO certified palm oil both in the domestic and export markets given that the buyers are generally from developing/emerging economies that are less demanding in terms of sustainability criteria. International cooperation to improve sustainability considerations and recognition of local standards is therefore an opportunity for VSS implementation in developing countries.

2.1.4 The case of regional standards developed for Africa – Eco Mark Africa

The Eco Mark Africa (EMA) is a programme under the African Regional Organization for Standardizations (ARSO),⁷ a regional standards organization made up of 43 members with a mandate to harmonize African standards and develop a Conformity Assessment System. Its objective is largely to facilitate trade, increase market access and spur industrial growth.

⁷ <https://www.arso-oran.org/>

The EMA is an ecolabel which currently covers horizontal standards for agriculture, fisheries, forestry, and tourism; and vertical standards for tilapia, catfish and cocoa. Its constitution is in line with the WTO's code of good practice.

The pathway towards sustainability standards in Africa was largely instilled by the idea that today, consumers do not just care about the products, but also the process or services, how they are made and offered, as well as their interactions with people, planet and profit, as well as society, environment and economy. These are in fact the requirements of the standards set as criteria classified as pre-required, critical, general or optional.

The opportunity of EMA is that it caters to both small and large manufacturers. ARSO recognizes that there are international VSS in Africa such as GLOBALG.A.P. or Rainforest Alliance, and that the idea of EMA was actually meant to complement the international VSS from a more vertical manner, particularly for coffee in Kenya, tilapia in Kenya and Uganda, African catfish in Nigeria, tourism in Rwanda, horticulture in Ghana, forestry and paprika in Zimbabwe.

The EMA scheme also relies on an independent certification body that has been accessed by the accreditation body in compliance with international standards. Some of the threats that have been raised about VSS in general, is the cost of certifications especially for the auditing that requires auditors to move from capital to capital. The region also has constraints on resources and capacity to buy and implement items that assist to help production to become more sustainable. There is limited awareness, and limited scope of product standards in EMA. The opportunities that were identified by African producers include access to markets, compliance with regulations, earning more with certified products and creating employment. Therefore, more scope and support opportunities are needed for SMEs to comply with VSS such as providing them incentives to exhibit their products in regional and international events and trade fairs.

2.1.5 The case of Brazil's industry sectors and its adoption of international VSS⁸

In Brazil, the sectors of steel, chemical industry, oil and gas, aluminium and cement are highly important, especially in terms of the GDP associated with them. Given the importance of these sectors and their contribution to Brazil's GDP, greening of these sectors such as seeking self-governance frameworks will allow them to align their intrinsic motives with sustainability principles. Forthcoming research anticipates that VSS as instruments of self-governance are effective in attracting the private sector to improve their current business operations in terms of cost and risk management using sustainable concepts.

These sectors are also major threats to some of the most serious environmental violations like natural resources extraction, the extensive use of energy and pollution. The chemical industry in Brazil, for example was related to some of the most serious occurrences of environmental damage such as release of odoriferous substances into the atmosphere (Mesquita, 2021) causing health issues, subsidence of soil (Madeiro, 2022) causing sinking cities, leaking chemicals from storage and transportation that causes health risks, and contamination of the subsoil and groundwater.

Greening of these five "dirty" industry sectors is taking place in Brazil. Except for the oil and gas sector, greening is advancing due to the opportunity for the sectors and the related companies to tap a self-governance framework such as VSS, that allows them to align their intrinsic motives with sustainability principles.

⁸ To be published by the German Institute of Development and Sustainability (IDOS) titled, "Voluntary Sustainability Standards and Greening of "Dirty" Industry Sectors in Brazil.

Some of the VSS and international initiatives identified for these industry sectors include the Program of Responsible Action and the Safety, Health, Environment and Quality Assessment System (SASSMAQ), Aluminium Stewardship Initiative (ASI) which guarantees that alumina operations are sustainable, positioning the country more competitively in the global aluminium market, and the International Petroleum Industry Environmental Conservation Association (IPIECA) which created the Sustainable Development Goals Roadmap for the oil and gas sector.

While these sectors are important to the Brazilian economy, including job creation, the environmental threats that come with these industries must be addressed. Reliance on VSS may be an opportunity to mainstream better sustainability practices. For example, the steel industry offers the qualities necessary for implementing a circular economy such as using renewable energy sources like hydroelectric, wind and solar for water, as well as recycling/recirculation of water. With innovations like circular economy for better and more sustainable practices in these sectors, Brazil can fulfil its commitment to reduce GHG emissions in the short and medium term.

Table 3 External dimensions of VSS interaction with national standards

Opportunities	Threats
<ul style="list-style-type: none"> • National VSS may complement international VSS by targeting SMEs for compliance, given that international VSS mostly target listed companies. • National VSS allows the country to better target issues specific to the country, i.e., poverty reduction, while international VSS targets global issues such as global warming. • Regional VSS allows market implementation by fostering sustainability practices among countries that are cooperating in the region. • VSS offer opportunities for policymakers to improve their greening policies. • VSS offer entry points for the private sector to align their business in their own terms. 	<ul style="list-style-type: none"> • Lacking demand for certified products in domestic markets/buyers from developing countries, thus lack of incentives to comply with VSS. • National VSS may encounter challenges in global recognition, compared to international VSS.

2.2 VSS AND TRADE POLICY

As non-trade objectives are becoming very popular in trade policy, questions are raised on the role VSS could potentially play in trade policy and the global trade agenda. Also, debates on the possible impact of VSS on trade are growing widely. This section presents three key dimensions of VSS in trade policy, 1) VSS under the WTO, 2) non-trade objectives in trade agreements, and 3) the trade impact of VSS. Through this discussion, the way VSS can be understood within the global trading landscape has been dissected into the opportunities of VSS being integrated into trade policy, as well as the threats that may unintentionally affect developing countries.

2.2.1 VSS under the WTO

The nature of the WTO as an intergovernmental organization that regulates and facilitates international trade makes it challenging to include VSS in WTO discussions. This is not only due to the voluntary nature of the standards. Other significant obstacles are also at play, including the ownership, governance, and authority of these standards. Some vital questions for the WTO include who makes and owns these standards, and how they are governed. Also, what are the levels of these standards (for example, national, regional, or international) and what is their degree of obligation.

Another challenge is that the nature of trade itself has changed. Now it consists more of “trade-and” (for example trade and environment, trade and labour) rather than “trade-in” (i.e. technical mechanics of trade including technical standards). Despite this, the discussions inside the WTO are still on the “trade-in” side. Moreover, even though consumers’ behaviours and expectations are changing regarding product sustainability, such concerns are still viewed as non-trade objectives under the WTO.

Another essential part of the equation is the impact of VSS on trade. It is essential to analyse their impact further to have a clearer understanding of what to expect. It is significant to discuss not only how widely they are used, but also how they change the behaviour of the different stakeholders and how they impact trade and sustainability outcomes.

All the above points need to be addressed before raising the discussion of mapping out VSS and WTO. Nonetheless, given that some trade agreements have already brought up the VSS issue, the debate on VSS within the WTO is expected to grow further. Currently, although some discussions on VSS are taking place in the TBT and SPS committees, so far no conclusions have been derived.

2.2.2 Non-trade objectives in trade agreements

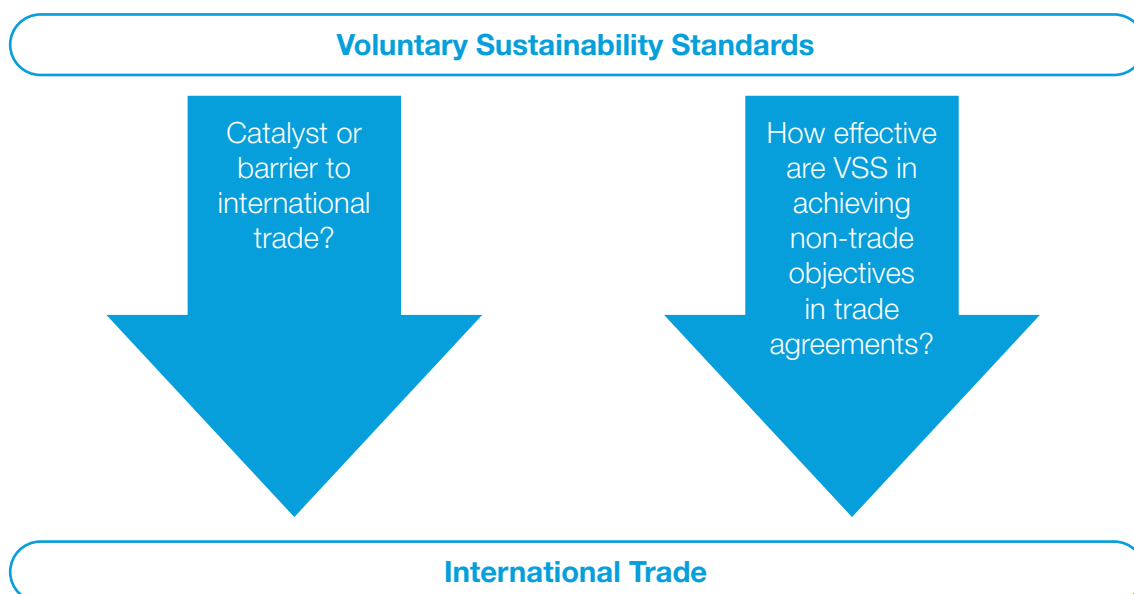
Instead of looking at the link between VSS and trade in the conventional form of whether VSS are catalysts or barriers to trade, it is suggested to focus more on the objectives behind the utilization of VSS to better understand their impact.

Although a lot of what inhibits trade are regulations, it is not possible to get rid of these regulations. They need to be put in place to achieve objectives related to environmental and human rights protections, among others. Now the question should be around how effective trade policy and its tools are in achieving these objectives. When it comes to VSS, the question would be how VSS could contribute to achieving these objectives. Figure 2 explains the main questions regarding the link between VSS and trade.

To answer these questions, the RESPECT project is investigating whether the EU's efforts to achieve non-trade objectives through trade agreements are working or not.⁹ Researchers are exploring the sustainability performances of countries that signed trade agreements with the EU that include provisions on non-trade objectives. Their performance was compared before and after the agreements were signed, and also to other countries that were not part of the agreements. It was found that while some improvements can be found in environmental sustainability, not much was found regarding socioeconomic sustainability. In some cases a negative association took place.

While the result is significantly heterogeneous, additional questions are raised on the conditions and circumstances under which trade agreements and provisions on non-trade objectives help in improving the sustainability performance of countries. Also, additional research is needed to assess the role VSS could play in enhancing non-trade objectives in trade agreements.

⁹ For more please see <https://respect.eui.eu/>

Figure 2 The trade impact of VSS: the main questions

2.2.3 The trade impact of VSS

International standards can be catalysts or barriers to trade. One body of literature suggests that these standards could lead to increased exports, as VSS provide a competitive advantage to complying producers, affirm high product quality, and signal sustainable production practices that facilitate market access. Studies that confirm the favourable impact of VSS on trade attribute this to a demand-enhancing effect, reduced information asymmetries and transaction costs, and higher productivity and lower input costs.

However, a second body of literature suggests that the expansion and increased influence of VSS have become an increasing concern for suppliers, particularly in low-income countries. If VSS are de facto mandatory for specific markets, small-scale producers risk being excluded from export value chains due to high compliance costs and increased monitoring costs (UNCTAD, 2008).

UNFSS (2022) reviewed the empirical literature on the trade impact of VSS and concluded that:

- Studies are few in number and focused on few sets of standards
- Studies mostly focus on the agriculture sector
- Studies reveal mixed results, especially when data are disaggregated based on country income level.
- There is no clear answer either on the existence of VSS impact on trade or on the type (direction) of impact (catalyst vs. barrier).

Table 4 provides a summary of the external dimensions of VSS interactions with trade policy and trade agreements.

Table 4 External dimensions of the VSS interactions with trade policy and trade agreements

Opportunities	Threats
<ul style="list-style-type: none"> • Non-trade objectives and sustainable development chapters are increasingly included in trade agreements, making VSS more relevant as a trade tool. • VSS reduce governance gaps between trading partners and hence increase trade opportunities between developed and developing countries. 	<ul style="list-style-type: none"> • VSS raise concerns with regards to ownership, governance and authority, hence are less likely to be discussed at the WTO. • The lack of data and evidence on the trade impact of VSS may hinder them from being considered as a policy tool. • Adoption of VSS may be challenging for smallholders in developing countries due to the cost of compliance, lack of awareness and capacity etc.

2.3 VSS AND DUE DILIGENCE

Due diligence regulations are increasingly being adopted. They put obligations on companies to govern their value chains more sustainably. VSS are sometimes conceptualized as complementary tools to implement due diligence obligations. This section assesses and summarizes the opportunities that due diligence initiatives and mandates can foster for VSS, as well as the threats they may impose on the advancement to meet the sustainability goals through VSS. The section articulates three key dimensions on this issue: 1) recent developments in due diligence, 2) enforcement of due diligence obligations and, 3) implications for developing countries.

Due diligence as a concept that emerged in the 1990s when increased attention was paid to human rights violations linked to companies' operations. As a response, voluntary approaches to govern value chains and prevent human rights abuses emerged, including corporate social responsibility (CSR), companies' codes of conduct, OECD guidelines, UN Global Compact, VSS, and ESG reporting. The concept of due diligence initially focused on human rights (Human Rights Due Diligence or HRDD), then emerged in the UN Guiding Principles on Business and Human Rights and was further taken on board in OECD and ILO legal frameworks.

Yet, limits to voluntary approaches have been highlighted as most companies still do not engage in due diligence whereas human rights violations and other sustainability issues persist. In parallel, evidence shows that the inclusion of sustainability concerns in trade instruments such as FTAs or GSP schemes have failed to deliver, partly because these instruments target countries rather than companies individually. Conceptually, the focus on human rights due diligence has also broadened to include environmental and economic considerations. As a result of these developments, there has been a turn towards mandatory due diligence legislation which targets companies directly, the most recent example of which is the European Commission's draft directive on corporate sustainability due diligence (CSDD).

These developments raise questions on how due diligence frameworks should be implemented and enforced, what role VSS can play in this, as well as the consequences for developing countries.

2.3.1 Implementation and enforcement

Several concerns have been raised on the implementation and enforcement of due diligence obligations. First, companies need to go beyond legalistic implementation of due diligence and cosmetic compliance,

with the aim of a normative shift. Due diligence should involve more than reporting obligations, and monitoring mechanisms should be developed at different levels (e.g., not only at member state level but also at the EU level in the case of the EC draft directive on CSDD). In addition, the level of implementation of due diligence obligations will be influenced by power structures and the position of firms in global value chains (GVCs), with less vertically integrated GVCs being less likely to implement due diligence. Besides, inconsistencies will emerge in the methodologies used to implement due diligence in different GVCs. Lastly, in terms of enforcement, due diligence legislation should ensure that the cost of non-compliance is higher than implementation. They should also guarantee grievance mechanisms to report violations and access remedies.

Based on the above, we put forward at least three roles that VSS can play in the implementation and enforcement of due diligence legislation, as the latter will likely rely on existing instruments in several ways:

1. VSS can be used as a means to implement sustainability requirements, hence preventing human rights violations and other sustainability issues.
2. VSS can inform risk assessments that are part of due diligence obligations through the provision of data.
3. VSS offer existing infrastructure such as grievance mechanisms that can support the enforcement of due diligence obligations.

In light of these roles, the European Commission's draft directive on CSDD has developed a framework to recognize, based on design criteria, VSS whose certificates could be used as proof of compliance with certain due diligence obligations. Yet, there are calls for caution when integrating VSS in due diligence legislation.

2.3.2 Implications for developing countries

Due diligence legislation primarily aims to tackle human rights violations and sustainability issues that continue to occur frequently in developing countries. Hence, developing countries could benefit a lot from these developments. However, several concerns are also raised. First, due diligence developments are mostly a developed-country phenomenon and there is little dialogue with developing countries that will be the ultimate implementers of these obligations. Therefore, due diligence legislation could be perceived as interference in domestic politics, and sovereignty debates might re-emerge. Second, due diligence obligations might also lead companies to relocate from high-risk areas where they are most needed. In addition, contextual factors such as informalization or the abundance of SMEs can make it difficult to effectively implement due diligence in developing countries. Moreover, complying with due diligence obligations, as well as with VSS, involve costs. Lastly, due diligence legislation creates a risk of shifting the responsibility down the value chain on small farmers or SMEs in developing countries which would ultimately marginalize them. Hence, the benefits of due diligence legislation for developing countries are questioned, especially as GVC integration has not always delivered on its promises.

In conclusion, there is a need for differentiated obligations according to different actors' capacities, and for strong enforcement structures for due diligence legislation to deliver, and there are opportunities for VSS to play a role in this.

Table 5 External dimensions of the VSS interactions with due diligence

Opportunities	Threats
<ul style="list-style-type: none"> • VSS can help companies implement sustainability requirements for due diligence practice. • VSS provides data/infrastructure for risk management and mechanisms for due diligence. 	<ul style="list-style-type: none"> • Perception of interference in domestic politics. • Due diligence implication in VSS may relocate suppliers away from high-risk areas, thereby marginalizing local suppliers/vulnerable actors in these areas.

2.4 VSS IN POLICY MIXES

Policy mixes have received increased attention as avenues to address complex sustainability issues. Halting and reversing deforestation require multiple, complementary interventions by state and non-state actors at different scales. These policy mixes can include disincentives, incentives and enabling measures (Furumo PR, Lambin EF, 2021). They can take various forms in which VSS can play a role. This section dissects the opportunities and threats of policy mixes to effectively tackle sustainability issues and assesses the potential for VSS to fill in the gaps in the form of private regulation where public regulatory gaps exist, as well as the arguments for VSS to be optimally effective when they are supported by public policy.

The section illustrates VSS in policy mixes through two main dimensions: 1) the rise in goal-based governance, to which zero-deforestation commitments (ZDCs) are prominent examples, and 2) the shift towards mandatory regulatory approaches.

2.4.1 Goal-based governance and zero-deforestation commitments (ZDC)

Although there is a high level of heterogeneity in the design and ambition of policy mixes, the latter can be defined as governance arrangements that combine voluntary private and mandatory public instruments to create synergies and strengthen regulatory capacity and effectiveness. In particular, private instruments such as VSS can be used in policy mixes to govern behind borders.

Goal-based governance is an example of policy mixes, where different actors establish common objectives that they try to reach through various means. ZDCs is a prominent example of goal-based governance, as actors work together towards reducing deforestation. ZDCs often rely on VSS for implementation but constitute a governance approach that goes beyond certification to increase effectiveness.

Goal-based governance can generate opportunities for learning and flexibility and leverages competition among actors to generate a race to the top. However, it also involves several shortcomings, including a lack of inclusiveness, a 'bindingness' that depends on the reputational risk weighing over companies, a significant leeway in how companies implement the goals, and a vulnerability to power asymmetries and competing interests. In addition, goal-based governance and ZDCs in particular often generate clashes between different sustainability dimensions (environmental, social, economic) and create tensions among actors on whether to collaborate or compete.

On ZDCs more specifically, discussions are centred around the necessary conditions under which they can be effective. Such conditions can occur when agricultural production as a primary driver of deforestation is intended for export markets that demand deforestation-free products, when traders are able to transmit this demand to suppliers through GVCs, when governments support ZDCs, and when the coverage of ZDCs is large. Yet, current research shows that these conditions encompass only small reductions in

deforestation linked to a few ZDCs (although their impacts vary across ZDCs) (Bager S.L, Lambin E.F, 2022). Hence, the effectiveness of ZDCs remains limited, particularly because they do not cover the entire supply base. Nonetheless, research also suggests that ZDCs can generate spillover effects, since they improve monitoring, traceability systems, as well as awareness of deforestation issues. Two avenues to improve ZDCs' effectiveness are put forward: governments restricting land access (at the start of the GVC), and market access (at the end of the GVC).

2.4.2 Shift away from voluntary, market-based regulatory approaches

VSS and other voluntary, market-based regulatory approaches that have emerged in recent decades have been associated with several shortcomings. For example, VSS do not cover the entire supply base in the sectors they certify, they do not necessarily certify producers in high-risk areas, and their requirements linked to tackling specific sustainability issues such as deforestation remain narrow. This means that their potential to truly address sustainability problems at a large scale is limited. In addition, VSS are slow in responding to these criticisms. As a consequence, dynamics towards other sustainability governance initiatives such as ZDCs have emerged and aim to go beyond certification.

More recently, one can observe an important shift away from voluntary, market-based approaches and from partnerships that make up policy mixes towards more mandatory regulatory approaches. For example, the EU zero-deforestation products regulation neither clearly endorses VSS nor supports their role in implementing and enforcing the regulation. Besides, there remains little to no recognition of Southern VSS on international markets, although the latter can address legitimacy and sovereignty concerns, develop context-sensitive standards, and broaden VSS coverage. Consequently, there are criticisms that policy mixes and partnerships have not delivered, partly because they involve power asymmetries and competing interests, and there is a shift towards more mandatory approaches. This is the case of regulation such as the EU deforestation-free products regulation. However, such regulation remains one-sided and might generate hostility from trade partners as well as exclusion of vulnerable actors in GVCs. Thus, the potential to foster sustainability can only be achieved when public and private regulators develop complementary approaches that exploit their synergies.

Table 6 External dimensions of VSS interactions with policy mixes

Opportunities	Threats
<ul style="list-style-type: none"> • Reliance on policy mixes such as zero-deforestation commitments (ZDCs) to implement VSS. • VSS as instruments to govern behind borders. • Experimentation and creativity for VSS to evolve and find new roles. 	<ul style="list-style-type: none"> • Shift away from voluntary, market-based regulatory approaches towards mandatory regulations. • Competing interests and power asymmetries in policy mixes. • Shift towards other solutions due to the perceived effect of slow VSS response to criticism.





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Conclusion

The SWOT analysis gathered through this paper has been explored in two dimensions: internal and external. The internal dimension elucidates the strengths and weaknesses of the institutional design of VSS and its impact, while the external dimension expands the internal dimension by juxtaposing the opportunities and threats of VSS interactions with regulatory initiatives such as trade policy, national standards, due diligence, and policy mixes.

In terms of the internal dimensions, in theory, VSS aims to promote equitable value distribution, by including in their design and documents, elements like promoting sustainability, decent work, economic benefits to communities etc. With VSS' variety of designs, apart from being market-driven and voluntary in nature, they can have multiple mechanisms to foster compliance. However, such large variation in VSS design can complicate adoption and legitimacy. In that sense, there is less focus on strategies in VSS systems that support equitable value distribution. This is particularly in relation to the conundrum of VSS in developing countries. The multiplicity of VSS and the lack of clarity on the terminologies hinders their adoption and in general creates confusion.

In the effort to understand the sustainability impacts of VSS, their illustrated strengths and weaknesses have been articulated as overall, small, but positive impacts on sustainability. This can be appreciated through their regular revision of standards and public consultation mechanisms, low barriers to entry that allow for broader adoption, as well as their interactions that can potentially fill in gaps in current regulatory regimes (substitution effect) and complement public policy (spillover effects). However, the consultation mechanisms may also weaken the content of standards. The consultation mechanisms may also result in criticism on behalf of underrepresented stakeholders. This adds to issues concerning inclusivity, accessibility, transparency, and accountability. In this sense, smallholders tend to be excluded from the consultative mechanisms, leading to a self-selection bias in certification (i.e., adopters are typically actors who have the capacity to already be in line with VSS requirements).

The expansion from the internal dimension towards the external dimension on trade policy results in the identification of new opportunities due to the fact that trade agreements today increasingly include sustainable development chapters as non-trade objectives. VSS may be considered as a tool to accompany such chapters. They may reduce the governance gaps between trading partners and increase trade opportunities between developed and developing countries. However, the voluntary and private nature of VSS, along with their lack of transparency, raises concerns on the ownership, governance, and authority

of the standards, which makes VSS less likely to be discussed at the WTO. Furthermore, the lack of data and evidence on the trade impact of VSS will continue to hinder them from being considered as a policy tool. The cost of certification, along with the technical barriers that limit access by developing countries to VSS compliant markets, make VSS less attractive to small business owners in developing countries. Thus, VSS could act as trade barriers in some cases.

With regard to the external dimension of VSS and their interactions with national standards, the analysis gathered sees national VSS as complements to international VSS through their segmentation of sectors. While international VSS typically target listed companies to be more sustainable in their business operations, national VSS can target SMEs or specific actors in the supply chain. Furthermore, national VSS allow a country to better target pressing domestic issues such as poverty reduction and products specific to the country/region, while international VSS tend to focus on global issues such as global warming. However, since there is limited demand for certified products in developing and emerging economies, there is a lack of incentives to comply with VSS. There is also the concern that national VSS may be lacking recognition in the global trading landscape.

In terms of their interaction with due diligence, VSS may be able to help companies implement sustainability requirements by providing data for risk assessments as well as the infrastructure like grievance mechanisms for due diligence. However, there remain some threats with regard to mandatory due diligence legislation due to the shift away from voluntary regulatory approaches to 'hard law', and the perceived interference in domestic politics. Furthermore, EU buyers may be reluctant to engage with suppliers in high-risk areas in developing countries, thus pushing vulnerable actors out of global value chains.

The last external dimension covered in this report concerns the interaction of VSS with policy mixes. While there are opportunities in relying on VSS for policy mixes such as the Zero Deforestation Commitments (ZDCs), governing behind borders, and experimenting with VSS to evolve and find new roles, they are still threatened by their limited coverage and narrow scope of issues that need to be tackled. As it takes a long time for VSS systems to respond to criticism due to their stakeholder consultation mechanisms, there may be a shift to other solutions. This may result in competing interests and power asymmetries in policy mixes.

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ANNEX

UNFSS Academic Advisory Council Annual Meeting 2022: Voluntary Sustainability Standards: a SWOT Analysis

27-28 October 2022
Hosted at the KU Leuven + online

The methodological approach of this paper derives from the **UNFSS Academic Advisory Council (AAC) annual meeting** collective research discussion, which was held at the KU Leuven on 27-28 October 2022, among twenty-five academic experts and practitioners around the world, in the way they study and practice VSS.

The **AAC** brings together an international mix of academic and policy experts from various disciplines and backgrounds to consolidate the knowledge on Voluntary Sustainability Standards (VSS) and contribute to a comprehensive understanding of VSS effectiveness.

The AAC ensures the inclusion of the research component in understanding the effectiveness of VSS and the determinants of its effectiveness. Currently, different disciplines approach questions related to the effectiveness of VSS from different theoretical perspectives and focus on different dimensions of effectiveness. The AAC's objective is to bring these different perspectives into one overarching network that critically examines the issues related to VSS.

The discussion was broken into six panels structured around the internal and external dimensions of VSS, further analysed through their Strengths, Weaknesses, Opportunities and Threats, better known as the SWOT analysis. The SWOT framework is an essential tool designed to facilitate a realistic, fact-based, data driven outlook of initiatives, such as VSS to pull information of internal resources, and external forces that may have uncontrollable impacts to the wider decision making. The SWOT is a fundamental tool for experts and practitioners to evaluate and identify current and future potentials.

The internal dimension summarizes the strengths and weaknesses of VSS in advancing the sustainability agenda, especially in developing countries, with a specific focus on how VSS operate. The discussions ultimately distilled the settings in which VSS are effective and identified areas for improvement. The panels that discuss the internal dimensions were:

- Panel 1 on institutional design of VSS explored the value distribution, compliance mechanisms and the regulatory frameworks of VSS and identified their strengths and weaknesses in that respect. VSS design has been recognized as an important determinant of VSS effectiveness. However, effectiveness varies greatly across VSS, therefore posing implications in advancing the sustainability agenda.
- Panel 6 on sustainability impacts took stock of current research and evidence on VSS effectiveness in fostering sustainability outcomes. This session was dedicated to understanding the effectiveness of VSS through their engagement of stakeholders, their impact on deforestation and income, private governance, and economic gains.

The external dimension highlights the opportunities and threats that VSS face as a private governance tool that interacts with other regulatory initiatives. More specifically, the session explored developments in trade policy, national standards, due diligence regulations and policy mixes and the way VSS fit in these.

In that, the session assessed the implications of these policy developments on the role that VSS can play to contribute to a consolidated regulatory framework for sustainability and identified the related challenges especially for developing countries. The panels that discuss the external dimensions were:

- Panel 2 on trade policy highlighted the various ways in which VSS have been integrated in trade policy as complementary implementation instruments to achieve sustainability goals. In specific terms, the discussions were steered around the way VSS enhance and impede trade, the way the European Union views such standards, the way VSS are perceived from the perspective of the multilateral trading system, and the dichotomy between voluntary and regulatory approaches.
- Panel 3 on national and international sustainability standards discussed the diffusion effect of international sustainability standards like VSS in the way they have been adopted at national level. The opportunities and threats in this discussion come to the notion of the dichotomy between complementarity and competition, public and private, as well as voluntary and mandatory approaches.
- Panel 4 on due diligence focused on the nature of voluntary being put as obligations on companies in order to govern their value chain more sustainably. This comes from the EU directive to mandate human rights due diligence practice. The session focused on regulatory turning points, their dilemma with VSS interactions in global value chains and its impact on developing countries.
- Panel 5 on policy mixes mapped out the policy instruments in which VSS can effectively play a role, more so through a substitution effect. The session covered policy mixes for zero deforestation commitments, goal-based governance and smart mixes.



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