iied

Stimulating Sustainable Trade Phase 2

Overview Report

November 2000

Edited by Nick Robins and Tom Fox
Sustainable Markets Group
International Institute for Environment and Development
3 Endsleigh Street
London
WC1H 0DD
UK

Contents

1.	**Executive Summary**	**3**
2.	**The Stimulating Sustainable Trade Project: Phase 2 Objectives and Activities**	**8**
3.	**Starting Points and Assumptions**	**11**
4.	**Supply Chain Assessment Case Studies**	**13**
4.1	**Clothing, Bangladesh**	**13**
4.2	**Cocoa, Ghana**	**18**
4.3	**Electronics, India**	**24**
4.4	**Tourism, South Africa**	**30**
5.	**Lessons and Conclusions**	**37**
6.	**Guidance for Stimulating Sustainable Trade**	**41**
7.	**Taking Action: Next Steps**	**46**

1. Executive Summary

This report presents the results of the second phase of the *Stimulating Sustainable Trade* (SST) project. The project was carried out by a multi-country team involving BCAS, CSC, ICED, IIED, Khanya and RGICS. The core of the work focused on four supply chain assessments designed to understand better the critical sustainability issues along the chain and generate practical guidance for specific strategies to promote exports of sustainable goods and services. The failure of the Seattle ministerial to agree a mandate for a new round of trade negotiations – partly due to disagreements over trade and the environment – underscored the need for alternative ways of promoting sustainable development in international markets. It is this focus on the 'business of trade' that runs through the SST project, along with a desire to move beyond often simplistic assumptions about the linkages between trade and sustainable development.

As well as the specific results its has generated, the project has often had a catalytic effect, for example, prompting Indian producers in the electronics sector to consider the ways in which new EU environmental regulations might affect their business. Active consultation with stakeholders was a major feature of the case studies, most notably in the South African tourism case. The project also introduced innovative methodologies, such as the benchmarking exercise for Bangladeshi textile manufacturers. But the problems should not be underestimated. In Ghana, for example, suspicions about a parallel initiative on 'sustainable cocoa' led by multinational chocolate corporations spilled over into stakeholder attitudes about this project. And it proved more difficult to win the trust of industry in Bangladesh than had been envisaged.

<u>Lessons</u>

Although the individual sustainability issues faced in each sector study are highly specific, a set of clear and over-arching conclusions can be drawn, with common lessons for policy makers and actors within supply chains.

- **Supply Chains or Trading Networks?** The notion of a supply chain is itself of questionable value in this kind of analysis, indicating the need for a broader

notion of a 'trading network' to capture the complexity and multiplicity of market interactions.

- **Socio-economic priorities are at the core of sustainable trade:** Environmental concerns within the trading system are often obscured or sidelined by more pressing socio-economic factors, and there is a danger that sustainability initiatives are regarded with suspicion by local stakeholders if the broader developmental context is not adequately addressed.

- **Windows of Opportunity:** The case studies all demonstrate the significance of 'windows of opportunity' which provide the conditions for sustainable trade. The drivers creating these opportunities vary from international and national policy environments to industry supply chain initiatives. It is notable that none of the four case studies identify consumer demand as a driver for sustainable trade, which has striking implications for strategies to promote sustainable trade that rely on the assumption that there is a ready market for sustainable products and services.

- **Diverse critical success factors:** Whether these windows of opportunity for sustainable trade are recognised and transformed into action seems to depend on a variety of factors. These include the role of key pioneering entrepreneurs, openness to sectoral collaboration and enthusiasm for engagement with buyers, awareness of the sustainability agenda and capacity for negotiation, technical innovation and implementation.

- **Capturing Value-Added:** Across all the sectors studied, the desire for producers to increase and capture a greater share of the value added of their products is clear. But the potential for southern producers to do this may be severely restricted by limited market power. While globalisation may offer southern producers access to new markets, it often does so on increasingly unfavourable terms, restricting opportunities to invest in long-term sustainability.

- **Paying for Sustainability:** Markets alone may therefore not be sufficient to create the conditions for a shift to more sustainable trade. Where sustainable trade offers well-defined public goods which the market alone is failing to provide, it is the role of policy to ensure that these goods are adequately financed. A combination of regulation and investment is clearly necessary to address many of

these issues, but this project also identifies the crucial role of innovative multi-stakeholder mechanisms, or global public policy networks, to identify and develop ways to finance these public goods.

Guidance for Stimulating Sustainable Trade

The challenge is how to translate these lessons into useful guidance for decision-makers. A fundamental starting point is to recognise the reality of complex trading systems involving multiple stakeholder interests and take a comprehensive view of the full range of factors that need to be integrated into both analysis and action. This means developing packages of measures, and six critical elements include:

- Cultivating demand: Consumer preferences for social and environmental values will often need to be cultivated through creative public education and social marketing.

- Encouraging local awareness raising and involvement: The awareness of producers and other local stakeholders has to be enhanced, through carefully targeted workshops and other initiatives at local and national sector level.

- Investing in process and product innovation: Moving to sustainable patterns of trade requires investments of time, commitment and finance, and new support mechanisms are required.

- Rewarding improvement: A recurring theme is the need to find ways of rewarding producers and traders that invest in more sustainable business practices.

- Co-Evolving Standards: If producers and communities in the South are to capture the benefits of sustainable production and trade then they will need to be fully involved in shaping the standards.

- Sharing Governance: Ultimately, sustainable trade requires different forms of governance for international trading networks, which ensure greater transparency and accountability of commercial transactions, and enable participation and involvement from hitherto marginalised stakeholders.

Taking Action: Next Steps

Each of the supply chain assessments closed with some specific recommendations for action. Beyond these, some immediate next steps are already being taken:

- In India, the Commonwealth Science Council will sponsor a training session with ELCINA in February 2001; and
- In South Africa, a workshop will be held to press home the findings of the case study with national level decision-makers in January 2001.

Both these meetings are likely to yield results that could feed into sectoral strategies for further action. In addition, the report makes five specific proposals for further work:

Proposal 1: Project the results through short briefings and training materials to press home the findings.

Proposal 2: Assess the effectiveness of existing programmes for promoting exports of sustainable goods and services.

Proposal 3: Review trade policy rules that act as a barrier to access for sustainable goods and services.

Proposal 4: Target 2005 - Explore the feasibility of targeted sectoral initiative to support textile and garment manufacturers in LDCs to improve social and environmental performance in the run-up to the phase-out of the MFA in 2005.

Proposal 5: Establish a European Sustainable Trade Centre/Network?
The challenge for work on sustainable trade is to move out of the research arena and develop practical partnerships with government, industry and civil society to deliver new services. One way of doing this could be through a European Union initiative.

A European Sustainable Trade Centre or Network could act as a dedicated service to facilitate imports of sustainable goods and services into the EU

- ensuring regulatory transparency and dialogue;
- brokering multi-stakeholder agreements;
- reducing overlapping or competing schemes;
- providing a complaints' mechanism for developing country producers
- supporting marketing and awareness raising; and
- assisting producers make the transition.

These and other proposals need to be reviewed by existing team members, and explored with potential project partners and donors to assess what measures should be taken forward in Phase 3 – Strategies for Sustainable Trade.

2. The Stimulating Sustainable Trade Project: Phase 2 - Objectives and Activities

Stimulating Sustainable Trade is an international project that combines analysis and stakeholder engagement to help "provide practical guidance on how to encourage exports of sustainable goods and services from the developing world to the European Union". The project has focused on understanding the linkages between critical export sectors and sustainable development in four developing countries: Bangladesh, Ghana, India and South Africa. Central to the project has been the aspiration to work at 'both ends' of North-South trading chains, combining on the ground activities in developing countries with complementary work in Europe to understand changing market conditions.

Launched in September 1998, the project is divided into four main phases, starting with a scoping exercise of experience in these countries. This phase was completed with the publication in early 2000 of two reports, *The Reality of Sustainable Trade*, giving an overview of the results across different countries and sectors, and *Sustaining the Rag Trade*, a more focused review of trends to incorporate sustainability factors in the European clothing trade. Based on the findings of these reports, the second phase commenced in late 1999 to look in more depth at four supply chains, with the following objectives:

- To understand the critical sustainability issues in the chain
- To identify the pressures and leverage points for change
- To engage in dialogue with producers, intermediaries and buyers to determine the best ways for improving the sustainability of the chain
- To identify the reforms required at both the supply and demand side
- To identify key principles or guidelines for sustainable trade
- To identify options for action for subsequent work.

The project then envisaged two further steps. Phase 3 would apply the good practice guidelines to develop strategies for sustainable trade in specific sectors and countries. This would be followed by Phase 4 which would bring together the overall lessons of the project into a 'vision of sustainable trade' in time for the 10-year review of the Earth Summit in 2002.

Stimulating Sustainable Trade was conceived as a collaborative effort, involving a number of partner organisations in the project team, involving:

- Tom Fox, Vanessa Gordon, Sarah Roberts, Nick Robins and Dilys Roe at the International Institute for Environment and Development, London, who managed the project and carried out work on driving forces within Europe;

- Khandaker Mainuddin and Dr Moinul Islam Sharif at the Bangladesh Centre for Advanced Studies, Dhaka, along with Dr Saleemul Huq of the Huxley School of Environment, Imperial College, London, who led the country study on the clothing supply chain in Bangladesh;

- Professor Emmanuel Boon and Robert Agbozo from the International Centre for Enterprise and Sustainable Development, Accra, who carried out the cocoa study in Ghana;

- Penny Urquhart and colleagues at Khanya, Bloemfontein, who managed the assessment of a tourism supply chain in South Africa; and

- Mohammed Saqib at the Rajiv Gandhi Institute for Contemporary Studies, Delhi, Ritu Kumar of the Commonwealth Science Council, London, and Martin Charter of the Centre for Sustainable Product Design, UK, who undertook the assessment of the electronics supply chain from India to Europe.

Over the last year, the project team has carried an array of activities. These have included:

- Desk-based assessments of critical sustainability issues for trade and production
- Stakeholder workshops with affected communities
- Surveys and benchmarking of corporate performance
- Reviews of market and demand trends.

In each country, the work has been guided by an advisory panel comprising representatives of key stakeholders. In addition, during the course of the work, two meetings of the project's advisory group were held in November 1999 and July 2000. Overall, the second phase of the project has benefited considerably from the input of

a range of individuals, including Richard Dewdney, John Carpenter, Geoff Hicks, Deborah McGurk, Paul Steele and Jessica Cave (Department for International Development, UK), Prasad Modak (Environmental Management Centre, India), Nick Mabey (Foreign and Commonwealth Office, UK), Beatrice Chaytor (Foundation for International Environmental Law and Development, UK), Paul Ekins (Forum for the Future, UK), Louise Jamison (Impactt, UK), Karin Ireton (Industrial Environmental Forum, South Africa), Mark Halle (International Institute for Sustainable Development, Switzerland), Alex MacGillivray and Andrew Simms (New Economics Foundation, UK), Dorothy Myers (Pesticides Action Network, UK), as well as Ulrich Hoffmann and Rene Vossenaar (UN Conference on Trade and Development, Switzerland). People who contributed to the specific supply chain assessments are mentioned in the studies themselves.

The project has been financially supported by DANCED, the Trade Directorate of the European Commission and the UK's Department for International Development.

Nick Robins Tom Fox

November 2000

3. Starting Points and Assumptions

The failure to agree a mandate for a new round of trade negotiations at Seattle in 1999 highlighted the urgent need for new and creative thinking on the linkages between trade and sustainable development. The results of Phase 1 identifed a disconnect between the often deadlocked trade and environment policy arena, and the more dynamic international marketplace, where social and environmental factors were being introduced into trading relations through citizen pressure, consumer demand and corporate action. It is understanding this 'business of trade' that lies at the heart of the *Stimulating Sustainable Trade* project – in particular to test a number of prevailing assumptions about the dynamic between trade and sustainable development, including:

Assumption 1: New trade opportunities are emerging for developing countries as affluent consumers in the North show an increasing willingness to pay for goods with enhanced social and environmental performance.

Assumption 2: The integration of social and environmental factors into trading relations – whether through regulation or supply chain pressure – acts as a *de facto* trade barrier for producers in the South who do not have the human, financial or technological resources to respond.

Assumption 3: Demands from the North – whether consumer demand or corporate requirements -- are the only effective mechanism for improving standards in the South, given weak implementation of social or environmental regulation.

There are certainly examples where these assumptions are borne out, but in most cases the reality appears to be more complex (and confused). Pressures for change are not uniform between sectors, or indeed durable over time. Rather than consumer demand acting as the driver for higher standards, it is usually corporate action to minimise risk to their reputation that emerges as a dominant force. While small and medium sized firms in particular can be put at a disadvantage if new requirements are introduced, this can be mitigated through support, training and advice along the supply chain. Furthermore, environmental and social factors can act as a powerful stimulus to innovation, improved productivity and higher value added products. And

while supply chain pressures have proven a powerful prompt for many Southern producers to change their practices, it is not alone. Indeed, there are a small, but growing number of companies who are improving performance either due to local citizen pressure in the South itself or due to their own proactive commitment to sustainable enterprise.

Two tightly inter-linked questions have emerged, however, which appear central to progress on sustainable trade:

- *Who decides?* Beyond the basic policy framework, decisions in international trading chains are taken on the basis of commercial relations. Those with the strongest position in the chain are able to determine the terms of trade, not just for price and quality, but also for social and environmental dimensions. While it is often simply questions of capacity which have left the South excluded and marginalised from independent initiatives (such as ISO standardisation), the requirements of individual firms are often confidential and not amenable to input from suppliers and other stakeholders. This clearly has major implications for the priorities that are chosen – whether the concerns of buyers in the North coincide with those of suppliers and communities in the South – and how costs and benefits are distributed.

- *Who benefits?* Initial investigations revealed that environmental improvements can be a 'double edged sword' bringing technical improvements at the cost of socio-economic setbacks. A rising concern among producers both in Europe and the South is how the burden of improvement is shared among the different players in the supply chain. As trade liberalisation progresses, expands the supply base and places severe deflationary pressure on producer prices, suppliers – for example, in the food or garment sectors – can find themselves in the position of investing to improve performance, while receiving lower prices for their goods.

The next section looks in more detail at the four country case studies, and how their different circumstances respond to these assumptions and underlying questions. The full country studies are held in a series of companion volumes.

4. Supply Chain Assessment Case Studies

4.1 Clothing, Bangladesh

Introduction

The textile and ready-made garment (RMG) sector forms the core of Bangladesh's export strategy, earning over USD4 billion and accounting for more than three-quarters of the country's total export earning during 1998/99. The industry enjoys an abundant supply of (largely female) labour at relatively low wage rates, as well preferential (or reduced duty) access to the European Union and US markets which jointly account for more than 90% of the total RMG export from Bangladesh. However, the sector is increasingly faced with mounting challenges. Low labour productivity, inadequate infrastructure (notably electricity and port facilities), political instability, a dependence on foreign fabrics in the absence of a strong backward linkages between garments and textile production are emerging as major constraints for continued growth. Furthermore, it is widely considered within Bangladesh that the phase-out of the Multi-Fiber Agreement (MFA) by 2005 – removing the country's current quota advantages – will have an adverse effect on garment exports.

It is within this broader context that the specific questions of the social and environmental dimensions of clothing production and trade have to be considered. Growing numbers of Bangladeshi exporters are facing pressures from buyers in Europe and North America to demonstrate that they meet certain standards of social and environmental performance, notably for child labour and other working conditions. Leaders in the business community are now aware that the sector needs to transform itself from a generally low quality and low value added production focus to one that is customer-driven, flexible and high price – where sustainability factors would form an integral part. To better understand the challenges facing the sector as it strives to respond to increasingly competitive markets and deliver sustainable development benefits, the study team undertook four main activities at different levels of analysis: national, regional and enterprise:

a. Set up a multi-stakeholder steering committee to identify priorities for sustainable trade;

b. Worked with the two major industrial associations to help them to establish a cell to look at environmental and social issues of the sector and develop and agree on common standards
c. Carried out a detailed social and environmental benchmarking exercise of two textile and finishing companies
d. Worked with a cluster of eleven industries (including textile, garments, dyeing and leather) in Kaliakor district outside Dhaka to try to get the industries to develop actions to reduce the pollution in an important wetland area.

Critical Sustainability Issues

By taking a broader sustainable development perspective, it rapidly emerged that specific issues related to social and environmental standards along the supply chain, through important, ranked low on the list of most stakeholders. The most pressing problems affecting the sustainability of textile/garments as perceived by stakeholders representing the manufacturers, exporters and government include the law and order situation, inadequate utility supply (electricity, water and telephone), port congestion, dependence on foreign raw materials and the phasing out of quotas. The future of the textile/garments trade thus depends on broad-based action to tackle these often deep-seated problems. In the short run, enhanced capability in procuring quality cotton, fabrics, and accessories at competitive prices to ensure efficiency in production is needed. For the medium and longer terms, the development of backward linkages to produce quality fabrics is an important factor for sustainability.

Although Bangladesh has in place social and environmental legislation, implementation is poor due to the lack of institutional capacity. Many of the problems have their roots in the way the textile and garments sector was established over the last 20 years, when legislative requirements were not in place, making it difficult for some producers to respond. But it appears that the era of denial when producers refused to accept their responsibility for environmental issues appears to be past. At a meeting of the Bangladesh Textile Mills Association in January 2000 held in collaboration with the Commonwealth Science Council, IIED and BCAS among others, there was agreement that Bangladesh should introduce a range of measures, such as an information centre within the associations and its own Code of Conduct to improve performance. However, progress in realising these goals has been poor, partly due to a lack of cooperation between the relevant industry associations.

The 'sustainability gap' between current performance and desired standards was exemplified during the benchmarking exercise which showed that the two textile units consume 60% and 100% more energy than the best available option. Both the factories also generate more waste than Bangladeshi and international standards, while effluents levels were much higher than both the World Bank and national standard. With regard to the social performance, both the factories are marked by wide variation in terms of different social parameters. The performance levels are found to be fairly satisfactory in the case of wages, working hours and non-discrimination. But the performance levels for both factories were poor in the case of communication, work environment and training/education/awareness building.

Case Study: Making the Links – Beximco and C&A

One of the new features of liberalising trading systems is the emergence of producers in the South operating to global standards of product and environmental excellence. Part of Bangladesh's leading industrial conglomerate, Beximco Textiles manages one of the region's largest composite textile mills, a vertical operation from yarn through fabric to ready-made garments – embodying the backward linkages so vital to the future of Bangladesh's clothing sector. Established on a green field site as part of a technology partnership with Coats Viyella of the UK, the facility was able to integrate high environmental standards from the outset. The company benchmarks itself against the World Bank's pollution guidelines and was awarded the Oko-Tex 100 certificate for hazard-free products in 1999. According to Beximco Textile's chief executive officer, Syed Naved Hussain, "the goals of rapid economic progress and high social and environmental standards can and must be achieved simultaneously". The company has found that environmental compliance costs form only a small part of the overall cost structure. Indeed, as a large capital intensive operation, the company focuses on innovation rather than cost reduction, and uses environmental factors as a catalyst for re-examining production processes (such as reducing the use of energy and raw materials). The environmental angle can also lead to more value-added products – which fetch a higher price, without a proportional increase in cost (such as a wrinkle-free cotton without the use of ammonia). Although Beximco's textile operations are by no means representative of Bangladesh's textile sector overall, it provides an example of a company that clearly sees sustainability factors as an integral part of its strategy. For Syed Naved Husain, "the future belongs to companies with high standards of environmental performance".

The privately-owned Dutch retailer, C&A, sources some of its clothing from about 60 Bangladeshi production units, including Beximco. With Beximco, C&A has forged strong links because of its vertical integration and commitment to environmental performance. Overall, however, Bangladesh's lack of domestic fabric production could make it vulnerable when quotas are removed in 2005, according to Philip Chamberlain, Head of Sourcing at C&A,

consigning it to a position as a cheap source of supply. In recent years, C&A has sought to integrate social and environmental factors into the core of its business. On the social front, the company has been one of the principal targets of citizen campaigns focusing on the labour conditions in its garment sub-contractors, and has introduced an arms-length internal audit agency, SOCAM, to monitor its code of conduct for suppliers. During 1999, SOCAM visited around 1,500 units – and as a result, about 150 companies received warnings due to poor performance and business was suspended with 50 units. C&A has also set itself a target of becoming "recognised by our customers and by the wider community, as one of the top five European retailers for environmental standards in fashion retailing". It was one of the first clothing retailers to implement ISO14001 certification across its European operations and has introduced the Oko-Tex 100 standard for all babywear and close to skin clothing. However, the company has seen few benefits from its environmental programmes. ISO14001 proved to be costly and an administrative burden, and the requirement for all countries to have certification has been removed. On the product side, the company has found that "if you do something for the environment there are no bonus points. But if you don't do anything you will be punished: customers won't pay one penny more", according to the company's environmental manager.

Along the supply chain, C&A gave initial priority to removing child labour. Now it is moving on to address other labour issues (such as wages and working hours) and some environmental issues (notably water and solid waste disposal). It recognises that it has still a long way to go to get recognisable changes in environmental performance among textile suppliers in many developing countries, and it is here that the company has limited influence. Nevertheless, one recent example shows how buyer pressures can link up with local demands to improve performance. The C&A buyer in Dhaka saw an article in a Bangla newspaper about a community protest against a polluting textile factory that was one of C&A's suppliers, and insisted that unless it cleaned up its act, its orders would be in jeopardy.

A similar picture emerged at an 'environmental hot spot' in Kaliakor near Dhaka. The area has several textile dyeing finishing and other types of industrial units which are responsible for severe environmental degradation affecting wetlands, as well as causing serious health hazards for the local population. A process of stakeholder consultation has led to a significant increase in awareness and consensus building to solve the problem through voluntary effort. This case also highlights the way in which many of the pressures for improved performance are domestic -- and not just coming down the supply chain from foreign buyers.

Lessons and Next Steps

At the macro-economic level, the study revealed a range of priorities for government policy, which go beyond the clothing sector, including improving labour productivity, ensuring reliable infrastructure and financial services and introducing effective industrial zoning policies. It also confirmed the need for Bangladesh to develop its own marketing network to reduce dependence on the intermediaries, and to develop the backward linkage textile industry to cut imports of fabric and other raw materials.

Importantly, as the largest least developed country, Bangladesh should develop a more assertive strategy of trade diplomacy to ensure preferential access to key markets and support for its efforts to raise social and environmental performance. There is an imperative to improve the negotiating skill of the concerned government and non-government agencies at various bilateral and international forums including the WTO regarding trade related matters.

There is also clear demand for Bangladesh to develop its own social and environmental guidelines for the export-oriented garment/textiles sectors, along with the institutional framework for factory level implementation. The success of the trial benchmarking exercise as part of this study suggests that benchmarking could be carried out more broadly through the relevant industry associations, as a precursor to an environmental improvement plan, possibly including certification to international standards. This will require local capacity building both at individual production unit as well as the industry levels. The small and medium scale units will need both financial and technical assistance to implement social and environmental standards required by the importing countries. A final priority is to continue the multi-stakeholder dialogue to ensure that all parties understand their own responsibilities to ensure the survival of the industry. In the future, an additional effort should be made to bring in the importers into the multi-stakeholder dialogue (which was attempted in the second phase but without much success).

4.2 Cocoa, Ghana

As a traditional commodity predominantly produced by smallholders in developing countries and exported for processing and consumption in the North, cocoa has distinct characteristics which impact on the prospects for sustainable trade. Cocoa production is geographically concentrated, with four countries accounting for three-quarters of global production. Ghana has been highly dependent on cocoa exports since the colonial era, and cocoa remains the country's second largest source of foreign exchange and accounts for a quarter of national employment. As the majority of cocoa is grown by a large number of rural smallholders, the industry is crucial to the alleviation of poverty and support of sustainable livelihoods in Ghana.

Consumption of cocoa is also geographically concentrated, the major markets being the European Union and the USA. Trade and processing is dominated by a few major transnational companies, and confectionery manufacturing and marketing of cocoa products is similarly highly concentrated. Mars and Hershey together account for three-quarters of chocolate sales in the United States, and three companies - Cadbury, Nestlé and Mars – control three-quarters of the UK market. Six firms account for 80% of the world chocolate market.

Cocoa has been vaunted as having the potential for win-win opportunities in linking smallholders to the global economy, in linking trade and environment interests through the biodiversity benefits of sustainable production practices, and in linking consumer social interests to producer welfare. But cocoa's commodity status and the concentration of production and consumption have crucial implications for the prospects for sustainable trade. Despite some promising initiatives, the market transformation necessary to achieve these win-win scenarios has not yet occurred.

<u>Sustainability challenges in the supply chain</u>

Environmental issues

The environmental sustainability of cocoa bean production is quite feasible. It is claimed that growing cocoa within a sustainable, biologically diverse agricultural production system can play a role in conserving tropical forest ecosystems. This is not to say that current practices within the cocoa sector are environmentally sustainable. Indeed, there has been significant environmental deterioration and soil and habitat degradation as a result of the spread of cocoa cultivation across Ghana.

Production is threatened by pests and diseases, against which pesticides are applied.

Clearly, considerable support for education, training, extension and research is necessary to move away from current wasteful, inefficient and destructive practices. But there are signs that this shift is under way. Supported by the Ghana government and other funders, including the research funds of the global chocolate industry, the Cocoa Research Institute of Ghana is developing new integrated pest management techniques and other husbandry practices, and this research is already starting to yield positive results. At the international level, confectionery manufacturers and industry bodies are collaborating with donors to develop a global initiative, the International Sustainable Cocoa Programme (ISCP), which includes research into integrated crop management techniques, breeding programmes and agro-ecology mechanisms which promote the effective cultivation of cocoa while maximising biodiversity and the sustainability of tropical ecosystems.

Case study: industry initiatives for sustainable cocoa

Chocolate manufacturers are engaged in a variety of individual sustainable cocoa projects. For example, Cadbury's funds some research into methods for replanting in abandoned cocoa areas and into disease and pest control. Mars is working on pilot projects on capacity building for farmers' groups, on direct purchasing which integrates extension services and premium payments for quality cocoa, and is also investigating the potential for small-scale local processing. But most work is done on a collaborative industry-wide basis, through national bodies and collaboration at regional and global level. The International Sustainable Cocoa Programme is a new world-wide initiative that promotes the development of sustainable cocoa agriculture – cocoa production in which the farmer increases or maintains productivity at levels that are economically viable, ecologically sound, and culturally acceptable, through efficient management of resources. Through the promotion of sustainable cocoa agriculture, the chocolate industry hopes to play a major role in securing the economics of smallholder farms in cocoa-growing countries. A related initiative for West Africa, the Sustainable Tree Crops Programme, aims to improve the well-being of smallholder farmers through the development of sustainable tree crop systems that increase productivity, generate income, conserve biodiversity, use natural resources sustainably, and offer stable development prospects and long-term economic incentives.

Socio-economic issues

It is the implementation of the results of research that may turn out to be the most significant hurdle in realising the ecological benefits that sustainable cocoa production can bring. The fundamental long-term sustainability problem of the cocoa sector lies not with the environmental impact of cocoa bean production, but with structural socio-economic factors – which emerged as the primary concerns of the stakeholders in the Ghanaian cocoa sector. The study highlights the overwhelming importance to Ghanaian stakeholders of a stable and profitable cocoa price – to them, this is the keystone of sustainable trade, without which it is meaningless to start talking about sustainable production practices. Cocoa prices on the London futures market recently touched a 27-year low and are half the level of two years ago. The reason for this is basic economics: global supply exceeds demand, currently by over 20% per year. A succession of international cocoa agreements designed to keep supply and demand in equilibrium have failed to halt the decline in the world market price, and it is the cocoa producers who are suffering. The fact that cocoa producing countries are seriously considering destroying stockpiles of surplus cocoa in order to support the world market price demonstrates the seriousness of their predicament.

The industry-wide sustainability initiatives in the global cocoa sector have understandably resulted in a climate of suspicion among cocoa producers, and this is reflected in the country report. The chocolate manufacturers appear to some to be solely interested in maintaining production levels in order to keep supply well beyond demand, thus maintaining low market prices into the future and keeping the squeeze on the cocoa farmer. However, they argue that the interests of the smallholder producer are not in opposition to their own interests, and indeed that they are mutually compatible. Clearly, wider stakeholder representation will be necessary if industry initiatives such as the ISCP are to overcome this distrust and assist progress towards more sustainable trade. Furthermore, the ISCP and other sustainable development projects will now have to address the problem that the term ‘sustainability’ is associated with industry-led initiatives perceived as a threat to many Ghanaian stakeholders.

Case study: Prospects for processing

In purely economic terms, Ghana would benefit from adding value locally to its cocoa exports as far as possible. The Cocoa Processing Company has demonstrated that it is able to produce high quality semi-processed cocoa products for export while providing significant social welfare standards for its workers, yet it suffers from limited capacity and lack of access to finance. Demand for semi-processed products is buoyant and exports attract good prices, providing over 80% added value compared with exporting unprocessed cocoa beans. One option would be for the company to seek joint ventures with European chocolate companies, thereby gaining access to marketing know-how to support sales of its own chocolate products.

Consumer demand for sustainable cocoa

There is surprisingly little direct consumer pressure on the chocolate manufacturers to encourage sustainability along their supply chain. Recently, the increasing prominence of Fair Trade cocoa products in European markets has contributed to greater consumer awareness, but this has had little impact on the mainstream companies as yet in terms of market share. Fair Trade organisations are confident that steady growth, buoyed by media and government support, will influence mainstream practices. The Ghanaian cooperative, Kuapa Kokoo, which supplies cocoa used in the Fair Trade chocolate bars Divine and Dubble, has achieved almost iconic status. But the proportion of Kuapa's exports which are Fair Trade labelled is still very low due to limited consumer demand, and there is as yet no indication that the mainstream chocolate manufacturers intend to develop niche products which incorporate a premium to support cocoa producers.

Paying for sustainability

A key question, therefore, is how farmers can be rewarded for sustainable practice, when there is at present no adequate mechanism for premiums in the market place. As liberalisation progresses, increased scope for traceability, combined with greater consumer awareness, may lead to the possibility of certification which rewards sustainable practice by producers and individual companies. The current desire for such a mechanism among many stakeholders in the industry may provide opportunities to look again at the benefits of previously proposed systems such as International Commodity Related Environmental Agreements, and to investigate how the principles of these government-level arrangements could be applied to private sector based initiatives such as the ISCP.

Crucially, the existence of positive spillovers which could be deemed desirable public goods in line with donor governments' developmental and environmental priorities may justify public investment in sustainable cocoa production. It should be recognised that there are limits to voluntary approaches – primarily companies' responsibilities to shareholders – and the market alone will not necessarily settle on the most desirable outcome. Existing multi-stakeholder initiatives such as the ISCP are a good start but they may need to be underwritten by government involvement. Recent work within the UN on 'global public policy' networks may offer appropriate models.

Ghana's dependence on cocoa itself demonstrates that the underlying issue is not simply how to become more efficient within cocoa systems, but rather how to sustainably raise standards and incomes at the smallholder level. Consequently, it may be more constructive to address the needs of the cocoa sector in Ghana by taking a broader view of smallholder livelihood opportunities rather than concentrating focusing on the cocoa sector alone. The Sustainable Tree Crops Programme, an initiative led by Mars Confectionery and USAID in West Africa which is related to the ISCP, emphasises the need for diversification of livelihoods through smallholder agricultural systems based on tree crops, including cocoa.

Conclusions and priorities for future action

The case of cocoa demonstrates how differently the various stakeholders in a sector can perceive sustainable trade. While producers are suffering from the classic problems of commodity production – low and declining world prices, concentrated market power and structural over-dependence – the multinational corporations are moving ahead with initiatives to develop more sustainable production systems. There is a clear gulf between them, with deep distrust among the producers as to the agenda of the chocolate manufacturers.

However, the industry is at least now starting to speak the language of building inclusive stakeholder participation within its sustainability initiatives, with the aim of enhancing sustainable rural livelihoods. This more inclusive process of engagement by all the global stakeholders of the cocoa and chocolate industry, and other relevant market players in other tree crop industries, is a prerequisite for any shift towards more sustainable cocoa trade.

Yet this alone is not sufficient. The overriding need to address the price issue while safeguarding the livelihoods as well as the environmental benefits of sustainable cocoa production and promoting diversification requires government involvement. The industry-led ISCP and STCP need further donor support and intervention to align and balance the interests of the corporations, cocoa producers, consumers and the environment. Public goods offered by sustainable cocoa production, such as support for smallholder livelihoods and protection of biodiversity, should be recognised and financed appropriately, through innovative partnership arrangements and market-based mechanisms as well as donor support. Sustainable cocoa should be seen not simply as a technical challenge, but as one part of a wider sustainable livelihoods-based poverty reduction strategy. Potential win-win outcomes cocoa may offer, but these are not sufficient to break the sustainability stalemate alone.

4.3 Electronics, India

Introduction

The global electronics industry is characterized by complex supply chains and high levels of international sourcing. The aim of the study was to provide an incisive analysis of the sustainability issues for the trade in electronic components from India primarily to the European Union, and to identify the measures and actions needed to integrate sustainability factors into a strategy for export success. In the case of the electronics trade, regulatory requirements loom as a major driver for change, particularly the European Union's Waste from Electrical and Electronic Equipment (WEEE) directive.

A detailed survey of 20 companies formed the core of the study. The companies were drawn from a mix of large, medium and small sized firms producing colour picture tubes (CPTs), semiconductors and printed circuit boards (PCBs). These products are essential components for most electronic items, and also the most representative in terms of ecological hazards in the industry. The survey looked at the level of environmental awareness among companies, their environmental management programmes, the drivers for action (including pressure from buyers), as well as the costs of environmental programmes. The survey also covered social and ethical issues, primarily relating to working conditions within factories — although it was somewhat constrained in that it could not probe the supply chain deep enough to reach the unorganised and informal segment of the sector. The report also presents two in-depth case studies of good practice, with a view to drawing lessons and analyzing the way forward.

The sustainability challenge for Indian electronic component exporters

The electronics industry was traditionally thought to be a relatively clean industry. But this image has taken a dent with greater realisation of the ecological hazards emanating from the sector. The ecological hazards come not only from the product, but also from the processes of electronic commodity production. The generic production process of most electronic items involves the use of chemicals, glass and metal parts, all of which could be harmful to the environment. This raises issues of waste management, reuse and recycling, raw material use minimisation and waste

reduction. The electronic product itself presents a number of problems, particularly as the waste stream of obsolete products grows with the rapid advent of new technology. This has given rise to issues of product disposal, product take back, recycling of product components and producer responsibility extending over the entire lifecycle of the product, from creation to consumption and destruction. The forthcoming EU Directives on WEEE and restriction of the use of certain hazardous substances in electrical and electronic equipment, embody these emerging concerns. The directives are expected to come into force in 2008 and will have serious implications on the production processes of component manufacturers exporting to the European Union. Prior to then, major international companies are likely to introduce comparable requirements into their supply chain policies, and some are already underway.

The survey concluded that the electronic industry in India currently has a reactive stance towards the sustainability agenda. While awareness does exist in most quarters, it seldom translates into better practices. Time and again, it appeared that the industry is isolated in terms of availability of information to change their practices.

- The industry as a whole, including the predominantly small-scale sector, seems to be aware of international environmental requirements. But there appears to be a sense of lethargy or tardiness in implementing improvement measures, as well as insufficient understanding of the need to adopt a proactive strategy. Large companies do not seem to be faced with pressures from their buyers as yet, while the smaller ones lack the resources and the knowledge to adopt environmentally sound production techniques.

- Buyers in the EU and elsewhere have a huge responsibility for educating producers in India from whom they source their components. The transfer of technology, skills and technical know-how are critical. International bodies also need to work in a more concerted manner to better inform the developing country suppliers. Special information cells could be developed that work in a transparent manner in collecting and disseminating information that is periodically updated.

- Although the local industry associations provide a ready infrastructure for dissemination of information to the industry, they need to be guided to include environment in their existing programmes and policies. The industrial

associations could be a catalyst in increasing adoption of environmental management systems like the ISO 14000, assisting in promotion of eco-design manufacturing and implementing measures that would meet the WEEE requirements of the EU when they come into force.

- Domestic regulations governing environmental performance of the sector are either non-existent or poorly implemented. The government needs to formulate environmental legislation for the electronic sector drawing on lessons from existing international regulations. This will ensure that the sector grows in a sustainable manner if implementation is strictly followed.

- At present, recycling does not find wide favour in the industry because it is still very expensive. Unfortunately, a number of government policies further impede acceptance of this option. In cases where chemicals have to be exported to enable their reclamation, the government needs to pursue a policy that facilitates this. There have been examples where companies shy away from recycling because the transport costs involved are further exacerbated by imposition of excise taxes. A conducive atmosphere has to be created to make recycling profitable for producers to take it up in a more pervasive manner. Also, cheaper alternatives need to found. For recycling to be truly effective, it is essential to re-design products in an eco-friendly manner.

- Similarly, the option of disposal of electronic items has thrown up more questions than answers. Product take back schemes need to be designed. A vast market for second hand products exists in India. Hence, the marketing of returned products (that is those that have been rendered obsolete because a technically better product is available) is an issue that needs to be addressed. All end-of-life options, whether disposal or recycling, pose an environmental burden. It is necessary that a cost benefit analysis be carried out in qualitative as well as quantitative terms to develop the most feasible and viable option.

Case Study: Samtel Color Limited

Samtel is currently the largest manufacture of mono cathode ray tubes in the world, and is also a major producer of colour picture tubes. The company was awarded an ISO 9002 in 1993, and Samtel is currently working towards ISO 14001 certification. Traditionally, its main export destinations were Italy, France, U.K., Spain, Germany, and Austria. However, the company is now facing anti-dumping investigations in the EU and has hence shifted its exports to south and south east Asia.

Samtel launched a corporate environmental programme in 1995-96. The programme consists of annual policy statements from which monthly schedules are drawn. The plan seeks to address and resolve as far as possible all issues related to environmental hazards, air, soil or water. The programme is executed simultaneously in all departments of the company and is coordinated by the *Utilities Department.* Every worker, supervisor and manager has responsibility towards achievement of the SHE objectives. The induction package for new employees includes preparing them to work in ecologically sound ways. Examples of specific activities, include:

- Water: Owing to a depleting water table, the company installed an effluent treatment plant to enable it to reuse production effluent. The company is currently recycling about 50% of its wastewater, and hopes to recycle 100% in the near future.
- Recycling: The company is making efforts to recycle its packaging materials at both ends, both as a buyer from its vendors and also as a seller of CPTs. Requests for such recycling have now started coming in from its buyers in the EU.
- Chemicals: Scrubbers have been installed to trap air emissions of ammonium bifluoride, and a recycling programme has been instituted for certain chemicals (such as phosphors).
- Product Design: As part a product recycling programme, the glass part of an obsolete CPT is dismantled and melted down so as to enable its reuse. As far as easy dismantability of obsolete products is concerned (under take back obligations), the company has, so far, received such specifications from only one of its buyers in the European Union.
- Supply Chain: The company as a matter of policy interacts only with professionals operating in the organized sector. A major reason for such a policy stance is a commitment to maintain ecologically sound processes as far back into the supply chain as possible. In some instances however, Samtel takes a more active stand and tries to convince its vendors to adopt more ecologically efficient processes environment.

The company has only faced environmental specifications from one of its buyers: here, Samtel had to provide an Environmental Certificate for components specifying its use of

banned substance and their concentrations. Samtel does not perceive any form of trade barriers related to the environment. But the company does believe that an ISO 14001 certification will project a green image and make a difference to market access.

Samtel clearly has exposure to international views on the subjects of product take back, recycling and disposal. Most importantly, the leadership of the company is particularly committed to best environment practices, with a recognition of value of voluntary measures. The company has developed long-term relationship with its vendors and is utilising this to pass on better practices. Samtel has the resources and the will to install the latest technologies that have been developed for greener production.

It must be pointed out, however, that at operational levels, the problem of low compliance remains. The effort is to do the minimum possible required. This represents the strange conundrum of the Indian electronic sector. Even with almost everything going for it, the execution is not 100%. This is partly because the external support system of government regulations and infrastructure are not available.

Looking Ahead

The *Sustainable Trade* study appears to have had a catalytic effect on the Indian electronics sector. The companies interviewed often looked upon the exercise as an opportunity to enhance their own awareness about environmental issues. The survey might not have started a mass movement within the Indian Electronics Industry. But it certainly was able to shake it out of its complacency regarding its products and processes. Most of the industry now realises that many of its current practices might not be sustainable over the longer term. Importantly, a group of private companies has come together with the aim to carry on the work launched by this study. The survey also served to galvanize the industry associations into action. The largest and most important association of electronic goods manufacturers -- the Electronic Component Industries Association (ELCINA) -- is now very keen to provide assistance to the industry. The government too has initiated a project on similar lines with a view to educate the industry about environmental hazards emanating from the sector.

Six priority areas emerged for further work:

1. There needs to be a detailed study of the unorganized small-scale sector where the worst abuses of an environmental nature may occur. Also, since this sector has entire households involved in the work force, violations of work place standards, and the use of child labour etc. is a distinct possibility.

2. There is a need to develop a joint programme with the government and the industry associations that would activate the drivers for change (legislation and the supply chain) and move the industry from present levels of basic awareness on environmental management, product legislation and codes, to intermediate and advanced levels (such as the EU Directives).

3. There should be an investigation into the size and potential of the re-conditioned and re-manufactured electronics product market, as well as a detailed understanding of the business and environmental pros and cons of take back models at the company level and producer responsibility legislation at the macro level. The electronics industry association (ELCINA) should take this initiative together with the government.

4. Long-term partnerships with companies that 'play' in India need to be developed (e.g. Philips, Sony, Nokia).

5. A comprehensive eco-design training programme for product and industrial designers needs to be implemented. This should focus on real business and environmental issues and opportunities resulting from products that have been developed and designed to take account of life cycle thinking. The Commonwealth Science Council, in collaboration with ELCINA, IIED and the Centre for Sustainable Design, UK is organizing one such programme in February 2001.

6. There is also a need to fill the environment R&D gap by promoting best practice R&D projects in India. Here again, the expertise of the Centre for Sustainable Design and its ETMUEL (Eco-Design Training for Manufacturer, User, End of Life Management) project in disseminating the business case to small-scale industry may be utilized.

4.4 Tourism, South Africa

Introduction

Tourism has been identified by the South African government as a priority sector in terms of job creation, foreign exchange generation, rural development and poverty alleviation, and black economic empowerment. South Africa currently sits in a window of opportunity with respect to both policy and implementation of sustainable tourism development. Policy development on sustainable tourism has been strong and progressive at the national level, and this is beginning to be implemented. However, it has not been matched by provincial and local policy.

This country study centred on an examination of the realities on the ground for developing country producers, by means of a supply chain assessment of the area around the Addo Elephant National Park (AENP) in the Eastern Cape. This is one of the three poorest provinces in South Africa, yet one which has considerable untapped tourism potential. The AENP is the biggest tourist attraction in the area, followed by the privately owned Shamwari Game Reserve. The established system is made up almost exclusively of established white-owned tourism businesses.

Some examples of good practice exist that are beginning to deliver interesting developmental consequences and will lead to greater integration of community tourism initiatives with mainstream tourism. However, this mainly occurs in the townships of Port Elizabeth and not in the area immediately surrounding the Park, where embryonic community tourism initiatives remain fairly isolated. The central position occupied by the Addo Elephant National Park is not being harnessed to the full for the effective operation of the tourism system, nor for promoting moves towards more sustainable tourism. The existing social responsibility of tourism operators is homegrown rather than an externally imposed requirement from developed country operators. There is also little evidence of any environmental responsibility criteria in the linkages that are formed between operators.

Sustainability challenges in the supply chain

1. Tourism and livelihoods – Community workshops generally revealed a weak understanding amongst disadvantaged communities living around the Park of what tourism is, what it requires, and how a living can be made out of it. Misconceptions exist of tourism being an instant wealth-creator, instead of an industry that needs commitment, patience and hard work. While people do indeed require jobs and income from tourism, their desired livelihoods outcomes are far more complex, and include education, skills development and inter-cultural contact, and to be on the tourism map.

2. Supply chain requirements – A preliminary analysis of the interactions between the Addo Elephant National Park and selected suppliers revealed that the Park makes limited use of local suppliers, and has not been able to engage with any suppliers from disadvantaged communities on an ongoing basis. None of the suppliers appear to be proactive at the moment with regard to social and environmental issues.

3. Equitable distribution of benefits from tourism – Although there are no consolidated economic figures available, there are strong indications that much of the growth of tourism in the Addo system is economically viable. A clear priority, however, is to ensure more equitable distribution of the benefits accruing from tourism, as well as a broadening out of the ownership base.

4. Resource constraints – The general developmental context of the Eastern Cape province, including joblessness and administrative shortcomings, were identified as major constraints to the development of sustainable tourism. This is compounded by poor road infrastructure, which is worse in black areas and mitigates against tourism development, and slow policy implementation and service delivery with respect to tourism promotion. There is also a lack of integrated regional planning, and a lack of skills and resources for marketing.

Despite these challenges, there are a number of key opportunities for sustainable tourism development in the Addo area. The AENP has a potentially positive influence; it has stated social responsibility policies and it is required to promote ecologically sustainable development. The commercialisation of AENP facilities could be designed to optimise environmental, social and equity goals. There are other

opportunities to build on existing good practice examples, such as the Shamwari outreach programme and the social responsibility approaches of some tour operators. Finally, there appears to be a growing awareness of the environmental and social impacts of tourism in key international markets.

Consumer demand for community-based and cultural tourism

The Addo tourism system is rapidly expanding and growth is experienced in both the domestic and international markets. At the moment, the Addo market consists largely of mature, well-educated and affluent foreign tourists. The growth in cultural and township tourism in Port Elizabeth currently appears to be the area of greatest growth for black entrepreneurs and community groups. Very little is known about the demand for cultural tourism in areas around the Park. However, there is anecdotal evidence of increasing demand, and the rapid growth of the Port Elizabeth-based cultural and township tourism sector holds promise for similar growth in the Addo area. Surveys of international demand support this, indicating the need for well-run and interesting community projects and cultural tourism initiatives in the Addo area, to diversify the existing tourism product which is currently predominantly one of wildlife tourism.

International surveys indicate rising consumer awareness of the environmental and social impacts of tourism. This is particularly so in the key German market, where awareness has increased rapidly in the last decade, and there are high levels of interest in genuine interaction with local people and cultures. However, overall consumer demand for more environmentally and socially responsible tourism appears to be low, and development of this is being hampered by a number of factors, including lack of awareness of the issues on the part of travel agents and tour operators, and lack of supply and insufficient knowledge of what does exist.

Is sustainable tourism the answer?

As no major regulatory or external pressures pushing towards more sustainable tourism practices are being felt by the Addo tourism system, a key question begs to be asked: Given the current low levels of consumer demand for more environmentally, socially and ethically sustainable tourism, should sustainable tourism be the goal for the Addo tourism system?

The study concludes that despite this lack of external pressure, there are convincing arguments in favour of adopting a proactive stance towards sustainable tourism development. Justifications for this standpoint include the following:

1. 'Responsible' tourism, which encompasses social and environmental responsibility, is the guiding principle for tourism development in South Africa.
2. Shifts towards greater awareness and demand for sustainable tourism are becoming increasingly apparent in one of South Africa's (and Addo's) key markets, the German market, and to a lesser extent in the UK market.
3. Evidence suggests that tourism that does not seek to mitigate environmental and social impacts ultimately destroys itself.
4. Given South Africa's current socio-political context, there is a critical need to address social equity issues in the tourism sector.

Given this approach, the question is not so much an imposition of costs, but rather the need to encourage stakeholders to think proactively about steps they could take to promote sustainability that would be cost-effective too. Awareness-raising and promotion will clearly be crucial elements of a successful sustainable tourism strategy.

Key recommendations I: Priorities for action

1. Awareness raising, education and communication – A critical constraint for the future of the industry is the widespread lack of environmental awareness at all levels, including the service providers, and a realisation that this concerns the future of the industry. In some cases, this is due to a lack of knowledge and understanding. In others, it is due to a perception that this is not a priority. The relatively isolated nature of emerging community tourism initiatives highlights the need for improved communication between all elements of the Addo tourism system.

2. Trading links and business development issues – Improved linkages between different stakeholders in the Addo tourism system are important to improve the economy of the valley through tourism. Tour operators often have a narrow focus on the game reserves in the area, to the exclusion of historical and cultural attractions. It

is clear that creating better linkages between tourism stakeholders is a key mechanism to achieve a more diversified and integrated tourism product, which would be capable of holding tourists for longer in the area. Business skills development is a further crucial need.

3. The need for a holistic approach to sustainable tourism – While much remains to be understood concerning drivers for sustainability, this research has revealed fragmentation in this respect. The market appears to play little role in stimulating social and environmental responsibility, and legislation appears to be a greater driver at present. For tour operators, however, it appears that where environmentally and socially responsible practices exist, they are driven more by a combination between a responsible operating ethos and business realities, than by any international or national regulatory or policy demands. In general, study participants agreed that there was no common vision for tourism in the province, far less one that had sustainable tourism at its heart, but indications are that a wide range of Addo tourism system stakeholders are receptive to engaging with the sustainability agenda.

4. Leverage points – A number of key leverage points for initial action in moving the Addo tourism system towards more sustainable practices were identified, including the South African National Parks, tour operators, car hire companies, the Tourism Business Council of South Africa and the national Department of Environmental Affairs and Tourism (DEA&T).

Key recommendations II: Practical tools

The key audiences for outputs of this work were loosely identified as policy makers and business. However, within the context of the South African case study, it is clear that "business" should be further disaggregated into the established, more mainstream tourism industry and emerging community tourism enterprises. In all cases, what is required is **practical guidance**. The following activities are proposed, towards developing practical tools to enhance more sustainable trade in tourism:

1. Market research - A conclusion of report after report on tourism is the need for improved understanding of the demand side. If both new and existing initiatives are to be viable and if it is accepted that this means demand-driven, then this is a critical area. This is where the interaction between the 'development' side and the 'market-oriented' side of community tourism initiatives becomes critical, particularly in an area

like Addo where community-based tourism projects have been proposed for seven years without communities seeing any tangible benefits. While indications are that demand for cultural tourism is growing, there is a danger of over-estimation, and thus a need for careful market research coupled with integrated promotion.

2. Sustainable tourism awareness-raising programme – This should target all components of the tourism system, and should be linked to activities to promote communication and linkages within the tourism trading system. It is envisaged that the awareness-raising programme is developed and piloted in the Addo area, possibly in the form of a roadshow. The programme should be developed in a participatory fashion and should draw on existing skills in a creative manner. It could be designed to result in local standard setting and/or a local policy on sustainable tourism. Another possibility that was raised and endorsed at the multi-stakeholder workshop was to develop a 'green' brand of tourism for the Addo area, which could be used proactively as a marketing tool. After piloting, the project / roadshow could be taken to other areas of the country facing similar tourism challenges.

3. Local supply chain co-evolution of environmental and social criteria – This would involve the Park working in partnership with suppliers to develop appropriate environmental and social criteria for the supply chain. This would set an example for other tourism businesses in the area, and once again could serve as a pilot project, sending a message upwards to the SANP that could be taken on board by the organisation. A first step would be to assist the Park to identify suitable local suppliers.

4. Development of practical guidelines for tour operators – It is proposed that the research team would work with local good practice tour operators like Calabash Tours, in order to develop guidelines for operators wishing to engage proactively in environmental and social responsibility practices.

5. Develop a case study exploring the environmental impact of a tourism company – This would require a willing business partner, and would seek to find ways to reduce negative impacts and optimize potential positive effects. Information obtained through this activity could be used in branding / standard setting.

6. Pilot a business support system – The aim of this would be to develop tourism businesses which are sustainable. Particular emphasis could be placed on emerging

community tourism enterprises, as the new Tourism Enterprise Programme (TEP) appears to be focusing on existing black entrepreneurs. As well as entrepreneurial skills development, a key component of this support system would be focused on bridging the gap in terms of marketing links for black operators direct with the foreign market.

7. Relevant infrastructure into IDPs – This component would aim to work with stakeholders around local level planning processes, in order to ensure that tourism infrastructural needs are included within integrated development plans (IDPs), where they will be linked to timeframes and budgets.

The above steps indicate initial activities to promote more sustainable patterns of trade. They embrace both domestic and international tourism trade in the Addo area, and are intended to be implemented as part of an integrated tourism development programme for the area, that engages with all aspects of sustainable tourism – social, environmental, institutional and economic. The activities are also focused on dealing with realities experienced by producers and suppliers, with a particular emphasis on steps required to promote integration of community tourism initiatives into the regional, and ultimately the global tourism trading system.

These conclusions will be presented to key public and private stakeholders at the national, regional and local level, to further develop these ideas, at a workshop to be held in January 2001. It will be critical to obtain the support of the DEA&T, as well as the Tourism Business Council of South Africa (TBCSA), in order to optimise synergies with existing initiatives. While activities proposed are tailored to the Addo context, it is clear that the situation is the same in most areas of South Africa, and thus there is potential for wider uptake of the research findings and recommendations.

5. Lessons and Conclusions

The four country studies for this project were chosen in part for their distinct characteristics and the differences between them. One might expect to find few common lessons from a series of studies focusing respectively on such diverse export sectors as a traditional primary agricultural product (cocoa), relatively simple manufactures (garments and textiles), complex manufactures (electronics) and a service (tourism). Indeed, the individual sustainability issues faced in each case are highly specific, not only to the sector but also to the countries studied. The role of sustainability requirements within the supply chain also differs according to the sector – in some, environmental and social standards are an 'entry ticket' for producers to supply a market, while in others, they are a 'trump card' which may attract a premium. Despite this diversity however, a set of clear and over-arching conclusions can be drawn, with common lessons for policy makers and actors within supply chains.

Supply chain or trading network?

The notion of a supply chain is itself of questionable value in this kind of analysis. Seldom are the critical sustainability issues confined to a linear progression of inputs and outputs from producer to consumer. The complexity of actors influencing and being influenced by sustainability factors around a particular product or service indicates the need for a broader notion of a 'trading network'. Likewise, it is misleading to view the primary trading relationship as one between a Northern consumer and Southern producer, as there is a multiplicity of market interactions at both production and consumption ends. For example, a UK-based holiday company may deal with a South African inbound operator to provide a package of accommodation and other services, but that operator in turn engages with numerous input suppliers and other agents, some local and some international, such as car hire companies.

Primacy of socio-economic concerns

It is clear that the trade and environment interface needs to be addressed within an holistic sustainable development context. This can mean that environmental concerns within the trading system are often obscured or sidelined by apparently more pressing socio-economic factors. Promoting environmental improvements in the supply chain may have to take a back seat until all stakeholders feel that livelihood security and basic infrastructure are improved. In some cases – as seen in

the cocoa sector – there is a danger that sustainability initiatives are regarded with suspicion by local stakeholders if the broader developmental context is not adequately addressed.

Windows of opportunity

The case studies all demonstrate the significance of 'windows of opportunity' which provide the conditions for sustainable trade. The drivers creating these opportunities vary. International policy change is significant, such as the MFA phase-out for Bangladesh in 2005, which is stimulating a proactive stance to face the threat of loss of business. National policy objectives, such as the South African desire to encourage community-based tourism, can also create the environment for change. Industry-led supply chain initiatives appear to be another key driver, whether reacting to technical or environmental threats to production, such as the International Sustainable Cocoa Programme, or proactively developing social and environmental supply chain requirements to protect against potential threats to brand value, such as in the garments industry.

It is notable that none of the four case studies identify consumer demand as a major driver for sustainable trade. For all the talk of green opportunities, the organic produce sector remains the sole high-volume example of consumer pressure leading to sustainable production and trade opportunities for developing country producers. Even other successful sustainability initiatives, such as certification for sustainably grown forest products, cannot be seen as the result of direct consumer demand; rather they are due to the awareness-raising campaigns of civil society organisations and the foresight of certain committed company executives. This distinction is often overlooked but has striking implications for strategies to promote sustainable trade which rely on the assumption that there is a ready market for sustainable products and services.

Diverse success factors

Whether these windows of opportunity for sustainable trade are recognised and transformed into action seems to depend on a variety of factors. The case of Beximco in Bangladesh illustrates the importance of key pioneers, both individuals and leading companies, in setting the sustainability agenda and giving a lead for other companies to follow. Exactly why some entrepreneurs have the vision and enthusiasm to break the inertia of convention is not clear, but profiling the sustainability trailblazers, particularly among Southern producers, may be a key step

towards understanding how this pioneering spirit can be institutionalised and replicated. Openness to collaborate within an industry and an enthusiasm for engagement with buyers to develop common approaches to sustainability challenges is a second major factor, as witnessed in the Bangladesh case study. A third catalyst for change is an awareness of the sustainability agenda – the survey conducted for the India study has acted as a wake-up call for the industry and has led to concrete steps to take action. It is, however, clear that awareness-raising has a great way to go in all sectors covered by this project, not only among producers but also among policy makers and consumers. Capacity building for negotiation, technical innovation and implementation is a further prerequisite – but it is also clear that industry players and governments need to get beyond this oft-cited platitude, and identify practical and concrete steps to facilitate the process.

Adding value and dealing with market power

Across all the sectors studied, the desire for producers to increase and capture a greater share of the value added of their products is clear. How developing country producers attempt to do this, and the opportunities offered within often highly competitive markets, vary from case to case. For example, some actors identified the potential of local or regional branding to allow market differentiation based on social or environmental values, such as a 'green' tourism brand for the Addo area or a Bangladeshi set of social and environmental guidelines for garments and textiles exports. In the Ghanaian cocoa sector, opportunities for adding value could lie in expanding processing capacity or developing systems for traceability to identify and reward producers using sustainable production methods.

However, the potential for southern producers to add value in this way may be severely restricted by limited market power. The combination of market concentration among retailers, as currently witnessed in the food sector, and rapid trade liberalisation, is creating a buyers' market in many sectors central to developing country export prospects, with an increasing concentration of market power on the demand-side and an expansion of the supply base in the South. The garments sector, for example, is facing annual retail price deflation of at least five per cent. Ghanaian cocoa producers, already having to deal with the deflationary consequences of significant excess supply, now face the prospect of further liberalisation of previously state-controlled production and export regimes and the potential expansion of production in other countries. While globalisation may offer southern producers access to new markets, it does so on increasingly unfavourable

terms, restricting opportunities to invest in long-term sustainability. One suggestion coming out of project workshops is the need to recognise access to markets on an equitable basis as an additional form of capital within the sustainable livelihoods framework.

Financing public goods

Finally, given this imbalance of market power and the observation that there is very little defined consumer demand for sustainable goods and services, it is important to conclude from the case studies that markets alone are not sufficient to create the conditions for a shift to more sustainable trade. By their very nature, successful voluntary initiatives are limited to those sectors and countries where there are sufficient public expectations and demands to prompt corporate action.

Where sustainable trade offers well-defined public goods which the market alone is failing to provide, it is the role of policy to ensure that these goods are adequately financed. This applies equally to the biodiversity protection and rural livelihood opportunities of sustainable methods of Ghanaian cocoa production, the community development possibilities of sustainable tourism in South Africa, avoiding local health hazards from textile processing in Dhaka, and establishing waste-minimisation processes in the Indian electronics industry. A combination of regulation and investment is clearly necessary to address many of these issues, but this project also identifies the crucial role of innovative multi-stakeholder mechanisms to identify and develop ways to finance these public goods.

6. Developing Guidance for Stimulating Sustainable Trade

Transforming Trade Networks

The challenge is how to translate these lessons into useful guidance for decision-makers who want to expand export revenues in line with sustainable development. A fundamental starting point is to recognise the reality of complex trading systems with multiple stakeholder interests, and take a comprehensive view of the full range of factors to be integrated into both analysis and action.

Lessons can also be learned from others, notably in the recent work on 'market transformation' and the 'global public policy networks'. The UK Government has adopted the 'market transformation' approach as a way of addressing the complexities of achieving sustainable patterns of production and consumption domestically. In practical terms, market transformation means:

- giving consumers better information and encouraging purchasing initiatives which help to move the market;
- encouraging sustainable production by identifying indicators, setting targets and monitoring, promoting best practice, and supporting research and innovation; and
- providing a supporting framework of information and investment programmes, and where appropriate, regulatory and fiscal measures.

The term 'global public policy' (GPP) networks has been coined by Wolfgang Reinicke to describe a new generation of creative, tri-sectoral arrangements – bringing together governments, business and civil society – that have emerged to deal with the inability of traditional international institutions to respond to the demands thrown up by globalisation. Examples include the World Commission on Dams, the International Coalition to Ban Landmines and the Roll-Back Malaria Initiative.

Global Public Policy Networks: the Lessons for Sustainable Trade

The principal function of the emerging breed of global public policy networks is to fill the operational and governance gaps left by the inability of existing institutions to adapt to the new global condition of economic and political liberalisation, and rapid technological innovation. Six main activities can be identified.

a. Placing new issues on the global agenda
b. Negotiating and setting global standards
c. Gathering and disseminating knowledge
d. Making and deepening markets
e. Implementing global agreements
f. Tackling the challenge of local-global and North-South inclusion

Overall, these new mechanisms can help overcome stalemates in highly conflict-ridden policy areas, and generate critical intangible outcomes such as trust. The implications of this analysis for sustainable trade are compelling. All the case studies highlight the inability of markets to produce valuable public goods – notably in the case of cocoa cultivation – and the need for innovative mechanisms to close the gap between supply and demand by 'deepening the market'. Furthermore, all the case studies reveal the need for more inclusive participation from the South in decision-making as a critical element.

Source: Wolfgang Reinicke and Francis Deng, Critical Choices, IDRC, 2000

Designing the Package

What these two examples and the case studies highlight is the need to adopt a package of measures capable of addressing the multiple constraints and opportunities for specific types of trade. Six elements emerge as critical ingredients for such a package:

- **Cultivate Lasting Demand:** Initiatives for sustainable trade depend on the active awareness and demand on the part of consumers. To change market relationships such as those involved in international trade, consumer preferences for social and environmental values have to be cultivated through broad-based awareness raising and social marketing – they are by no means automatic. The initiatives that have been most successful in changing trade relations – such as the Forest Stewardship Council or perhaps the Rugmark scheme – have depended upon firm foundations of broad-based public awareness, built by years of campaigning, media programming and government educational activities. In

this light, the 'fair trade' movement can be seen as an effort to create new preferences among European consumers to value conditions of producers in the South along with price and quality. This means developing new alliances with organisations in the North – not only to raise general levels of awareness but to find ways of translating these into effective demand.

- **Encouraging Local Awareness Raising and Involvement:** In addition to that of consumers, the awareness of producers and other local stakeholders must be enhanced. This may be achieved through carefully targeted workshops and other initiatives at local and national sector level. The aims should be to provide local stakeholders with the capacity to develop their own proactive strategies on sustainable trade and to promote local ownership of the agenda.

- **Invest in Process and Product Innovation:** Moving to sustainable patterns of production and trade requires investment of time, commitment, human resources and finance in innovative ways of processing goods and designing new product lines. For larger companies with R&D budgets – such as Beximco and Samtel – the linkage between innovation and sustainability has already been made. For smaller firms (and smallholders), investments will need to be made on a more collective, cluster basis. Given that these interventions are designed to yield productive benefits, then new credit mechanisms may be needed – rather than grants – to drive the process.

- **Reward Improvement:** A recurring theme is the need to find ways of rewarding producers and traders that invest in more sustainable business practices. While the classic way of doing this is through product differentiation, labelling and premium pricing, there are often limits to this approach. Other options include revising contractual arrangements with buyers to give favourable terms for suppliers but without charging the consumer more – a model adopted by Co-op Suisse for organic cotton. New ways are also needed of ensuring that developing countries can share a greater share of the rent from end-consumer branding, perhaps via joint ventures with marketing operations. It is here that innovative public financing mechanisms are also required to pay for those benefits that cannot be captured in the market price.

- **Co-Evolve Standards:** If producers and communities in the South are to capture the full benefits of sustainable production and trade then they will need to be fully involved in shaping the standards. Too many initiatives – however well-intentioned – maintain the South as the target, but largely exclude the South from priority-setting and decision-making. Governments and others can help in this process by helping to develop good practice guidelines for initiatives that address North-South trade and sustainable development: if Southern stakeholders are not involved centrally, then questions should be raised about legitimacy and effectiveness.

- **Share Governance:** Ultimately, sustainable trade requires different forms of governance for international trading networks, which ensure greater transparency and accountability of commercial transactions, and enable participation and involvement from hitherto marginalised stakeholders. While a growing number of corporations are introducing mechanisms to respond to stakeholder concerns on a domestic level few – except those in the fair trade movement – have developed tools for the shared governance of trade relations. In some cases, this new form of governance could be achieved through collective initiatives (for example, by extending the mandate of initiatives such as the International Sustainable Cocoa Programme). Achieving this is perhaps one of the most challenging issues for corporate responsibility in the years ahead.

Process Steps

The approach developed by the project team in this phase of *Stimulating Sustainable Trade* also points to a four-step process of assessment and engagement at the country level, which could establish what weight to give to different elements of the package.

- *Step 1: Engagement*: The project has shown the diversity of conditions and concerns between different sectors and countries, and a starting point is to understand the complex and dynamic relationships of the particular trading network, cluster or region. Without this, interventions could be naïve and ineffective.

- *Step 2: Assessment:* Flowing on from this mapping exercise is the need to understand the systemic sustainable development issues for the current trading network (value creation, equity, ecological impacts, governance…) and establish strategic benchmarks for the future – without this interventions could be superficial and episodic.

- *Step 3: Alliances:* The next step goes beyond analysis to identify champions and new alliances to take the lead in realising the objectives – without this actions lack ownership and buy-in.

- *Step 4: Investment:* A final process step is to invest in the strengthening of 'soft' capacities through awareness raising, training, brokering, demonstration pilots, along with and 'hard' capacities such as technological innovation, infrastructure and law.

This last step represents the core for future work and one which the project has yet to address.

7. Taking action: Next Steps

The *Stimulating Sustainable Trade* project is already moving from a primary research focus to one based on engagement and responding to stakeholder interests. In the next phase, this trend would need to be accentuated – with a special focus on raising the profile of the work through formal alliances with public agencies, business bodies and NGOs.

Three types of action flow from the Phase 2 of *Stimulating Sustainable Trade*:

- first, an immediate exercise of projecting the results, raising awareness and generating feedback;
- second, designing specific follow-up exercises to pursue particular opportunities and insights; and
- third, developing the policy case for a more formal initiative to promote sustainable trade – a European Sustainable Trade Centre or Network?

Projecting the Results

In some cases, the project appears to have had a catalytic effect, stimulating local enthusiasm for immediate follow-up. In India, the Commonwealth Science Council in collaboration with ELCINA (the electronic components industry association) will hold a training session on emerging EU regulatory requirements and possible eco-design response options in February 2001. Similarly, in South Africa, a workshop will be held to press home the findings of the case study with national level decision-makers in January 2001.

Other activities that could also be usefully taken to widen the impact of the work:

- launching the results nationally and gaining media coverage
- distributing the Overview Report and Country Studies via the web
- producing an Earthscan book: this is planned for early 2001
- generating short briefings to the case studies and conclusions
- developing training materials

However, none of these activities are currently funded.

Proposal 1: Identify funding requirements to project the results of Phase 2.

Designing Specific Follow-Up Exercises

In addition to the follow-up exercises that are already planned in India and South Africa, some other specific themes for further work have emerged including:

Proposal 2: Assessing the effectiveness of existing programmes for promoting exports of sustainable goods and services.

Proposal 3: Reviewing trade policy rules that act as a barrier to access for sustainable goods and services.

Proposal 4: Target 2005 - Explore the feasibility of targeted sectoral initiative to support textile and garment manufacturers in least developed countries improve social and environmental performance in the run-up to the phase-out of the Multi-Fibre Agreement.

Proposal 5: A European Sustainable Trade Centre/Network – The results of Phase 2 and the enthusiasm generated by the project suggest that the decision that has to be made is whether to develop a formal mechanism for encouraging progress in the marketplace. One suggestion is for the establishment of a European Sustainable Trade Centre or Network, which would act as a dedicated services to facilitate imports of sustainable goods and services into the EU. This Centre or Network could build on existing government, business and NGO activities, and form alliances with organisations in the South to:

- ensure regulatory transparency and dialogue;
- broker multi-stakeholder agreements;
- reduce overlapping or competing schemes;
- provide a complaints' mechanism;
- support marketing and awareness raising; and
- assist producers make the transition.

The EU has already given the promotion of sustainable development high priority as part of its trade policy agenda, but has yet to turn this commitment into a practical mechanism that could not only build trust, but also yield positive financial benefits for developing countries. The establishment of the European Sustainable Trade Centre or Network could help fill this gap.