

# **How to succeed in forming industry standards for environmental and social responsibility?**

**- A multi-industry study analyzing the cooperation process of forming environmental and social industry standards.**

**Ian Hamilton**

Supervisor:  
Beatrice Kogg

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Tel: +46 – 46 222 02 00, Fax: +46 – 46 222 02 10, e-mail: [iiiiee@iiiiee.lu.se](mailto:iiiiee@iiiiee.lu.se).

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## **Abstract**

The formation of industry standards for environmental issues and corporate social responsibility is gaining acceptance but the number of successfully implemented programs are few. On an individual level companies have for some time applied company standards or codes of conduct. But on a collective level cooperation seems much more difficult. Although from an economic point of view there are clear incentives for companies to cooperate and form collective industry standards. This research looks at factors affecting the process of forming multi-stakeholder initiatives for environmental and social responsible corporate practices. Field data from three industry initiatives for sustainable practices are gathered using an analytic and explanatory framework. The model, which was initially developed for the forest sector has been adjusted to apply for all industries in this study. The three industries are besides forest, the textile and palm oil sector.

Key factors such as industries place in the global economy, structure of the industry, and the history of in the industry on the public policy agenda do play an active role when forming MSIs. Other factors found to be important from the industry cases are to have broad interests represented; concentrated industry interest, and enter discussions with a clear agenda. In spite of positive presented factors failures to reach common ground occur. Some critical barriers are a lack of shared visions between stakeholders and participants standing too far from each other for negotiations to even be considered. Having project management handled by an external facilitator was demonstrated as a success factor in one industry formation process. The three studied industries showed an inverse relationship between product brand recognition and the success of forming MSIs. The higher brand valued a product has the harder it seems for industry initiatives to cooperate. However the correlation needs to be further tested due to the limited number of industry cases looked at. Future understanding in forming successful multi-stakeholder initiatives is important as consumer pressure and NGOs are demanding sustainable practices for environment and corporate social responsibility.



## **Executive Summary**

Environmental and social responsibility was seriously added to the corporate agenda in the early 1990s. This was many times demanded by influential consumer groups and non-government organisations (NGO) responding to unsustainable environmental and corporate social practices. Since then corporate codes of conduct has for the most part been established among large and publicly traded companies. However, there are a number of drawbacks applied to individual monitoring systems. In economic terms and reasons of credibility it would make more sense for enterprises to engage in collective industry initiatives.

The collective approach in this context refers to multi-stakeholder initiatives (MSI). This means that criteria are negotiated by or part of a larger arrangement between companies, and NGOs and/or trade union organisations. These arrangements involve follow-up activities and discussions to agree upon a code of conduct that is to be implemented under the review of the initiative. In spite the fact that the textile industry today is investing large amount of resources controlling suppliers' compliance with corporate codes of conduct, still there are examples of initiatives failing to reach common ground. Who owns this problem? The authorities, the industry or me and you as consumers? The purpose of this Master Thesis is to study: *How and why do certain factors affect the process of forming multi-stakeholder initiatives for environmental and social responsible corporate practices?*

The better address this question this thesis will look at the formation processes of three multi-stakeholder initiatives in three separate industries. One of the very first industries to develop environmental standards, that its products would meet a number of established sustainable criteria, was the forest sector. The forest industry case selected for this study looks at how the certification body, Forest Stewardship Council (FSC), was nationally established in Sweden during the latter part of the 1990s. The second study is from the textile sector. Almost all retailers and western brands use suppliers in low cost production countries mainly in Asia. The textile industry has been recognised by NGOs for trading with suppliers involved in questionable factory working conditions. The second case will show how a collective Swedish textile initiative was formed during the period of 1999 and 2001. Finally, the last industry case looks at palm oil and primarily the issue of deforestation which was recognized by World Wide Fund for Nature (WWF). They approached the industry in an initiative of setting cooperative criteria for sustainable palm oil.

Even though each industry is different, two of the three initiatives were formed in Sweden. In the third industry case one key stakeholder is a Swedish company. The advantage of a common geographic scope is that the surrounding political and economical governing structure is as equal as possible when analysing these cases.

To better understand the formation process of selected industry initiatives an analytic and explanatory framework was used based on research from the forest industry. All three industry formations have been analysed through the frame work consisting of three steps. First it is established whether the case is qualified as a multi-stakeholder initiative without any involvement from authorities. All cases are considered a non-state market driven governance systems. The point is that industry or the market is setting the rules for how a responsible industry should behave. The second step is to test the formation process using a number of factors that may affect outcome of the industry formation. These factors are *industry's place in the global economy, structure of the industry, and the history of industry on the public policy agenda*. The third and final step deals with strategies used to motivate change in position. When industry negotiations run into deadlock between two or more participants either *converting* or *conforming* strategies might be applied.

The Swedish Forestry sector is depending on forest exports. Large buyers such as Germany and United Kingdom are putting pressure on the industry asking for certified wood. Competition from east European countries also pushes the industry to comply with forest certification to gain market access and price premiums. Sweden has a longstanding tradition of cooperation and integrated associational systems making it a key factor in the formation process. Even though the formation of Swedish FSC is considered by many a success the private forest owners withdrew from discussions and joined a competing certification standard. With them half the ownership of Swedish forests was outside FSC. The remaining stakeholders supporting FSC were however strong and the industry succeeded in certifying large volumes of forest. The question remains if the private forest owners left the process too early? The consequence of this is that there are two certification standards on the market. Some stakeholders argue that one standard would be preferable.

Sweden like many other countries have seen the domestic textile industry disappear mainly due to competition from countries with low production costs mainly from Asia. To meet the high customer demand for clothes Swedish retail chains and brands need to rely on imports. A multi-stakeholder initiative was formed with participation from industry, trade unions, campaign organisations, and NGOs. This formation was called DressCode and endured three years of discussions before the union decided to step out. DressCode was unable to establish common ground. The opinion of the labour unions differed to the extent that they decided to withdraw from further discussions. With them the entire credibility for the industry initiative disappeared.

The global market for palm oil has grown tremendously the last decade. Relative to other edible oils, palm oil is considered having attractive product characteristics and a relative low price level. Together with industry leaders WWF initiated the Roundtable for Sustainable Palm Oil. The number of participants along the supply chain grew and soon the palm oil producers were convinced to join. The global public concern for establishing a sustainable agenda for palm oil production is strong in some regions. The fact that palm oil is a commodity (ingredient in food) and not the final product for consumption makes it much more difficult to maintain high public concern.

In the analysis section primary and secondary research data is translated into a regular SWOT (Strength, Weakness, Opportunity, and Threat) analysis. These findings are then presented next to the analytic and explanatory framework described earlier. The reason for applying a SWOT analysis is because the study wanted to identify if there are other factors of importance when trying to understand the formation process of industry initiatives?

In parallel with the analytic models it was also tested whether product brand recognition and multi-stakeholder initiatives somehow are related? The notion is that high value brands tend to be more sensitive to negative press or the risk of being associated with any type of environmental or social scandal. If so can it be established that these type of companies also are less interested in seeking a multi-stakeholder approach to minimize the risk of negative environmental and social exposure? Companies could argue that is easier to establish and control an individual code rather than depending on a shared group decision. In the three studied cases there seems to be an inverse relationship between brand recognition and interest in forming multi-stakeholder initiatives. However, if this is unique for these three specific cases or general for all industries needs further research to prove.

A SWOT analysis was as applied to three cases, next to the analytic and explanatory framework, with the outcome that equal factors being important. Basically the same pressing issues are identified but reaching there using separate frameworks. As mentioned earlier



achievement strategies (*converting* or *conforming*) can be used to gain or maintain support for industry standard formations. Conforming strategies are seen as less beneficial by certification programs as it implies a change to take place in the program. When comparing conforming strategies used to gain support in the three industry cases, the correlation between conforming strategy and the outcome of the industry initiative was not established in this study.

Factors effecting legitimacy for the forest sector (place in the global economy, structure of the forest industry, and the history of forestry on the public policy agenda) also applies for the two other industries. In conclusion, critical factors for the FSC process were a broad group of stakeholders represented, industry concentration and customer pressure demanding certification. Also, critical factors for the palm oil process have so far been the ability to bring both demand and supply side to the negotiating table. To succeed in this the demand side felt the pressure from end consumer and the supply side felt the competition from soy oil industry.

In addition the SWOT findings report that with the industry coordinator rests a big responsibility. Difficulties keeping the MSI together can as in the DressCode example easily result in differences in personal opinion and chemistry among participants. The experience in the Roundtable for Sustainable Palm Oil was to use an external facilitator to bridge the interest between participants in a novel way.

Forming industry standards for environmental and social responsibility is the way to go as customer pressure will demand it. Initiating and implementing cost effective and successful multi-stakeholder initiatives is a challenge for companies and organisations. Therefore the knowledge of how to succeed in executing these programs will prove valuable. It is my hope that this Master Thesis can prove useful guiding participants in multi-stakeholder initiatives as well as further academic research.

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## 1 Introduction

*This chapter will introduce three industries and the industry formation processes that this thesis is to study. Also, in this chapter, the purpose, methodology, scope and limitations of the studied area are presented, along with an overview explaining the thesis structure.*

Companies of today have an extended responsibility for environmental and social issues. This pressure is mainly noticed by western located commercial firms. This means that companies indirectly are responsible for unsustainable practices along the supply chain. Companies used to say that this was not part of their problem. Today it is. To limit the risk of being associated with any sort of environmentally or socially criticised activity companies establish rules and norms related to environmental and social behaviour.

Rules can be established on an individual corporate level or in a collective approach. We can find examples of individual rules in the textile industry where these rules are referred to as codes of conduct. They stipulate how companies and also their suppliers are supposed to behave in terms of environmental and social questions. However, there is an underlying dilemma for companies to comply with their codes of conduct. The purchasing side of a company deals with finding the least costly ways of buying raw material of goods used for processing. At the same time companies assure that they will only supply goods in a sustainable way. Some companies will eventually face a trade off. Do we source cheap or do we pay more and go sustainable?

Critics argue that there is an unhealthy component when companies handle the question of dual interests only based on internal verification. They argue that it is the hand that is feeding companies that will be the stronger. Another problem with individual corporate rules applies when many companies share the same supplier which is responsible that a number of codes are requested to be followed. The supplier will face increasing costs and difficulties to conform to a large number principles and codes.

The collective approach in this context refers to multi-stakeholder initiatives (MSI). This means that rules are negotiated by larger arrangements between companies, and non-government organisations (NGO) and/or trade union organisations<sup>1</sup>. These arrangements involve discussions to agree upon a code of conduct that is to be implemented under the review of the initiative. The advantage is compared to individual initiatives that many voices are heard and the result of discussions is based on a intended consensus decision. It has been argued hat MSIs go beyond most company codes of conduct with better defined methods and procedures for internal monitoring and external verification of compliance<sup>2</sup>.

Another advantage is that an industry program based on wide platform stakeholders has a much stronger credibility in the eyes of the external audience. Until now there are not many examples of successful MSIs to study and learn from. Naturally the matter of reaching common ground among a varied group with many opinions is much harder than establishing an individual program. Until industry initiatives are formed and move into operation the majority of manufacturers and retailers will continue to develop and carry out their own code and monitoring programs.

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<sup>1</sup> Centre for Research on Multinational Corporations, <http://www.somo.nl/monitoring/reports/Monitoring%20&%20Verification%20Term%20guide.pdf>

<sup>2</sup> Maquila Solidarity Network, <http://www.maquilasolidarity.org/resources/codes/pdf/codesmemo13.pdf>

*The question is why companies do not seek to agree upon a standardised program or a uniform set of industry codes?* There are economic incentives both for buyers and suppliers if creation, verification and monitoring of codes of conduct could be shared by several industry actors. Suppliers would be more effective if they only had to adhere to one set of industry standard rather than complying with a vast number of standards pointing more or less at the same rules. If there are strong arguments in favour of collective initiatives, why is it not done? A possible explanation is that industry initiatives are difficult tasks and take time to put in place. Another potential rationale based on old and obsolete notion is that opposite sides of the industry (buyer & supplier) are not supposed to join forces. **This study will set out to look for answers by analysing three industry approaches and how they are forming a common standard to sustainable practices.**

## 1.1 Background

Government regulation is one policy instrument for mitigating negative environmental impact imposed on industry. During the last 10 – 15 years there are many examples of environmental laws being put in place by governments. But instead what caught my interest is an alternative approach of achieving sustainability without government involvement. Here the whole idea is to have actors on the market develop a self-regulating system and help improve environment and social corporate practices. I am interested to search for the fundamental settings required for a market driven system to work? If a working model for this could be successfully established why not copy it and offer its usage to areas outside environmental policy making. The area of world politics and peace negotiations to mention an area of never ending focus.

Governments actually do let the market take the lead in environmental policy making. Arguments are that since the industry is responsible for the pollution why not let them and the market forces (consumers) pay and take charge of mitigation as well. In cases like this the industry prefers to be in charge of the creation process so that it suits the interests of themselves and affiliated member companies. **This study will involve with non-state market driven governance systems and try to see how market type of policy making can contribute when forming standards for the environment and social responsibility?**

To accomplish this I will be looking at three industries. One of the very first industries to guarantee that its products would meet a number of established sustainable criteria was the forest sector. I will look at how the international Forest Stewardship Council (FSC) was nationally established in Sweden during the latter part of the 1990s. The reason I am studying FSC certification in Sweden is because it is considered a success among non-government driven market initiatives. Compared to the other two industries FSC Sweden has a longer history to learn from.

The second sector under study is textile. If the forest sector mainly focuses on environmental issues for enterprises to consider, the textile sector is involved in correcting social irregularities among suppliers. Unlike the forest industry the clothing industry and primarily the fashion industry seem to concentrate less on manufacturing and more of the demand side of the sector. The clothing industry predominantly uses suppliers in low production cost countries. We will learn how a collective Swedish textile initiative was formed during the period of 1999 and 2001.

Palm oil is the third and last industry to be analysed. This is a relatively unknown sector in the eyes of the public but the environmental impacts have made several non-governmental organisations (NGO) react strongly. The industry has its concentration in South-East Asia. Palm oil is used as an ingredient in food production. This makes the product less recognizable

for end consumers as compared to clothes. Nevertheless, an industry led initiative was initiated and is currently taking form. The connection to Sweden is via a Swedish palm oil processor participating in the executive committee.

To better analyse these industries I was intrigued by the work of Prof. Benjamin Cashore at Yale School of Forestry & Environment Studies in United States. Cashore's group try to explain the development of forest certification in North America and Europe. They use a analytic model I wanted to test for the two other industries as well

## 1.2 Purpose

**Understanding how non-government governance systems are formed and gain authority is important as it may replace traditional command and compliance for public policies in other areas than forest.**

Why is the issue of legitimacy so important for us? Cashore show that each country contains a different set of key factors influencing formation<sup>3</sup> of forest certification program. These three structural factors - **the place of the country/region in the global economy, the structure of the domestic forest sector and the history of forestry on the public policy agenda** – strongly affect how formations are established in multi-stakeholder initiatives.

**If Cashores logic is correct for the forest sector then I would like to see if it can be applied to understand the general movement of rules for the two other industry sectors.** There is a benefit, I believe, to learn more about forming MSIs. The advantage being that preventative actions can be applied if the process of forming a MSI is for some reasons blocked. Greater knowledge in this area can omit temporary hang-ups and reduce the formation time.

The purpose of this multi-industry study is to explain:

*How and why certain factors affect the process of forming multi-stakeholder initiatives for environmental and social responsible corporate practices?* In order to meet the purpose of the thesis I have to try and answer the following research questions:

- What is the formation process steps (initiative, members, proposal, opposition, creation, implementation and enforcement) for each industry standard included in the study?
- Do the place in the global economy and the structure of industry (according to Cashore) give clues to whether or not industry formation for sustainable practices will be successful?
- Does public pressure about negative environmental or social practices in the industry make the industry standard formation process more likely to succeed?

The question how the public views an industry in terms of environment and social responsibility is something that Cashore takes into account as a factor in his framework. But I am interested to take this notion a bit further but applied on a product level. The end product that each industry (forest, textile, palm oil) produces offers different brand image or brand recognition to the public. My fourth and last question is derived from the third:

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<sup>3</sup> The word "formation" is referred to the activities of initiation, creation, implementation and monitoring the process of an environmental standard or social responsibility program.

- Does the level of brand recognition have an impact on the formation of multi-stakeholder initiatives?

### **1.3 Scope and limitations**

The scope of this thesis is to look at the formation processes of three multi-stakeholder initiatives in three industries. These formations are either Swedish or the formation have implications to Swedish companies their customers. The idea of using three industries is attractive because of the possibility of knowledge transfer between cases. It appears to be an advantage to look at three different industries rather than concentrating on one industry. However, this is a much to low number to be able to draw any statistical significance from the findings.

The ambition is that each industry review will follow a recognisable structure. First, I will look at the history of the industry to understand its global present economical impact. Then the structure of the industry is briefly described shown so that it is understood in what context the industry is operating. The study then looks at the environmental and social consequences of unsustainable practices so that it can be realized what external pressure is being put on the industry. Finally, we will follow the process of forming and implementing an industry standard.

The geographic boundaries are set to Sweden in the forest and textile formation. For palm oil the formation process takes plays in Europe and South East Asia with one key stakeholder being a Swedish corporation. The duration of formation varies between the selected cases. In the forest sector the initiative started in 1997. The textile case was under formation between 1999 and 2001. In the palm oil industry the initiative was launched in 2002 and is still forming. Consequently, we need to keep in mind that a formation process still in progress may still alter in outcome.

The three multi-stakeholder initiatives are made up of broad interest groups. In all studied formations there is representation from industry and non-government organisations. In the textile and forest sectors trade unions are participating. In the palm oil sector South East Asian producer and producer organisations are members. Common for all initiatives is that the government is not participating in discussion or taking a direct role in the formation. They all meet the definition of an MSI that its part of a larger arrangement between companies, and NGOs and /or trade union organisations.

The concept of corporate social responsibility (CSR) and Environmental Supply Chain Management (ESCM) are central in the formation of industry initiatives. These concepts explain why companies gain from environmental and social practices. Some of these notions are 10 to 15 years old and already well documented. This thesis will not discuss theories of CSR and ESCM. Finally, why choose the industry standard formations in forestry, textile and palm oil? The mix of industry cases can be explained by the access of data and the fact that Swedish industry standards for environmental and social responsibility are still rare.

### **1.4 Methodology**

The framework that Cashore and colleagues have developed involves three aspects. First, they establish that the industry initiative they are going to study is forming without government interference. This they refer to as a “non-state market driven governance system”. Second, they look at the formation process by applying three key factors to explain how each of them affects the formation process. Some factors may in exert more influence, like “place in the



global economy” for instance. The pressure to form a sustainable industry standard may be demanded by a foreign customer base. This is then a powerful factor influencing formation. Third, with each type of factor Cashore identifies three types of strategies that can be used to alter the level of legitimacy for the industry formation. In the example used previously of foreign customers demanding certified products a converting strategy can be used. What the foreign customers are really saying is that either you convert to an industry standard or we will be forced to buy elsewhere. Chapter two will describe the analytic and explanatory framework.

To not entirely depend on the framework of Cashore I have decided to also apply a traditional SWOT (Strength, Weakness, Opportunity, and Threat) analysis to the case findings. I use SWOT as a tool to determine if that specific industry standard case has potential to complete formation. The advantage is that if Cashore's framework does not apply for textile and palm oil there is a method to fall back on. By only applying Cashore's model there is a risk interesting factors not identified by Cashore will be unnoticed. The idea is that the SWOT analysis can be of some help here.

Based on the above, this research was conducted according to the following methodology:

1. A literature review on industry formation standards was made to identify earlier research or analytic models.
2. The three industries were researched for basic industry information mainly using library resources and key word Internet search engine approaches. An industry conference was attended aimed at the forestry sector<sup>4</sup>
3. The selection of industry standard initiatives in the selected industries with reference to Sweden was established. One important criteria was availability of previously documented research.
4. The formation processes of the selected case were studied by investigating documents showing valuable interviews with stakeholders participating in the process. This information was complemented with additional personal interviews with 12 people.
5. The gathered data from each industry formation is applied to Cashore's model. The model will then help analyse legitimacy achieved in the forming of an industry standard. Legitimacy is critical for an industry standard formation is critical because it shows the level of acceptance in that industry.
6. In parallel, the findings of industry formation reports and interviews were analysed and translated into a Strength, Weakness, Opportunity, and Threat (SWOT) analysis.
7. An analysis is made based on the outcome using Cashore's framework and the findings from the SWOT- analysis.

#### **1.4.1 Source criticism of primary data**

In the forest and the textile sector the formation process of industry standards had closely been documented in external reports. For these two industries a number of stakeholders were approached and personal interviews conducted on issues that needed to be clarified. Not all

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<sup>4</sup> Svart virke eller ansvarsfull handel? [Illegal logging or responsible trade?], WWF conference, Stockholm, 2004 14 June.

key stakeholders were personally interviewed and there is a risk of prejudice when not hearing all involved participants.

### 1.4.2 Source criticism of the secondary data

Material found about industry and companies are mainly found using the Internet. Caution has been taken that this information many times can be one sided. This information has to be treated with care and cross referenced with other non biased sources of information. Academic opinions are preferred over industry generated promotion material. All material is contemporary as the formation of industry standards often date back only a few years. The lack of outcome information must be realised as some industry formations are contemporary and a long-term perspective is not possible. Relying too much on documented interviews describing the formation process has a potential drawback as you were not present during the interviews and therefore lack information about entire picture. On the other hand it would not have been possible to gather this rich material as primary data given the limitation in time.

## 1.5 Target audience

This thesis has not been ordered or in any way financially sponsored by any company or organization. The study should be of interest to a broad range of people working with multi-stakeholder initiatives. Either inside a company working with CSR or for instance a NGO trying to inform industries. The thesis may as well inspire students and researchers to further explore into MSI and the area of industry standard formations.

## 1.6 Thesis structure

- **Chapter one:** In this chapter an introduction to the thesis is given. The background to multi-stakeholder initiatives for environmental and social industry standards and why they make sense. Furthermore, the purpose, methodology, scope and limitations are presented together with a hypothesis to be verified in the thesis.
- **Chapter two:** In this chapter the literature is reviewed in the search for an established model to explain the formation process of industry standards. An analytic and explanatory framework is presented based on research from Yale School on Forestry and Environmental studies. The Yale model is then adjusted to be tried in both the textile and the palm oil sector.
- **Chapters three through five:**  
All chapters follow more or less the same structure. Industry information about forest, textile and palm oil sector are presented. A brief history and industry structure is offered to get a general understanding of the business. Environmental and social impacts are then discussed. Each industry chapter illustrates a case study describing an industry standard formation process.
- **Chapter six:** In this chapter the result from the three industry findings are analysed in two different ways. First a SWOT-analysis is created based on interviews about the formation process. Then the academic Yale Forestry model is applied to all industry findings. Finally, a model is created to help explain the hypothesis presented in chapter one.
- **Chapter seven:** In this chapter the conclusions of the study are presented. Differences or similarities between the two analytic approaches are shown. Finally, the research questions introduced in chapter one will be addressed and answered together with

some general comments regarding patterns of forming lasting multi-stakeholder initiatives.



## **2 An Analytic and explanatory framework**

*This chapter start with explaining certification programs as an example of domestic and transnational “non-state market driven” governance system. This is a system that is not derived from a traditional state authority policy making but through the works of global markets and attention to customer choices.*

Benjamin Cashore (2004) and his colleagues at Yale School of Forestry & Environment Studies research the creation of sustainable development institutions outside of traditional governmental processes. This offers a different way of creating policy and implementing policy choices. Although, their focus is in the forest sector and the promotion of forest certification they acknowledge that this phenomenon is developing in other sectors as well. My object is to derive at an adjusted framework based on Cashore’s work and apply industry formation findings to this model.

### **2.1 Analytic framework**

#### **2.1.1 Non-state market driven governance system**

Cashore et al. refer to these new institutions as “non-state market driven” (NSMD) governance systems. The main reason is because the rule making does not come from a state sovereign authority, but rather from companies and stakeholders operating in the industry. It is up to the individual company to decide whether they want to comply with the rules and procedures of a private governance system. The governance mechanism works through traditional “carrots” and “sticks”- means of control. Environmental groups and other non-governmental organizations try to influence companies through economic incentives such as market access and price premiums. In the case of non conformity, program initiators may launch public and market campaigns pressuring companies to support certification.

Cashore et al. show that NSMD governance systems are important because they are able to alter traditional power balance among environmental, social and business interests by intentionally bypassing the state as a centred public policy making authority. NSMD systems are able to show that these governance systems are given legitimacy by actors and organizations along the market’s supply chain. These actors make voluntary and independent choices whether to comply or not.

Understanding how these private governance systems develop and gain authority are important for a number of reasons. Commonly there is an intense competition between originators as these programs emerge. As we will learn from the forest sector, on one side we find strong support for certification programs among the world’s leading environmental groups. On the other side we many times find representatives from industry and landowners promoting their interests. Cashore stresses that the outcome of this competition is crucial for the result of the NSMD governance process. Other reasons for NSMD governance systems is that they may come to function as a permanent key actor for setting environmental policies compared to traditional public forms of decision making. Evaluating variables

#### **2.1.2 Conditions for non-state market driven governance and multi-stakeholder initiatives**

To better understand the NSMD authority, Cashore et al. have identified four related features that comprised help us identify an ideal NSMD governance system. The four conditions used in evaluating NSMD governance are the *role of the state, role of the market, role of*

*stakeholders and enforcement.* Even though Cashore developed these key conditions to explain NSDM governance in the forest sector the same key conditions will be applied for all industries in this study.

In table 2-1 key characteristic for a non-state market driven governance system are shown. It represents a situation where state authority does not take part in policy creation. Where, rules and regulations are decided by the market and by actors along the supply chain. The system is governed by verification to proof participant conformity (Cashore, 2004).

*Table 2-1 Key conditions of NSMD governance*

<b>Table 2-1. Key Condition of NSMD Governance</b>	
Role of the state	State does not use its sovereign authority to directly require adherence to rules
Role of the market	Products being regulated are demanded by purchasers further down the supply chain
Role of stakeholders and broader civil society	Authority is granted through an internal evaluative process
Enforcement	Compliance must be verified

*Source: Cashore, (2004).<sup>5</sup>*

**A. No use of State Sovereignty to Force Compliance**

The state is not involved in the process of developing rules to which society traditionally is expected to comply. There are no public elections under the NSMD governance. No one can be charged or fined for not complying with the rules. In some governance systems governments are not allowed to become members or possess any voting power in decision making processes. However, it must be noted that the state can act as an “external audience” and should not be disregarded as unimportant.

**B. Authority granted through a supply chain**

Cashore et al. argue that the most important institution for NSMD governance occur along the market’s supply chain. It is among these companies that operate along the supply chain that influence companies to make their own choices about whether to support NSMD governance. Understanding what motivates firms that demand that NSMD rules, versus those who must actually implement rules to gain market access, is an important question in regards to NSMD.

**C. Authority granted through external audience evaluations**

The reverse side of the first condition, is that authority is granted to NSMD governance systems by external audiences. These actors are encouraged to accept the NSMD governance systems and in return they will receive economic benefits (i.e. market access, price premiums). This group granting authority range from

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<sup>5</sup> The book was published summer of 2004. The material used in this study is based on drafts released by permission from the author which is to explain why page references are missing.

environmental groups, businesses, trade associations and consumers. Based on the first condition Cashore is treating the government as an interest group trying to get access to the private governance system.

#### **D. Compliance is verified**

To make sure that a regulated entity actually meet the stated standards a NSMD governance system must involve a verification process. Verification adds credibility to the governance system as it provides validation for legitimacy to occur. Cashore also state that it help distinguish products in the market place.

Is it correct to compare Cashore's NSMD governance system with multi-stakeholder initiatives? Multi-stakeholder processes have gained acceptance as valid mechanisms to develop and implement social and environmental responsible management practices towards sustainable development (International Institute for Sustainable Development, 2004). The Commission in Global Governance suggest that two central elements are present for the legitimacy of a governance system. One is that there is a will or acceptance by the public or private associates of a broad framework into which discussions take form. The other constituent is that with the framework there is a process of negotiation and power balance (IISD, 2004).

Further, legitimacy depends on the ability of the process to engage the stakeholders in a meaningful dialogue in which ownership is felt and the possibility to gain benefits. It is also noted that this requires fully transparency, openness and respect among stakeholders (IISD, 2004). For the purpose of clarity in this study when reference is made to non-state market driven governance system it also fulfils what is required by a multi-stakeholder initiative.

### **2.1.3 Strategies motivating change**

In this section we will look at potential strategies for companies and organizations to gain authority. Mark Suchman (1995) has conceptualized legitimacy achievement strategies used by organisations. For the purpose of this research it translates to types of methods or strategies organization or firms use to obtain support for their ideas. Suchman's (1995) model looks at the importance of understanding how non-material motivations might also influence evaluations about whether to support certification or not.

Suchman found that organizations seeking legitimacy are seldom passive. They rather actively pursue legitimacy achievement strategies. These strategies *conform* to the external audience, *convert* the external audience, or *inform* uninformed audience of the organization's program. Cashore (2004) states that these findings go well with their research on forest certification, where often the battle for legitimacy between participants was strong.

Suchman (1995) identified three types of achievement strategies that Cashore applies for his analytic framework. *Converting achievement strategies* are used by organisations actively trying to change the opinion or preferences of those groups or individuals from whom it is seeking legitimacy. Converting may also be applied through negative boycott or different type of direct action campaigns. Converting strategies are important, if successful, they do not lead to any change in the certification program seeking legitimacy.

The second strategy according to Suchman is to achieve legitimacy through conforming to external audiences. *Conforming achievement strategies* are seen as less advantageous since it implies a change to take place in the certification program. This means often moving the program slightly away from its original idea. A compromise or finding a middle way would be a result

of conforming strategies between two or more stakeholders. A key question posed by Cashore is how far an original certification program and a competitor program can conform to gain legitimacy from non-core issues, without risk losing trust among core audiences? Conforming strategies are often applied as converting strategies did not result in altered degree of support.

Finally, the last strategy used to achieve legitimacy by certification programs is by applying active *informing strategies*. The idea is to concentrate on those potential audiences willing to grant legitimacy if the only were aware of the certification program. Examples of informing strategies include advertising or targeted information campaigns to likeminded organizations.

Cashore concludes that it is important to understand whether a certification program needs to use conforming, converting, or informing strategies as it determines whether the program remain close to its original ideas or alterations must take place to gain acceptance in the marketplace. Furthermore, because conforming strategies are less desired than converting ones, identifying conforming strategies may help us understand when a certification program is having problems gaining market acceptance. In table 2 examples of legitimacy achievement strategies and its effects are summarized.

Table 2-2 Legitimacy achievement strategies undertaken by certification programs and their supporters

<b>Table 2-2. Legitimacy Achievement Strategies Undertaken by certification Programs and Their Supporters</b>			
<b>Strategy</b>	<b>Approach</b>	<b>Effects on Certification Program Processes and Standards</b>	<b>Effects on External Audiences</b>
<b>Converting</b>	Creating incentives for external audiences to change evaluations	None	Increased support for program
<b>Converting</b>	Create new external audiences	None	New organizations support program
<b>Conforming</b>	Change certification program to address external audience's interest/values	Become stricter or laxer	None
<b>Informing</b>	Identify likeminded external audiences	None	None

Source: Cashore, (2004).

## 2.2 Explanatory framework

In this section we will be able to explain why there are differences in how the external audience view or decide to maintain opposition to certification programs. Cashore has developed an evaluation scheme for gaining authority for forest certification based on three



factors: *place in the global economy, structure of the forest industry, and the history of forestry on the public policy agenda.*

## **2.2.1 Explaining discrepancy in certification programs**

Cashore and his team want to explain different legitimacy logics based on the country or region where the forest certification program was operating. These factors can for instance help and explain why a particular certification program was successful and received support from forest companies, with little or no support from forest companies in another country.

### **A. Place in the Global Economy**

A common theme among the research on globalization and policy convergence point at the fact that when a region depends on foreign markets for sale of its products it is more vulnerable towards global and international pressure. Pressure in the sense to conform to certification programs pushed by the importer (Berger, 1996).

One central point of Cashore's work in regards to the first factor is that it is easier for multinational companies to voice concerns about a firm's behaviour when that firm is outside the political system in which the multinational company operates. This can be explained by the fact that there are no charges for applying international pressure that might have caused domestic effects for the multinational company (Bernstein, 2000).

The same is valid for importing organisations. Companies or organisations in a region that imports a large portion of its products will be more inclined to meet the same sustainability requirements as put on the foreign producer. If not the importer risk being sidestepped by the producer. The risk of losing market share makes the importer more susceptible to converting strategies (Cashore, 2004)

### **B. Structure of the Industry Sector**

Cashore points to the fact that by understanding how the industry sector operates and is distributed and how key stakeholders interact with each other we are able to comprehend the incentives companies have for taking part in certain industry certification programs.

A structural aspect of the industry to look at is if companies or land owners are well represented and united and therefore less vulnerable to converting strategies by the certification program and its followers. The same aspect goes with ownership as well, whether it is fragmented or not. A more fragmented ownership situation will be less susceptible to converging strategies.

The next example Cashore offers applies to the forest industry but is good as it explains the second factor (B. Structure of the industry sector) for achieving authority. Territories with a large number of small land resources will demonstrate a low acceptance to conform to certification programs because of diseconomies of scale related to small land holdings. The same would be true for landowners of small oil palm plantations.

Furthermore, a connection is made between companies that are vertically integrated (operations along the supply chain) are more prone to comply with converting strategies issued by supporters of certification programs. This applies to larger and highly branded companies in all sectors as they appear to be more interesting for

environmental organisations to target for sustainability campaigning than small less recognizable companies (Cashore, 2004). Obstructing one link in the supply chain will result in disturbing operation of vertically integrated companies making them vulnerable to converting tactics.

**C. The history of Industry on the Public Policy Agenda**

In a traditional state-centred policy sequence, a problem is brought to the attention of the government, policy decisions are formulated and then a set of actions are put into place and monitored (Cashore, 2004). Cashore makes the point that companies that are under certain regional environmental review and to the extent that it is perceived as a threat to profits or loss of “social licence”, companies are more disposed to agree to converging strategies from supporters of a particular certificate programs.

Cashore’s final argument applies to the fact if industrial that firms and private landowners own a close relationship with governmental agencies, then companies and landowners are less likely to support certification program. The reason for this is that it represents primarily a new way to industry development where businesses are not supposed to dominate policy making.

In table 2-3 below key factors (A, B, and C) and applied strategies to achieve legitimacy logics are summarized<sup>6</sup>.

*Table 2-3 Factors affecting legitimacy achievement logics.*

<b>Table 2-3. Factors affecting legitimacy achievement logics.</b>		
<b>Factor</b>	<b>Value</b>	<b>Pull towards which strategy</b>
<b>Place in the Global Economy</b>		
Dependence on exports to foreign markets	High Low	Converting Conforming
Dependence on imports from foreign markets	High Low	Converting Conforming
<b>Structure of Industry Sector</b>		
Strength of industry associations	Strong Weak	Conforming Converting

<sup>6</sup> Cashore et al refers to the forest industry in his model. For the purpose of comparison between industries the model has been adjusted to suit a more general industrial arena.

<b>Table 2-3. Factors affecting legitimacy achievement logics.</b>		
<b>Factor</b>	<b>Value</b>	<b>Pull towards which strategy</b>
Industry ownership patterns	Fragmented	Converting
	Unfragmented	Conforming
Level of industry vertical integration	High	Converting
	Low	Conforming
<b>History of Industry on Public Policy Agenda</b>		
Level of past public dissatisfaction with industry practice in region	High	Converting
	Low	Conforming
Relationship between state industry agencies and industry companies and landowners	Business does not dominate	Converting
	Close business/government ties	Conforming

Source: Cashore, (2004).

### 2.3 Modified analytic and explanatory framework

For the purpose of evaluating the emerging and forming of certification program in three different industries a practical analytic framework is sought. The work from Cashore et al. will form a useful base from where experience can be drawn. Since time is limited to fully comprehend the selected industries the analytic framework must offer ease and flexibility. The analytic and explanatory framework includes; 1) Key Condition of NSMD Governance or multi-stakeholder initiatives, 2) Three key factors that are affecting legitimacy achievement, 3) Three strategies used to gain or maintain legitimacy.

In table 4 the modified and analytic and explanatory framework recognizes key questions to be applied to each industry.

Table 2-4 Key questions to address per industry and region/country in review.

<b>Table 2-4. Key questions to address per industry and region/country in review.</b>
<p>1) Condition for NSMD governance and MSI</p> <ul style="list-style-type: none"> <li>▪ Role of the state</li> <li>Role of the market</li> <li>Role of stakeholders and broader civil society</li> </ul> <p>2) Factors that are affecting legitimacy achievement</p>

- What is this industries place in the global economy?
  - What is the structure of the industry Sector?
  - What is the industry history in terms of the national public policy agenda?
- 3) Strategies used to gain or maintain legitimacy
- Converting achievement strategies
  - Conforming achievement strategies
  - Informing strategies

Source: Based on Cashore,(2004).

### 2.3.1 SWOT analysis

SWOT<sup>7</sup> is an analytic framework in this case used to study the strengths and weaknesses, and the opportunities and threats of the formation process of an industry standard. SWOT offers a good starting point for analysis<sup>8</sup>. In the context of this research the formation process strengths (what the formation can do) and weaknesses (what a formation cannot do) in addition to opportunities (potential favourable conditions for the formation) and threats (potential unfavourable conditions for the formation). As a word of caution SWOT analysis can be very subjective. Hardly two persons come up with the same final version of SWOT. Figure 2-1 offers a suggested chart with headings for easy display of findings.

Figure 2-1 SWOT analysis framework

<b>Strengths</b>	<b>Weaknesses</b>
<b>Opportunities</b>	<b>Threats</b>

Source: [www.marketingteacher.com](http://www.marketingteacher.com)

<sup>7</sup> SWOT stands for Strengths, Weaknesses, Opportunities and Threats.

<sup>8</sup> Ferrell, O., Hartline, M., Lucas, G., Luck, D. 1998. Marketing Strategy. Orlando, FL: Dryden Press.

*How to succeed in forming industry standards for environmental and social responsibility?*

### 3 Forest Industry

*In previous chapter we identified an analytical framework for our research. The first industry standard to review is from the forest industry. This is a standard with one of the longest history in Sweden. In this chapter we will apply the model of Prof. Cashore and his team at Yale University. Their interest has been to explain differences in formation of forest certification mainly in North America and Europe. For this reason the formation section on Swedish FSC is well documented.*

Besides the work of Cashore et al. this industry section is also very much based on the documentation from SCORE, Stockholm centre for organizational research<sup>9</sup> (Boström, 2002) They have published a thorough section explaining historic industry conditions leading up to forming a forest certification program. As with Cashore, Boström looks at why FSC, with its somewhat strict guidelines succeeded to fence off alternative programs in Sweden compared to countries like United States and United Kingdom?

In the report from Boström he acknowledges the work of Cashore and his team. He agrees on all the main aspects of implementation of a certification program put forward by Cashore. However, Boström make a note that too few cases are presented in the material of Cashore where FSC has had an impact<sup>10</sup>. Our focus in this forestry section is Sweden and its underlying factors leading up to formation of certification programs. Naturally as we will learn, certification programs are often global with national variances which imply that we can not ignore European movements in this respect.

#### 3.1 Introduction

In Sweden environmental organisations together with the forest industry created and implemented a voluntary certification program for sustainable forestry. This work was based on principles formulated by the world wide organisation Forest Stewardship Council (FSC). Acting both on international and national levels, FSC consist of members that represent social, environmental, and business interests. Governments are not allowed to become a member in the organisation, and the certification process shall occur separately from state involvement.

Sweden was the first country where a nationally based FSC-standard was successfully implemented. Almost half of the Swedish forest area is certified according to this standard. However, we will also follow the process of how a competitive certification alternative emerged backed by the National Federation of Swedish Forest Owners. (Boström, 2002)

This section will contain a historic background explaining international events that initiated global awareness about sustainable forestry. We will address the environmental and social risks if no actions were to be taken. Then the report will try to answer to the most relevant driving forces pushing for forest certification and standards in Sweden. We will understand the differences between FSC and the alternative, Pan European Forest Certification Scheme (PEFC) and the reasoning of each side's followers. During the formation process we will learn what legitimacy achievement strategies each organisation used to gain power.

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<sup>9</sup> Stockholms centrum för forskning om offentlig sektor

<sup>10</sup> The chapter on Sweden was not available at this time

### 3.1.1 The industry structure

The structure of the Swedish timber industry can be divided into four different actors (table 3-1). This section will describe the general trends affecting these four categories.

Table 3-1 The timber trade between the Baltics to Sweden – the actors

Table 3-1. The timber trade between the Baltics to Sweden – the actors	
<b>Forest industry corporations</b>	Forest corporations owning forest land and processing industry (pulp, paper, sawn products, etc.) and smaller “independent” pulp mills.
<b>Independent sawmills</b>	Sawmills without forest land, whose production is passed primarily on purchased timber.
<b>Forest owner associations</b>	Sawmills and pulp mills owned by the associations and supplied by timber primarily by associated members
<b>Import agents</b>	Trading houses acting primarily as middlemen for timber.

Source: Taiga Rescue Network, (2000).

#### Forest industry corporations

The Swedish forest industry corporations have undergone much change, consolidation and exchange of mills and production facilities over the last few years. The industry is dominated by SCA, StoraEnso, MODO, Holmen, Korsnäs, and AssiDomän (Sveaskog). The large corporations producing pulp and paper are also operating sawmills. In 1999, industry owned sawmills operated by the companies listed above, accounted for 24% of total sawmill production in Sweden. The majority of large corporations have their own forests in Sweden. These companies are big importers of timber as well. In terms of all imported timber from Russia and the Baltic states they are receiving for three-fourths of total volume. For this reason many of the large companies have established themselves in the Baltics as Russia is seen as more unstable for business. The activities of the large forest industry corporations depend largely on the market prices for timber (Taiga Rescue Network, 2000).

#### Independent Sawmills

There are about 250 independent sawmills which mean that they are not owned by the Forest Owners Association or the forest industry corporation. The independent sawmills account for 65 % of the annual production and they are mainly concentrated in the central and southern Sweden. It is generally these independent sawmills that are importing raw materials from Russia and the Baltic states. Sawmills from the northern part of Sweden have less incentive for importing because of increased costs for transportation and they need to change the production process which is set up to process primarily pine. Importing is done primarily through large import agents. Many sawmills have consolidated their material purchases for reasons of economies of scale. (Taiga Rescue Network, 2000)

#### Forest Owners Association’ Processing Industry

There are six forest owners associations in Sweden representing forest owners in different geographic regions. It used to be that these organizations also run sawmills supplied by the members' own forest (Taiga Rescue Network, 2000). The largest of these forest owners associations is Södra Skogsägarna. Södra's members are 34,000 forest farmers in southern Sweden. The Association's task is to promote the profitability of the members' forest estates. Södra Skog manages the forestry work which members cannot, or do not want to carry out themselves. The main task is to supply the industries with wood and to ensure that the members are paid an optimal price for the raw materials at the same time. The Association has a well-developed democratic organization. At the meetings of the 30 Forestry Districts, the members elect their representatives to the Annual General Meeting of the Association. (Södra Skogsägarna, 2000).

### Import Agents

The forest industry corporations and the large import agents make up the largest actors in the timber and wood product trade between the Baltics and Sweden. There are five large independent import agents, which control the supply to forest industry corporations and sawmills (Taiga Rescue Network, 2000).

## **3.2 The impacts of forest industry**

In this section we will try to understand what environmental impact the forest industry production causes. This section ends with a more positive view on the environmental problems of the Swedish forest industry.

### **3.2.1 Deforestation and climate change**

The debate on the destruction of forests has mainly focused on the world's rain forests. This is perhaps natural since more than half of the world's 30 million species of plant and animal life are to be found in the rain forest. Deforestation in different parts of the world is one factor behind the increased levels of carbon dioxide in the atmosphere. Then again, large quantities of carbon are stored in the world's forests, a reserve that can further increase as a result of sustainable forestry (Swedish Forest Industries Federation, 2004).

The levels of carbon dioxide in the atmosphere have risen drastically over the past century, in combination with an increase in average global temperatures. Scientists see a connection between the two. They argue that carbon dioxide in the atmosphere acts like the glass roof and windows in a greenhouse, hindering heat from being radiated off the earth's surface. The most important reason for the rise in carbon dioxide is the burning of fossil fuels. The next largest emission of carbon dioxide is deforestation. (Swedish Forest Industries Federation, 2004)

### **3.2.2 High conservation value forests**

The World Wide Fund for Nature (2001) believes that European governments and the private sector are not focusing enough to secure the protection of high conservation value forests. These forests are important as they represent the last remnants of the forests which once covered Europe before arrival of man. Only 2-3 % of the forests in Western Europe can be classified as untouched natural forests. They hold much of the continent's biodiversity, and can be the base from which Europe can restore its natural forests. Also, the old-growth forests hold a huge natural storage of carbon contributing to the prevention of global climate change according to WWF (2001).



### **3.2.3 Illegal logging and forest crime**

Illegal logging is according to The Global Forest & Trade Network (2004) definition when forest products are bought or sold in violation of national laws relating to harvesting, transportation and processing. Although generally occurring as a problem in tropical forests, misconduct also transpires in developed countries and economies of transition. Illegal activities have a damaging impact on biodiversity because they many times target remaining untouched natural forests which contain high valuable hardwood species. Forest crime also affects human communities economically through loss of natural forest resources (GFTN, 2004).

### **3.2.4 Environmental status**

In this section we will focus on the environmental consequences of Swedish forest industry. In the 1960s the forest industry suffered from serious environmental problems. Mills had been built without any consideration for how the surroundings would be affected by their operations. Water courses were also severely affected. The effluent from the pulp mills contained large quantities of chemicals and wood residues (Swedish Forest Industries Federation, 2004).

The authorities as well as representatives of the industry realised that this situation could not continue. If the industry was to survive, this negative trend had to be broken. The Swedish forest industry according to the Swedish Forest Industries Federation (2004) has been transformed in a few decades from an environmentally hazardous to an environmentally adapted industry. Emissions of sulphur, oxygen demanding substances and chlorinated pollutants have been reduced by more than 90 per cent since the 1970s. Most of the environmental problems have now been solved or virtually solved.

## **3.3 Forest certification: What it is and how it works?**

### **3.3.1 Historic background of environmental movement**

During the 1980s environmental organisations like World Wide Fund for Nature (WWF), Friends of the Earth (FoE), and Greenpeace launched alarming campaigns about clear cutting of tropical forests (Elliot, 1999). Around 1990 Environmental organisations felt that little was done and the responsible companies were acting to slow. Discussions leading up to certification was then initiated. (Boström, 2002)

The move towards forest certification started in the 1990s following the 1992 United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro. In Sweden at this time, biodiversity was already on the forest policy agenda but the Rio convention gave it additional boost and resulted in new initiatives and projects. The Rio convention reminds nations to apply a holistic approach that include ecological, economical and social and cultural aspects of forest production (Boström, 2002)

In 1993 the majority of European countries came together and endorsed six criteria for defining sustainable forestry in the Helsinki Process. The year after the Montreal Process, covering boreal and temperate forests, was formed and led to the Santiago Declaration in 1995. (Bare, 2004)

Developed in parallel with these international movements to try to define sustainable forestry, certification programs were aimed at addressing both forests and forest products.

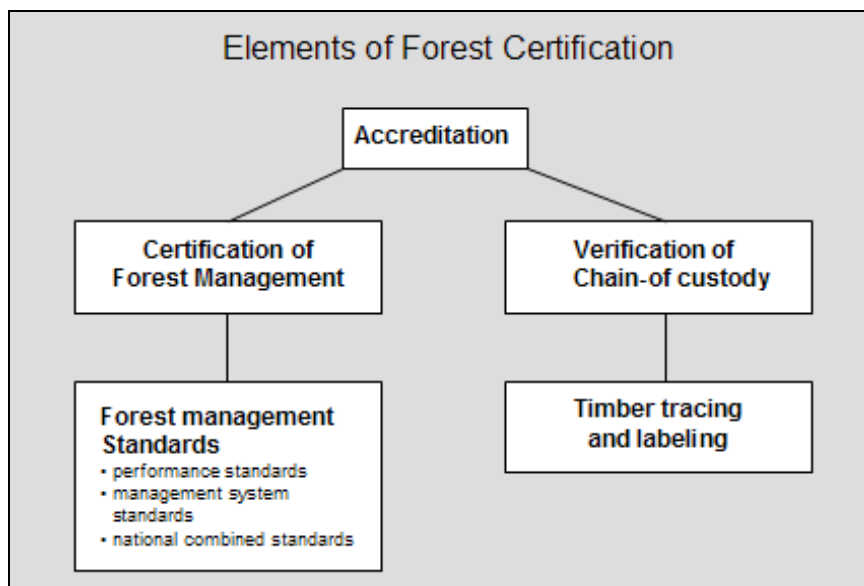
Bare (2004) refers to the former as forest certification and the latter as chain-of-custody. Chain-of-custody is the consecutive link between the forest and the processors along the supply chain and finally to the end consumer. Not all certification programs embrace the latter component.

### 3.3.2 Introduction forest certification

The objective of forest certification is to promote ecology, economically and socially sustainable forest management (Ekroos, 2004) Forest certification is a way of communicating to buyers of forests products that the forest is being managed in a sustainable way. It is a policy instrument that can be used to improve the practice of forestry while simultaneously presenting buyer groups and consumers with the information they require to make informed buying decisions (Bare, 2004).

Forest certification is information based guidance which is not based on state authority led policy. This guidance is then decided and formed by the market forces. From a company perspective a certification label gives credibility and access to markets. This system is voluntary for companies, however in many cases market pressure makes it almost “obligatory”. (Ekroos, 2004)

Figure 3-1 Elements of forest certification



Source: Kruedener, 2004

A forest certification system contains five elements (see figure 3-1). An independent certification organisation evaluates the forest management according to specified standards. The accreditation results in a certificate which can be awarded to an individual forest or to a group of several forest holdings. Furthermore, the chain-of custody, the linkage between forest and end product has to be verified before a product is allowed to use the forest certification label (Kruedener, 2004).

There are two different standards in forest management certification: Performance and management system standards. *Performance standards* are usually formulated as a framework of principles, criteria and indicators. This means that a set of technical specifications need to be

met before a forest can be certified. Examples of typical requirement can be compliance with national legislation, maintenance of biodiversity and ecological functions, respect for people’s rights, and adequate planning and monitoring of operations. The certificate then guaranties that the holder meets a known minimum level of performance (Kruedener, 2004).

Below in table 6 and 7 there are short descriptions of two performance standards present in Sweden:

Table 3-2 Performance Standards: Forest Stewardship Council (FSC)

Table 3-2. Performance Standards: Forest Stewardship Council (FSC)	
<ul style="list-style-type: none"> <li>• International non-profit organisation founded in 1993.</li> <li>• Established in Sweden 1995 and finally approved 1998.</li> <li>• FSC provides a global framework of standards for forest certification.</li> <li>• Authorized certifiers in Sweden: 4</li> <li>• Certified world wide forest (2/2004): 42 mio ha</li> </ul>	<ul style="list-style-type: none"> <li>• FSC certification program includes 10 principles: The first eight principles refer to the management of forests, the ninth to the conversion of natural forests and the tenth and final to plantation forests.</li> <li>• The set of principles and criteria apply to all tropical, temperate and boreal forests and are quite generic.</li> </ul>

Sources: (Bare 2004, Ekroos 2004, Kruedener 2004)

Table 3-3 Performance Standards: The Pan European Forest Certification (PEFC)

Table 3-3. Performance Standards: The Pan European Forest Certification (PEFC)	
<ul style="list-style-type: none"> <li>• PEFC is a voluntary initiative for the certification of sustainable forestry in Europe officially launched in 1999.</li> <li>• The PEFC gives an assurance to customers and the public at large that PEFC-certified forests are managed in accordance with the criteria for ecological forestry laid down at the Helsinki conference.</li> </ul>	<ul style="list-style-type: none"> <li>• Includes standards for forest management and verification of chain custody</li> <li>• National differences respected. The Swedish PEFC is independent and based on local involvement.</li> <li>• PEFC-certified forests are monitored by accredited independent certification.</li> <li>• Certified world wide forest (2/2004): 53 mio ha</li> </ul>

Source: (Ekroos 2004, Klingberg 2002, PEFC 2004)

On the other hand, *Management system standards* specify how an organisation’s management structure and process should be in order to accomplish its target of performance. The level of performance is decided by the organisation itself. In this system certification means that all components of a management system, planning, implementation and monitoring are in place and working. An example of this system would be the ISO 14000 series, developed by the International Organisation for Standardisation. Which can then be applied to an Environmental Management System (EMS). (Kruedener, 2004)

Finally, Klingberg (2002) offers three views or explaining to what forest certification is about:

**1. The innocent view:**

Certification is a mean for communication with the consumer. This may give some sellers a market advantage or may improve the image of the company.

## **2. The progressive view.**

Certification is a tool to make forest owners and managers improve forestry. This also helps prevent illegal logging and abusive labour conditions to give some examples. The mildest form of influence would be by raising awareness (informing strategies). A stronger form of influence would be by putting economic and social pressure to those who are not certified (converting strategies).

## **3. The political view.**

Certification as a power game, an instrument for some organisations to replace governments and the scientific community for setting and monitoring standards. A way for certain actors to gain power and also possibly financial resources.

Klingberg (2002) concludes that the first view is what the forest sector wants. The second view probably what many other actors are looking for and finally the third view perhaps a pragmatic description of what certification has become?

### **3.3.3 Drivers for European forest certification programs**

The rate of deforestation and forest degradation in the tropics has been a driver of international debate on forests. Also, the recognition of the legitimate right of nations' to decide and develop forest programs has made the issue internationally controversial as it addresses aspects such as international trade, biodiversity and climate change. (Pan European Forest Certification, 2004)

According to Klingberg (2002) the heated debate over tropical forestry more than ten years ago resulted in a resistance in the use of wood. People started to become concerned about the global forest supply and biodiversity. Pushing the issue of forest depletion were the environmental organisations, making global headlines. The public awareness and debate on sustainable forestry pushed the forest sector to improve and revise its forestry management.

However, and somewhat more important Klingberg argues that the public perception of forestry had to be improved. It was necessary for the forest sector to transform the image of forestry as "destruction of wilderness" into "sustainable management of renewable resources". Thus, the task was to achieve public acceptance of forestry and the use of wood and paper (Klingberg, 2002)

The answer was the creation of a certification standard as a market oriented means of promoting sustainable forest management and at the same time meeting customer need for credible forestry. The aim of forest certification is to promote ecologically, economically and sustainable forest management. At the same time the industry saw an opportunity to promote certification schemes as a competitive advantage for wood products on the market (Ekroos, 2002).

If consumers and large buyer groups demand certified products, the signal to the forest industry is that forest certification is required for forest owners to retain market. (Bare, 2004) But it should also be noted that forest certification is a voluntary program, in contrast to governmental programs that are involuntary. Forest owners may claim that they have been managing their forest in a sustainable manner for years and see little point in becoming certified. However, they miss the point according to Bare. Certification is a practice to communicate this information to consumers even if it does not significantly change the day-to-day management practices of an owner who is already adopting sustainable forestry.

One of the leading certification programmes, Forest Stewardship Council (2004) explain that there is a strong public concern about the destruction of the world's forests. They claim that more and more people demand products that come from well managed forests. One problem according to FSC is that there are many false and misleading forestry claims on wood and paper products. In order to clear up these misconceptions FSC aim to provide an independent international labelling scheme on timber and timber products.

Forests and the European Union Resource Network (2002) distinguish between two types of objectives which forest certification is likely to have. Either objectives linked directly to a certification scheme or those linked indirectly to the design of the scheme. Examples of those linked directly are the issue of adequate conservation of forests and the objective of avoiding illegal felling. For the certification scheme to deliver the objective that timber is not from illegal sources FERN stresses the need of a system for tracing material from forest to product. (FERN, 2002)

For objectives which do not link directly to a certification scheme FERN gives the example of market access and risk of negative campaigns. Certification will only receive necessary market access if the chosen standard is one which is driven by the market. Another reason for involvement in forest certification is for many companies to manage and minimise the risk of negative campaigns by environmental and social pressure groups. Like the case with market access, it is just as important to understand which issues the pressure groups are pressing.

FERN lists a number of objectives of current users of forest certification schemes: "My customers are demanding certified products", "I need something which is clear and straightforward and of reasonable cost so that I can get it implemented and get on with doing business", "As an ethical investment company/government aid agency, we want confirmation that our investment/aid is resulting in sustainable development", "I want recognition and protection of my right to use the forests my ancestors have used it for generations". (FERN, 2002)

### **3.4 The formation process of forest certification in Sweden**

#### **3.4.1 Socioeconomic factors of Swedish forestry**

Forestry has for a long time had a central role in Swedish society. During the 1900 century expansion of the sawmill industry long-term sustainability for forest resources was strengthened. By tradition the Swedish forest is seen as a public asset protected by the Swedish "right of public access". Socioeconomic implication of the forest sector has a tremendous effect for Swedish economy as it account for 3.7 % of BNP. One fifth of all Swedish exports are forest related (Boström, 2002)

A majority of Swedish forest (51 %) is owned by private forest landowners. Industrial forest companies account for 39 percent. Half of the non-industrial forest landowners are members in the National Federation of Forest Owners (Boström, 2002).

Private forest ownership has throughout the 2000 century supplied the market in parallel to corporate owned forest. From 1960 and onwards there has been a strong concentration of corporate ownership. Today there are only handful large companies present on the market. The majority of forest production is sold outside Sweden. Another important actor is the Swedish sawmills, even though they do not own a large part of the forest. (Boström, 2002)

### 3.4.2 Forest politics, policy and administration

The time after the Second World War the Swedish forestry was mechanised and large scale productions was promoted by large forest companies. Swedish forest practises was developed to sustain long-term supply and maintain the production demand. Between 1940 and 1960 Swedish forest was more looked in terms of a socioeconomics political perspective. However, rationalisation caused a number of environmental disturbances such as large clear cuttings, less boreal forests and the use of chemicals (Boström, 2002).

In the Swedish Forestry Act of 1974, it was for the first time noted that special attention should be given to environmental aspects. Precautions were taken for large clear cuts, DDT treatment of plants, and hardwood control with herbicides. The 1980s forest policy based on the 1979 Forestry Act which was more production focused. During this time there was political consensus in the country that there was an acute shortage of timber, a shortage that later turned out only to be temporary. Slowly both academia and environmental organisations started to voice the fact that the Swedish Forestry Act would result in reduced forest quality and lessening of the biological diversity. (Boström, 2002)

The creations of the 1990 Forest Committee led to environmental targets were set equal to production goals. The committee also stresses that shared responsibility between state and enterprises. In short the new forest policy was characterised by 1) *Deregulation* – reduce and simplify rules governing timber production, which was seen to have a negative effect on the environment. 2) *Increased sector responsibility* – the new theme was “freedom under responsibility”, forest owner shall apply natural forest methods and engage in necessary knowledge transfer. 3) *Willingly* – Forest owners shall adhere to higher moral values and take responsibility and set aside land with high conservation value forests. 4) *Knowledge and diversity* – The combination of deregulation, own responsibility and dependence of willingness of forest owners led to the need of adequate knowledge distribution. Government agencies such as Swedish Environmental Protection Agency and County Forest Boards took on this responsibility and catered for this need Changes in Swedish forest policy paved the way for certification to take place. (Boström, 2002)

### 3.4.3 Cooperation and conflicts between state and business

Also noted in the work of Boström is what is coined within Swedish politics and state administration as “the Swedish model”. This means that there is a tradition between authorities and other key stakeholders to meet and negotiate and reach compromises. Within the forest sector Boström suggest that the state authority played an important role coordinating desires among the involved negotiating parties. Even though there have been contradictions, it is said that forest policy making has been characterized by compromises between the forest industry, forest landowners and state forest authorities (Boström, 2002).

However, the spirit of cooperation should not be exaggerated. Boström points to the fact that it was in the area of environment that led to differences in opinion. The forest industry and the environmental groups have been seen as antagonists through out the 1960s, 1970s and 1980s. Boström stresses that the work of environmental groups has been very important to voice environmental issues and initiate discussions between key stakeholders. From the social democrats and representatives from the trade union critique was raised about letting forest policy questions be adjusted by market forces concerning forestry issues which a life span of some 3-4 generations.

### **3.4.4 The individual forest owner**

Since half of the Swedish forest is owned by private forest landowners it is important to understand how their attitude differs from industrial forest companies. First of all Boström reports that 60 % -70 % of the non-industrial private forest owners report that the forest income does not account for less than 10 % of their taxable income. The individual forest owner is characterised as rather risk averse than profit maximizer (Boström, 2002)

The majority of private forest landowners would like the forest to be passed on to the next family generation. There is an economical, social, and emotional interest to keep the forest property in the family. Private landowners have often been seen as little interested when it comes to modernising and rationalising individual forestry. However, at the same time the image of individual forestry has developed and rationalised during the 1980s from being a private business to become more public. The individual forest ownership has gradually moved towards a more centralised and concentrated forest industry. (Boström, 2002)

### **3.4.5 The formation process**

In this section, the research work of Boström describes the formation process of forest certification in Sweden. In many instances Boström has interviewed initiators and key stakeholder of this process. I will in this section summarize the most relevant activities that took place.

During early discussions regarding forest certification the forest industry preferred a system within the framework of ISO 14000. This suggestion was criticized by environmental groups because ISO 14000 only regulates procedures and does not set requirements<sup>11</sup>. (Elliot, 1999)

In 1993 as the international FSC was formed the Swedish WWF initiated informal discussions with forest researchers and representatives from major Swedish industrial forest companies. The latter group was split in their attitude towards certification and the positive ones were Sveaskog<sup>12</sup>, Stora Enso<sup>13</sup> and Korsnäs. The Swedish Society for Nature Conservation (SSNC) and Greenpeace initially were quite sceptic to the whole idea, recalls one participant from the forest company side. SSNC was looking for a green label model where the ENGOs would be in control. If SSNC wanted a scheme for only the best companies WWF was looking for a model for the entire forest industry. However, both SSNC and Greenpeace later changed position and possibly because their international parent organisations (WWF, FoE and Greenpeace) all supported FSC. But the strongest initiators during this early process were WWF, Ikea and Sveaskog (Boström, 2002).

In May 1995, after discussions with various stakeholders WWF and SSNC presented a certification proposal. Sveaskog would have been ready to accept the draft but acted cautiously as they wanted more companies or organisations to commit. The National Federation of Swedish Forest Owners felt that the environmental organisations demanded too much and the proposal would only be possible for the “best in class” to comply with. The forest owners wanted in principle all forest owners to be able to certify their forest. This

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<sup>11</sup> A number of Forest companies today apply both forest certification programs and ISO 14001 and do not see them as complementing rather than competing.

<sup>12</sup> Former AssiDomän

<sup>13</sup> Former Stora Kopparberg

led the forest industry to look at a Nordic certification model, but the NGOs choose not to involve themselves. (Boström, 2002)

In early 1996 the NGOs formed a FSC working group (table 3-4). Prior to this they had created a network of companies and organisations supporting the same ideas. At this time the Swedish Forest Industry Association decided to join the group which resulted in the National Federation of Forest Owners following their decision. The chairman leading this group was assigned to Ministry of the Environment, and was neutral without holding any voting power. Participating in this working group besides the major NGOs and the forest owners were the big five forest companies (SCA and Holmen besides the three already mentioned). The Swedish Wood Industry Workers Union was also present. Other organisations or companies were the Forestry Society (Skogssällskapet), The Swedish Church, National Union of the Swedish Sami People, Ikea and Kinnarps. (Boström, 2002)

Table 3-4 Members of FSC Sweden working group

<b>Table 3-4. Members of FSC Sweden working group</b>	
<b>Type of organisation / position</b>	<b>Organisation / Company</b>
<b>Chairman</b>	Ministry of the Environment (neutral)
<b>Forest Industry</b>	The Forest Industry Association Holmen Korsnäs SCA Sveaskog Stora Enso
<b>Forest Owners</b>	National Federation of Forest Owners
<b>NGOs / Non-profit organizations</b>	World Wide Fund for Nature Swedish Society for Nature Conservation Forestry Society
<b>Union</b>	The Swedish Wood Industry Workers Union
<b>Others</b>	IKEA Kinnarps The Swedish Church National Union of the Swedish Sami People

The working process contained discussions and negotiations and general meetings. But the work was also organised into subgroups with social, economic and ecological focus. In May 1998 the group would agree upon a standard that was approved by the International FSC.



Two organisations did not sign the agreement, Greenpeace<sup>14</sup> and National Federation of Swedish Forest Owners<sup>15</sup> (Boström, 2002).

### **3.4.6 The need for common ground**

Boström raises the question: “Why is there a need for common agreement among parties?” during interviews with key stakeholder participating in the formation process. From the Forest Industry side their attitude was very clearly “either all is in or none”. In regards to a certification standard common ground was desired. The forest companies conducted internal discussion to form a common view. Far from all forest companies shared the same view when discussion started. Some were reluctant of being on the same side as the NGOs. There was some fear that the environmental groups would at a later stage ask for more. There was also some companies questioning whether it is the role of NGOs to act as a state authority or negotiator? Should not environmental groups be asking for requirements and form opinion? (Boström, 2002).

Boström poses an interesting question why not companies interested in certification went ahead on their own to seek a market advantage ahead of competition? However, the companies negotiating during formation did not see that the advantages with FSC were on a niche market. They were all looking for a long-term solution and the creation of a market for certified forest goods and therefore a unified front was required (Boström, 2002)

The National Federation of Swedish Forest Owners consisted of six different groups. No one broke out during the discussion to sign the agreement. One important reason for the parent organisation to leave the discussions was because of Sami people and their reindeers in the north of Sweden. There was important for the owners to reach an agreement since there were foreign customers requiring certified products. However, to shatter the united front within the Forest Owner Association was a price too high. This led the forest owners to start looking at an alternative standard. (Boström, 2002)

On the social side the Swedish Union of Forest Workers kept a low profile in the beginning but saw the certification discussions as a good mean of neutralizing the rather confronting attitude the forest sector presented at this time. Swedish Union of Forest Workers signed the agreement as they saw certification as an additional tool for the union to support its members besides policies and agreements (Boström, 2002)

During negotiations it is not only about who has the best arguments. It is just as important to understand what the other actors are after. The environmental groups have a very high symbolic capital. There is an international support for protecting the forest which would have a tremendous negative effect and loss of credibility if the NGOs would leave the cooperation. (Boström, 2002)

All members of the FSC working group did agree that political actors or state authorities should not be part of negotiations. This notion was also shared by political decision makers and authorities. Therefore Boström note the situation as odd when the acting chairman came

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<sup>14</sup> Greenpeace withdrew discussion because they would not accept allowance of exotic tree species and fertilizing (Boström 2002)

<sup>15</sup> For the National federation of forest owners the question about the Samis right to use forest land as pasture was crucial. The proposed standards were not flexible enough and suited private forest landowners poorly. The requirements on Chain-of custody for timber were also too demanding (Lindhahl 2001)

from the Department of Environment. Boström make the point that the Government do to some extent have a participating role in the formation process. Political actors also tried to exert external pressure. The Minister of environment at this time, Anna Lindh, communicated hopes that a voluntary certification scheme would be finalized. However, the acting Chairman say that the government played a very minor role during the formation process. They probably would have liked to have more influence, but the neutral Chairman stress the fact that they kept out was probably crucial for the outcome. (Boström, 2002)

### 3.4.7 Consequences of FSC formation

As we can see from the work of Cashore (2004) the FSC standard have created a counter reaction from alternative certification programs in many other countries around the world which have marginalised the impact of FSC. In Sweden FSC is dominating even though an alternative is present (Boström, 2002).

The Swedish FSC-council regrets that there are two certification systems in Sweden. According to Boström's informants in the study, two trade marks appear confusing for the consumer. In hindsight, also the national Federation of Swedish Forest Owners regret that discussions were so forced that left them with no other choice than to withdraw from the formation process. They appear confident that if they had shown more tolerance the outcome of negotiations would have been different. They claim that working together with environmental non-government organisations is beneficial for the credibility they bring to the cooperation. As the negotiator representing the forest owners puts it once looking back at the formation process, "It is unwise to go against the environmental organisations...we need to have our critiques with us" (Boström, 2002, p. 43)

Soon after leaving FSC discussions the Swedish National Federation of Swedish Forest Owners approached Pan European Forest Certification (PEFC) which was launched as an alternative to FSC and run by private forest owners. In 1999 a PEFC interim council was formed by Swedish Forest Owner Association and Swedish Sawmill Federation [Sågverkens Riksförbund] (Boström, 2002).

Both organisations WWF and The Swedish Society for Nature Conservation (SSNC) have reacted very critical to PEFC. They claim that FSC was better for biodiversity and that PEFC is run by economical interests. (Boström, 2002) SSNC is referring to the report *Behind the Logos* issued by FERN comparing four different forest labels, claiming "we consider that FSC to be the only available framework that meets the basic requirements outlined in this report. With an FSC label the consumer knows what he or she gets. This is not the case with any of the other schemes" (Boström, 2002, p. 44). Most of the critique according to the report is about the organisational structure, "PEFC is an organisation by and for private forest owners or their associations" (Boström, 2002).

From PEFC side the reply [regarding its organisational form] is that members of the organisation do not have the final say it is rather up to the market and customers to decide. PEFC invited the environmental groups to participate, but it is the enterprises and the owners that bare the final responsibility as they are the ones involved in operations and taking all the costs. WWF declined to participate with the motivation that they saw very little chance to voice opinion for environmental and social aspects. (Boström, 2002)

In the following table 3-5, various stakeholder support given to either FSC or PEFC is identified.

Table 3-5 Support granted to FSC and PEFC by Swedish industrial companies, industry association, and land owner association

<b>Table 3-5. Support granted to FSC and PEFC by Swedish industrial companies, industry association, and land owner association</b>		
<b>Company or Organisation</b>	<b>FSC</b>	<b>PEFC</b>
Swedish Forest Industry Association		
Sveaskog AB		
SCA Skog AB		
Stora Enso AB		
Modo Skog AB		
Kinnarps AB		
Korsnäs AB		
National Federation of Swedish Forest Owners		
Södra Skogsägarna		
Mellanskog		
Norrskog		
Norra Skogsägarna		
Norbottens Skogsägare		

Source: Cashore, (2004).

In spite the intensive debate between the two standards WWF, SSNC, The Forest Industry and the National Federation of Forest Owners created an informal working group with the objective to create a document that would bridge the two systems. From PEFC side they wanted to achieve mutual respect for both systems. They saw this document as a “Swedish solution” to help the market compare standards and to some extent see both standards as mutually recognized. However, this view is not shared by the environmental side. The document called “the Stock Dove” [Skogsduvan] was not aimed at making both systems equal. WWF claim the main purpose of the document to make it possible for those with PEFC standard to upgrade to FSC. (Boström, 2002)

Regardless which side you support The Stock Dove communicates what is needed to be certified by FSC (or PEFC) if you already are certified by PEFC (or FSC). For the forest industry this document is important because forest owners are valuable suppliers. If they are using a different certification standard the industry must keep the timber separate, because of

chain-of custody requirements. The Stock Dove would harmonise and facilitate the handling process for many forest processors. Finally, there is today no interest from the Forest industry side to join PEFC, but if the market would require them to do so they would of course reconsider. (Boström, 2002).

## 4 Textile industry

*This chapter will examine the textile industry. The interest for industry standards comes from the demand side of the industry. Mainly all western clothing brands depend on foreign manufacturing many times from low cost production countries in Far East. Customer pressure for clothes produced under decent human working conditions are building up. Companies develop codes of conducts to let suppliers know that they have to comply with international labour standards.*

### 4.1 Introduction

This section will include a brief introduction to the history of the textile industry. We will learn that the industry is taking on global changes in terms of new trade policies. Corporate codes of conduct will be explained together with common drivers. Finally, we will study a Swedish multi-stakeholder initiative for independent control of suppliers in the textile sector.

#### 4.1.1 Background Textile Industry

The textile industry is undergoing a global transition. As a consequence of the Uruguay Round (1986), the system of import quotas which has ruled the industry for over four decades was being phased out. From 1974 until the end of the Uruguay Round the trade was governed by the Multi-fibre Arrangement (MFA). This agreement established quotas limiting imports for countries that needed protection against rapidly increasing imports under a special regime outside normal General Agreement on Tariffs and Trade (GATT) rules. Since 1995, the Agreement on Textiles and Clothing (ATC) created by World Trade Organisation (WTO) has taken over from the MFA.

During the period between 1995 and to the end of 2004 transition is moving gradually, in four steps. This is to allow for importers and exporters to adjust to new market conditions. By 1 January 2005 the textile sector will be fully incorporated into normal GATT rules. This means that quotas will be abolished and importing countries will no longer be able to differentiate among exporters (WTO, 2004).

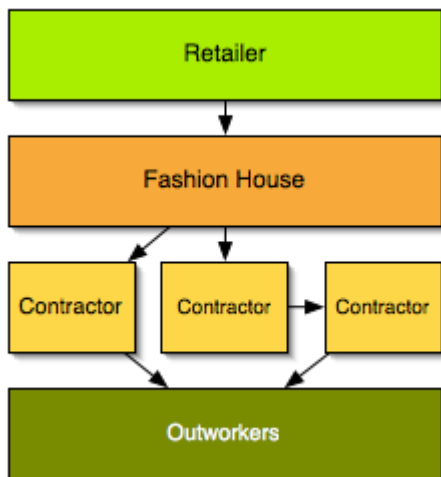
What will be the global effect of the undergoing changes in the textile sector? The textile and clothing trade is of major importance for developing countries. These countries rely heavily on this trade, which is relatively labor intensive. Developing countries account for a much higher share in textile exports than the 6 percent average global share for merchandise trade. There are projected changes for all exporters but the outcome is not certain. The effects are conditional on whether the promised liberalization is fully implemented or only being offset by new forms of protection. The direct impact on poverty is also unpredictable, depending to some extent on government policy. Early predictions say that South Asia should gain and that there are potential losers in Africa (Institute of Development Studies, 2004).

The garment industry, once concentrated to the industrialized countries has gradually spread to countries with lower production costs. It has become a worldwide industry where the geographic distribution is constantly moving. There are a number of factors contributing to globalization. The apparel sector is labor intensive. Developed countries are moving their industrialization to regions with lower labor costs. Developing countries have almost doubled their share of world clothing exports since early 1970s to account for more than 60 percent of total world exports today (U.S. Department of Labor, 2004).

### 4.1.2 The structure of the industry

The textile industry is made up of a complex chain of actors whose roles many times may overlap. In general terms, parts of the industry concerning this analysis consist of four main layers (see figure 3). Other important areas included in the supply chain are fiber and fabric production but not shown in the graphical overview.

Figure 4-1 Overview of the fashion industry



Source: huméco – exploring fair trade in the garment industry, 2003

#### Retail

Retailers are involved with the distribution and selling of garments to customers. A retail operation may take the form of an independent retailer, franchise, department store/chain, web shopfront, clearance stores etc (huméco, 2003). The intense competition in the retail sector has resulted in a restructuring of the retail market. The reason is that mass marketing stores and discount retailers have developed with relatively low overhead costs and low prices (U.S. Department of Labor, 2004). Many times a fashion house will establish a “concept store” that only sells products from that fashion house (huméco, 2003).

In an increasing competitive environment the traditional line between retailers and manufacturers are growing shadier. Each actor takes on new roles as the garment industry is changing. Some retailers, for instance, are taking on product development and manufacturing responsibilities and risks as they develop their own private labels. The advantage of course is to better profits while bypassing one or more actors in the supply chain. In the same way, many of the most successful apparel manufacturers and merchandisers have integrated vertically through the retail level. Also, many apparel manufacturers are opening factory outlet stores to better their margins. (U.S. Department of Labor, 2004).

#### Fashion house

A fashion house is the “brand” name or label, such as H&M, Puma, Nike etc. The fashion house determines the style of the merchandise to be produced and purchases the production of merchandise through external contractors. Some fashion houses may contract out manufacturing to contractors on an “auction” basis, seeking the lowest price possible for the goods being purchased. (huméco, 2003).

### Manufacturing / Contractors

This part of the chain may involve layers of sub-layers, with manufacturers subcontracting sub-contracting to contractors. It is a situation where each layer is pushing price pressure on the layer below to stay competitive. It is argued that this practice, along with auctioning, is the main reason of the low wages of the producers themselves (Huméco, 2003). Apparel manufacturers who wish to seek competitiveness are trying to reduce cycle times for design, manufacture and delivery. They adopt a “quick response” manufacturing systems that help retailers adjust inventory and respond faster to consumer changes as well as offering a wider customer selection (U.S. Department of Labor, 2004).

### Producers / Outworkers

This final layer consists of laborers who actually produce the merchandise. In the case of Asia produced goods this is typically an outworker (homeworker) or factory worker (Huméco, 2003). The cost of producing clothing is mainly based on the cost of labor and to a lesser extent, materials. Clothing production is therefore bound to move to regions with lower labor costs. The International Labor Organization (ILO) have commented on the effect that increasing competition have led to poorer working conditions in the mass segment of the market the competition between an increasing number of developing countries to win contracts has a downward effect on wages and working conditions in enterprises specialized in providing low-range articles for which the production cost must be as low as possible (U.S. Department of Labor, 2004).

### **4.1.3 Swedish textile importers**

The Textile Importers' Association of Sweden [Textilimportörerna] was established in 1982 when Sweden became more protectionists in their trade policy of the textile sector. Sweden was a member of MFA and utilized the Nordic clause, which allowed small nations with high imports to form a more restrictive policy than larger industrialized countries. In 1988 the Swedish government decided to stop all quantitative restrictions on textile imports from 31 July 1991 (Textile Importers' Association of Sweden, 2004).

The Swedish deregulation for textile imports resulted in a geographic shift. The big winner was China. The Textile Importers make the note that China was not gaining on the account of other developing nations, but due to lower imports from Portugal and other EU countries. The tendency was that countries with lower production and cost advantages like Hong Kong and South Korea lost market share to nations like Bangladesh and India that gained. Other losers were countries that had gained market advantages due to earlier trade restrictions (Macao, Malaysia and Philippines). In 1 January 1998 all export restrictions from Central and Eastern European countries to EU was lifted resulting in a market shift from East. According to the Textile Importers' Association of Sweden (2004), in favour of a deregulated market, this is a natural result of a free market structure.

## **4.2 The impacts of textile industry**

### **4.2.1 Chemicals**

In the early 1990s NGOs confronted retailers and a few large brand producers about how much chemicals their products contained. According to Weyler (2004) the precautionary principle was established right from the start. The Textile Importers' Association in Sweden, as an organisation made an arrangement with the Swedish Chemicals Inspectorate to develop

buying terms for the entire import trade. Companies had to promise that they would comply with the privately formulated regulations. The Association's "Guide to buying terms for the chemical content in textiles, clothing, leather goods and shoes" educate members regarding environmental matters as well as political problems Weyler (2004) points out. Finally, he proclaims that the industry association themselves acted and since then the debate on chemicals has calmed.

## **4.2.2 Human rights violations**

The textile industry has being accused for violating human rights. With textile salaries being the major production cost Western retail chains and high value brands are mainly locating production low wage Asian countries. Many textile suppliers are competing for lucrative contracts in an industry with relatively low barriers of entry. The results are low wages for and a short-term management view on human resources.

The International Labour Organization (2004a) emerged after the First World War. It was founded as a response to the growing concern for social reform and to the conviction that any type of reform had to be granted on an international level. One of the ILO's original and most important functions is the adoption of conventions and recommendations which set international standards. The eight key ILO conventions are; forced labour, freedom of association and protection of the right to organize, collective bargaining, equal remuneration, abolition of forced labour, discrimination, minimum age, and worst form of child labour (ILO, 2004a).

Thanks to active campaigning from NGOs together with western companies pressing for changes the textile working conditions are showing signs of improvement (Andersson, 2004). Today among the most critical human rights issues in the textile industry are issues of overtime, salary, employment status and the organization of union (Andersson, 2004).

## **4.2.3 Water pollution**

According to Weyler (2004) the area of chemicals and human rights are currently being address through the channels of NGOs and the textile industry themselves. However, the next "area" of environmental concern is lack of cleaning and recycling system for water in the textile and clothing field.

In a profile over Chinas textile industry, residual dyestuff and chemical additives are the main elements in the textile industry wastewater. In large-scale textile factories, one-stage aerobic treatment of wastewater is commonly used. A two-stage anaerobic-aerobic technique has recently been developed in the large-scale textile manufacturing factories. This reduces COD and BOD by 70% and 95% respectively. Small and midsize enterprises lack biological treatment facilities. However, chemical methods are practiced in some SMEs but the cost is high. Enterprises are forced to pay pollution discharge fees (Center for Environmentally Sound Technology Transfer, 2004).

## **4.3 What are corporate codes of conduct?**

### **4.3.1 Background corporate codes of conduct**

The textile sector and particularly clothing and footwear have been amongst those consumer product sectors that have progressively introduced a number of codes of practice. Companies in United States have contributed largely in this respect. In the 1970s United



States and international trade unions among others criticized multinational enterprises for their activities in developing countries. Companies were accused for not taking social and economic development of the countries they operated in under consideration (Sajhau, 2004).

In 1992 Levis Strauss launched a code entitled “Business partner terms of engagement and guidelines for country selection”. Many apparel and footwear producers and retail groups were to follow (Sajhau, 2004). In Europe, the process has been somewhat slower, although major European companies in the textile, clothing and footwear industries do give attention to “good practice” and codes of conduct (Sajhau, 2004). In developing countries little interest or initiative for programmes like this is generated. However, in local production facilities contracted by a multinational corporation from an industrialised country must respect the codes established by the foreign company (Sajhau, 2004).

What is the meaning of “code of conduct”? Corporate codes of conduct do not have any formal definition. The concept “code of conduct” refers to “companies’ policy statements that define ethical standards for their conduct” (International Labour Organization, 2004b). There is no strict formula for how these statements are drafted.

The strength of a code of conduct is determined on its credibility. It depends to what extent it is taken seriously by external stakeholders like governments, industry, unions and consumers. Credibility according to International Labour Organization (ILO) depends on monitoring, enforcement and transparency. Which in the context of textile industry would mean to which foreign contractors and subcontractors, workers, the public, NGOs and governments are aware of the code and its meaning (ILO, 2004).

Monitoring suggest to what extent the code is followed. This can be tracked internally through committees, employee representation or regular reporting obligation. Or it can be followed externally through an outside auditor, consultant or NGO. Enforcement would be the responses to violation of the code. This can effect employees, subsidiaries, or related business associates and could mean monetary fines, demands of corrective actions, provision of education to the violator, or loss of contract for instance (ILO, 2004).

According to United Nations Research Institute for Social Development (UNRISD, 2004) company codes are more concentrated in sectors where brand recognition and export orientation are important. Transnational corporations are increasingly accepting the notion of extended responsibility for actions of their affiliates or suppliers. Because of codes, attention is on how goods are produced and not on what is produced. UNRISD argue that codes have the power to broaden consumer interest and move attention beyond price and quality, to social and environmental aspects of consumer choices.

Corporate codes of conduct can be divided into mandated or voluntary. Government mandated reporting are programs that “require reporting of factual information in a standardized format on a regular basis” (World Bank, 2004). This information enables the public as well as government officials to compare company performance and make decisions based on this information. Most sophisticated examples of government mandating systems can be seen in financial and environmental reporting today. However, the World Bank recognizes that social, human rights and governance reporting are emerging strong among global corporate reporting (World Bank, 2004).

There has been a strong growth in voluntary codes of conduct among firms during the last ten years (World Bank, 2004). According to a survey conducted by KPMG firms most likely

to voluntary report on Corporate Social responsibility (CSR) issues are large branded manufacturing firms. These firms are “reputation sensitive” and therefore most at risk for bad press about poor corporate practices (World Bank, 2004). In the same survey there are higher reporting rates within industries that have been investigated by advocacy groups around controversial issues.

Another type of standards setting related to social, environmental and human rights issues are referred to multi-stakeholder initiatives (MSI). These formations are involved in the promotion of dialogue, reporting, monitoring, auditing and certification. As we have learned in the forestry section these initiatives many times take the form of non-governmental organisations. However, there are also examples when industries, trade union and multilateral organisations showing the way (UNRISD, 2004). It seems according to UNRISD (2004) that MSIs have a better system to handle weaknesses linked to corporate self-regulation. By its constitution MSIs offer a broader range of actors in the decision making process. Something that can lead to positive implications in terms of democracy and global governance.

UNRISD (2004) research on corporate social responsibility suggests a number of ways that MSIs intend to improve social and environmental policy and performance. Some initiatives stress certification and/or monitoring of policies and management systems, where others focus not only on the “process” but rather on certifying actual performance and outcomes. A few have concentrated on voluntary reporting and learning from “best practices”.

### **4.3.2 Drivers for corporate codes of conducts**

From a government standpoint public reporting systems have become complementary to traditional command and control regulatory schemes. These new systems have emerged as a response to the challenge of regulating global firms and mobile supply chains. Also, new systems are needed as current systems of labour and environmental regulation are criticised (World Bank, 2004). It is argued that traditional government implemented monitoring and enforcement systems are growing outdated by changes in the global economy. Government are according to the World Bank more interested in disclosure systems that are more cost-effective, flexible and decentralised. Schemes that build on market mechanisms and public participation.

There is a growing concern from the public about the social and environmental impact of products they buy, the places they work and the areas they live in. The on-going globalisation of information flows have facilitated the work of non-government and labour groups to increase public awareness of negative impacts of company practices. The World Bank (2004) report that globalisation of brands and the connection between high value supply chains and low cost production sites have resulted in a broad field of labels, certifications and disclosure schemes.

Another concerned stakeholder is the investment community. Companies must show their social and environmental performance to investors. The financial sector demand full disclosure on risk and liabilities for corporate activities that are non-financial as well. Investors look for better methods of evaluating companies’ social and environmental performance. Through the increasing demand of socially responsible investments (SRI) the financial markets paying more attention to CSR reporting (World Bank, 2004). Examples are SRI indices like FTSE4Good index in London and Dow Jones Sustainability Index in New York.

Corporate self-interest in reporting is suggested as a driver for code of conduct. The demands put forward on firms may actually generate company benefits. Public disclosure of CSR practises helps improve company's reputation and brand image (World Bank, 2004). A solid public company reputation may well be able to attract top resources for the company. A more social responsible company may also see a financial impact on the bottom line. Business for Social Responsibility (BSR) have conducted long-term research on the link between socially responsible business practices and positive financial performance. In their recent material there is a positive connection overall financial performance and "Best Citizen" companies. BSR report that CSR initiatives can reduce operating costs. For example an improved environmental performance, such as reducing emissions of gases or lowering use of agrochemicals can result in lower costs. There are also studies that show that there is a growing market and customer loyalty for products and services perceived to be socially responsible (Business for Social Responsibility, 2004).

Globalisation, the inter linkage between all people on earth is also mentioned as a driver for a more uniform treatment of people and their environment around the world. Globalisation of economies is one aspect that has pushed multinational corporations to establish uniform standards of conduct regardless what region they are operating in. The example is given that Shell ten years ago applied a lower environmental standard to its drilling in Africa than in Europe or North America. Today, in a conscious understanding of interdependence of world ecosystems the same standards are expected on every continent (ILO, 2004).

Non-government organisations are very active in the promotion of codes of conduct in the textile, clothing and footwear industries. Sajhau (2004) describes three type of NGOs in his research; *ecumenical associations*, *economic associations* and *solidarity organisations or associations*.

*Ecumenical association's* main focus is to make corporations conscious about the social consequences of the globalisation of the economy. Obviously there are religious implications and there are examples of well funded associations operating in the United States which then can act as an important pressure group. Furthermore, its actions cover more than that of codes of conduct. They are against militarism and violence and especially with the respect of basic human rights (Sajhau, 2004).

Economic and ecumenical associations share their main focus: to improve companies' social responsibility in developing countries. The difference is in how they go about doing it. *Economic associations* support companies' in a wide area of business activity. They help companies take ethical considerations into their business decisions without having to discriminate profitability. This type of NGOs would like corporations to function as an agent for social change (Sajhau, 2004). Examples of economic association already referred to in this research study would be BSR.

Furthermore, in Sajhau's (2004) distinction of NGOs he also mentions *solidarity organisations or associations*. As the name implies, their main objective is to work for the most underprivileged populations. Some of these organisations specialize for instance in aid to refugees. Others like Oxfam have a broader field of operation. They recently launched a Clothes Campaign to make public opinion aware of working conditions in the apparel industry worldwide.

A common goal for all NGOs is to raise corporate awareness of the need for social responsibility. Because of their financial strength, ecumenical associations are in a better position to push companies in the textile, footwear and clothing sector in developed countries. The role of economic associations is more on encouraging and supporting

companies to generate, improve and use a code of conduct. Finally, solidarity associations target the awareness of consumers and unveil this pressure group to work for improvements of production conditions (Sajhau, 2004).

### **4.3.3 Weaknesses with corporate codes of conducts**

The fundamental problem, as shown in an Oxfam report, lies with the choice of business model. “While the industry can boast its commitment to some impressive principles, enshrined in codes of conduct, its business practices generate market pressures that are in reality leading to exploitative labour conditions. The consequence is that millions of workers are being locked into poverty and denied a fair share of wealth that they generate.” (Oxfam, 2004, p6)

Oxfam claim that said business model is the root cause of the problem that drives globalisation. A business model that is built on strong pressure on price, a demand for expeditious and flexible delivery, and a possibility to shift manufacturing location in search for ever-lower production costs. The mechanism of markets is functioning so that global companies can pressure suppliers to cut prices and shorten delivery times. The result is that pressures are moved further down the supply-chain leading to lower wages and bad conditions for workers (Oxfam, 2004).

The Oxfam study also highlights three major reasons why in spite codes of conduct little progress is made. First, the ethical promises made by purchasing companies are contradicted by their purchasing practices. Corporate staff responsible for sourcing lack knowledge and understanding of the impact on workers their demand for lower prices and shorter delivery is causing. Second, Oxfam studies reveal that in spite companies with comprehensive codes of labour practices little is done to put them into practice. Companies lack effective means of implementing their codes in the workplace. Third, many sports brands tend to use the same suppliers. Consequently, the ones who do ask for labour standards to be respected are marginalized by the ones who pay little attention to ethical standards in the operation of supply chain management (Oxfam, 2004).

Sajhau (2004) highlights a weakness in codes of conduct originally raised by majority of trade unions in his study. They argue that the problem with codes lies in the fact that they are applied and monitored by the company itself. The combined role of judge and jury put enterprises credibility on stake. Another point made by trade unions is that when companies try to apply ethical principles they seldom have the human resources to do so. They argue that monitoring tasks are erroneously given to quality assurance and commercial personnel. This gives a dual responsibility which restricts the effectiveness of codes. Therefore trade unions favour a situation where the control function is handled by a trusted independent social audit function (Sajhau, 2004).

Other issues found in the search for weaknesses or critique against corporate codes of conduct is an argument from UNRISD. They claim a danger of codes if they are to be seen for something more than they really is. The fear is that if used incorrectly they would reduce the demand for regulations and undermine trade unions (UNRISD, 2004). Finally, there is a point made that it is very difficult for consumers and investors to distinguish the performance between companies. The lack of comparability in corporate codes of conduct then makes it very hard to systematically track and follow companies’ ethical commitments (World Bank, 2004).

## 4.4 The formation process of a textile standard in Sweden

### 4.4.1 Background

Many international organisations and companies have looked for ways of sustainable development as a result of globalisation of economies. United Nations started in 1974 and initiated a code of conduct for companies. The objective was to protect countries sovereignty from increasing influence of transnational corporations. Organisation for Economic Co-operation and Development (OECD) followed in 1976 with their code. In 1998, International Labour Organisations (ILO) launched their program consisting of eight conventions guiding companies operating in low salary countries (Lindström, 2004). Today there are a large number of different initiatives which share the common goal of giving globalisation a more humane content.

Levi-Strauss & Co was the first multinational company in the apparel sector in 1991 to issue its Global Sourcing & Operating Guidelines. Nike followed with their code of conduct in 1992 and many other international clothing companies were to follow. Common for all companies is the need to show good faith and an interest to try to solve the poor working conditions employees in low wage countries or so called sweatshops are facing. The cost for companies like this to be associated with negative press and public outcry is very high. The code of conduct is an insurance against risk of bad reputation and damaged product image (Lindström, 2004).

### 4.4.2 Clean Clothes Campaign

In 1989 the Clean Clothes Campaign (CCC) was launched in the Netherlands. The campaign which is now active in 12 European countries focuses on improving working conditions in the global garment and sportswear industries (CCC, 2004). The code of conduct and third party monitoring proposed in the initial CCC Dutch campaign was developed jointly by trade unions, clothing companies and NGOs in Holland. These campaigns also include ties with trade union and NGOs in production countries that support the work and favours independent audits. The idea with CCC is to be an independent multi-stakeholder initiative that can operate as a control function. It can be established in a number of countries based on the same founding principles (Rena Kläder, 1998).

The Swedish Clean Clothes Campaign was launched in 1997. Behind the campaign is a network of organisations such as: the trade unions, humanitarian organisations and the Swedish Church<sup>16</sup> The four largest Swedish clothing chains were invited; Hennes & Mauritz, KappAhl, Lindex and Indiska. They had all adopted their own code of conducts around 1997 and 1998. Overall their company codes were comparable to the criteria established in the CCC reference code. The current Swedish CCC coordinator Joel Lindefors points out that the issue of “clean clothes” was very heated as Swedish Television had run a documentary about poor working conditions among textile suppliers in Asia in June of 1997. The timing for the documentary seems not totally to be by coincidence as Lindefors mention that the Dutch CCC office feed Swedish television journalists with information and relevant footage (Lindefors, 2004).

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<sup>16</sup> Handelsanställdas Förbund Industrifacket, Röda Korsets Ungdomsförbund, Förbundet Vi Unga, Fair Trade Center, Svenska Kyrkans Unga, Rättvisesakademin/Kooperation Utan Gränser, LO-TCO Biståndsnämnd and Emmaus Stockholm.

### **4.4.3 Formation of DressCode**

During spring 1998 this multi-stakeholder initiative started to take form. Besides companies the working group consisted of trade unions, NGOs and industry associations. Lindefors (2004), not involved with Clean Clothes at that time, stresses that the role CCC was as initiator and facilitator for the multi-stakeholder process to take off. The idea behind CCC in Sweden was the creation of a control function for independent verification of companies' code of conduct. The CCC proposal was based on work that had been developed by multi-stakeholders initiative primarily from Holland, Belgium and France. The ultimate goal of the project was improved social conditions for textile workers (Rena Kläder, 1998).

The project was given the name "DressCode". The recruiting process for a project coordinator involved all stakeholders. Initially the project had only industry funding for 14 months. The project was extended for another 22 months (Andersson, 2004). Three years later in 2001 a key stakeholder withdrew from discussions. The credibility of the campaign was therefore gone. The initiative took temporarily "time out" and the entire formation process was infected characterized by personal accusations (Lindefors, 2004). The question remains: What went wrong?

### **4.4.4 Why DressCode failed?**

#### **Background**

In 2003 the Swedish Consumer Agency [Konsumentverket], a state agency whose task is to help the Swedish general public with consumer affairs, ordered a report to understand the underlying reasons to the collapse of the multi-stakeholder initiative (MSI) for the clothing sector. DressCode was a serious attempt to establish an independent control function. If successful Swedish consumers would be able to purchase clothes knowing their choices would not only benefit themselves but also the people in producing countries (Wingborg, 2003). The report is a set of interviews with key stakeholders of the "failed" working group. Some key persons have also been contacted for this study where further clarifications were needed.

DressCode was sought to be an establishment open for Swedish non-profit organisations, trade unions and consumer organisations. DressCode would own the not for profit company DressCode Control, which would be the responsible entity responsible for handling independent controls of suppliers of the Swedish clothing companies. The persons in the control committee would be constituted of people without personal connections to the clothing industries (Wingborg, 2003).

The idea was for Swedish textile companies to have an agreement with DressCode Control. Inspections would be made both at Swedish headquarters and among a selection of suppliers. Companies would communicate to customers and shareholders that an agreement with DressCode Control was established and that ongoing independent monitoring and improvements was taking place. DressCode would be financed both by non-profit organisations and government funds. The clothing industry would not be funding but they would have to pay for the administration of inspections. The following organisations participated in DressCode discussions (table 4-1): The Swedish Trade Union Confederation (LO), The Industrial Workers' Union (Industrifacket), Commercial Employees' Union (Handelsanställdas Förbund), Save the Children (Rädda Barnen), Church of Sweden Aid (Lutherhjälpen), Red Cross (Röda Korset), Fair Trade Center, The Olof Palme International Center (Palmecentret) and the earlier mentioned four large textile companies.

Table 4-1 Members of DressCode discussions

Table 4-1. Members of DressCode discussions	
Type of organisation / position	Organisation / Company
Coordinator	Clean Clothes Campaign [Rena Kläder kampanjen]
Textile industry	Hennes & Mauritz Indiska Magasinet Kappahl Lindex
NGOs / Non-profit organizations	Save the Children Fair Trade Center The Olof Palme International Center
Unions	The Swedish Trade Union Confederation The Industrial Workers' Union Commercial Employees' Union

A co-coordinator and project leader was recruited. According to Lindefors (2004), the choice of Renée Andersson was approved by many stakeholders as she was qualified with past experience from twenty years with Save the Children. Andersson proved to have a long experience working with human rights questions on the field in Ethiopia and Bangladesh. The role of the coordinator consisted of two tasks. First, the project had to perform pilot studies among Asian countries to determine whether suppliers were in breach of corporate codes of conduct of the four Swedish clothing companies. Second, once the steering committee could confirm violations of code the task for Andersson was to propose a management system for independent controls. The system to be suggested must not impose any type of trade barriers and independent controls was required (Andersson, 2004).

At this time, in 1999, no management systems for social responsibility and monitoring had been developed for MSIs. Sweden was among four other countries selected and backed by EU to develop a system for independent verification of suppliers to the textile industry. The studies and the interviews of Indian, Bangladeshi and Chinese workers outside the companies were difficult and risky to conduct. These were reasons why the Dresscode project needed to be extended (Andersson, 2004).

Eventually Andersson formulated the DressCode proposal which was sent out for all stakeholders for comments in 2001. In spite three years discussion, a large amount of time and resources spent, DressCode was not able to put into practice. The reason for failure depending on which key stakeholder you listen to is presented below.

### DressCode Project coordinator

Renée Andersson says that the reason why DressCode never was realized is because the trade unions said “no”. Prior to a December 2001 meeting The Industrial Workers' Union (IWO) and Commercial Employees' Union (CEU) handed over a written communication stating

that they neither believed in control of codes and independent control. Andersson is critical against the unions' way of voicing their discontent very late in the process. They had taken part of discussions for three years process without raising these concerns, according to Andersson (Wingborg, 2003).

The concern that the control function would not be independent is not shared by Renée Andersson. She is of the opinion that an independent control committee would fulfil the requirements for being considered independent. Andersson is sceptical about global agreements between companies and national and local trade unions. She doubts that these agreements will have effect among suppliers operating in an environment where unions are lacking or very weak. Also, she believes that improvements of supplier working conditions should not aim to ambitious; they should start in a secured environment with good chances of functioning (Wingborg, 2003).

When asked if there was anything she could have done differently to save the project does not believe so. Andersson feels that DressCode was 5-10 years before its time. Future consumer pressure will lead into coalitions like this. Unions will have to change attitude otherwise they will run out of members. Companies need to do it otherwise they risk running out of business (Andersson, 2004).

### **The Industrial Workers' Union (Industrifacket)**

The representatives from both the Industrial Workers Union (IWU) and Commercial Employees' Union were of the opinion that they did not have the mandate to negotiate on behalf of workers associations in South. Something they also felt Swedish NGOs could not do. There seems also to have been a misunderstanding around the formality of the DressCode proposal. It was believed that the proposal would be referred for consideration. At the time the two unions responded a new version had already been prepared<sup>17</sup>. IWU were waiting in vain for a new version of the Dress Code proposal (Wingborg, 2003).

Mats Svensson negotiating for IWU says that it is not accurate to say that IWU left Dress Code, the reason according to him is that they were waiting a final proposal from the coordinator that never came. The report argues that it seems likely that personal differences on viewing the project process between the Union representatives and the project coordination were the main reason for not moving the project forward. "Discussions became ugly which deteriorated the credibility of the entire project", according to Svensson (Wingborg, 2003, p.9).

Svenssons critique of DressCode can be summarized in two points: First, DressCode Control was supposed to sell the independent verification service to companies. According to Svensson, DressCode Control would be dependent of the clothing companies which would reflect their desired independent role. Wingborg (2003) argues that the Unions were afraid of granting companies legitimacy that Unions could not guarantee.

Second, Svensson acknowledged that corporate code of conducts has resulted in improved working conditions among suppliers. However, little effect is shown of the fact that the creation of local trade unions has been created. Few incentives are then offered in order for employees themselves to improve conditions. IWU are of the opinion that global agreements

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<sup>17</sup> The proposal was dated 2 May, 2001 and the revision 15 November, 2001 (Wingborg, 2003)



should instead be signed between textile companies and global trade unions. Then global agreements will be adjusted to suit national and local conditions. “The main advantage with global agreements is that they stimulate local union activity...” Svensson stressed (Wingborg, 2003, p10).

### **Non-profit organisation: Fair Trade Centre and The Olof Palme International Center**

Fair Trade Centre (FTC) is a non-profit organisation working for fair international trade. They influence Swedish companies to act sustainable and conscious in developing countries. Bo Sundqvist working for FTC explained that DressCode died the same moment the unions declared their withdrawal from the project. FTC immediately followed the example of the Unions. A primary objective of FTC is to support the creation of local unions in developing countries; therefore we need unions as part of the stakeholder initiative (Wingborg, 2003).

However, even though Sundqvist have heard some of the critical reasons put forward by the unions he is not sure why they really left discussions. At times it has been very hard to follow the argumentation, he admits. The argument that DressCode Control should not be financed by the industry was accepted by FTC. A new suggestion was responded by FTC instead. However, the discussion never continued. FTC never understood why.

The union proposal of global trade union agreements is welcomed by FTC. However, global agreement is not the final solution. Among 90 percent of suppliers unions are still missing, besides global agreements will still need a control function, according to Sundqvist (Wingborg, 2003).

The Olof Palme International Center (OPIC) works with international development co-operation and the forming of public opinion concerning international political and security issues (OPIC, 2004). Petra Andersson from OPIC says that DressCode failed because the unions did not want to participate in the co-operation. Consensus among remaining participants was that there was no point to carry on the project without union involvement, according to Andersson. Even though OPIC was positive about DressCode as concept, there was little point in continuing with any Union involvement, Andersson recalls (Wingborg, 2003)

Why did the Unions leave the project then? Andersson offers an explanation in Wingborg’s (2003) report. She believes that the union organisation choose to step aside as they at this time were involved in policy work regarding ethical and social questions in international union networks. The Swedish unions wanted to act in transparency with international union policies, according to Andersson they left DressCode and waited for international guidelines to develop.

### **The Industry: Hennes & Mauritz and Kappahl**

Hennes & Mauritz is the largest clothing retailer in Sweden. Ingrid Schullström, environment and social responsibility points towards two reasons why DressCode failed. First, that the two unions did not sanction the proposal. She recalls that the motivation given by the unions were a matter of form. The proposal was sent out for consideration but proper revisions were never made. Schullström says the understanding was that all participants in DressCode had a common general understanding until the final meeting when the unions announced that they did not want to take part of discussions any more. Second, Schullström believes the

Unions suddenly wanted to change strategy. They favoured global agreements instead of DressCode (Wingborg, 2003).

During the three years of discussions Schullström recalls the unions as rather passive. Once the proposal was ready they decided they did not want to participate anymore. Would it be possible to continue DressCode without the unions? At first, Schullström believed there was a possibility as the Olof Palme International Center supported the proposal. But finally as it was clear that the union withdrawal meant a loss of legitimacy and consequently financial backing for Dresscode the project would not survive, Schullström concludes.

Hennes & Mauritz (H&M) supported DressCode to show consumers that the H&M wanted to improve working conditions in supplier companies. Also, the issue of independent control of H&Ms internal verification was of importance as it adds credibility to the company, Schullström notes. She does not agree with the critique that DressCode Control could not be independent if the industry was paying for inspections to be made. The bulk of the money would have come from government support and companies would pay an annual lump sum for inspections, she stresses (Wingborg, 2003).

DressCode would not guarantee against occurrence of irregularities among suppliers, more important was the long-term process of improvement, Schullström underlines. The idea was also that supplier demands would consecutively tighten.

Schullström does not believe that global agreements can replace what DressCode stood for. She believes they are unrelated tools for sustainability. The composition of DressCode with various stakeholders and independent control would increase credibility. In the eyes of consumers H&M would never achieve the same trust with global agreements, Schullström believes. H&M and Schullström is open for new initiatives that can add credibility for environment and social corporate issues. H&M is a global company and Schullström believes an European control system to have advantage as Sweden only account for 10 percent of H&M global sales. Finally, she says that it does not seem to lack ideas around social responsibility, what is lacking is rather coordination (Wingborg, 2003).

KappAhl, another large Swedish retail chain, are critical about how the unions acted in the DressCode project. Ann-Marie Heinonen explains that the work from KappAhl continuous. In Norway they have joined a project called *Initiativ for etiske handel* [Ethical Trade Initiative Norway] (Wingborg, 2003). Ethical Trade Initiative Norway (ETI-N) was set up in 2000 to bring the relevant NGOs and trade unions together and make it possible for them to work alongside companies in identifying and promoting good practice in code implementation (ETI 2004). This is a multi-stakeholder initiative involving companies, employers' organisations, trade unions and NGOs which is giving the scheme stability. Heinonen sees similarities with what was originally intended in DressCode (Wingborg, 2003).

#### **4.4.5 Other European multi-stakeholder initiatives**

##### **Business Social Compliance Initiative**

The Brussels based Foreign Trade Association (FTA) started in 2002 to establish a common platform from various European corporate codes of conduct and monitoring systems. The objective was to form a common European monitoring system for social compliance. In March 2003 FTA formally founded the Business Social Compliance Initiative (BSCI). In the objectives of BSCI it is said that social standards in supplier countries are to be improved.

The responsibility for actions will be shared between suppliers and the governments of supplier countries. BSCI is also open to cooperate with any other equivalent systems and the idea is not to replace any other verification system (Business Social Compliance Initiative, 2004).

The Textile Importers' Association of Sweden is a member of BSCI and positive that this initiative is ready to be used. The president Åke Weyler says that the members of the working group all consisted of enterprises with a belief that social compliance issues are dealt with more effectively in cooperation rather than each company handling all issues on their own. This is also a forum for trade unions, NGOs and other relevant stakeholders. These organisations are welcome to engage in dialogue with BSCI and give feedback on the initiative. However, they lack decision making power regarding issues regular member companies are against, according to Weyler (2004a).

The Swiss retail chain Migros has contributed and played an active role with experience and their corporate social responsibility structure when developing BSCI. Additional experience has also come from the Foreign Trade Association of the German Retail Trade, Aussenhandelsvereinigung des Deutschen Einzelhandels e.V. (AVE). Even though this is a new system taking form, it is basing the structure on proven systems and practitioners with experience of building standards (Weyler, 2004a).

BSCI is based on ILO core conventions. Focus is on social improvements among suppliers rather than forcing them out of business. Social audits will be performed by external companies accredited by the Socially Accountability International which is the SA8000 standard for socially responsible employment practices. BSCI is working for a reduction of number of supplier audits. The system will contain a database so that a member can check the status of the supplier. There are examples of suppliers in China and India participating in many costly inspections, one for each large customer (Weyler, 2004a).

According to Lorenz Berzau, BSCI co-ordinator it has taken one year since the foundation to create common and uniform management instruments for the monitoring of social standards worldwide. The development process has been characterized as a rather open process without any formal membership requirements. Audits are expected to start summer of 2004. Berzau stresses that it is not only about audits, but rather on helping suppliers improve their social performance. BSCI recognise the SA 8000 standard even though they do not consider it easy to follow. They feel it is too demanding and therefore they have developed an approach with a "must part" and an "optional part" for complying with BSCI standards. They also refer to political reasons for not stressing the SA 8000 standard as some companies consider it more of an American standard which is not an apt basis for an European solution (Berzau, 2004).

### **Industry comments about BSCI:**

#### *Textile industry: Kappahl*

Ann Marie Heinonen has been part of the BSCI Pilot group for one year. She is representing the Textile Importers' Association in Sweden as well as her company Kappahl. With the poor experience of DressCode behind them she believes BSCI is the way to go. The reason why she supports the project is because it is a "jungle" of codes and inspections taking place. The idea is to create a uniform system for companies to join. Heinonen believes there are many advantages of working together and sharing costs. The results of the controls will be available to all members in an accessible database (Heinonen, 2004).

Heinonen answers that BSCI is an industry initiative as a response to why unions and NGOs were not invited during the initial process. However, she declares, that NGOs are indirectly participating since this program is based on results from other programs where NGOs were present. She agrees with the fact that NGOs and unions were not present during pilot group work based on the very disappointing experience with DressCode. NGOs and others are welcome to participate further down the process she concludes (Heinonen, 2004)

*Textile industry: Lindex*

The reason for joining BSCI according to Stefan Ahlén was to become more effective. Lindex is members of Foreign Trade Association (FTA) which took initiative to BSCI. Textile Importers' Association in Sweden recommended that Lindex and Kappahl should be part of the pilot group within BSCI as they had previous experience of forming an industry standard. Ahlén feels that the main advantage of BSCI is an affective control mechanism, where all members can utilize shared intelligence on how suppliers comply with industry standards (Ahlén, 2004).

Like Kappahl, Ahlén was not happy about the outcome of DressCode. He did not want the union to be part of the formation process. They can work much faster this way, Ahlén says. Also, he feels that today they stand so far apart that cooperation would not work. Before joining BSCI Lindex viewed two other programs; Ethical Trading Initiative in the UK and Fair Ware Foundation in Holland. Both these initiatives fell because they were focusing nationally and Lindex does not have any business in either UK or the Netherlands (Ahlén, 2004).

*Textile industry: Hennes & Mauritz (H&M)*

Ever since DressCode failed H&M have been looking for alternative initiatives. Since seven years back they are doing their own inspections of suppliers. According to Magnus Ljungberg, Corporate Social Responsibility H&M is very interested in independent controls to strengthen their program. Ljungberg stresses the usefulness of learning from critique about their own program (Ljungberg, 2004)

Even though nothing is decided H&M is looking at the work done by FLA (Fair Labor Association) which is an American multi-stakeholder initiative. When comparing FLA and BSCI the former has an advantage since it is based on a broader platform engaging a wider range of stakeholders. Another plus for FLA is that they are operating in the US where H&M has a growing business (Ljungberg, 2004).

*Textile industry: Indiska Magasinet*

Renée Andersson was later recruited by the industry and Indiska once the DressCode project had ended. She is responsible for internal control of company codes of conduct. As a representative of Indiska she is sceptical to BSCI. For Indiska the cost is too high for what they get. She believes it involves too much money for small companies. Other reasons besides costs are that Indiska does not only sell clothes they also have furniture and other products not included in BSCI. Andersson says that Indiska is known for long term supplier relationship and differ from pure clothing companies moving between suppliers based on best price (Andersson, 2004).

*Textile Importers' Association in Sweden*

Åke Weyler with the Textile Importers' Association in Sweden comments the fact that H&M decided not to join BSCI as nothing strange. H&M, the industry leader has a well staffed operation for social responsibility with internal controls that is working. For industry actors'

two, three and four, with fewer resources to invest BSCI is a good choice. Companies are interested in sharing costs. The industry leader, Weyler stresses, will always try to gain market advantages from being first. Once that advantage is gone and competitors have caught up, the leader might consider doing things differently. What Weyler mean is that H&M is unlikely to join BSCI in the short term but might participate in the long term after BSCI has shown some years of operation (Weyler, 2004b).

The Textile Imports' Association was never invited to participate in DressCode, only the four largest clothing companies. Weyler (2004b) does not believe it is possible to form a multi-stakeholder initiative for the textile industry in Sweden, not at least today. He believes that organisations stand too far from each other. For instance, issues as minimum wage and working hours can not be solved, Weyler says.

## 5 Palm oil industry

*In 2003 a Swedish documentary showed how the tropical rainforest had to give away for palm oil plantations in South East Asia. The palm oil industry received attention and WWF explored the possibilities of a multi-stakeholder initiative. This chapter will describe how WWF and industry initiated a project setting criteria for sustainable palm oil.*

### 5.1 Introduction

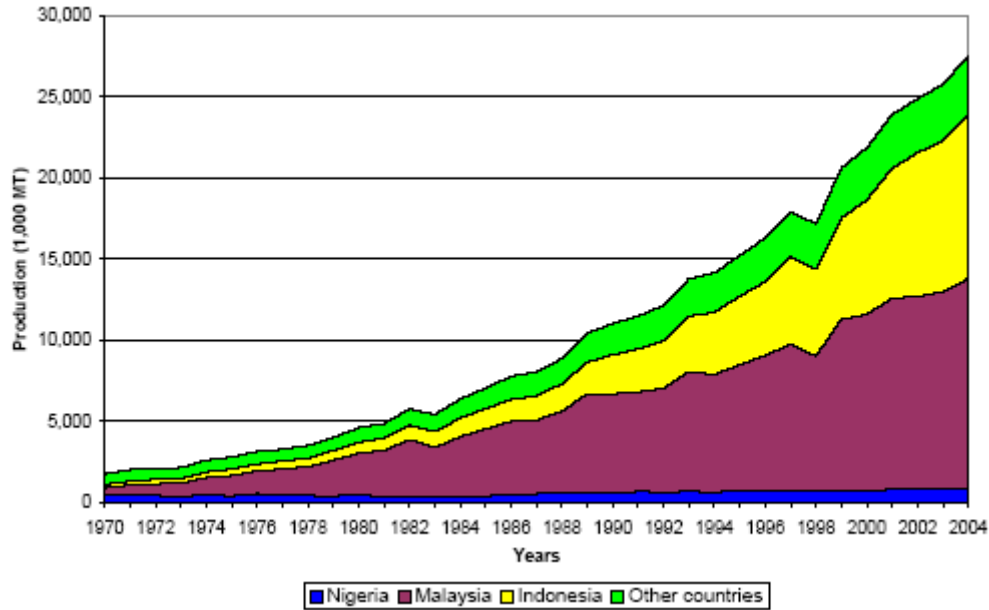
Palm oil is the second most consumed edible oil in the world after soy oil. It accounts for 21 percent share of the global edible oil market (Friends of the Earth, 2004a). The global area planted has tripled during the past 30 years. The main reasons for this expansion is considered strong prices for palm oil mainly due to consumption increase in Europe, India and China, the non-appearance of uncontrollable pest and disease problems, diversification of palm oil into food and oleo chemicals sectors and the very high oil yield per hectare compared to alternative vegetable oil crops (World Wide Fund for Nature, 2002a).

#### 5.1.1 History of palm oil

Palm oil originates from costal areas of West Africa and requires a wet tropical climate. In West Africa the palm has been used for hundreds or maybe thousands years as raw material for food, wine, medicine and woven materials. Traditionally African farmers grew the palm oil in small scale next to other local crops (Swedish Society for Nature Conservation, 2004). The Portuguese discovered the crop during their missions to West Africa in the 15<sup>th</sup> century. Small scale African growers exported their products to England and France in the late 18<sup>th</sup> century. The industrial revolution created a much larger demand for palm oil, which at this time was used to make candles and as a lubricant for machines (FoE, 2004b).

At the beginning of the 20<sup>th</sup> century the first oil palm plantations were started in Southeast Asia. It was the Dutch colonials that started commercial exploitation in Sumatra (Indonesia) around 1910 and British traders established plantations in Malaysia around the 1920s. From the very start the oil production was aimed for export. Quality control measures and development of bulk handling systems were initiated. However, growth was slow until the late 1950s as Malaysia started to diversify away from rubber production. World rubber prices were on the decline, but there was also an ambition to settle landless people into work by opening up forests areas (FoE, 2004b).

*Figure 5-1 Historical development of global oil palm production*



Source: Friends of the Earth

Malaysia surpassed Nigeria as the largest palm oil producing country in the world in the early 1970s (figure 5-2). Indonesia followed the example of Malaysia and in the mid-1980s the sector took off. Today oil markets in Africa are on the whole declining and the oil palm sector for Latin America is still underdeveloped (FoE, 2004b).

### 5.1.2 Large production and markets

Commercial cultivations of oil palms is only possible in low-land regions in Northern Latin America, Central Africa and South Asia. Malaysia and Indonesia dominate the world production of palm oil. Together they stand for 84 percent of total global output. The global palm oil usage has increased by 70 percent since 1995 as seen in table 5-1 (FoE, 2004b).

Table 5-1 Crude Palm Oil production by country (in 1000 MT)

Table 5-1: Crude Palm Oil production by country (in 1000 MT)

Country	1995	1998	1999	2000	2001	2002	Growth	Share
Malaysia	7,811	8,315	10,553	10,840	11,804	11,908	52%	48%
Indonesia	4,220	5,361	6,250	7,050	8,030	9,020	114%	36%
Nigeria	660	690	720	740	770	775	17%	3%
Thailand	354	475	560	525	620	590	67%	2%
Colombia	388	424	501	524	548	528	36%	2%
Papua New Guinea	223	210	264	336	329	318	43%	1%
Ivory Coast	285	269	264	278	220	240	-16%	1%
Ecuador	180	199	263	222	201	217	21%	1%
Others	1,089	1,211	1,250	1,359	1,399	1,437	32%	6%
World total	15,210	17,154	20,625	21,874	23,921	25,033	65%	100%

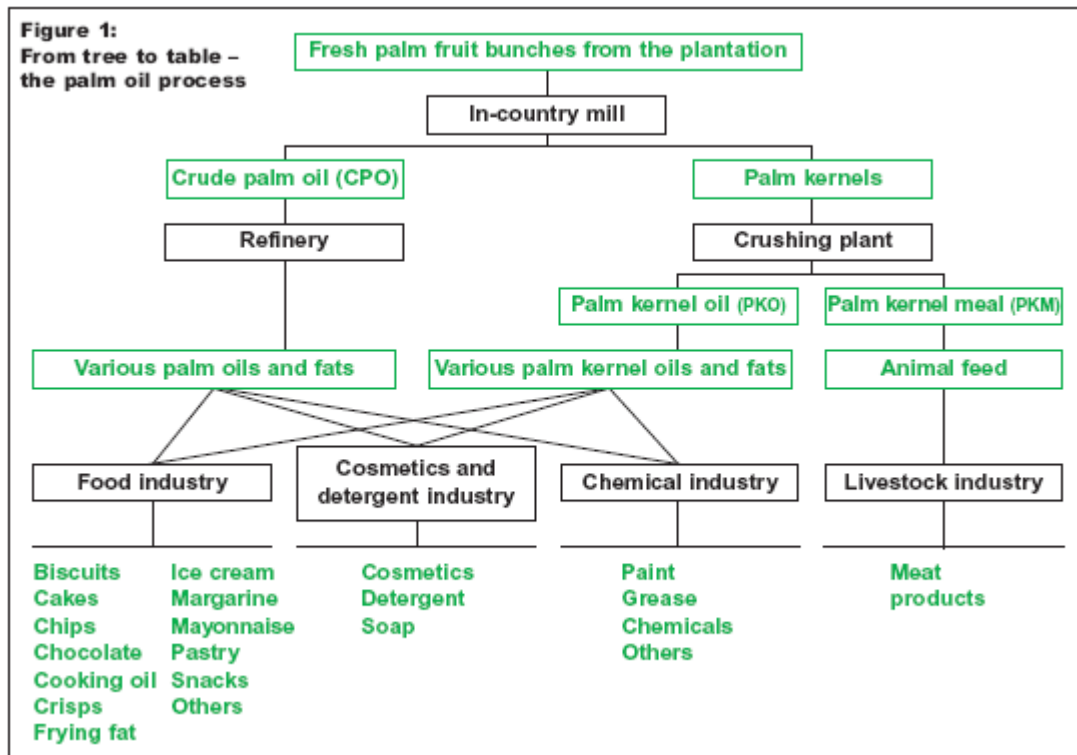
Source: Friends of the Earth, 2004

Important oil palm users are India, EU, Indonesia and China accounting for nearly half of world production (FoE, 2004b).

### 5.1.3 Products and Prices

The oil palm tree yields several crops of plum sized fruit each year. The fruit grows in bunches of up to 3,000 and yield 10 to 35 tonnes per hectare on mature trees. The palm oil tree has an expected economic life of around twenty years before it is replaced or abandoned. The fruit is processed into different kind of products after harvesting (WWF, 2004). Crude palm oil (CPO), palm kernel oil (PKO) and palm kernel meal (PKM) are all extracted and processed into a wide selection of commercial products including cooking oil, soap, cosmetics and margarine. One plantation hectare of oil palm produces about 82 percent CPO, 10 percent PKO and eight percent PKM (WWF, 2004). In figure 5-2 the oil process is shown from “tree to table”(FoE, 2004a).

Figure 5-2 From tree to table – the palm oil process

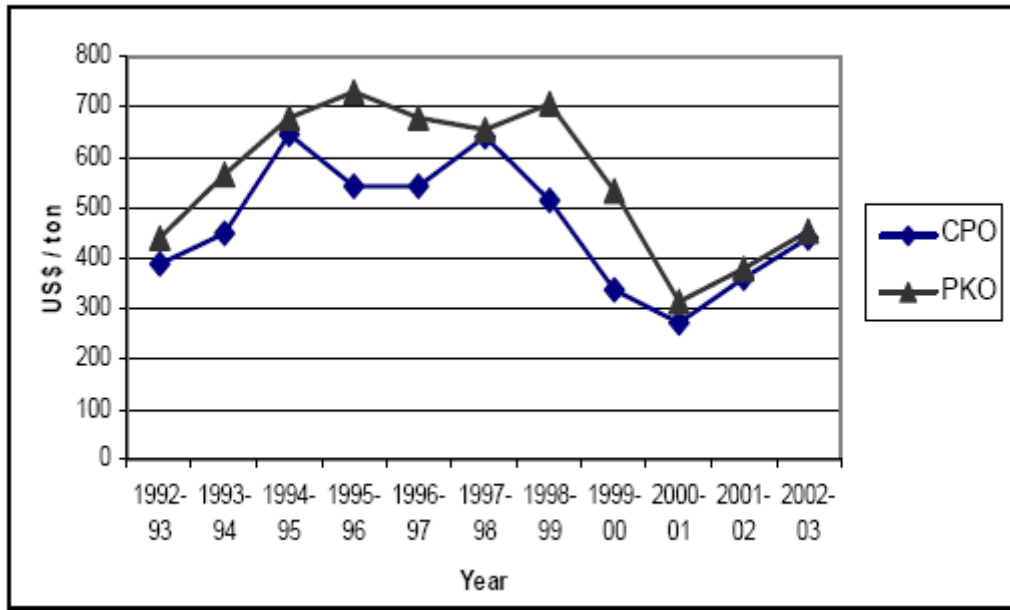


Source: Friends of the Earth, 2004a

The crisis of Asian financial markets in 1997 resulted in drastically lower prices for oil palm. Global demand for palm oil has been rising and consequently prices recuperated for CPO and PKO since early 2001 (see figure 5-3). This will act as an incentive to invest in new plantations.

Figure 5-3 Development of the CPO and PKO prices in the past 10 years





Source: Friends of the Earth

## 5.2 The global palm oil production chain

Palm oil is a global commodity with ingredients of products manufactured by a large number of industries. In order to supply palm oil to these industries and their customers an integrated supply chain is needed. Figure 5-2 gives a schematic overview from plantation to end-consumer of this global oil palm production chain explained below.

### 5.2.1 Palm oil plantations

The oil palm tree growth is generally limited to areas of about ten degrees north or south of the equator. The oil palm tree matures in three to four years and reaches peak production between six and ten years. Every palm tree produces several bunches of fruit every year. One reason making palm oil attractive as the annual fruit yield is the highest compared to edible oils with 10 to 35 tonnes per hectare (FoE, 2004b).

### 5.2.2 Crude palm oil mills

After harvesting the fruit has to be processed within 24 hours to avoid the rapid build-up of free fatty acids in the harvested fruit. This means that every group of oil palm plantations need its own crude palm oil processing mill. In the CPO mill the flesh of the fruit is mechanically separated and pressed to extract the crude palm oil. The kernel is taken to a crushing plant. The residues left after extraction of palm oil is used as fuel and mulching (FoE, 2004b).

### 5.2.3 Palm kernel crushing plant

The crushing plant can be located in either in producer or consumer countries. The crushing process yields two products: 45 percent palm kernel oil (PKO) and 55 percent palm kernel meal. The high content of lauric acid gives palm kernel oil its attractive melting characteristics, hardness in room temperature and combined with a low melting point just above room temperature. This makes PKO ideal as shortening in pastry and to replace cacao butter. Only palm kernel oil and coconut oil have such a high lauric acid level (51 %) – other

edible oils usually have less than 1 percent. Something that is reflected in the price (FoE, 2004b).

#### **5.2.4 Palm oil and palm kernel oil refineries**

Most of the crude palm oil and the kernel palm oil are then processed in refineries that can either be located in producer or consumer localities. Three stages are undertaken. In *neutralisation* any “free” fatty acid is removed. Otherwise if reacted with oxygen could cause the oil to develop a bad taste. The neutralised oil is washed and dried thoroughly. During *bleaching* process colour and impurities are filtered away during an absorbent bleaching process. Finally, *deodorizing* removes any negative smell and taste in the oil.

CPO is processed into refined, bleached and deodorised free palm oil (RBDPO). RBDPO is used as an industrial frying oil to produce chips, crisps, instant noodles, and other snack foods. It may also be use for producing margarines, shortenings, ice cream, condensed milk, soap and other products. The refining of crude palm kernel oil follows the same process.

#### **5.2.5 Manufacturers of margarine, shortenings and fats**

Manufactures of margarine and specialty fats process the refined palm oil further to produce margarine, frying fats and spreads for the consumer and industrial market. Many times these type of companies are integrated with edible oil refineries. At this stage manufacturers modify and combine various types of edible oils to achieve an oil or fat mixture that please the end consumer (FoE, 2004b).

#### **5.2.6 Oleochemical industries**

This industry uses edible oils to make oleochemicals, which are used in the manufacture of products as foods, specialty fats, soaps and detergent, cosmetics and personal care products, lubricant and greases for instance. Similar chemicals may be derive from crude oil, but are then referred as petrochemicals. The advantage of oleochemicals over petrochemicals is that they are derived from renewable resources and more biodegradable. Also, the production of petrochemicals requires more energy and pollutes more (FoE, 2004b).

### **5.3 The impacts of palm oil industry**

According to Oil World palm oil is estimated to take the lead among edible oil in around 2012. The reason as mentioned is the higher yield from oil palm but also usually lower production costs. Global production is expected to double already in 2020 (Casson, 2003). In this section we will look at the environment and social cost both world leader producers Malaysia and Indonesia are paying for their large-scale palm oil production. Social conflicts and violation of human right has come as a consequence of production expansions. Here follows some of the effects of unsustainable palm oil production.

#### **5.3.1 Deforestation**

The original habitat suitable for oil palm is low land tropical forest. These forests hold the highest biodiversity of any global ecosystem. The role of forest loss is not always well documented. According to palm oil industry sources there is very little “direct” deforestation taking place. They say that oil plantations are usually situated in previously logged area or plantations covered by others crops (FoE, 2004a).

The Indonesian Palm oil Research Institute say that only 3 percent of all palm oil plantations are established in primary forest locations as supposed to 63 percent in secondary forest and bush. According to Malaysian Palm Oil Association 66 percent of all plantations have been converted rubber and cacao productions. Below industry data (table 5-2) show that 48 percent of all currently productive oil palm plantations in Malaysia and Indonesia involved some type of forest conversion (FoE, 2004c). However, it is unclear if these figures are giving the whole truth. Field observations point indicate that most (87 %) of plantations in Indonesia and East Malaysia are planted in forest areas (FoE, 2004a).

Table 5-2 Plantation area and estimated forest area cleared based on industry estimates (in Mha.)

**Table 5-2: Plantation area and estimated forest area cleared based on industry estimates (in Mha.)**

	Oil palm plantation area (2002)	Share of oil palm plantations involving forest conversion	Forest area cleared for oil palm (to end 2002)	Total oil palm area target / allocation (2003)	Additional area to be established	Additional forest to be cleared
Malaysia	3.67	33%	1.21	3.74	0.07	0.02
Indonesia	3.10	66%	2.05	9.13	6.03	3.98
PNG	0.07	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Total</b>	<b>6.77</b>	<b>48%</b>	<b>3.26</b>	<b>12.87</b>	<b>6.10</b>	<b>4.00</b>

Source: Friends of the Earth (PNG=Papua New Guinea)

In traditional forestry practice, human-animal conflict is rare. But in the case to conversion of palm oil plantations 80 – 100 percent of species of mammals, reptiles and birds are lost (FoE, 2004a). Unfortunately, research show that as little as 0 – 20 percent of species of mammals, reptiles and birds can be supported by an oil plantation compared to primary rainforest (FoE, 2004c). Another example of deforestation is “oil palm companies” that are more interested in the timber stand which is considered a pre-start bonus rather than realising the plantation project (FoE, 2004c).

### 5.3.2 Forest Fires

Wild fires are not usual in the damp climate of tropical rainforests. In 1997 and 1998 rural Indonesia was struck by severe fires. It was estimated to affect as much as 6 percent of Indonesia. The fires brought about thick and heavy smog which covered the region for three months and caused substantial economic damage besides environmental distress. Assessment show that 46 percent to 80 percent of all Indonesian fires occurring during this time occurred in plantation company concessions. Three-quarters of these lands were oil palm plantations (FoE, 2004c).

Companies consider burning as the most efficient way to prepare land for a new oil palm plantation. Obviously, clearance fires can easily spread out of control. Even though, government has banned these fires, burning for land clearing continuous to take place. Among 176 plantation companies accused with burning, only one company was found guilty and fined (FoE, 2004a).

### 5.3.3 Pollution

Among the most serious causes of pollution part of oil palm production is the use of pesticides. Paraquat, a herbicide regarded toxic and consequently banned in many countries is still commonly used in Southeast Asia. Workers, manly women are frequently exposed

agrochemicals. Also, plantations keep little track of what fertilizers or herbicides are used (FoE, 2004a).

Palm oil mill effluent (POME), a waste product from palm oil production is responsible for pollution. The waste consisting of water, crushed shells and some fat is contaminating rivers without any purification measures. It kills aquatic life. More responsible mills store POME in basins to detoxify. However, basins do overflow and still contaminate waterways (FoE, 2004c).

### **5.3.4 Land rights**

Indonesian national law does not recognize traditional land rights. Land is granted to companies for logging or palm oil production. It has been estimated that some more than 45 percent of Indonesia's population depend on forest and forest products for their livelihood. Some 40 million of Indonesia's entire population of 216 million people live in indigenous communities. These people have no right to claim land and consequently land is granted by companies (FoE, 2004a).

There has been reported military involvement, corruption of authorities and conflicts between government parties make the situation unsure and difficult to understand. As a consequence, plantation business is the most conflict-prone land based sector in Indonesia. The situation in Malaysia regarding land rights is not as severe as in Indonesia, even though hot spots of land conflicts occur (FoE, 2004c).

## **5.3 Sweden and palm oil imports**

The European Union is second after India in global palm oil usage (FoE, 2004b). EU has a total market share of 13 percent and Sweden accounts for 5 percent of EU's import (Egermayer, 2004). Of Sweden's total vegetable oil consumption of 140.000 ton per year about one third (44.000 ton) is palm oil. Sweden is importing vegetable oils (30 %) as the economic incentives for domestic production is not present. Palm oil is attractive as the market price is relatively low and product characteristics are favourable (Egermayer, 2004).

The two main Swedish importers of palm oil are Karlshamns AB and Unilever Bestfoods which divide the market equally. Karlshamns AB sells palm oil further up the supply chain to Karlshamns Mejerier and Unilever Bestfoods. Both these companies stand for the majority of margarine production in Sweden (Egermayer, 2004).

Even though Sweden holds a relatively small global share of palm oil imports, Swedish companies have listened to arguments from environmental groups to buy from areas with sustainable production. The Swedish Society for Nature Conservation has created corporate guidelines for importing palm oil. These guidelines include recommendations not to buy from companies practicing deforestation and burning for making way for new plantations, and that indigenous groups are respected to mention a few example (Egermayer, 2004).

In January 2003 a documentary about palm oil production was broadcasted on Swedish television. The program showed how large forest areas were ravaged to make way for palm oil plantations. The program had an impact since imported palm oil is a common ingredient in many Swedish foodstuffs (COOP, 2004). Behind the television production was WWF and other campaign organisations who wanted to publicise the increasing palm oil production

which they see as a serious threat against biological diversity in tropical rain forests in Southeast Asia (Karlshamns, 2004)

### **5.3.1 Karlshamns AB**

During the time of the documentary Karlshamns was taking part of multi-stakeholder discussions on sustainable palm oil production. The work regarding the Round Table on Sustainable Palm Oil is continuing and will be described in the following section. Meanwhile, waiting for this process to take full form Karlshamns has taken some actions. To avoid supporting the unsustainable expansion of new palm oil plantation Karlshamns only source their palm oil from mainland Malaysia. They monitor suppliers that have to comply with environmental and social criteria (Karlshamns, 2004).

In a press release from 2003 Karlshamns inform customers and partners about sustainable production of palm oil. They stress that they are only using suppliers with “mature” activity without current expansion. They write that they want to refrain from buying palm oil from suppliers with young plantations that have cut down tropical rainforest to make way for palm oil production. However, Karlshamns notes that this is not a guarantee that the oil they are buying is produced according to sustainable methods, but the best they can do to avoid supporting incongruity that exist in some regions (Karlshamns, 2004).

Vice President Jan-Olof Lidfelt recalls their involvement with Palm oil in three steps. First The Swedish Society for Nature Conservation (SNF) met with the company in private and explained their concern and educated the company on what threats SNF saw if no action were taken regarding palm oil. Second, was the TV-documentary which created a public awakening about sustainable production for palm oil. Third, the company was visited by a Dutch consultant discussing a possibility for Karlshamns to participate in a network demanding a stop to unsustainable practices for palm oil. This consultant was working on behalf of WWF and was well acquainted with forest issues (Lidfelt, 2004).

## **5.4 Formation of Roundtable on Sustainable Palm Oil**

### **5.4.1 Background RSPO**

The initiative on production and usage of sustainable palm oil stated at the end of 2002. Among the initiators was a oil palm grower, a palm oil processors and retailers besides Malaysian Palm oil Association and WWF. The organisations declared themselves organising committee of the first Roundtable meeting to take place in August 2003. They put together the organisational and governance structure that form the Roundtable on Sustainable palm oil (RSPO). The first roundtable meeting was attended by 200 people from 16 countries. The outcome of the meeting was the adoption of the Statement of Intent (SOI), which is a non-legally binding commitment in favour of the Roundtable. As end of June 2004, 44 organisations have signed SOI (Roundtable on Sustainable palm oil, 2004a).

*Table 5-3 Organizing committee of RSPO (January 2003)*

<b>Table 5-3. Organizing committee of RSPO (January 2003)</b>	
<b>Type of organisation / position</b>	<b>Organisation / Company</b>

<b>Facilitator</b>	Reinier de Man, consultant
<b>Food industry</b>	Unilever
<b>Oil Processors</b>	Aarhus United
<b>Palm oil producers</b>	The Malaysian Palm oil Association Golden Hope Plantations
<b>NGOs / Non-profit organizations</b>	WWF
<b>Union</b>	No representation

### 5.4.2 WWF and the formation process of RSPO

Bella Roscher is international co-ordinator for WWF (Roscher, 2004). She has been involved with the palm oil initiative from the beginning. WWF has been the initiator and generator for the project. WWF signed up the Dutch consultant that met with a large number of industry stakeholder to boost an interest in the palm oil project (Lidefelt, 2004). Roscher explain that the first meeting with companies took place in London September 2002. When asked how this was accomplished she says that the name WWF holds a lot of credibility and global recognition that companies realize the importance to participate. WWF also has good links to market forces, she adds (Roscher, 2004). During this meeting there were no trade unions or producers or producer associations present. The target group for the London meeting was refineries, processors, retailers and financial institutions (Lidefelt, 2004).

After the London meeting Lidefelt (2004) recalls that a group consisting of large industry representatives and WWF went to Malaysia to meet with Palm oil producers. Roscher explain that it was an advantage to meet with producers on their turf and explain how the market forces viewed the issue of palm oil in the West. To come down with some of the largest buyers of palm oil of course added strength to the message. Both Lidefelt and Roscher stress the importance of the Malaysian Palm Oil Association (MPOA). Lidefelt (2004) sees them as a critical player as they bring all producers together and hold necessary governmental contacts. An agreement with them was necessary as they exert influence on the entire industry. Roscher (2004) sees the benefit on an environmental level. MPOA has all knowledge and experience of growing palm oil, which is crucial to know what you are talking about. In return, WWF can share experience about deforestation and biodegradation issues.

When asked why the multi-stakeholder initiative works for palm oil and not for textile Roscher gives a number of possible reasons. First of all it depends on who the stakeholders are. They were able to meet with the Malaysian producers with a convincing case. “Come together or you might risk losing business”, Roscher says. In spite minimum consumer pressure WWF were able to do this. Hence, at this time it was only a small population in Switzerland that had reacted critically to the negative reporting on palm oil production. Another critical factor was transparency towards soy oil industry. What ever progress was made with the palm oil industry the same steps were taken towards the soy oil industry. Since there is a cut throat competition between these edible oils one part follows the other closely out of fear of losing market share (Roscher, 2004).

### **5.4.3 Reinier de Man, Facilitator**

In 2001 Reinier de Man was recruited as a consultant to WWF, Switzerland to help them set up a round table for palm oil. Mr. de Man who holds a masters degree in Chemistry and a PhD in social sciences had at a number of times been engaged by WWF for sustainable forest and cotton projects. Dr. de Mans assignment with RSPO ended in March 2004 (Reinier de Man Sustainable Business Development, 2004).

During this time WWF seemed to consider a FSC-like structure in which the Roundtable could take the role as the FSC user groups, de Man explains. However, there was one big obstacle to a setup like this. Unilever as a manufacturer of consumer products is using a considerable percentage of the world's palm oil production in its products. They were not in favour of certification and exerted a fair amount of influence on the project. Unilever had two additional concerns. First, the market pressure for sustainable palm oil was not high enough. Unless customers see the value of actions being taken projects like this face the risk of not being noticed. Second, in the case of palm oil the commodity is not the product. Palm oil is used in the production of a variety of consumer products and customers don't visit the store asking for palm oil (de Man, 2004).

During the initial process of building a Roundtable de Man set out to visit the most influential European companies on the demand side of palm oil. He met with big palm oil processors, manufacturers, retailers and banks as a facilitator for WWF (Lidefelt, 2004).

The purpose with these informal meetings was to understand how these companies viewed the issue around sustainable palm oil. Some companies had already taken a proactive approach about palm oil like Karlshamns. During the discussion de Man tested the potential idea of the Roundtable as well as being able to build trust and a relationship with the stakeholder. These early meetings gave the project valuable insights whether to be able to move on or not (Lidefelt, 2004).

The next milestone of the project was the London meeting in September 2002. The visited companies with a few additions were invited to see if a shared vision could take form. There was consensus within the group that something had to be done for adoption of more sustainable practices. But many participants pressed on one condition. The Roundtable has to involve the supply side of palm oil as well (RSPO, 2004b).

The London meeting resulted in a steering group or the Organizing Committee (table 5-3). They formed in January 2003 and consisted of Aarhus United (oil processor), Unilever, WWF, Malaysian Palm Oil Association (MPOA) and Golden Hope Plantations Berhad (Malaysian producer). The committee focused on organizing the inaugural Roundtable meeting in Kuala Lumpur in August 2003. A British consultancy firm, ProForest specialising in natural resource management was asked to prepare a set of studies on palm oil (RSPO/ProForest). The intention was to educate the audience on sustainable issues about palm oil production and prepare all stakeholders for the meeting (RSPO, 2004b).

The inaugural meeting of the Roundtable gathered over 200 participants from industry and interest groups from 16 countries. There was consensus among the group that a common code of conduct and practice should be developed, agreed upon and implemented. The meeting was organised in such a way that ProForest studies were used to set the agenda for the meeting (RSPO, 2004b).

#### **5.4.4 Objective of RSPO**

Driven by the global demand for edible oils the past decade has experienced a fast expansion in the production of palm- and soy oil. The area under palm oil production has during the past ten years increased by around 43 percent mainly concentrated in Malaysia and Indonesia. According to RSPO it is important that expansion is done sustainable. The Palm oil industry is determined to meet the global demand for its products. But to make the expansion happen in a sustainable way, the organisation need to develop a globally acceptable definition of sustainable palm oil production, use and management practices (RSPO, 2004a).

RSPO has chosen the way of working through co-operation within the supply chain and open dialogues with its stakeholder. Other tasks RSPO will undertake are projects leading to implementation of industry best practice, acquire financial resources to finance under RSPO backing and also communicate RSPO's work to all stakeholders (RSPO, 2004a).

#### **5.4.5 Governance structure and members**

In April 2004 RSPO was formally set up as an international association. The Roundtable secretariat moved from Europe to Kuala Lumpur, Malaysia. RSPO will be managed by an Executive Board comprising of sixteen members, selected by the General Assembly for a period of two years. The allocation of seats from various business sectors is evenly spread (RSPO, 2004b).

The first phase of the development process was issuing a report in March 2004, *Framework for Drafting Criteria for Sustainable Palm Oil*. The document was ordered by the organising committee of RSPO and executed by ProForest. The purpose of the report is to provide guidelines and a suggested process for developing the final criteria for sustainable palm oil. The second phase is to determine final set of criteria. This task will be given to the Criteria Working Group (CWG) who will be made up of different stakeholder with interest in palm oil. CWG members will come from four different groups; palm oil producers, supply chain and investors, environmental interests, and social interests. The second Roundtable is to take place in October 2004 in Malaysia (ProForest, 2004).



## 6 Analysis of industry certification standards

*In this chapter we will analyse findings from the three industry cases studied. Interviews and secondary findings describing the formation process will be evaluated in a SWOT-analysis. Then the adjusted analytic framework based on Cashore's work will be applied for all industries. Step one, we determine conditions whether NSMD system or MSI is achieved, step two, explain factors affecting legitimacy and step three, identify strategies used to gain support for industry formation. The result of comparing the SWOT analysis and the findings based on Cashore's framework is presented in the next chapter conclusions.*

### 6.1 Forest Industry

#### 6.1.2 SWOT Analysis of forest industry

Depending on whom you listen to the FSC certification process for Sweden is argued both as a failure and a success. To apply a more balanced picture to the discussion I believe the SWOT analysis<sup>18</sup> method can be useful. The main advantage is that we are looking at the situation from four different perspectives (Strength, Weakness, Opportunity and Threat). I am eager to find out if there are additional factors helping us understand formation of industry standard which are not already known from the analytic model used by Cashore.

##### Strength

- International environmental events like Rio de Janeiro gave additional boost for new initiatives towards forest certification.
- The rate of deforestation and forest degradation in the tropics was a driver for creating an international debate on forests.
- Initially industry was attracted by certification as they wanted competitive advantages.
- The Swedish forest industry is concentrated and easy to move. Sweden has a historic platform of industry coalition and formation.
- Pro-active Swedish Forestry Act already addressed environmental aspects. Creation of Forest Committees and County Forest Boards along with changes in Swedish forest policies set the stage for certification. What has become "the Swedish model" refers to compromises between authorities and key stakeholders.
- Multi-stakeholder initiative with broad representation from industry, NGOs, forest owners and unions among others.

##### Weakness

- The private forest owners, who own half of all Swedish forests is mainly interested in passing on forest to the next generation with little economic attention to modernisation and rationalising of forest practice.

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<sup>18</sup> Ferrell, O., Hartline, M., Lucas, G., Luck, D. 1998. Marketing Strategy. Orlando, FL: Dryden Press.

- Two organisations did not sign the FSC agreement (Greenpeace and National Federation of Swedish Forest Owners).
- PEFC took advantage of FSC disagreement with forest owners and launched a competitive certification program.
- The “Stock Dove” process did not (yet) result in a harmonization between certification standards of FSC and PEFC.

Opportunity

- Opportunity to be the first country with a nationally based FSC-standard.
- The “Stock Dove” process wanted to harmonise and facilitate between the certification standard of FSC and PEFC. A potential way of overcoming difficulties in chain-of custody questions.

Risk

- Two different certification standards are confusing for the industry and their customers. There is a risk that the value of forest certification is devalued.
- Negative campaigning between NGOs and PEFC may result in a loss of public confidence and loss in interest of environmental issues.

Observations: The certification process of FSC Sweden is by many sources considered a success even though private forest owners left FSC and joined PEFC. The remaining stakeholder were strong enough (without the private forest owners) to pull FSC together. The success of certifying large areas of forest gave the system credibility. I believe the history and the concentration of forest industry helped the formation stick together in spite the defection of one important stakeholder. However, there is a risk of confusing the public with two different certification systems in Sweden. The debate between NGOs and forest owners, I believe, is not constructive for the certification process of forests. Instead, try to focus resources on stimulate the demand side for forest certified products.

**6.1.3 FSC: Conditions for NSMD Governance and MSI.**

In this section we will check Cashore’s four conditions (see table 6-1) to see if the Swedish FSC process meets the requirements to be considered a NSMD governance system or a MSI?

*Table 6-1 FSC: Conditions for NSMD Governance and MSI*

<b>Table 6-1. FSC: Conditions for NSMD Governance and MSI</b>	
<b>Role of the state</b>	The Swedish government does not take an active part in the formation of Swedish FSC. However, the Chairman of the Swedish FSC process came from the Ministry of the Environment but without any voting power. No signs of any government involvement.

<b>Table 6-1. FSC: Conditions for NSMD Governance and MSI</b>	
<b>Role of the market</b>	Strong pressure from United Kingdom and Germany for certified forest products.
<b>Role of stakeholders and broader civil society</b>	The strength and history of Swedish forestry stakeholders along supply chain make them support NSMD governance.
<b>Enforcement</b>	Verification of FSC is important and FSC has a working structure for this.

Source: Cashore, (2004).

The Swedish FSC formation fulfills the conditions for non-state market driven governance system or multi-stakeholder initiative. Although, the private forest owners choose to leave discussion half of all Swedish forest ownership was still involved in the certification program.

#### **6.1.4 FSC: Factors affecting legitimacy achievement logics and applied strategies?**

In this section we will refer to the research of Cashore and his group and see what findings they got while applying the explanatory framework for forest certification in Sweden. As presented in 2.3.2, we will look at the Swedish forest sector’s place in the global economy, structure of the forest sector, and the history of forestry on the domestic public policy agenda. All these factors showed a strong affect on the ability for FSC to gain foothold in Sweden (Cashore, 2004). Cashore applies these factors as to understand what was really happening in the industry during this time and how does it affect the formation process. By being able to study many regional forest certification programs these factors are seen to commonly interplay. It is not until a broader case material is developed and broader confidence can be applied to the model. However a word of caution, what is being showed with more assurance in the forest section will have to be further verified on both textile and palm oil cases.

##### **A. Place in the global economy**

Sweden depends on exporting its forest. The main export markets are Germany, United Kingdom, the Netherlands, and Denmark. Interestingly some of the most pressure for improving forestry practice came from these countries. Naturally, making Sweden very susceptible to converting strategies from these countries. (Cashore, 2004)

Secondly, with the influx of fiber from Eastern Europe and Russia these markets have become a serious threat to Swedish companies. This meant pleasing customers and applying converting strategies to maintain market share. (Cashore, 2004)

##### **B. The structure of the forest sector**

Cashore brings out three significant aspects to help explain the forest sector. First is Sweden’s longstanding tradition of cooperation. Each key association during the formation process is well organised and disciplined. Cashore calls it “highly integrated associational systems” meaning that both the large forest companies and the forest landowners had their well structured associations with a long history of speaking for their members with a single voice.

Second, the role of private forest owners. Since industrial forest companies were depending on non-industrial forest owners for supplying them this left them with both weight and bargaining power. Therefore, Cashore argues that FSC strategists could not only rely on converting strategies in their attempts gain support from non-industrial private owners. Interestingly, Cashore believes FSC strategists overlooked this part as they calculated with the fact that the private forest landowners would remain in the process as they at one point agreed to participate in discussions. As we already learned they withdrew from the process. Consequently, resulting in a fundamental problem for the forest industry as tracking of certified wood to the market would then be mixed with non-certified sources from private forest landowners. Indeed, the FSC process in Sweden is seen as a success because the size of the five large forest companies participating in the process (Cashore, 2004).

Third, with only a handful of large forest companies with a size both horizontal and vertically integrated meant that it was easy for the environmental groups to target and apply boycott campaign strategies. Due to economies of scale transaction costs were reduced and FSC type of certification was easier to implement.

**C. The history of forestry on the public policy agenda**

Cashore argues that history on the public policy agenda was favourable to FSC efforts to try to bring non-industrial forest owners into supporting their program. Referring to Boström’s earlier point about changes in the Swedish forest practices in the 1980s and 1990s where government moved to equalise environmental goals with production goals. FSCs tripartite (social, economical and ecological) corporatist policy making style copied already traditional approaches to public policy development in Sweden.

During the time of the early 1990s public policy initiative aimed at privatization and deregulation were well received by the state authorities. Examples of this were the privatization of AssiDomän (now Sveaskog), bringing down timber price controls and Sweden’s entry into EU all signals a move towards market based solutions to environmental problems (Cashore, 2004).

Above three factors contributed to FSC efforts of converting forest companies and non-industrial forest owners to support FSC (see also table 6-2). However, the very important and fragmented non-industrial forest land caused FSC strategists to face resistance from this group. Cashore concludes that failing to place enough attention to this group and conforming FSC program to meet the desires of the non-industrial private forest owners opened the door for PEFC to move in. (Cashore, 2004)

*Table 6-2 Factors Affecting Ability of FSC to Obtain Forest Company and Non-Industrial Forest Owner Support*

<b>Table 6-2. Factors Affecting Ability of FSC to Obtain Forest Company and Non-Industrial Forest Owner Support</b>	
<b>Factor</b>	<b>Existence</b>
<b>Place in the Global Economy</b>	

Dependence on foreign markets	YES
<b>Structure of Forest Sector</b>	
Diffuse or non-existent associational system	NO
Unfragmented Non-industrial forest ownership	NO
Large, concentrated industrial forest companies	Somewhat <sup>19</sup>
<b>History of Forestry on Public Policy Agenda</b>	
Sustained and extensive public dissatisfaction with forestry practices	YES
Forest companies and non-industrial forest land owners share access to state forestry agencies with other societal interests	Somewhat

Source: Cashore, (2004).

In this final section a link to key activities during the FSC formation process with strategic efforts to gain or maintain support can be seen (table 6-3). As introduced in section 2.1.2 Cashore uses the work of Suchman (1995) to help explain what type of strategies organisation use to win supporters. As we may recall these strategies *conform* to the external audience, *convert* the external audience, or *inform* uninformed audience of the organization’s program.

Table 6-3 Strategic Efforts to Gain or Maintain Support, 1994 - 2000

<b>Table 6-3. Strategic Efforts to Gain or Maintain Support, 1994 - 2000</b>				
<b>Year</b>	<b>FSC competitor program supporters</b>		<b>FSC supporters</b>	
	<b>Action</b>	<b>Strategy</b>	<b>Action</b>	<b>Strategy</b>
1994			WWF and Swedish Society for the Conservation of Nature sets up “reference” group to develop FSC standards for Sweden.	Converting

<sup>19</sup> Cashore motivates the value “Somewhat” with the fact that the Swedish forest sector contains 50 % of concentrated industry and 50 % of private forest owners.

1995	AssiDomän and Korsnäs announce pilot test of the FSC process for their operations.	Conforming	Foreign customers in Sweden's top export markets begin releasing buying policies stating preferences for FSC wood.	Converting
	Nordic Forest Certification Program developed	Conforming		
1997			B&Q issues letter to suppliers indicating it intends to only source FSC certified wood by the end of 1999.	Converting
1998	Majority of forestlands owned by Swedish forest companies become FSC certified	Conforming		
1999	Swedish landowners help establish the PEFC	Converting	FSC opens discussion on revising percentage-based claims policy.	Conforming
2000	Forest landowners participate in Stockdove process	Conforming	FSC releases revised percentage based claims policy that reduces threshold requirements for labeled FSC solid wood, chip, fiber and component products.	Conforming

			WWF leads media information campaign to discredit PEFC.	Informing
			Stockdove process initiated to compare and bridge gaps between the Swedish PEFC and FSC standards.	Conforming

Source: Cashore, (2004).

## 6.2 Textile Industry

### 6.2.1 SWOT analysis on DressCode formation process

The SWOT analysis of DressCode summarizes the strengths, weaknesses, opportunities and threats of trying to establish a Swedish project for independent controls of textile supplier's.

#### Strength

- The DressCode intention was to gather different interest groups to guarantee independence and credibility. A true multi-stakeholder initiative. A serious agenda with ongoing regular meetings.
- The initiative was building on credibility from the international network of Clean Clothes Campaign (CCC).
- Project coordinator approved by all stakeholders.
- Pilot studies of suppliers' working conditions conducted. Suppliers' breach of corporate code of conducts was documented.
- Industry accepted the risk of exposing violations of suppliers and important business contacts.

#### Weakness

- The project was lacking visibility and reputation of environment NGOs like WWF, Friends of the Earth or Greenpeace for the area of social responsibility.
- Limited funds and personnel to drive the project on two flanks, on one hand in Asia (conducting pilot studies) and on the other hand building a management system for independent control.

- Lack of experience in building management systems. No reference systems at the time to study.
- Underestimation and complexity of conducting pilot studies by CCC headquarters.

Opportunity

- First global corporate social responsibility system to be recognized.
- Textile trade barriers will diminish. Asian will increase amount of garment supply.
- Increasing customer demand pressure for corporate social responsibility.
- Large industry cost saving potential for shared corporate responsibility systems.

Threat

- Low involvement and contribution factor of trade unions during DressCode project - a potential warning signal. (Trade unions did not commit financially to back project costs like the industry. This is otherwise a good way of finding out where true sympathies lie.)
- Customer pressure for independent control systems was not enough during this time.
- No long-term secured financial backing for DressCode

Observation: I feel the DressCode initiative consisted of fewer actors with less combined strength compared to the forest initiative. Consumer pressure was starting to build-up during DressCode formation but needed further strength. There was a lack of additional strong and credible NGO involvement, I believe, to carry the message further. Even though no critical voices have been heard, I feel the position of the unions should have been tested earlier in the formation process. With a smaller stakeholder group it is easier to control the group but if one leaves the group is more vulnerable. An example of this is that the FSC Sweden survived in spite of losing the support of the Swedish forest owners.

**6.2.2 DressCode: Conditions for NSMD Governance and MSI.**

In table 6-4 the DressCode initiative is evaluated to see if conditions for NSMD Governance and MSI are met?

*Table 6-4 DressCode: Conditions for NSMD Governance and MSI*

<b>Table 6-4. DressCode: Conditions for NSMD Governance and MSI</b>	
<b>Role of the state</b>	No government involvement in DressCode
<b>Role of the market</b>	Suppliers are forced to comply with the demands of purchaser or else they will risk losing business. Companies operating along the supply chain are definitely feeling the pressure. NSMD rules are followed.



Table 6-4. DressCode: Conditions for NSMD Governance and MSI	
<b>Role of stakeholders and broader civil society</b>	Campaign organisations release reports over poor working conditions in foreign “sweatshops”. Consumer organisations react. Retail stores and brands demand that producers follow international rules and regulations governing working conditions. Large companies such as Nike, Levis, and GAP are setting examples. The role of stakeholders and society are acting together for change.
<b>Enforcement</b>	DressCode was set out to build an independent verification process. Enforcement scheme was never accomplished.

Source: Cashore, (2004).

DressCode was an example of NSMD governance and MSI. The role of the state and the market was quite clear in terms of the conditions for NSMD governance. Looking at the members I believe discussions would have benefited from participation of stronger environmental organizations such as WWF and FoE. The comment I received from Andersson (2004) was that these types of organizations were not too much involved regarding social issues during this time. Naturally, the process of enforcement was never accomplished as the DressCode initiative ended before completion.

### 6.2.3 DressCode: Factors affecting legitimacy achievement logics and applied strategies?

We will apply Cashores key factors from the forestry sector and see if the model holds true for the outcome of the Swedish multi-stakeholder initiative DressCode as described earlier in the study (table 6-5). We will also test whether strategies to achieve legitimacy is transparent between what happened in DressCode and accordance with the explanatory model of Cashore.

#### A. Place in the global economy

The textile industry is undergoing global transition. In 1 January 2005 the textile sector will be fully incorporated into normal GATT rules. Effects of these have already been felt for some time in Sweden. The Swedish textile industry is experiencing high production costs. Sweden has been on less expensive textile imports to supply the demand side for clothing. Deregulations for textile imports will probably alter the geographical shift as the import dependency will remain.

#### B. The structure of the textile industry

The Textile Importers’ Association of Sweden was established to offset the more protectionist trade policy of the textile sector during the 1980s. The work from the association among other factors was able to stop all trade restrictions on textile imports from July 1991. The history of strong Swedish unions as been demonstrated in the DressCode experience calls for conforming strategies to move the project forward. The *strength of industry associations* is strong and suggested achievement strategies are *conforming*.

The ownership structure in the Swedish textile industry is *fragmented*. There is one big player competing on the international arena and that is H&M. The companies following mainly have their business in Scandinavia or northern Europe. There are a large number of companies competing on the clothing market considering the size of

Sweden. According to Cashore’s theory *converting* strategies work on a fragmented market.

There are few companies *vertically integrated* in the textile industry. No company is interested in working with the production side of textiles. They all concentrate on the demand side competing for end customers and sourcing clothes from low production cost countries. A low level of vertical integration mean that *conforming* strategies to be applied What the model says is that for instance companies that are involved from production of clothes all the way along the supply chain reaching the customer are much more likely to comply with converging strategies. Thus, these companies have control of all levels of the supply chain. The industry show little sign of vertical integration as few brands are interested in owning offshore production facilities.

**C. The history of textile on the public policy agenda**

The clothing industry is dominated by companies with well known brand names. The public is educated and shares concern about corporate environmental and social responsibilities. Companies risk devaluing their brand image if in fault. The textile industry is very sensitive to *public dissatisfaction* and *converting* strategies (customer boycotts) have effect to achieve legitimacy.

The relationship between the state and the industry is fading out. Earlier the textile industry was supported by trade barriers but today state policies no longer protect the industry. There is no close *relationship between industry and government* and *converting* strategies follows.

Table 6-5 DressCode: Factors affecting legitimacy achievement logics.

Table 6-5. DressCode: Factors affecting legitimacy achievement logics.		
Factor	Value	Pull towards which strategy
<b>Place in the Global Economy</b>		
Dependence on imports from foreign markets	High YES	Converting YES
	Low	Conforming
<b>Structure of Industry Sector</b>		
Strength of industry associations	Strong YES	Conforming YES
	Weak	Converting
Industry ownership patterns	Fragmented YES	Converting YES
	Unfragmented	Conforming

Table 6-5. DressCode: Factors affecting legitimacy achievement logics.		
Factor	Value	Pull towards which strategy
Level of industry vertical integration	High Low YES	Converting Conforming YES
<b>History of Industry on Public Policy Agenda</b>		
Level of past public dissatisfaction with industry practice in region	High YES Low	Converting YES Conforming
Relationship between state industry agencies and industry companies and landowners	Business does not dominate YES Close business/government ties	Converting YES Conforming

Source: Based on a model by Cashore (2004).

Following section are key actions steps from the formation process of DressCode. The strategic efforts to gain or maintain support can be viewed below in table 6-6.

Table 6-6 DressCode: Strategic Efforts to Gain or Maintain Support, 1999-2001

Table 6-6: DressCode: Strategic Efforts to Gain or Maintain Support, 1999-2001		
Year	DressCode supporters	
	Action	Strategy
1999	Formation of DressCode	Informing
1999	Recruiting of project coordinator and financial commitments	Converting
1999	Decisions to go ahead with pre-study and pilot study	Converting
2000	Results of pilot studies. Creation of pilot steering committee. Raising funds for prolonging project.	Converting

2001	December 2001 meeting. DressCode Proposal to be discussed and accepted. Issues such as global union agreement, independent controls and confidentiality clause divide the group. No Go decision for DressCode based on withdrawal from union.	Conforming
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## 6.3 Palm oil industry

### 6.3.1 SWOT analysis on RSPO formation process

The formation of RSPO started in Europe on the demand side and later involved the supply side as well. The SWOT analysis is done with RSPO in focus. Thus, what is strength for the demand side, can be viewed as a weakness for the supply side.

#### Strength

- Open dialog among stakeholders. An initiative with strong representation from both industry demand and supply side.
- Early commitment from industry leaders from the demand side. Strong reputation capital.
- Palm oil producer commitment built on similar actions taken for sustainable soy oil production.
- Rapid formation process of RSPO thanks to external facilitation and unconventional project management.
- RSPO has a well defined agenda for action
- RSPO holds a large amount of WWF credibility

#### Weakness

- Industry initiative lacking union involvement and additional environmental NGO involvement.
- Public opinion for unsustainable palm oil production is relative low.
- Palm oil is an ingredient in the making of many consumer products. The commodity is not as visual as an end product.
- WWF project management lacking consistency throughout formation process.

#### Opportunity

- RSPO formation will be a potential increase of public awareness for sustainable palm oil production.
- The creation of sustainable pilot projects may slow down deforestation and biodegradation and inspire further actions to be carried out.
- RSPO membership is viewed by public, customers and companies as a potential corporate goodwill success?

### Risk

- RSPO formation process is shifting from demand side focus to supply side focus. The move of the RSPO secretariat supports this tendency.
- A very speedy formation process must maintain the pace and not risk losing positive momentum as critical issues threaten to lock positions.
- Strong need for practical project showing sustainable results in palm oil production and firm RSPO management.
- Lack of long term financing of RSPO
- Shared vision among industry and WWF during initial framework formation. Will this sustain as critical issues and details evolve? Can the issue of for instance retrospect<sup>20</sup> be easily solved?
- What will happen to RSPO if the equivalent project on soy oil capsizes? How to secure long-term commitment from demand side industry leaders?

Observation: An unorthodox and refreshing campaign management style was used to rapidly bring interest into the issue of sustainable palm oil. I believe the speed and clarity of the project was a result of a strong industry leader commitment early in the formation process. Palm oil producers joined the initiative to offset potential soy oil market advantage proved to be an important factor. Will the shared stakeholder vision continue during the sustainable criteria setting process of RSPO starting fall of 2004? My feeling is that this formation process has had a smooth ride until now and the toughest discussions are probably ahead of RSPO.

### **6.3.2 RSPO: Conditions for NSMD Governance and MSI**

Some may argue that RSPO is an industry led initiative. Let us use Cashore's model to determine if conditions for NSMD governance and MSI are met (table 6-7)?

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<sup>20</sup> Decision on what year will be used as "base year" for benchmarking of tropical rain forest deforestation? Industry would like to have presence as base year for improvements.

Table 6-7 RSPO: Conditions for NSMD Governance and MSI

Table 6-7. RSPO: Conditions for NSMD Governance and MSI	
<b>Role of the state</b>	No government involvement in RSPO. However, indirect involvement as The Malaysian Palm Oil Association are said to be closely connected with the government
<b>Role of the market</b>	Strong pulls from Western food and chemical industries along the supply chain.
<b>Role of stakeholders and broader civil society</b>	Single NGO representation by WWF. Additional NGO support would increase credibility. No union representation.
<b>Enforcement</b>	Criteria for sustainable palm oil to be determined fall of 2004. Enforcement and monitoring of program not yet established.

Source: Cashore, (2004).

As in the textile case, the role of the state and market meet the conditions for NSMD governance. In terms of stakeholder representation I feel there is some weakness in fulfilling the conditions. WWF participation is naturally very strong but without their involvement this initiative will lose a lot of its credibility. Of natural reasons systems for enforcement has not yet been established. The conditions for NSMD governance are met but I consider RSPO the weakest “formation” among the three MSIs.

### 6.3.3 RSPO: Factors affecting legitimacy achievement logics and applied strategies?

The Cashore legitimacy model applied to Roundtable on Sustainable Palm Oil (see table 6-8) can be approached from two sides. Initially the initiative was formed from the demand side of palm oil. Later the supply side was “asked” or using Cashores terminology, converted into participation.

#### A. Place in the global economy

Palm oil is the worlds second most consumed edible oil. The world prices for palm oil relative other vegetable oil has for years been positive. The product characteristics of palm oil have made it an attractive ingredient in many consumer products. Irrespective palm oil industry is viewed from the European buyer side or the Southeast Asian supply side there is a strong impact or *dependence on imports and export from/to foreign markets*. Clearly, *converting* strategies are used to achieve legitimacy for RSPO.

#### B. The structure of the palm oil industry

The structural aspect of this model applies to if the palm oil industry is well represented and united and therefore less susceptible to converting strategies by RSPO and its supporters. Malaysian palm oil producers are well organized. Malaysian Palm Oil Association is a strong member organisation and the most influential for palm oil producers (Roscher 2004). The European demand side of the RSPO initiative does not show the presence of industry associations or unions. It appears the appropriate value for this factor is “somewhat” as it shows a blend of “strong”

and “weak” strength of industry associations.

Depending on what area of the industry you refer ownership to your answers may vary. In terms of palm oil production ownership as I understand differ from Swedish forest ownership patterns. In Malaysia the non-industrial plantation owners does not exert the same amount of pressure as to Swedish counterparts. This makes me decide on a *unfragmented* value for the ownership factor giving way for *conforming* strategies to be applied.

The level of vertical integration through out the supply chain is more easy to understand. The large Unilever type multinational companies depending on palm oil are not vertically integrated in the sense they hold production ownership. The palm oil industry looks in this aspect similar to the textile industry where the large cloth brands all operate through suppliers. The palm oil industry show a *low level of vertical integration* allowing *conforming* strategies to form legitimacy.

**C. The history of textile on the public policy agenda**

As discussed earlier “the commodity is not the product” makes palm oil stand as a contrast to textile. The public dissatisfaction for palm oil practices is relatively low as palm oil is merely an ingredient rather than end product. Even though environmental and social consequences of unsustainable practices are dramatic European consumers are still not completely aware. The *public dissatisfaction level is comparably low* making it hard for RSPO to have industry to agree to converging strategies. Until the level of public dissatisfaction increases rather *conforming* strategies will be applied.

The relationship between industry and government varies depending where in the supply chain we focus. The ties between Malaysian producers and government are close (Roscher 2004). The same type of government bindings is not present on the European demand side of palm oil. As in the factor “industry associations” I am categorising the relationship value as “somewhat”. Depending on whether supply side or demand side are in focus conforming and converting respectively are logic strategies for achieving authority.

Table 6-8 RSPO: Factors affecting legitimacy achievement logics.

Table 6-8. RSPO: Factors affecting legitimacy achievement logics.		
Factor	Value	Pull towards which strategy
<b>Place in the Global Economy</b>		
Dependence on exports to foreign markets	High YES	Converting YES
	Low	Conforming
Dependence on imports from foreign markets	High YES	Converting YES
	Low	Conforming

Table 6-8. RSPO: Factors affecting legitimacy achievement logics.		
Factor	Value	Pull towards which strategy
<b>Structure of Industry Sector</b>		
Strength of industry associations	Strong YES Weak	Conforming YES Converting
Industry palm oil ownership patterns	Fragmented YES Unfragmented	Converting YES Conforming
Level of industry vertical integration	High Low YES	Converting Conforming YES
<b>History of Industry on Public Policy Agenda</b>		
Level of past public dissatisfaction with industry practice in region	High Low YES	Converting Conforming YES
Relationship between state industry agencies and industry companies and landowners	Business does not dominate YES Close business/govmnt ties YES	Converting YES Conforming YES

Source: Based on a model by Cashore, (2004).

In table 6-9 we can follow some key activity milestones towards RSPO formation and implementation. Linked to these actions are different types of achievement strategies to gain or maintain support for industry standard formation.

Table 6-9 RSPO: Strategic Efforts to Gain or Maintain Support, 2002-2004

Table 6-9: RSPO: Strategic Efforts to Gain or Maintain Support, 2002-2004		
Year	RSPO supporters	
	Action	Strategy
2002	Initial company meeting conducted	Informing



2002	London meeting September 2002 decision to involve supply side	Converting
2002	Inviting MPOA to take part of RSPO	Converting
2003	Inaugural of first Roundtable in Kuala Lumpur August 2003. Decision to move establish criteria for common code of conduct	Converting
2004	RSPO established as an international association. The secretariat moved down to Kuala Lumpur.	Converting
2004	2 <sup>nd</sup> Roundtable in October 2004. Pressing issues to be discussed and decided (among others): Common code of conduct, Issue of retrospect <sup>21</sup> and increase public awareness	Conforming

#### 6.4 Is there an inverse relationship between brand recognition and multi-stakeholder initiatives?

As mentioned in the introduction (section 1.2.2) I would like to study if product brand image and brand recognition in the respective industry can have any effect on multi-stakeholder initiatives. My starting position is that high value brands are more sensitive to negative press associated with any type of environmental or social scandal. I believe companies managing these brands, and the immaterial value these brands possess, may show less willingness to engage in a multi-stakeholder approach. Why? The thought of having a strong company brand name among others in an industry formation of any kind goes against the whole idea behind brand names. A brand name wants to stand out. Brands are competing with other brands not joining them. Other potential explanations could be that the massive marketing investment of a high valued brand is a well kept investment. Joining in industry formation activities is to some extent I believe a way of losing full brand control. Imagine that an industry standard is associated in wrongdoings of some kind. There will be a negative spill over effect that high value brands are trying to avoid by controlling all levels of risks themselves.

Let us ask the same question to all three industry formations and analyse the answers by plotting them in a graph. *Does the level of brand recognition have an impact on the formation of multi-stakeholder initiatives?*

##### Forest industry case

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<sup>21</sup> Whether to use a historic base year to determine unsustainable palm oil expansion or to set current date as base year and look forward?

- The public concern about saving the forest is well known and in general strong. WWF and other NGOs have conducted active campaigning regarding saving tropical rainforest and deforestation of teak. However, the products manufactured by wood are many and diverse. The further away the physical wood product the less noticed, I believe, the environmental issue becomes. For instance, a piece of wooden furniture made of teak has a much higher brand sensitivity compared to pulp in the making of diapers. In the forest case brand recognition is depending on type of end product. The Forest case receives a neutral ranking value of 2<sup>22</sup> for brand recognition.
- Is the formation of FSC Sweden an example of a successful multi-stakeholder initiative or is it merely a “single-stakeholder”<sup>23</sup> situation. My analysis is that FSC Sweden is considered a success since such a large portion of the forest is certified according to FSC. On the other hand it can be successfully argued that the withdrawal of the private forest owners’ accounting for half of all Sweden’s forests hardly can be seen as a success. As in the case with brand recognition the corresponding ranking value for level of multi-stakeholder initiative is set to 2.

### Textile industry case

- The clothing industry sells products with high brand recognition. Companies spend high amount on marketing and promotion of brands. The apparel industry is not involved in manufacturing but merely focused on the demand side of the business. The DressCode initiative is associated with products of high brand recognition and the ranking value is 3.
- We have learned that DressCode failed. The inverse model tells us that a product with high brand recognition corresponds to industry initiatives involving only one or very few stakeholders. In the case of DressCode, was it because the industry lacked interest in a multi-stakeholder approach? No, it was clearly the opposite in this case, they were very supportive. But the explanation I therefore offer is that because of high brand recognition of the product, the unions felt uncomfortable of showing close ties with the clothing industry. The DressCode case receives a ranking value of 1, “single-stakeholder” initiative.

### Palm oil case

- The product recognition of palm oil is low. The commodity is not the product as mentioned early in the study. People hardly go shopping for palm oil. It is used as an ingredient. Consumers can hardly comprehend and feel the product. The brand recognition for palm oil is low, corresponding to a value of 1.
- Can RSPO be considered a successful multi-stakeholder initiative? No, it is far too early to determine the level of success for RSPO as it is still under implementation. The process of setting criteria for what is sustainable palm oil is still under discussion. However, based on what has been accomplished during the two year formation process RSPO shows signs of a successful MSI. The ability to attract industry leaders

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<sup>22</sup> High brand recognition is 3 and low brand recognition is 1. MSI is ranked 3 and “single-stakeholder” initiative is considered a rank of 1.

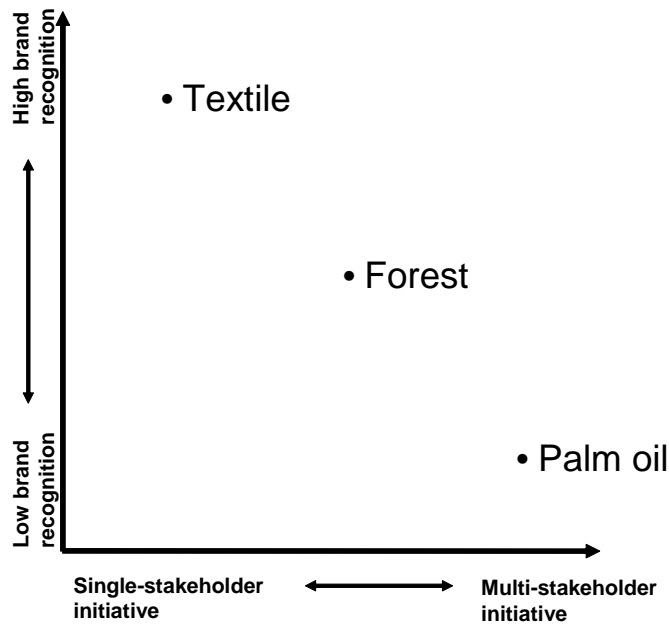
<sup>23</sup> “Single-stakeholder initiative is a made-up word for creating standards or codes of conduct on your own.

and doing so in a short period of time. Being able to secure a shared vision among both demand and supply side supporters for this I believe they have been successful. For this the ranking value 3 is given.

Plotting the values determined from each studied industry case (see figure 6-1) gives us a chart showing an inverse relationship between levels of brand recognition and levels of stakeholder involvement. In the three studied cases we can see that there is a relationship between brand recognition and the success of undertaking a cooperative approach of forming industry standards. Needless to say, in all MSIs there are a number of factors affecting the success besides the level of brand recognition.

Naturally, there is a need to expose the model to a lot more industry standard initiatives before it may be fully verified. Maybe, it can inspire further research to develop and modify the model in the future?

Figure 6-1 Model explaining inverse relationship between levels of brand recognition and levels of stakeholder involvement in the formation process of industry standards.



## 7 Conclusions

*The final chapter will discuss and compare the findings from the three industry cases. Conclusions about the differences in the two analytic frame works shown in chapter six will be presented. We will then look at the outcome of the industry formation processes and determine whether the outcomes can be explained by the use of achievement strategies (converting, conforming and informing)? Finally, this chapter will end with addressing the research questions posed in the first chapter.*

This thesis has studied the formation process of three multi-stakeholder initiatives (MSI) in three different industries. The focus has been to document the cooperation process in these initiatives. My research approach has been to analyse each MSI based on secondary data and primary interviews. The collective case analysis for each industry has been summarized in a SWOT analysis. In addition to this “stakeholder SWOT approach” I have applied an analytic framework from the forest industry for all industries. I would like to assess if this explanatory framework gives us similar results (as the stakeholder SWOT approach) and if it can be used outside the forest sector as well?

When comparing our SWOT analysis with Cashore’s factors affecting legitimacy I derive at the same factors as being important. We are basically touching on the same pressing issues but reaching there using separate frameworks. This may be illustrated by using the FSC Sweden case study as example. My starting point being the strengths from the SWOT in the FSC formation, which I can group and link to Cashores factors as applied in table 7-1. I believe that the framework of Cashore is a further developed and refined analytic framework and probably better suited to answering to many causes compared to traditional SWOT analysis.

*Table 7-1 Translating FSC Sweden “Strengths” into the framework of Cashore.*

<b>Table 7-1: Translating FSC Sweden “Strengths” into the framework of Cashore.</b>	
<p><u>Strength</u></p> <ul style="list-style-type: none"> <li>• International environmental events like Rio de Janeiro gave additional boost for new initiatives towards forest certification</li> <li>• The rate of deforestation and forest degradation in the tropics was a driver for creating an international debate on forests.</li> <li>• Initially industry was attracted by certification as they wanted competitive advantages.</li> <li>• The Swedish forest industry is concentrated and easier to move. Sweden has a historic platform of industry coalition and formation.</li> <li>• Pro-active Swedish Forestry Act already addressed environmental aspects. Creation of Forest Committees and</li> </ul>	<p><u>Applies to factors affecting legitimacy achievement:</u></p> <p><b>History of forestry in the public policy agenda</b></p> <p><b>History of Forestry in the Public Policy Agenda</b></p> <p><b>Place in the global Economy</b></p> <p><b>The structure of the forest sector</b></p> <p><b>The structure of the forest sector</b></p>

<p>County Forest Boards along with changes in Swedish forest policy set the stage for certification. What has become “the Swedish model” refers to compromises between authorities and key stakeholders.</p> <ul style="list-style-type: none"> <li>• Multi-stakeholder initiative with broad representation from industry, NGOs, forest owners and unions among others.</li> </ul>	<p><b>The structure of the forest sector</b></p>
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**1. Key conditions of NSMD Governance and MSIs**

All three multi-stakeholder initiatives are formed without government involvement and fall under the conditions established of NSMD governance systems. However, as pointed out in the palm oil section I believe the RSPO formation being the least strong in this sense. The reason for this is that this formation lack labour union participation or another strong environmental campaign organisation. There is also a resemblance in the forest and the textile industry standards as they both are formed in Sweden with little interest from authorities to participate.

**2-3. Factors affecting legitimacy achievement logics and applied strategies**

Converting achievement strategies are used in the industry cases to either gain or maintain legitimacy of the industry standard. Conforming strategies are seen as less attractive as they many times refer to negotiations leading to industry a new standard formation. What I would like to determine is if there are any correlations to be found looking at type of strategies and type of industry case? In other words; *Can we see a pattern between strategies used and the outcome of the cooperation in the formation process?*

In the forest industry case we can see that many conforming strategies were used to gain support for the formation process to survive (table 6-3). Depending on whether you view FSC Sweden as a successful MSI for industry formation or not I foresee two different explanations. Critics might view FSC Sweden as a failure, and would point at the large number of *conforming strategies* making formation less likely to succeed. As mentioned earlier, conforming strategies are seen as less beneficial by certification programs as it implies a change to take place in the program. Supporters believing FSC Sweden were a success would probably on the other hand argue that because of many conforming strategies used to gain power the certification formation stood on a secured foundation resting consensus decisions throughout the formation process.

What can be said in this respect about the formation process of DressCode? As we recall DressCode consisted of a smaller group than FSC Sweden but in general agreement throughout the process. My general impression is that *converting* and *informing* strategies were used during the majority of the DressCode campaign. In DressCode a conforming strategy to gain support was not even tried as the unions withdrew without discussion. One strong disagreement is enough to break a three year formation process without any traces of conforming strategies being used leading up to a very dramatic project halt.

Finally, in the palm oil sector RSPO shows even stronger examples of converting strategies used to maintain support for the formation process. The speed and the clear industry/WWF led agenda paved the way for this. No conforming strategies have been reported but it would appear unusual if not discussions between industry representatives and WWF at times have been stained? As pointed out earlier it is too early to determine of the RSPO formation continuous to be a successful MSI. During the 2<sup>nd</sup> annual Roundtable discussions in October

2004 it will probably show where stakeholders stand on the issue of sustainable palm oil and if conforming strategies are needed to regain support for the formation process.

In conclusion, the forest standard showing more signs of conforming strategies used succeeded (depending how you view it) and the textile scheme with no conforming strategies applied failed. Therefore my findings do not go in hand with conclusions made by Cashore. However, I believe I have looked at too few cases to totally disregard the value of being able to predict outcome on formation processes based on applied strategies for achievement logics.

*How are conforming strategies handled in the studied cases?*

In the FSC Sweden formation process the Swedish private forest owners left the process. In hindsight some interviewed participants have claimed that they should have tried to look for new alternatives rather than leaving the process. Can it be that these discussions are many times very emotional and depending on the personal chemistry between actors? In the DressCode example both during and after there are no evidence that the union regret their way of handling the situation. Also the project coordinator has revisited in her mind the failure of DressCode to see if anything could have been handled differently to alter the outcome. Nothing of this sort was found. Can we blame personal chemistry as a reason for failure or is it the fact that negotiating parties stand too far from each other? In DressCode personal chemistry is probably a supporting factor but unwillingness to negotiate differences in opinion is probably derived from a fundamentally different organisational and political view. Finally, in the case of RSPO no applied conforming strategies have so far been reported among stakeholder.

*Can these three cases teach us how to handle conforming strategies elsewhere?*

It has been pointed out that the facilitator in the formation of RSPO was beneficial for the formation process. There are advantages of using a neutral person when forming standards between stakeholders of strong will. Can this resource be of use when handling conforming strategies as well? Many times in formation processes the assigned project coordinator has already taken a clear position on the issue to be solved. At that moment it is very difficult to step back and take on a neutral role. The recommendation would then be to utilize a neutral formation facilitator experienced in situations like this. Some may say that this is only another word for mediator. Probably true but I would like to stress the fact that this person must be integrated and knowledgeable about the issues. He or she must also have credibility among stakeholders (Bergin, 2004). This is what Reinier de Man (2004) earlier referred to as "leadership". He advocates an external resource to bring in with both political and scientific skills.

Finally, I will end with returning and address the research questions posed in section 1.2.1 of this thesis.

*Explain the formation process steps (initiative, members, proposal, opposition, creation, implementation and enforcement) for each industry standard to be studied?*

Each industry case is developed independent and does not follow a certain given structure with any resemblance from each other. The palm oil formation case showed a fast development process. This can either be explained with a smaller group of stakeholders and perhaps that the industry case were closely managed initially by WWF and industry. The set

backs in both the forest and the textile case occur sudden. Once negotiation fail to forward one party sees not other choice than to withdraw from the discussions. In both the forest and textile case these retreating parties had followers leaving the formation process as a consequence. Identifying stakeholders that influence others must therefore be a key priority for any type of project coordinator. Other concluding reflection for implementation and enforcement becomes less obvious because two of the three formations did not or have not yet reached that stage of the industry standard.

*Do the place in the global economy and the structure of industry (according to Cashore) give clues to whether or not industry formation for sustainable practices will be successful?*

Yes, both market position and industry structure give information on legitimacy for industry standard. Examples of “place in the global economy” are seen in the Swedish forest case and the European palm oil industry type of industry formation. The Swedish FSC formation show signs of being influenced by converting strategies as to “structure of industry”. References in the case are made to long history of industry, industry concentration and what is called “the Swedish model”. Other critical factors (shown below) apart from what has already been mentioned are findings coming from the industry cases using the SWOT analysis. I believe these types of findings are difficult to observe using a framework like the Cashore model.

Critical factors:

- Broad group of stakeholders participating [FSC Sweden]
- Public and customer pressure [FSC Sweden]
- Industry willing to risk negative exposure [DressCode]
- Credible project coordination [DressCode]
- External facilitator giving project momentum [RSPO]
- Involve competing commodity in sustainability discussion [RSPO]

*Does public pressure about negative environmental or social practices in the industry make the industry standard formation process more likely to succeed? And does the level of brand recognition have an impact on the formation of multi-stakeholder initiatives?*

The final questions relate to the model of brand recognition and multi-stakeholder formations addressed in section 6.4. Throughout all industry cases I see indications that customer pressure does have impact on the formation process. Therefore a big responsibility rests with both media reporting and NGOs. Interestingly, both our cases (textile and palm oil) experienced public pressure in Sweden after airing critical TV-documentaries. The ability for NGOs like WWF to follow up once publicity is made and before media attention loses momentum. This seems to be the time companies are most vulnerable to converting strategies. They fear for their brand image and if pressure is high enough they are often converted into taking a strategic decision favouring the environment or the social condition. Obviously, this is a very cynical way of viewing environmental and corporate social responsibility. There are many companies living by high ethical values. But this is explanation for those companies who do not understand better.

The note I would like to end on is an area of interest where I offer no answers. What I see as an interesting area to follow up is what could be referred MSI trade offs. What situation analysis did the private forest owners do before they left the FSC working group? How did they reach the answer that it was better to leave the discussion rather than negotiate further? There is a complex trade off analysis of whether to press on or leave industry formations. How do you calculate for the big uncertainty in this case of doing the totally opposite? The same applies to the trade unions in the DressCode case. How much do you need to give in on your demands before you would be better off leaving discussions? Maybe there are already theories and key factors influencing in this areas as it pertains to negotiation strategies otherwise it could be an area to continued research?



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