

# AID-FOR-TRADE: CASE STORY

## UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO)

**“HOW TO MAKE PRIVATE STANDARDS WORK FOR DEVELOPING COUNTRY EXPORTERS? – UNIDO’S GUIDE TO PRIVATE STANDARDS IN THE GARMENTS, FOOTWEAR AND FURNITURE SECTORS”**

**Date of submission:** 31 January 2011

**Region:** Global

**Type:** Project

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[www.unido.org/privatestandards](http://www.unido.org/privatestandards)

#### **Introduction**

Buyers and producers are faced with many overlapping but non-aligned standards. According to some estimates, more than 1,000 codes of conduct and management systems exist. But most companies in developing countries do not have much tangible information. “**Making Private Standards Work for You: A guide to private standards in the garments, footwear and furniture sectors**” is expected to provide producers in the footwear, garments and furniture sectors who would like to start or continue a business relationship with a global brand and/or retailer with some clarity in terms of the abundant, but not readily accessible, information available on private standards and with guidance for turning private standards to their advantage. It should also be helpful for exporters in other sectors.

#### **Objectives, Design and Implementation**

##### *Rationale and objective*

There is a growing consensus on the emerging role of private standards in trade, not only as an opportunity for producers and suppliers in developing countries to be linked with international supply chains but also as a potential barrier and challenge for them in view of their capacity.

While private sector firms and consortia have often been the driving force behind the formulation of management and product standards in industrialized countries for more than a century, there is an emerging sense that the multitude of private standards and retailer requirements have a growing impact on developing country firms’ ability to participate in global production and supply chains, essentially acting as another barrier to entry.

There are probably a variety of reasons for this growing concern. Firstly, there is increasing awareness about standards and technical regulations in general due to the WTO TBT and SPS agreements. Secondly, and probably most importantly, the building-up of health and safety concerns in industrialized countries (such as food safety, chemicals, allergens, working conditions etc.) resulted in an environment where not only the government regulations have

become stricter, but the retailers/supermarket chains have started to drive the trend for stringent standards due to consumer awareness. Of course, reputation and brand protection, global sourcing, differentiation in the marketplace, and control and rationalisation of supply have been important drivers for private standards.

Most crucially, while private standards can act as important barriers to trade, they cannot be tackled as part of multilateral trade negotiations in the present setting. Since being first brought up in June 2005 in the meeting of the SPS Committee, where St Vincent and the Grenadines, supported by Jamaica, Peru, Ecuador and Argentina, brought out a complaint about the private sector requirements for exporting bananas and other products to European supermarkets (ie. regarding former Eurepgap), there is ongoing debate whether non-governmental requirements can be handled by the respective committees outside of information sharing sessions.

This growing attention to food safety issues and retailers requirements has led to several influential research projects and publications on the role of private standards in agro-food sector in the recent years. There are also increasing number of studies looking at the capacity of developing countries to comply with social and environmental requirements.

However, there seems to be a gap in global knowledge on private standards prevalent in other manufacturing sectors - especially those that can be expected to gain more importance for developing country exporters (such as footwear, garments, leather, toys, gifts and decorative items, furniture and wood products, chemicals etc.) due to structural change and emerging competitive pressures.

As a development agency with a clear mandate to provide technical assistance in the area of industrial development and trade capacity building, UNIDO initiated a research project in 2008 to help to bridge this gap by identifying the obstacles faced by developing country suppliers and exporters through the publication of a [guidebook on private standards](#) and good practices required by international buyers in the textiles, footwear and furniture sectors.

### *Approach and design*

Buyers and producers are faced with many overlapping but non-aligned standards. According to some estimates, more than 1,000 codes of conduct and management systems exist. But most companies in developing countries do not have much tangible information.

Standards may be classified in numerous ways, and often the different terminologies used can be confusing. Classifying them by how they are developed allows us to look at the implications on developing country exporters:

- At the national level, government standards, which are called technical regulations, are developed and promulgated by Federal, State, and local agencies to address health and safety concerns. Technical regulations differentiate from the rest, as they are by law mandatory.
- International, regional and national voluntary standards are developed and disseminated by standards development organizations, such as International Standardization Organization, International Electrotechnical Commission, the International Telecommunication Union or Codex Alimentarius. At the international, regional or sub-regional level, harmonization of standards is done through regional standards bodies or sub-regional standards organizations.
- Industry/private/buyer standards can be broken down into three categories:

- Consortia standards – which are often developed by a sector-specific consortium (ie. GlobalGAP)
- Civil society standards and multistakeholder initiatives - established as an initiative by a non-profit organization usually as a response to concerns over social and environmental conditions (e.g. Forest Stewardship Council)
- Company-specific standards - which are developed internally and apply to the whole supply chain of a company (i.e. codes of conduct)

“Making Private Standards Work for You: A guide to private standards in the garments, footwear and furniture sectors” aims to provide producers in the footwear, garments and furniture sectors who would like to start or continue a business relationship with a global brand and/or retailer with some clarity in terms of the abundant, but not readily accessible, information available on private standards and with guidance for turning private standards to their advantage. It should also be helpful for exporters in other sectors.

“Making Private Standards Work for You” is the product of a project funded by the Norwegian Agency for Development Cooperation (Norad) and has been developed in collaboration with the Center for Promotion of Imports from developing countries (CBI), Netherlands.

#### *Methodology*

A first Expert Group Meeting was held in Vienna in May 2008 to refine the approach and identify the country/sector case studies to be undertaken. Subsequently, UNIDO researchers undertook exporters surveys in Turkey (textiles and apparel), India (leather and footwear) and Brazil (furniture), followed by in-depth interviews with selected exporters and buyers to identify, (i) the list of most frequently demanded standards, (ii) the implications arising from implementation of private standards in terms of financial and economic/social costs and benefits and market access. In addition, analysis was carried out on mapping out the basic components of the most commonly cited standards from the surveys.

A workshop was held in Vienna on 6 July 2010 to bring together representatives from exporters associations, buyers and sellers in international textile, leather and furniture value chains as well as other stakeholders such as certification companies, NGOs and academia to discuss the draft Guide to Private Standards and to provide expert feedback on the accuracy and usefulness of the information contained therein.

The Guide, which was launched on 25 October 2010, is available in English, Spanish and French. Chinese and Arabic translations are currently being prepared in cooperation with exporters associations in China, Tunisia, Egypt and Lebanon. A 10-minute video has been prepared to explain the subject and the contents of the Guide is currently available from [www.unido.org/privatestandards](http://www.unido.org/privatestandards)

#### *Contents of the Guide*

The Guide focuses on private standards in the garment, leather and furniture sectors. These sectors were selected because they appear in the top five developing country exporting sectors in international trade statistics. The food sector is excluded since considerable knowledge already exists on the role and functioning of private standards in this area. Safety issues are less prominent in this guide, as they are less significant in our selected sectors than in the food sector.

The insights provided on private standards in the three selected sectors focus on social and environmental issues, and are based on questionnaires and interviews with exporting

companies in these sectors in India, Brazil and Turkey. The case study countries were selected because they are among the top five exporting countries in these sectors.

The guide covers the following subjects:

- ❑ An overview of the landscape of private standards, providing exporting companies with information on the different types and requirements of private standards (Chapter 2)
- ❑ A deeper insight into buyers' codes of conduct, including the common points in their requirements (Chapter 3)
- ❑ Insight into the strategies that developing country producers follow when confronted with private standards, including costs and benefits of compliance (Chapter 4)
- ❑ An analysis of emerging trends in private standards such as water efficiency and carbon footprint, traceability and harmonization/benchmarking (Chapter 5)
- ❑ A 'wrap up' section, highlighting the key messages of the report (Chapter 6)
- ❑ A glossary of international norms and initiatives (Chapter 7)

## Results

Since being launched on 25 October 2010, the Guide has reached a wide audience, where the direct views of the accompanying video and the website has reached over 2500 hits. It is the aim of UNIDO together with its partner CBI to further assist business support organizations and exporters to better understand and respond to the challenge of private standards. A learning package is under development which will become available during latter part of 2011.

### *Key lessons learned*

The private standards project has demonstrated the importance of private standards for developing country producers who would like to start or continue a business relationship with a global brand and/or retailer. There are many indications that such standards will become even more important in the future. This implies that suppliers will need to prepare themselves to be able to adhere to private standards. Even though compliance with most requirements may not be too difficult, since many correspond with existing local and national regulations, private standards may pose challenging additional requirements. This is particularly so in the case of additional requirements that go beyond laws and regulations. Moreover, standards are dynamic, and vary among brands and retailers. This is why a proactive strategy in dealing with private standards is to be recommended. Such a strategy will not only create exporting opportunities but will also lead to competitive advantages and more efficiency in a company's business operations.

### *Support at company level*

SMEs in developing countries need to define a strategy on coping with private standards. They can either choose to follow a proactive or a reactive approach. If a company fails to develop an adequate strategy, private standards can become trade barriers.

Trainers should point out that the importance of private standards may vary according to the sector in which they are used. Social accountability standards, for instance, are widely used in the textile and garment sector, while their use in the natural stone sector is limited. In the timber sector, the use of fully-fledged traceability systems is much more common than in the fresh flowers sector. Most standards have been developed to address environmental, social and governance issues in specific sectors. There are few cross-sectoral or universal standards that can be applied in any industry. One of the most widely used social standards is SA8000.

Yet there are only 2,151 certified facilities in the world.<sup>1</sup> Considering the relatively limited uptake of these cross-sectoral private standards, it does not seem to be a good idea to build capacity on one specific initiative, such as SA8000, BSCI or AA1000.

In capacity building, sufficient time and effort should be dedicated to the costs and benefits that come with the implementation of private standards, yet there are relatively little quantitative analysis on the costs and benefits during the implementation phase of codes of practice.

#### *New sustainability concerns and trends*

The project on private standards found that many new demands related to climate change and the sustainable use of resources, such as energy and water, have emerged as a result of international concerns about sustainability. It is anticipated that new international protocols will come into force and that these will require national commitments and implementation plans. Buyers are responding to these concerns by already factoring energy, water and carbon into their codes and requesting their suppliers to take certain mitigating measures. On the other hand, supply chain issues with regard to labour conditions and safety remain of paramount importance. In capacity building, new trends (such as water and carbon footprinting) should be further incooperated.

#### **Conclusions**

While this Guide seeks to provide guidance mainly to existing or would be suppliers to globally operating retailers and brands in the apparel, footwear and furniture sectors, it also provides some lessons for other actors, among who will be developing country producers from other sectors, but also buyers, training and capacity building organizations, and governments.

Overall, a more coherent and practical approach is needed to help suppliers to become more sustainable and efficient. Harmonisation and benchmarking of private standards, in particular, will simplify compliance with these standards by suppliers and will also have an effect in terms of costs of labelling, certification and auditing. In view of this, all stakeholders in this process are urged to work towards and contribute to the harmonisation of private standards, while still upholding their ambitions for improving the social and environmental conditions in global supply chains.

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<sup>1</sup> Social Accountability Accreditation Services, Certified Facilities List  
[www.saasaccreditation.org/certifacilitieslist.htm](http://www.saasaccreditation.org/certifacilitieslist.htm) Statistics as of March 31<sup>st</sup>, 2010. (4/9/2010).