# Social Labels: Tools for Ethical Trade

# Final report

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new economics

## Employment & social affairs

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# About this Report

This is the report of a study prepared by The New Economics Foundation for the European Commission Directorate-General for Employment, Industrial Relations and Social Affairs. This report does not necessarily represent the Commission's official position.

Full copies of this report on Social Labels are available in English, French and German on the World Wide Web:

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# About the New Economics Foundation

The New Economics Foundation (NEF) is an independent research institute based in the UK. NEF works to identify, design and encourage the take-up of socially just and environmentally sustainable approaches to economics and business.

This report is part of NEF's work on corporate accountability and ethical trade. NEF has been active in developing and applying a rigorous and practical approach to social auditing, acting as external auditor to leading companies world-wide. It has also helped to develop *The Ethical Trading Initiative*, an alliance of companies, non-profit organisations and trades unions working to improve labour conditions in retail supply chains. New Economics Foundation's research and publications in this area include *Open Trading* critiques supply chain monitoring, *Building Corporate Accountability* which addresses the emerging practice of social auditing and *Purchasing Power* which focuses on civil action for sustainable consumption.

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# Acronyms

| | |
|---|---|
| ACCA | Association of Certified Chartered Accountants |
| ATO | Alternative Trade Organisation |
| CEPAA | Council on Economic Priorities Accreditation Agency |
| CTE | Committee on Trade and Environment (of the WTO) |
| DGV | European Commission Directorate General V (Employment, Industrial Relations and Social Affairs) |
| EC | European Commission |
| EEO | European Ecolabelling Organisation |
| EMAS | EU Eco-Management and Audit System |
| EU | European Union |
| FIFA | International Soccer Federation |
| FSC | Forest Stewardship Council |
| GSP | Generalised System of Preferences |
| Ha | Hectare |
| ICFTU | International Confederation of Free Trade Unions |
| ISO | International Standards Organisation |
| ISO 14000 | International standard series on corporate environmental management |
| NAFTA | North American Free Trade Agreement |
| NEF | New Economics Foundation |
| NGO | Non-governmental organisation |
| OECD | Organisation for Economic Co-operation and Development |
| PPMs | Product processes and methods |
| SA8000 | Auditable social standard developed by the CEPAA |
| SME | Small and medium sized enterprise |
| WTO | World Trade Organisation |
| WWF | World Wide Fund for Nature |

# Key Definitions

**Code of conduct**    a chart of moral duties and rights defining the ethical and social responsibility of employees and sometimes other stakeholders (e.g. suppliers) in an organisation.

**Ethical trade**    ('Sound Sourcing', 'No Sweat' etc.) aims to ensure that conditions within mainstream production chains meet basic minimum standards and to eradicate the most exploitative forms of labour such as child and bonded labour and 'sweatshops'. Labelling criteria are generally based on core ILO conventions.

**Fair trade**    aims to strengthen the economic position of marginalised producers in trading chains. The criteria for Fair Trade marked products differ between products but cover issues such as guaranteed prices, pre-payment and direct payment to growers or their co-operatives.

**Monitoring**    the process of regularly collecting information to check performance against certain criteria.

**North**    refers generally to industrialised countries.

**Social label**    the words and symbols on products which seek to influence the economic decisions of one set of stakeholders by providing an assurance about the social and ethical impact of a business process on another group of stakeholders.

**South**    refers broadly to those countries in the Southern Hemisphere traditionally referred to as the 'third world' or 'developing countries'.

**Stakeholder**          a set of individuals, groups or organisations which affect and/or are affected by, an organisation. Stakeholders may be internal *(e.g. staff)* or external *(e.g. shareholders, the local community).*

**Standard**          a widely agreed set of procedures, practices and specifications.

**Verification**          the certification by an external auditor, of the validity, meaningfulness and completeness of an organisation's records, reports or statements.

# Social Labels: Tools for Ethical Trade

# Executive Summary

***Consumers increasingly want to buy products produced under conditions where minimum standards of human rights for workers in global supply chains are achieved***. Consumers are confused about what products are more ethical than others and in what ways. Companies are not clear how best to move 'ethical consumerism' from its current negative focus to one that embraces 'positive choice'. Civil institutions are reluctant to endorse products and companies without being absolutely sure that agreed standards are being met. Governments and international institutions are unsure as to what interventions are feasible let alone effective.

***Social labelling is increasingly being used or considered as a tool for more effectively communicating about 'ethical trade'***. Labelling can provide information and can act as an incentive to improve the social and environmental impact of production and trade. Existing social labels have focused particularly on labour standards in global supply chains, sometimes based around one specific issue such as child labour.

> ***Social labels*** *are words and symbols associated with products or organisations which seek to influence the economic decisions of one set of stakeholders by describing the impact of a business process on another group of stakeholders.*

***There is serious concern about the quality and effect of social labels as a tool for communicating 'good practice'***. Doubts exist whether companies will fulfil the terms of adopted codes, and how best to monitor and verify claimed performances. There is a lack of understanding as to how public bodies could or should intervene through this route in support of ethical trade.

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"By the time you have breakfast, you have depended on half the world"

*(Martin Luther King)*

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**Figure 1: How do Labels Work ?**
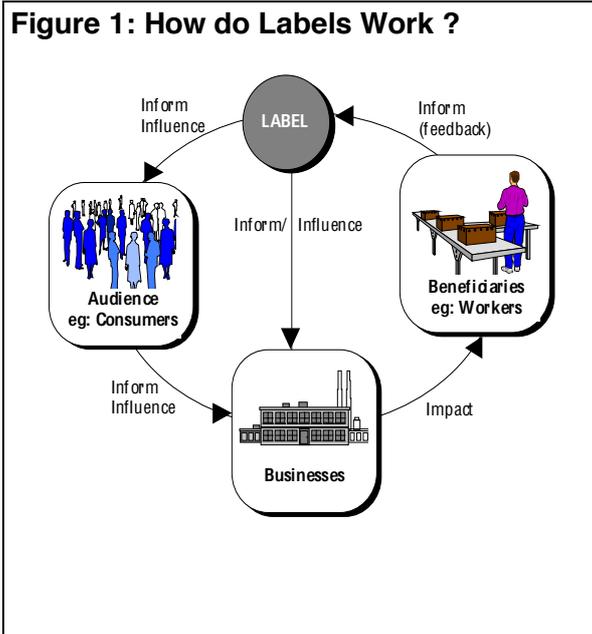


There are doubts that social labels actually work in encouraging consumers to reward companies in the marketplace, and a recognition of the need to see them as part of a wider process of civil and public sector action.

The *European Commission has decided to explore these developments*, and has commissioned the New Economics Foundation *to clarify issues in order to enable an objective appreciation of social labelling, and thus provide a working basis for future discussions.*

HOW DO SOCIAL LABELS WORK?

*Social labels operate through both 'window' and 'mirror' effects*. The most obvious fact is that they inform the consumer about how the product was or was not produced - the 'window' effect. Less obvious perhaps, but equally if not more important is their function as a 'mirror' for the consumer in securing the benefits of self-expression and positive social identity. In economic terms, they change consumption patterns by shifting consumers' balance of costs and benefits of finding, buying, and using goods and services. As one study by the National Consumer Council concluded, "...use of 'green' detergents and cleaning products was almost a credential for judging environmental awareness".

**Figure 2: Direct and Indirect Effects**
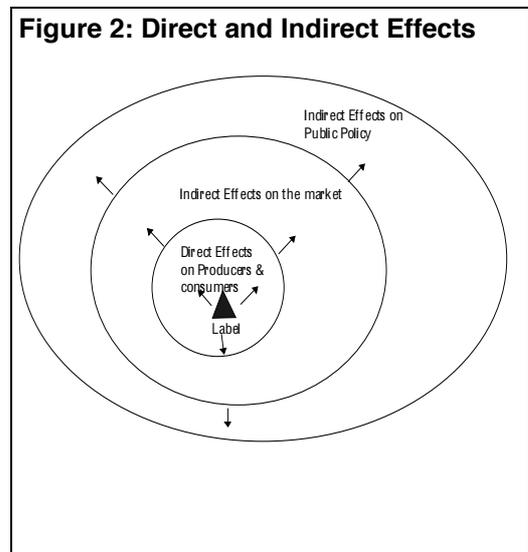


"In the factory we make cosmetics, in the store we sell hope"

*(Charles Revlon)*

*Social labels impact directly on participating producers, and indirectly by influencing the behaviour of non-participating companies and shifting or reinforcing public policy*. Fair trade labels, for example directly benefit a relatively small number of producers, but have influenced the development of 'ethical trade' in the mainstream business community.

| Figure 3: How Labels Can Impact on Producers | | |
|---|---|---|
| *Impact* | *Explanation* | *Conditions* |
| **Positive** | Label provides market leverage to improve standards in the supply chain | Label's standards are higher than current practice, *and*<br><br>Labels succeeds in conferring market advantage |
| **No Impact** | Label makes no difference to producers/ workers | Label standards do not exceed current practice, *or*<br><br>Label is ignored, *or*<br><br>Label is not financially viable |
| **Negative** | Label has negative effects on participating producers/workers | Label leads to lowers standards not covered by criteria e.g. minimum wage may be offset by forced overtime, *or*<br><br>Beneficiaries displaced e.g. child labour from inspected factories, *or*<br><br>Label leads to fall in market share (e.g: if it undermines consumer confidence through scares or confusion), *or*<br><br>Compliance with criteria is an unmanageable burden |

# SOCIAL LABELS IN ACTION

Several **characteristics of labels determine their effectiveness** - relevance, clarity, trust, accessibility, accuracy, financial and legal viability, and impact, as set out in Figure 4.

| Figure 4: Characteristics of an Effective Label | |
|---|---|
| **Relevance** | *Is the issue important to the **consumers** and intended **beneficiaries**?* |
| **Clarity** | *Do **consumers** understand the label?* |
| **Trust** | *Do **consumers**, **businesses** and **beneficiaries** believe in the legitimacy of the label and the way it operates?* |
| **Accessibility** | *Can **consumers** buy labelled products?*<br>*Can willing **businesses** participate in the initiative?* |
| **Accuracy** | *Can **businesses** participating in the initiative be assured that the label's claims are verified?* |
| **Financial viability** | *Is the label consistent with the financial goals of participating **businesses**? Does it add additional assurance to that contained in the brand?*<br><br>*Are **consumers** able to afford labelled products?* |
| **Legal viability** | *Will participating **businesses** be acing within national and international regulations?* |
| **Impact** | *Does the labelling initiative have a 'positive' effect on **beneficiaries**? Do these outweigh potential negative side effects?* |

"Our best social label is our brand label"

*(Alan Christie, Levi Strauss)*

**Figure 5: Operational Characteristics**
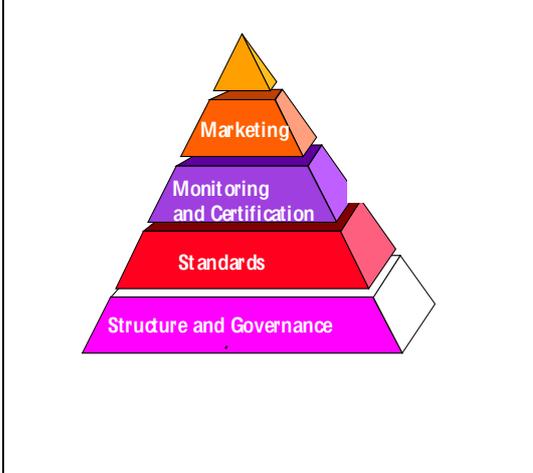


The effectiveness of labels also depends on the broader institutional framework within which they operate, including structure and governance; standards; monitoring; and marketing. For example, a labelling initiative will be more effective if it is associated with organisations that the public, or non-government organisations (NGOs) and other opinion leaders trust, such as the Fairtrade Foundation label in the UK, or the sustainable forest label offered by the multi-constituency governed Forest Stewardship Council.

**Five different categories of social labels have been identified.**

- *Self declared* e.g. the Cooperative Wholesale Society '99' Tea; Corporate Brands backed by codes of conduct

- *Industry body* e.g. British Toy and Hobby Association

- *Partnership* e.g. FIFA/International Confederation of Free Trades Unions, 'No Sweat Label' US, Forest Stewardship Council and SA8000

- *NGO-led* e.g. Clean Clothes Campaign, Max Havelaar, Fairtrade Mark, Transfair and Eco-Ok, Abrinq

- *Official* e.g. US 'Trend Setters' list, Kaleen, Investors in People

# CIVIL ACTION AND SOCIAL LABELS

The research has highlighted that *social labels are more effective when they are linked to strong public feelings and underlying civil action*.

Civil activism, for example co-ordinated through the work of NGOs, acts as a form of awareness raising and marketing for labels. The Max Havelaar labelling initiative, for example, invested heavily in promotion of the label using classic channels of civil society: public media exposure, mouth to mouth promotion, mobilisation of support groups, as well as more traditional commercials in newspapers, magazines, radio and television, etc. This process of civil mobilisation has yielded

**Figure 6: For Which Products Does Labelling Work Best?**

- Bought and consumed by the general public

- Identifiable products, i.e. branded

- Products strongly associated with social identity, e.g. clothing

- Products not competing solely on price

- Products which are simple to trace

the result that 89% of Dutch consumers have heard of Max Havelaar. This compares well with the EU Eco-Label - which has had little associated civil action and has only an 11-12% consumer recognition in the UK.

This finding is critical in understanding the *relevance* of labels, and provides fertile ground for understanding their basis of effectiveness. The research, including both detailed case study work and a survey of labelling organisations, also confirms that partnership-based labelling initiatives score best against the effectiveness criteria. This has strong implications for the role of public policy. In particular it emphasises the need for public policy which fosters civil society involvement in labelling.

# Opportunities and Limitations

Our assessment of relative successes and failures in the area of social labelling allows us to summarise what opportunities are offered through the use of this market-based tool, and what are its main limitations, as summarised in Figure 7.

| Figure 7: Opportunities and Limitations of Social Labels | | |
|---|---|---|
| **Characteristic** | **Opportunity** | **Limitation** |
| **The incentive for ethical purchasing comes from independent civil processes.** | Social labels provide a way of translating concern into positive action. | Without these civil processes social labels are unlikely to be effective. |
| **Social labels reduce the cost to consumers of finding an ethical product.** | Labels can ease the take up of labelled products. | Social labels can also increase 'costs', in terms of price or choice. |
| **Labels can form part of self and group identity for consumers.** | Products can be labelled on this basis, particularly for those products concerned with identity and lifestyle (e.g. clothing, branded goods). | Social labels are unlikely to work well on generic products and products which are heavily price competitive. |
| **Social labels require significant resources - both to set them up and to promote and monitor them.** | Social labelling initiatives are able to attract start-up and ongoing funding from a variety of sources. | Social labels may rely on external funding to avoid higher prices to consumers. |
| **Social labels have emerged around 'hot' issues.** | Social labels are likely to be most attractive where the issues and products are carefully targeted and backed up by campaigning and education. | Social labels do not provide a blanket solution for all products and all issues related to trade and labour standards. |

# Public Policy Options

***The question for policy makers in this area is what public interventions, if any, can help to make social labels more effective?*** In answering this question we have considered:

- likely future scenarios in relation to which decisions will need to be made;

- types of public policy interventions;

- most appropriate interventions for each scenario considered.

As a part of this, we have considered which interventions would be consistent with prevailing public policy and international agreements, and whether the likely benefits would warrant the costs involved in making such interventions.

***Scenarios are futures that can be created***. There is a particular role in this for public institutions responsible for formulating, recommending, and implementing public policy. Public bodies need to decide which of the three (or some other) scenarios appears most attractive, and what interventions would lead us down that path. Of course, developments may follow all three routes simultaneously.

**Figure 8: Postcards from 2003**

- **Ethical Brands** - companies respond to consumer pressure mainly by promoting their own brands as social labels, and adopting supporting codes of conduct and independent monitoring.

- **Partnership Labels** - civil partnerships promote independent social labels backed by agreed labour standards and approaches to monitoring and verification.

- **Multilateral Labels** - international organisations underpinned by governments develop multi-sector international labels, independent of, but in some cases coinciding with, civil movements.

*There are a wide range of possible interventions that might be made*, ranging at the 'lighter' end of the spectrum from informing and educating, to more extensive intervention involving changing fiscal arrangements through to a publicly supported social label more akin to the EU Eco-Label.

The policy options outlined below become progressively more formalised and 'interventionist'.

- ☒ *Increasing support for education and awareness raising around labour conditions, trade and consumption issues*. This research has made it quite clear that the 'civil movement' element behind social labels is critical to their success. It would be possible to support the broad area by increased funding of awareness programmes involving civil organisations in the North and in the South.

- ☒ *Sponsorship of annual awards for companies demonstrating good and best practice in the social area*. Awards could be given for both demonstrable positive social impact, and also for best practice in social labelling and other approaches to consumer information.

- ☒ *Facilitate the development of new Partnerships*. Multistakeholder initiatives such as the Ethical Trading Initiative and a similar process being initiated elsewhere are seeking to define standards in this area. There are calls for these initiatives to operate or be consistently linked at a European or Trans-Atlantic level.

- ☒ *Develop pan-European standards in social labelling* by playing an active part in agreeing, and possibly endorsing labels which had achieved agreed standards of integrity and transparency. This would support the development of credible private labels.

- ☒ *Use of public procurement* in promoting and supporting appropriately labelled products. This strategy has been used by local government and parastatal organisations in promoting child-friendly, sweat-shop free and environmentally friendly labelling. It is, however, vulnerable to challenge under World Trade Organisations (WTO) regulations.

☒ **Use of fiscal incentives** to reward socially responsible purchasing. One approach might be for the government to explore how best to use a variable tax policy to secure consumer interest through essentially offering price discounts based on demonstrated corporate performance, linked to consumer-oriented social labels.

☒ **Establish a European social label**. Clearly there are attractions to a more comprehensive approach to standardisation. However, the research indicates that the most effective labels are associated with specific civil society movements which encourage buy-in from key stakeholders such as consumers, producers and retailers.

*These policy options have been rated in terms of significance against each of the three scenarios*. The most hands-off education role is most crucial in promoting the development of 'ethical brands' and labels, but dialogue facilitation will be critical in developing effective and independent monitoring. Promoting dialogue and the formation of standards are the most important interventions in assisting the development of partnership labels.

It is clearly possible through a range of initiatives to reduce the cost and increase the benefits of ethical trade. *A portfolio approach to supporting ethical trade is preferable to public policy focused solely or indeed at all on the development of a social label*. This view is strengthened in the light of the ambiguity in WTO regulations towards private labels. In particular, it is cost effective for public policy to be focused on the development of the civil framework providing the fertile ground for labelling *and* other initiatives, through education and dialogue promotion. Private social labels can also be supported through the use of awards and the orientation of public procurement towards ethical trade. These types of interventions will go a considerable way to enhancing the impact of social labels. To them can be added fiscal support and a process standard as the legal framework set through the WTO begins to be clarified.

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"To live means to buy, to buy means to have power, to have power means to have duties"

*(National Consumer League Motto, 19th Century)*

# Conclusion

In conclusion, social labels are amongst a number of devices that can help to deliver positive social change through the market. Existing experience and the evidence from environmental labelling suggests that labels can make positive impacts, by increasing returns to beneficiary groups and by triggering changes in the behaviour of consumers, retailers and brand companies. Social labels are deserving of EC support, in particular of fostering civil society understanding of the issues which they address. With this foundation in place, further efforts to promote improvements in social impacts are more likely to succeed.

"We say 'yes' to work, 'no' to exploitation, 'yes' to work, 'no' to abuses, 'yes' to work, 'no' to social exclusion"

*(Ana Maria Catin Torrentes,*
*Movement of Working Children and Adolescents)*

# 1. Introduction

**Key Points**

- Consumers are concerned that the goods they buy may be produced in conditions which break minimum standards of human rights for workers; and which damage the environment.

- There are potential 'costs' and 'benefits' to consumers in making ethical purchasing decisions. At present, for many, these costs may outweigh the benefits and effective choice is constrained.

- Labelling is just one of the tools being used by business, government and civil society to improve the social and environmental impact of production, consumption and trade.

## 1.1 Project Overview

The New Economics Foundation was requested in December 1997 by the European Commission Directorate General V (Employment, Industrial Relations and Social Affairs) to undertake this study into social labelling. The study focuses on the existing experience, conditions and requirements of labels and their role in informing and changing behaviour. The purpose of the study is *"to clarify issues and to allow the Commission to acquire an objective appreciation of social labelling, and thus give the Commission services a working basis for future discussions."*[1] It was not foreseen that this project would involve close examination and comparison of particular social labelling initiatives. Rather, that it would offer strategic insights into the area and offer a firm basis for this kind of closer analysis.

## 1.2 The Research Process

The research was divided into five key stages:

Review of existing instruments
Assessment of existing social labels
Assessment of environmental and other labels
Challenges facing existing schemes
Comparison of available instruments

In practise this involved a process of literature review, questionnaire surveys of labelling initiatives and dialogue-based research drawing on and stimulating discussion amongst key parties, including companies, non-profit organisations, trade unions, governments, and the European Commission. In particular, this dialogue-based research drew on key meetings and seminars, such as the IRENE Conference on trade and labour standards, the EU-US Symposium of Labour Standards in Brussels, advisory meetings with the Social Partners and DGV and the Conference on Social Labelling hosted by Hastings College in San Francisco.

**Figure 1: The Research Process**
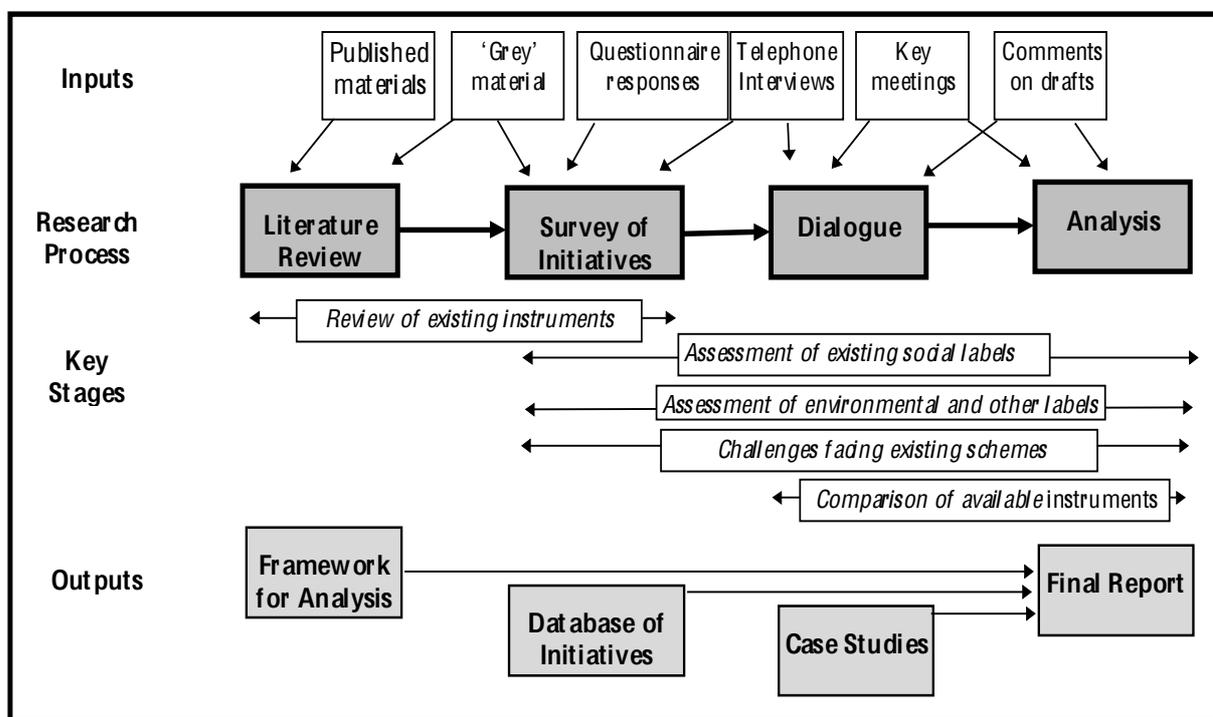


The first element of the study is to map out the landscape of *action to improve the impact of production, consumption and trade on people and the environment.* In the context of this paper we note that some of the key interested parties or stakeholders are consumers, business, government and civil society. In this paper we define civil society as a level of organisation between the state and the individual citizen. Civil action is the collective process encompassing activities such as production, consumption, exchange, education and campaigning that have objectives that extend beyond financial gain and personal satisfaction[2].

## 1.3  Consumer Action and Inaction

Some issues, driven by NGO campaigns and taken up by the media, have become 'hot topics' around which there is individual and collective action by consumers. Examples include child labour and environmental degradation. In such circumstances there are particular demands for assurances that goods are safe; are produced in conditions which do not break minimum standards of human rights for workers; and do not damage the environment in their production, consumption or disposal.

Examples of this interest are common. In 1998 1.3 million people in the UK signed a petition calling for better labelling of food products organised by FLAG - a food labelling pressure group. The Consumer Council in Zimbabwe has successfully campaigned for tighter labelling legislation around food safety issues. Christian Aid's call for consumers in the UK to send their till receipts in to supermarkets in support of demands for a code of conduct and independent monitoring had over 100,000 responses in 1997. In Flemish speaking Belgium, 230,000 postcards have been requested by consumer groups and activists as part of a campaign calling for companies to take on codes of conduct and independent monitoring.[3]

But while there may be considerable activity around issues of concern, many issues fail to translate themselves into action.

Market research regularly highlights consumer's concern about the social and environmental impact of the goods they buy and consume. Estimates of the percentage of 'green' and 'ethical consumers' in the UK vary widely depending on the methodology and questions asked (40% (Mintel: 1994), 55% (GGT: 1996), 67% (Og,livy & Mather: 1996)). A recent survey in France found that 71% of consumers would choose a 'child labour-free' product, even if it was more expensive than other alternatives (CRC-Conso 1997).

However this concern is not always translated into purchasing choices. Reasons cited for this include:

    (a) lack of knowledge about products;
    (b) the demands in terms of time and effort to find out information on products, and
    (c) a feeling that individual consumers can not make a difference[4].

This failure to make the link between consumer's concerns and their purchasing decisions represents a lost opportunity both for companies looking for a new niche

in the market, activists advocating social change and for democracy and consumer sovereignty in general.

Ethical consumerism like many forms of political action suffers from the problem of the costs endured by those who take it on. Shopping ethically costs - in terms of the time it takes to find products and possibly in terms of the price, quality and choice of products. These costs are incentives for inaction. Despite this a significant minority of consumers do choose to shop 'ethically - understanding *why* they can help us to understand what factors might promote and sustain such choices. The following sections look at some of the responses to the phenomenon of ethical consumerism and the initiatives set up to encourage more consumers to make ethical choices.

## 1.4  Corporate Responses: Codes of Conduct and 'Ethical Brands'

Many companies have recognised that improvements in their social performance can lead to positive perceptions of their product. Many companies are developing codes of conduct and monitoring systems to improve the social conditions in their supply chains. These processes, often involve quality systems and supplier development and have the primary function of strengthening information within companies.

Some companies have been proactive in associating their brand with an ethical stance. Levi Strauss & Co., the privately held, US-based, garment company are a prime example of this strategy in recent years they have received the American Corporate Conscience Award for International Commitment from the Council on Economic Priorities, the American Business Ethic Award from Forbes Magazine and was rated first in Fortune magazine's annual survey of Community and Environment Responsibility[5].

## 1.5  Government Responses: Enabling Improvement

There is a growth in interest in corporate responsibility from government and multilateral bodies. The mode of public policy is changing, away from an approach of 'command and control' seeking compliance from other bodies, to one of 'enabling', where desired outcomes are identified but how they are achieved is not necessarily laid down or led by Government. This has manifested itself in the supporting by Government of various civil society initiatives to 'regulate' corporate activities through the informed choices of consumers. An example of the enabling

role is given by the support of the UK government, for the Ethical Trading Initiative - a coalition of NGOs, trades unions and business working together to develop and promote approaches to improving working conditions in supply chains. In the USA, President Clinton has set up the Whitehouse Apparel Industry Partnership which aims to set up a code of conduct and a monitoring system and to label clothing with the 'No Sweat' mark. In Canada, the standing committee on Foreign Affairs and International Trade recently recommended that "The Government support efforts to establish independently-monitored product certification and inspection systems in tradable goods sectors where child labour is a significant problem[6].

## 1.6  Civil Society Responses: Information

A range of initiatives aim to address the challenge of enhancing corporate responsibility by improving the access to information about corporate social, ethical and environmental performance. They are based on the assumption that the decisions made by people as consumers, producers, investors - or more generally citizens - can be influenced by better information as to the implications of those choices. This process can in turn influence companies to improve their performance. Social labels are just one example of this kind of initiative.

Social and environmental labels, social and environmental auditing and reporting, campaigns and education are examples of approaches to providing information about the social and environmental dimensions of business. Many of these initiatives and certainly all existing social labels have emerged from civil society processes including companies, pressure groups, trades unions and consumer groups. One example of this is the sustainable timber labelling schemes accredited by the Forest Stewardship Council which is an NGO / business initiative.

Labels must be seen within the context of these other information-based instruments for influencing consumer choice and promoting social and environmental performance of business.

**Figure 2: Labels in Context**

**Information based instruments for improving corporate social and environmental performance**

| Instrument | Sources | Aimed at | Interacts with Social Labels by |
|---|---|---|---|
| **Consumer information** | Consumer magazines and associations, Television and other media | Providing unbiased, accurate information on the range of product available | Rigorous social labels may be considered and reported in research.<br><br>Consumer organisations may include social criteria in their own research |
| **Social and Environmental Auditing** | Audited company reports | Providing annual reports of a companies environmental and/or social performance | |
| **Codes of Conduct** | Company and industry bodies | Creating an 'ethical brand' image for a particular product | 'Ethical brands' act as, and compete with, social labels at the point of sale. |
| **Campaigns** | 'Pressure Groups' e.g. NGOs, trades unions, Churches and the media. | Raising consumer awareness about a particular issue and promoting action such as 'buy-cotts'[7], boycotts, letter writing and protests | Create a market for social labels and are a driving force behind their development |

Many questions and challenges remain such as whether such instruments work in delivering the social and environmental improvements that they seek? Also are there particular circumstance where a particular instrument or combination of instruments will deliver the most positive impact? Some of the questions that we will be paying particular attention to with respect to social labels include their co-existence with international agreements covering economic activities and trade, the need to avoid fragmentation in standards and their sensitivity to workers and producers in the South.

# 2. What is a Social Label ?

**Key Points**

- Social labels are defined as "words and symbols associated with products or organisations which seek to influence the economic decisions of one set of stakeholders by describing the impact of a business process on another group of stakeholders'.

- Both independent labels *and* ethical brands and self-declared claims by companies can act as social labels.

- There are a wide range of social labels covering different sectors and issues.

- Five distinct categories of labelling initiative can be identified: self declaration by individual manufacturers, industry initiatives, civil society partnerships with industry, civil society initiatives and government Initiatives.

## 2.1 Looking at Labels

Labels provide information about products, however in an information age where consumers, in particular, are bombarded on a daily basis with literally thousands of messages about product and service characteristics it is *attention* not *information* which is scarce.[8] The key then is not simply to provide *more* information, but to provide information that is useful. This requires that it is delivered in a credible, digestible and attractive form that captures people's attention. In fact, for consumers with little time, credibility and authority of the information source may be more important than complete and correct factual information[9].

Labels are promoted as:

- a **positive channel** for expression of consumer concern

- an **effective way of communicating** information to consumers (a poll on nutritional information found that consumers looked to food labels more often than any other source including the media, advertising and word of mouth)[10]

- an **education tool** with a widespread reach

Labels on packages and products are primarily aimed at informing final consumers. They are more visible at the point of purchase than other devices such as company

reports, campaigns or codes of conduct. They are often in short-hand form such as symbols. This aids visibility and differentiation from other unlabelled products.

Labels provided by manufacturers impart both mandatory information and discretionary information[11]. Through words, pictures, symbols, diagrams and brand logos the labels on products convey messages about a product, its production, distribution, consumption and disposal. In some cases the impact of these processes on the people involved are included e.g. workers, local communities, suppliers and sub-contractors or consumers.

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*A social label is best understood as words and symbols associated with products or organisations which seek to influence the economic decisions of one set of stakeholders by providing an assurance about the impact of a business process on another group of stakeholders*

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## 2.2  Social Labels

What do we mean by a social label ? Clearly there is much scope for confusion and divergence. In this report we define social labels here as '*words and symbols associated with products or organisations which seek to influence the economic decisions of one set of stakeholders by providing an assurance about the impact of a business process on another group of stakeholders*'.

The term *social* is not therefore used to describe *all* impacts on people. Rather, it describes here impacts on stakeholders other than the audience (often consumers). From this perspective, labels which inform consumers that consumption of the product will have a beneficial effect on *their own* health do not fall under this definition. For example 'healthy balance' labels on foods and safety marks on toys are not, by our definition, social labels. Fairtrade and child-labour-free labour labels which communicate something about human aspects of the production processes to consumers are, by our definition, social labels. We would emphasise that this restricted definition is *useful* for the purpose of this study, rather than being correct in any absolute sense.

## 2.3  Independent Labels

'Independent' labelling schemes have been developed, seeking to cover environmental, social and other quality criteria in a common framework. They promote the interests of a clearly defined group of stakeholders, e.g. children or small farmers, therefore they are not 'independent' in any pure form. Their *independence* refers to the fact that they involve organisations in the external to the manufacturers or retailers in *verification,* and often in the management and awarding of the label—the Forest Stewardship Council is one example of this kind of labelling initiative. At times, external organisations may endorse, or more generally be associated with claims made by a company. The recent tie-up between the NGO Christian Aid and the Co-operative Wholesale Society's '99' Tea in the UK is one example of this. Some of these labels, such as organic labels, are backed up by legal definitions of the standards they cover. Other schemes are completely voluntary. An example of this kind of social label is the Abrinq Foundation's 'Child Friendly' label which has been awarded to 400 companies in Brazil.

In order to carry a label, a product or production process must meet a set of criteria. However consumer perception of what a label infers may be quite different. For example many consumers choose organic food because they are concerned about pesticide residues. Organic labels certify that a food is produced according to organic standards - but do not guarantee anything about the level of pesticides[12].

## 2.4  Self-labelling and Brands

Self-certification and labelling by manufacturers or retailers can serve a similar function to 'independent' social labels[13]. In this study we examine both types of labelling.

Self-labelling may bring with it a number of problems. Different standards and definitions made by different companies mean that claims made by different companies are not readily comparable, and without independent verification they are vulnerable to challenges to their veracity[14].

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"Our best social label is our brand label"

*(Alan Christie, Levi Strauss, EU-US Symposium on Labour Standards)*

Corporate brands, in common with labels, impart information in a concentrated way. A single and instantly recognisable image such as the Nike Swoosh or the Mercedes Badge is associated with a complex set of ideas and assertions about quality, reliability, status and other (desirable) characteristics. Many brands also embody messages about the ethical stance of a company, this has been associated with the recent boom in 'cause related marketing' and is most obviously demonstrated by brands like The Body Shop, the Co-operative Bank, and Levi Strauss. In this way, brands can sometimes act in the same way as social labels, although they clearly do not have the same measure of 'independence' claimed by most social labels.

Independent labels and brand names interact; they may appear on the same product or they may compete on different products. There are a number of reasons why brand companies may not wish to join labelling schemes. In order to be effective, these types of schemes may require significant and difficult changes in business practice in order to meet new standards. In some cases there may be little perceived benefit from labelling, for example where brands are trusted, the use of a label may serve to undermine that confidence. There may be more incentive for smaller brands to use a label as a means of enhancing its reputation and sales. Cafedirect's, association with the Fairtrade Mark has served to promote both the mark and the coffee brand. For industries where there is little brand loyalty labels may be an important way of influencing consumers. This may be one of the factors in the relative success of fair-trade bananas and child-friendly rugs in penetrating the market.[15] Where brands are strong, organisational approaches to social change such as codes of conduct which associate social performance with the corporate brand name may be a more effective route.

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**Box 1: A Brief History of Consumer Activism—Early Social Labels**

Social labels have a long history, and their alter-ego consumer boycotts an even longer one. The Boston-Tea Party was an example of consumer action by early American colonists. Boycotting of products has been used by abolitionists in opposing the slave trade, and going further back, to 1327, the citizens of Canterbury imposed a consumer boycott on the Christ Church Monastery[16].

The first social labels within consumer society as we now know it were associated with the trades union and the co-operative movements.

One of the first 'ethical brands' was the Co-op brand linked with the co-operative movement spearheaded by the 'Rochdale Pioneers' in the UK in the 19th Century. This is continued today in the CWS 'Co-op' brand. In the USA, the National Consumers League developed and oversaw the use of the *White Label* on women and children's underwear which guaranteed that they were made in factories that obeyed all factory laws, made all goods on the premises, required no overtime work, and employed no children under the age of 16. The label was backed up by inspection by NCL representatives and its use spread to 13 states. It was discontinued in 1918 as Union Labels became more prevalent[17].

At the turn of the century trades unions in the United States published 'fair-lists' of unionised companies as an indirect way of boycotting non-unionised companies (previously they had published 'unfair' lists - these were made illegal in 1908). However fairlists were plagued with many of the difficulties which also challenge current social labels - there were entire industries without organised labour for which no recommendations could be made and there were problems in defining a fair firm[18]. These 'fair-lists' were forerunners of the present day Union-made label and show how consumer boycotts and 'buy-cotts' are intimately linked.

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## 2.5  Product or Company Focused?

Labels may relate to individual products and the production processes associated with them or to the performance of the company as a whole. Most types of independent social labels which currently exist focus on products rather than companies. However systems such as EMAS and ISO14000 consider environmental management on a company wide basis, and similar systems for social criteria could be conceived. While ISO symbols do not appear *on products,*

they can appear on a companies' promotional material, annual reports, headed paper and distribution vehicles and thereby contribute to a companies ethical image. These 'technical labels' are generally aimed at other businesses, rather than at the end-point consumer and hence are not a primary focus of this work.

'Ethical Brands' can work at a company or a product level depending on the marketing strategy of the company involved. Proctor & Gamble for example produces many products across the cosmetics and detergents sector but invests brand recognition in its premium brands such as Persil and Colgate. Nestlé is a strong company brand, but also coexists with strong product brands such as Nescafé and Marvel. Virgin is a key example of a company that has transferred or 'stretched' its brand from one product to the next, across a diverse product range.

## 2.6  Clustering Labels

Labels can be divided according to a number of their characteristics, particularly as they can cover a broad spectrum of products: from luxury purchases to everyday items and from large scale mechanised production to artisan workshops.

Labels could be identified in a number of ways. These could be grouped by their geographical boundaries - both in production and marketing terms, by the products that they cover an so on. Three key variables which define individual initiatives are:

- **The type of initiative** for example government initiative or NGO/Industry partnership

- **The subject area** which the labelling criteria cover - for example child labour or environmental impacts

- **The sector** which the initiative covers - for example the hand made rug industry or the banana industry.

### 2.6.1  Classification by Subject

Social labels have broadly been characterised as dealing with *Fair Trade* or *Ethical Trade*[19]. Fair Trade aims to strengthen the economic position of marginalised producers in trading chains while Ethical Trade (also called 'Sound Sourcing', 'No Sweat' etc..) aims to ensure that conditions within mainstream production chains meet basic minimum standards and to eradicate the most exploitative forms of labour such as child and bonded labour and 'sweatshops'. Fair trading has

traditionally been mainly concerned with *small-scale producers* such as farmers and artisans, and more recently with labour conditions in the broader sense. Ethical trade is mainly concerned with *employees* (both of the company and its suppliers and subcontractors). The criteria for Fair Trade marked products differ between products but cover issues such as guaranteed prices, pre-payment, direct payment to growers or their co-operatives. Ethical Trade labelling criteria are generally based on core ILO conventions (for example on child and forced labour). Some of the labels in this area cover only one issue - such as child labour, others such as SA8000 are broader and deal with all seven core ILO conventions[20].

Traditionally social and environmental labels have been kept apart. Even some labels that have social and environmental dimensions (see case study of Forest Stewardship Council) tend to be viewed as environmental or social 'plus'. The diagram below shows that sustainability labels deal with social and environmental impacts of products or companies and how these dimensions are interlinked.

At this stage it is not clear whether sustainability labels are part of the next wave of development for labelling. What is clear is that in company reporting and indicators of national progress, the agenda has moved increasingly into the sustainability arena. It is also apparent that national indicators and company reporting are broadly aimed at informed audiences. Labels *are* often aimed at ordinary consumers and any move towards sustainability labels must be open, meaningful and understandable. For the foreseeable future this is likely to mean that labels which are substantively about sustainability issues are most effectively communicated as social or environmental labels.

There are, however, clear paths along which sustainability labels may become more likely. These include the use of separate labels for the same product or company based on their social and environmental processes. An alternative are single labels with different segments within which pronouncements are made separately on their social and environmental impact status[21].

**Figure 3: Labelling Typography: by Subject**



**Labels**

Social Labels

Environmental Labels

Fairtrade

Ethical Trade - core ILO conventions

*sustainability label?*

Ethical Trade - single issue

production

lifecycle

consumption
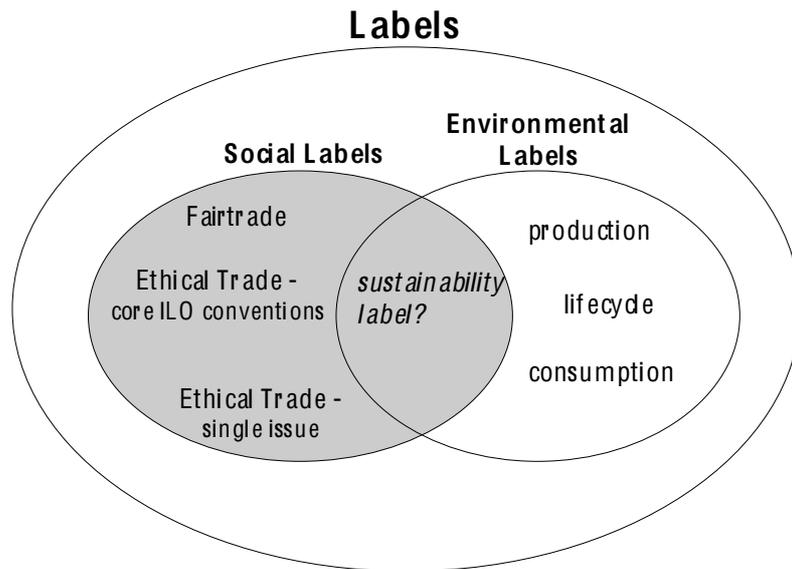
*2.6.2  Classification by Sector*

Some labels are limited to specific products, others apply to many different kinds of product. The Rugmark is an example of a highly sector specific label; covering handknotted rugs *only.* The UNITE -'Union Made' and the proposed Clean Clothes labels are limited to the garment industry—however this is a highly diverse industry, both in terms of its production and marketing characteristics. The concept of Fairtrade is not sector specific however, to date labels have been concentrated on a small range of agricultural products. Fair trade marked footballs released in 1998 represent the first labelled industrial product. Handicrafts have also been widely marketed (but not independently labelled) as 'fairtrade' through 'world shops' and brands such as Traidcraft and The Body Shop's 'Community Trade' .

Production, trading and marketing differ enormously for different products. This has implications for how a labelling initiative could operate in setting standards, monitoring them and securing market advantages for the different products:

- **How is the product produced?** What are the social issues and problems involved? Are there accepted standards/ benchmarks in this area? How is production organised (e.g. centralised/homeworkers etc...) and how could it be monitored? How complex is the product?

- **How is the product traded?** Is the brand/retailer able to demand and monitor improvements in labour conditions down the supply chain?

- **How is the product marketed?** Are consumers of this product concerned about social issues in the supply chain? How price sensitive is this market? What are the brand leaders in this market?

Due to the combination of these and other factors, some kinds of products will lend themselves more readily to social labelling.

### 2.6.3  Classification by Type of Label

An important variable in looking at voluntary labelling initiatives is the types of organisations who are behind them. These can fall into a number of categories:

- Self declaration by individual manufacturers

- Industry initiatives

- NGO or trades union/Industry partnerships

- NGO initiatives

- Government initiatives

The clustering of labels is useful as it offers a way of understanding patterns of impact of social labels and of identifying characteristics of labels that favour positive impact. In section 5.3 we consider how these different 'families' of labels perform.

# 3. Understanding Social Labels

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**Key Points**

- The primary audience for social labels are retail consumers.

- Social labels work by reducing the 'costs' and increasing the benefits to consumers of finding and buying an ethical product.

- One of the most important 'benefits' to consumers of buying labelled products is the associated positive feelings, self-expression and membership in a particular social group. This is what we call the 'mirror' effect of labels and it co-exists with the informational (or window) aspects of labels. This is critical to understanding the basis of effective labels.

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## 3.1 Closing the Loop

In order to examine the effectiveness of different forms of labelling it is important to have an understanding of how labels work. A label works primarily by informing and influencing. Labels inform consumers about particular issues and products and aim to influence their buying choices. Consumer choices in turn 'inform' companies, who may be influenced to change their behaviour in relation to consumer action. For example, retailers may choose to stock labelled products, producers may choose to get their products labelled and the so-called Alternative Trade Organisations (ATOs) may be able to widen their operations.

Producers and consumers are at opposite ends of a supply chain that includes wholesalers, retailers and distributors. Labels close the loop in the supply chain, acting as a bridge between producers and consumers.

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"By the time you have breakfast, you have depended on half the world'

*Martin Luther King*

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Labels are a means of putting faces to these people.

More specifically we can distinguish different groups who interact with a label; (a) intended audience; (b) intended beneficiaries, and; © business intermediaries such as retailers, importers and ATOs. For example, the Max Havelaar fairtrade marks' intended audience are consumers in Europe. Its intended beneficiaries are agricultural smallholders and co-operative members and their communities. Business intermediaries include Max Havelaar itself in its role of labeller and the retailers who stock and promote products which carry the label.

**Figure 4: Closing the Loop**
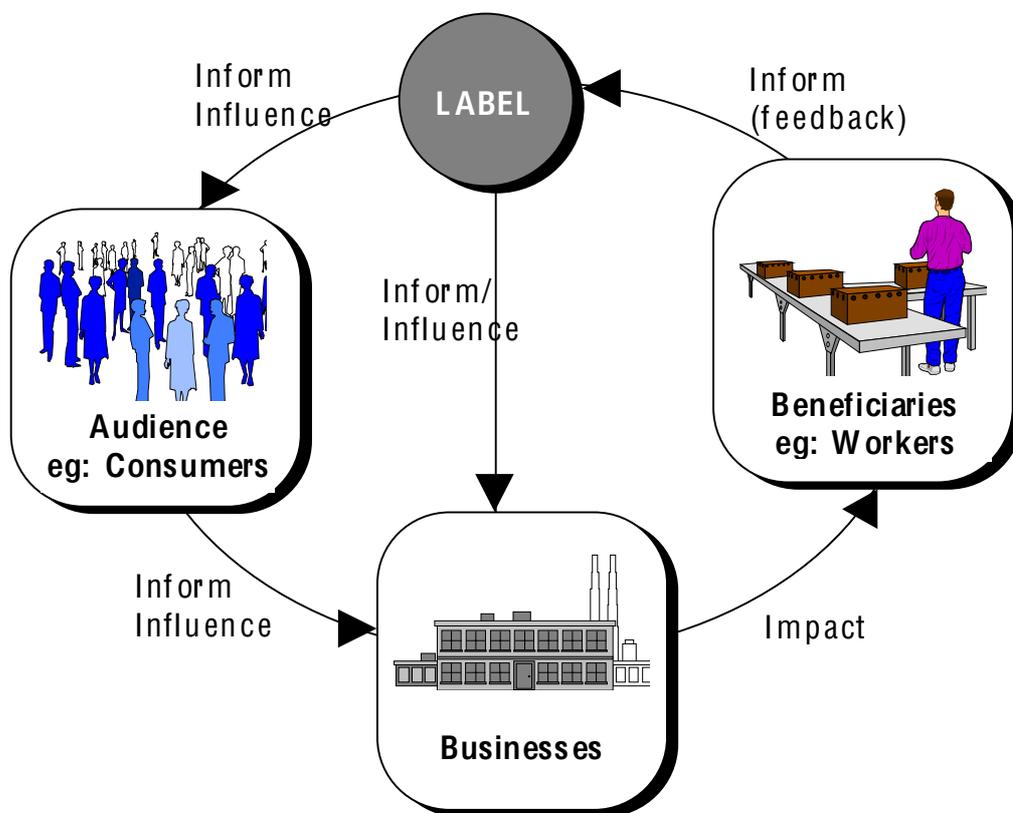


In some cases the primary 'audience' for a label are not individual consumers but intermediaries in the buying chain or other institutional purchasers. In the case of the Forest Stewardship Council (FSC), which accredits sustainable forestry labelling schemes, the initial audience has been intermediate buying groups, such as 'do-it-yourself' stores rather than end consumers - although some of these labelled products are now being promoted to consumers. Similarly, The Council on Economic Priorities Accreditation Agency (CEPAA) accredits manufacturers who

meet the SA8000 'social accountability standard' - this is aimed at buyers further up in the supply chain - but not directly at individual consumers.

Labelling initiatives may also aim to impact on others beyond the immediate market chain; for example, sub-contractors and manufacturers of rival unlabelled products.

## 3.2 Lent Power

Beneficiaries for a label vary from scheme to scheme. Many social labelling schemes aim to improve the quality of life of the people who work to produce a product. Labelling schemes often focus on changing the impact of business processes on links in the supply chain which may be susceptible to exploitation - the environment, wildlife and laboratory animals or, with more of social focus, small producers, child workers, and indentured and 'sweatshop' labourers. These groups are unable to assert power through the market without support from others (see Rugmark case study). For example, attempts to organise labour may be thwarted by the threat of relocation of companies to locations where collective bargaining is weaker.

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> To live means to buy, to buy means to have power,
>
> to have power means to have duties.
>
> *National Consumer League Motto, 19th Century*

---

Labelling schemes strengthen the ability of more powerful stakeholders to support those who are less powerful, or what has been referred to in work by the New Economics Foundation for the United Nations Human Development Report Office as *'lent power*[22]. The UNITE 'union made' label is a case point, where the ability of US garment workers to organise is strengthened by the support of consumers. Similarly, negotiations involving the Save the Children Fund on child labour in the production of leather footballs, has, through the setting up of a monitoring and social protection and education programme, given these children economic power and options that they lacked merely by virtue of their role in the production process[23].

## 3.3  Understanding Consumer Choice

Although labels interact with a number of different elements in the supply chain, their survival and success depends on their power to influence consumers into choosing one product over another. In this section we investigate models of influence before moving on in section four to examine some of the elements that effective labels have to contend with.

Ethical consumerism is not a purely altruistic act; consumers will choose an 'ethical' product if the benefits to them are higher than the costs. Social labels work by tipping the balance towards the benefits and away from the costs.

**Figure 5: Costs and Benefits of Ethical Consumerism**
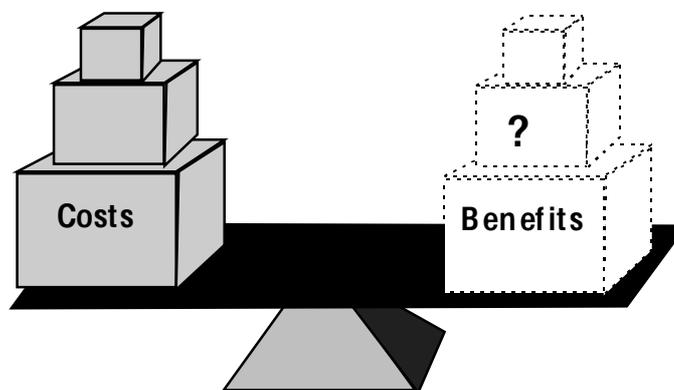


- price differential (higher?)
- time taken to find product
- quality differential (lower?)
- lack of choice

- feel - good factor
- self expression
- social identity

Individuals have different quality preferences, levels of affluence etc., therefore the point at which benefits outweigh costs will be different for different consumers. However by raising the benefits and lowering the costs the trend will be for *more* consumers to be won over.

### 3.3.1  Reducing The Costs

This model of costs and benefits does not depend on consumers consciously weighing up these factors. Shoppers are often dismissed as irrational—they fail to consider the information on offer or to search out other sources of information.

However by adding the 'time cost' into the equation we can see that in shopping decisions which involve little risk, the time which would be needed to make a 'rational' decision on the basis of all available information would outweigh any benefit to the consumer. Therefore purchasing decisions are largely dictated by habit and consumers rely on brand names as a guarantee of quality[24].

Social labels reduce the costs to consumers primarily by reducing the time it takes for them to find an 'ethical product'. In this way they act in a similar way to brands - offering consumers an easy (low time cost) means of quickly singling out a product as the one to choose from the array of alternatives.

However if social labels are associated with other 'costs' such as quality, or price differentials this will tend to reduce their uptake. For example, in the 1980s Nicaraguan Solidarity coffee was costly: It was expensive, hard to find and hard to drink - all but the most dedicated activists gave up drinking it. Cafedirect, on the other hand is can compete on price and quality with the brand leaders, and is available in mainstream outlets—it has achieved much greater market penetration. Retailers who have experimented with social labels attest to the importance of eliminating these costs. Peter Rogan of CWS states that 'social labels are only a competitive factor, if everything else is equal[25]. Others feel that social labels - like lead free petrol will only gain significant market penetration if they are associated with cheaper prices than the alternatives.

### 3.3.2 Increasing the Benefits

Ethical consumerism is sometimes presented as a purely altruistic act - as the National Consumer's League puts it

> *"Consumers who are educated about exploitative working conditions and feel a sense of responsibility to act upon this knowledge find frustration in the marketplace. As a reaction to a lack of information and labels to help the conscientious consumer identify products made under decent conditions, many consumers are taking personal action—to include even personal boycotts of certain products, companies and countries[26]".*

Social labels and associated publicity and educational activities provide this necessary information—both about issues and about products—to allow concern to be turned into positive action. While this is undoubtedly one element in how social

labels work, it does not explain fully why some issues catch the public imagination, and how labels can take advantage of this.

Although the intended beneficiaries of social labels are producers and workers, ethical consumerism has positive benefits for consumers at the point of sale (indeed, its application would be highly limited if this was not the case). We can identify three, highly linked, benefits to consumers of ethical consumerism:

- It is a mode of self expression or **badge of identity**

- Ethical products are associated with positive attributes **(the feel-good factor)**

The National Consumers League goes on to say that "Consumers choose a personal boycott as a means of expression because they find a company's, industry's or nations policies or behaviour morally objectionable. In other words, their personal action is based on their commitment to not be an accomplice, even with a few dollars, in support of offensive policies'[27]. This use of consumer choice as a means of self expression can be seen in many successful consumer boycotts. For example in the 1960s in America the purchase of 'Saran Wrap' (a brand of cling film) became 'in effect a referendum on the [Vietnam] war'[28] (Saran Wrap is made by Dow Chemicals who also produced Napalm. This boycott was hailed as a success - Dow stopped manufacture. It lost the contract for Napalm when it came up for renewal, with what was said to be an uncompetitive bid).

One of the key *benefits* of ethical purchasing can be found in the positive attributes (or lack of negative attributes) associated with a particular product. While the campaigners against Nestle (for their marketing practises in relation to breast milk substitutes) try to associate the Nestle brand with images of malnourished babies, Cafedirect's current advertising campaign promotes the smell of 'fresh roasted coffee and new leather sandals' (which producers are now able to afford for their children). Thus social labels associate a product with positive feelings.

"In the factory we make cosmetics, in the store we sell hope"

*Charles Revlon*

It is further argued that one of the most important aspects of this bundle of positive attributes is the badge of belonging to a particular social group. This is not confined to social labels of course, in a consumer society, self-definition is not only reflected but defined by buying choices. The products and brands which people buy reflect their own perceptions of themselves, and the groups and sub-cultures in society to which they belong or aspire to.

The idea of using purchasing (or non-purchasing) as an act of belonging, and therefore positive attribute or benefit, goes some way to explaining how different social and environmental issues have come into 'fashion' at different times - for example, CFC-free aerosols in the late 1980s, animal testing[29] in the early 1990s and child labour currently.

Writing about union-led boycotts at the turn of the century, Wollman recognises the consumer choice as a collective action and the importance of a supportive culture:

"Where the labouring community is a closely knit, intimate assembly, the boycott is waged by collective efforts impelled by a collective conscience[30]".

More recently the National Consumer Council remark in their research on consumer attitudes to environmental claims:

"People talked at length about detergents, the brands they used, and the environmental issues they perceived to be connected to them. For people *[in the focus group],* use of 'green' detergents and cleaning products was almost a credential for judging environmental awareness[31]'.

This begins to suggest that labels do not function primarily through *informing* process but that their *influence* is also about building a sense of identification. This notion, as well as that of costs and benefits associated with labels, is captured in the idea of 'windows and mirrors'.

## 3.4  Windows and Mirrors

From the consumer point of view, social labels can be thought of as acting as both 'windows' and 'mirrors' - they mirror by giving consumers access to information about how a product was produced and they also reflect the aspirations and concerns of the purchaser and their peer group.

In its function as a 'window' a label needs to provide information that is accessible and trusted and which provides consumers with a useful basis on which to make decisions. They need to know that a label exists and what it means.

As we will develop later, a label's ability to inform and influence depends a great deal on trust. A major factor in this is who is behind the label and their perceived authority, legitimacy, honesty and expertise. The Fairtrade Foundation in the UK is backed by development NGOs including 'household names' such as Oxfam and Christian Aid. The Forest Stewardship Council has considerable links with the corporate world and environmental groups internationally.

In its function as a 'mirror' the label's effectiveness as a marketing tool is secured by being associated with the triple benefits of self expression, 'feel-good factor' and positive social identity.

Clearly, these intangible benefits are not only provided by the label itself since often the only information provided at the moment of decision-making (e.g. at the point of sale) is the name of an organisation or a logo. We can think of a label as being the tip of an information iceberg. Information comes both directly from the labelling initiative, the retailer or manufacturer and from other sources such as schools, the media and campaigning groups.

The effectiveness of a label itself needs to be understood in a wider context of awareness-raising and education on the issue concerned. This point is crucial as we will go on to illustrate the main mechanism for labels (or brands) to work is not to change or make up the mind of a consumer in a shop, but to confirm an earlier decision made outside the market place influence by marketing, the media and, crucially, civil processes. Many labels such as the Forest Stewardship labels and the Rugmark have emerged out of consistent NGO campaigning and media attention which effectively raised the heat on an issue.

# 4. Understanding Effectiveness and Impact

**Key Points**

- The direct impact of a label is a product of the *size* of its impact on individuals and the *number* of people it effects. Thus some initiatives have limited impacts on many people while others have more extensive impacts on fewer people. The ideal and possible scenario is for a label to achieve sizeable impacts across a large number of people.

- The impacts of social labels include both their direct impact on participating producers, and indirect impacts outside of the direct market, such as non-participating producers.

- Indirect impacts are difficult to measure and to determine causality, but they *can* be both diverse and very significant.

The crucial question about social labels is *'do they work?'*. As we will see this means different things to different groups of people involved.

## 4.1 Measuring Impact: Deep or Wide?

In order to proceed we first need to understand what it is for a label to be effective. Here we use the term effectiveness to mean that the label has positive impact. Impact can be thought of as having two dimensions - the number of people that the initiative affects (the width of the label) and the magnitude of that impact on individuals (i.e. how deep is the change).

**Overall Impact = Number of people involved x Magnitude of change**

These can be expressed in terms of impact indicators.

**Figure 6: Direct Impact Indicators**

| Size of Initiative | Magnitude of Change |
|---|---|
| • Market share of label <br><br> • Consumer recognition of label <br><br> • % take-up of companies within the scope of label <br><br> • Number of beneficiaries involved | • % increase in income to beneficiaries <br><br> • % increase in consumer spending on other 'ethical' products |

While such impact indicators are important and helpful, they have their limitations. They may not be able to catch all aspects of impact, for example indirect effects, particularly where the stakeholders involved have no input into their designation[32].

Key aspects of the impact of labels include take up by consumers, businesses and others, but also indirect impacts for example the extent to which producers, retailers and brands not participating in labels change their behaviour related to social impacts.

Some labels, such as those of the fair trade movement place the emphasis on magnitude of change through changing the structure of trade. Their criteria are a high hurdle for mainstream companies involving fundamental changes to the way business is conventionally done. Fairtrade labelled goods have managed limited penetration into the market - typically around 2-5% for the major fair-traded products tea and coffee. On the other hand 'ethical trade' labelled goods have the potential to effect a large proportion of the market, since many of the mainstream market leaders, particularly in the textiles and the supermarket sector, are actively engaged in developing ethical trading policies. The changes involved in meeting 'ethical trade' criteria are more incremental than those for fairtrade labels - in many cases amounting to meeting agreed local and international law.

It is not possible to weight these types of impact, but it is important to recognise that effective labels are some mix of the number of people, businesses and others who change their behaviour and the extent of that change. Its effectiveness goes beyond simple sales figures and encompasses both direct and indirect effects. In particular the indirect effects of a label may operate both through the market and through public policy responses. In many cases these second and third round effects may

be greater than the direct effects of a label and may be achieved through labels whose headline indicators appear to signal it a failure. As research on boycotts show they can be *successful* (in promoting change) without being *effective* (in significantly effecting sales volume).[33]

*A label's effectiveness is a mix of the number of people, businesses and others who change their behaviour and the extent of that change. It goes beyond simple sales figures and encompasses both direct and indirect effects.*

## 4.2 Direct and Indirect Impacts

This section takes a look beyond the direct effects of labels in relation to their own aims. It considers the second and third round effects of labels on different groups of stakeholders and the way the label's aims interact with the stakeholder's own concerns and interests.

**Figure 7: Direct and indirect effects of social labels**
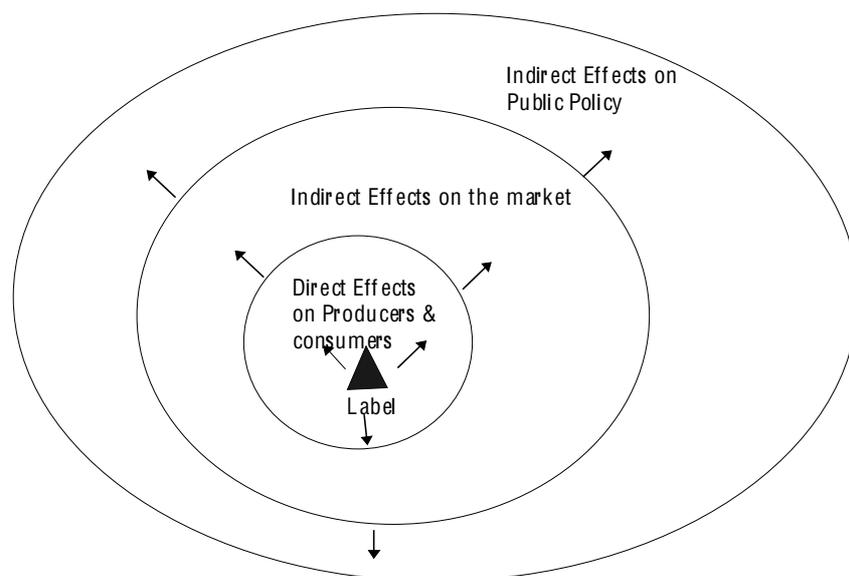


## 4.3 Impacts on Consumers

Consumers' concerns in relation to labels include a need to know that their consumption choices are making a difference. Thus an effective label is one which tackles a relevant issue positively. There is also concern over the price of labelled goods although this does not discount the possibility of a (reasonable and

justifiable) premium. Linked to and driving these types of positive preferences are the educative and marketing role of labelling schemes and ethical brands. This is particularly true of the movement led labels - such as fairtrade and the organic labels. Campaigning material around codes of conduct often makes this explicit - exhorting activists to 'buy fairtrade' and 'write to your supermarket'.

These processes are in many ways equivalent to marketing used by brands to generate interest in their products before consumers are anywhere near a supermarket. These forms of civil support help to bolster the benefit side of the cost and benefit equation associated with labelled products.

## 4.4  Impacts on Producers

The beneficiaries of social labels can vary enormously. In the fullest sense, all those involved in the development and use of the label are beneficiaries of some kind, otherwise they would not partake. However, most often, social labels are set up to benefit a group of worker/producers who are in some way not benefiting from existing (or absent) production and trading links. (Some workers may also be self-employed producers hence the use of the term worker/producer).

For the intended beneficiaries of a labelling initiative there may be a number of key concerns which they would look for positive impacts from labelling. First the issue covered would have to be relevant. Positive impacts may therefore involve securing more income for workers. Some other goals of labels are less clear. For example, there is a high level on consumer concern about child labour. However child workers themselves in many countries are demanding the right to work. As Ana Maria Catin Torrentes of the Movement of Working Children and Adolescents in Nicaragua recently said at the Amsterdam Conference of Child Labour, "We say 'yes' to work, 'no' to exploitation, 'yes' to work, 'no' to abuses, 'yes' to work, 'no' to social exclusion"[34].

One of the other impacts from labelling will also be the monitoring of standards. As with standards, the basis for acceptable and effective monitoring processes have emerged from negotiations between different and often conflicting groups. For example, the Ethical Trading Initiative in the UK has been set up by companies, NGOs and trades unions to develop effective monitoring processes for corporate codes of conduct. One key element is the degree to which labels end up imposing standards and policing compliance out of producer/workers. A lack of engagement of, in particular, Southern 'beneficiaries' in the development and monitoring of

standards has led to concern. For example many fair trade standards are of a hit or miss variety and exclusionary, in contradiction to the ethos of fair trade[35]. Ultimately this approach may mean that too few producers are able to supply such labelled markets.

Labels may serve to highlight and reward best practise by simply displacing and not improving poor standards. For example criticism of the Rugmark which labels 'child-friendly' carpets from Uttar Pradesh in India is that it has resulted in the displacement of child labour in carpet making to other areas of India, and child labourers to other, more dangerous jobs. Many labelling initiatives also fund and operate projects which aim to tackle the root problems and possible negative impact of labelling. For example STEP, Rugmark and other child-labour labelling initiatives operate education and rehabilitation programmes in carpet producing areas. However this combines the label's function in setting rules and conditions that improve structurally the social quality of the product chain with an approach which combats symptoms. It is not clear whether this combination of roles and responsibilities may eventually undermine the authority and the focus of the label.

**Figure 8: Possible impacts on participating worker/producers**

| Figure 9: How Labels Can Impact on Producers | | |
|---|---|---|
| *Impact* | *Explanation* | *Conditions* |
| **Positive** | Label provides market leverage to improve standards in the supply chain. | Label's standards are higher than current practice, *and*<br><br>Labels succeeds in conferring market advantage. |
| **No Impact** | Label makes no difference to producers/ workers | Label standards do not exceed current practice, *or*<br><br>Label is ignored, *or*<br><br>Label is not financially viable |
| **Negative** | Label has negative effects on participating producers/workers. | Label leads to lowers standards not covered by criteria e.g. minimum wage may be offset by forced overtime, *or*<br><br>Beneficiaries displaced e.g. child labour from inspected factories, *or*<br><br>Label leads to fall in market share (e.g.: if it undermines consumer confidence through scares or confusion), *or*<br><br>Compliance with criteria is an unmanageable burden |

## 4.5  Impacts on the Market

The impact of a label on its intended beneficiaries depends on it being adopted by producers, retailers, importers and others in the marketing chain. For these businesses (in this context essentially intermediaries between the consumer and the intended beneficiary), there are a number of factors associated with the label that determine its effectiveness.

One concern is the cost of improvements in order to play a part in labelling. The extent to which these costs can be passed on to the consumer as a price premium or absorbed by the business as the cost of securing a particular segment of the market depends on the willingness of consumers to pay for a particular guarantee. The Freedom Foods range of meats, for example, certified as meeting the 'five freedoms' of animal welfare and independently monitored by the Royal Society for the Prevention of Cruelty to Animals (RSPCA) are promoted as 'Animal welfare through partnership at no extra cost'[36].

It is the marketing strength of the label and its strength as a brand which will persuade businesses to participate in labelling initiatives. Some of the factors influencing brand strength have been discussed previously. The degree of the label's apparent ideological committment is also important in perhaps limiting the uptake of a label.

Disentangling the impacts of labels and brands can be problematic. Cafedirect, a fairtrade marked coffee brand in the UK has some 460,000[37] beneficiaries from seven countries: Nicaragua, Costa Rica, Dominican Republic, Peru, Mexico, Uganda and Tanzania. It is widely considered a successful product. However, while 53% of UK fresh ground coffee buyers are aware of the brand Cafedirect[38] there is no equivalent figure for the label.

A related challenge is the extent to which business will favour broader quality systems approaches, which encompass the spectrum of their products that they are associated with rather with specific products.

A label may also have indirect effects on intermediaries who are not participating in the scheme. By raising awareness of an issue with consumers they may succeed in transforming an issue from a marginal one to a mainstream issue. For example the success and visibility of organic labelled foods has been one of the factors in the development of 'integrated crop management' systems - which take on some of the criticisms of industrial food production. Similarly, the fairtrade products imply that

other brands are 'unfair' which has helped to mainstream the 'ethical trade' agenda Mainstreaming can also occur through 'virus effects'. For example Nestlé has policy to increase purchases direct from farmers and co-operatives. In 1995 about 10% of Nestlé's coffee was bought directly[39], it also has an agreement with a 67 member co-operative federation in El Salvador to test market organic coffee in Europe[40] and even has a document called *A Partnership for Fair Trade[41].*

But there can be indirect negative impacts as well. The explosion of environmental labels and 'green claims' in the 1980s which resulted in consumer confusion and cynicism about the impact of consumer choices on the environment.

## 4.6  Impacts on Public Policy

Social labels impact on public policy and vice-a-versa. They can act together in synergy, or can be antagonistic.

**Figure 9: Interaction between social labels and public policy**

| | synergy | antagonism |
|---|---|---|
| **Impact of social labels on regulation** | social labels **can mobilise support** for standards and regulation | companies motivation may be **to avoid the 'threat' of regulation** |
| **Impact of regulation on social labels** | public policy can be used to **encourage the development of social labels** | regulation may prevent the **development of social labels** |

While antagonism between social labels and public policy suggests a certain waste of energy and resources, it is not always a bad thing—as in the case of motivating companies to take part in voluntary initiatives or preventing the development of social labels which are protectionist in nature.

However when social labels and public policy are working together in synergy, they can both leverage each other's resources, support base and ultimate effectiveness.

For example social labels which ensure that a few companies are meeting high standards of social performance may also lead to these very companies calling for or supporting measures to 'raise the floor' across the industry. As Kevin Sweeny of Patagonia (a leading company in the US Apparel Industry Partnership) says "High standards are a way of rewarding those companies - and those countries - with smart, dedicated workers and courageous, visionary leaders. We think it's true of Patagonia and we think it true of the United States. So an effort to raise the standards seemed like a reasonable risk". He says that voluntary initiatives are short-term solutions and identifies the long term focus as changing the trade law"[42].

Social labels raise public awareness about particular issues, which may then lead to public support for public policies with similar aims, especially where the labelling initiative itself has been publicly supported by government. For example in 1997 the US government supported the White House Apparel Industry Partnership's attempt to develop a 'No Sweat' Label, and at the same time it has also passed legislation to ban the importation of goods made by bonded child labour.

Legislation can both enable and constrain social labelling initiatives. A key issue for this study to explore is whether or what kind of social labels are in conflict with any existing national or international regulatory framework. One concern is the relationship with World Trade Organisation regulations. A further factor to consider in terms of government policy and regulation is that of competition legislation. Section seven looks at the impact of regulation *on* social labels in more detail - and section eight presents some of the policy options available for encouraging the development of effective social labels.

In order to make positive impact labels need to address some of the key concerns of the stakeholders whose behaviour they seek to change. The next section of this paper focuses on labels in action. This links the concerns and goals of particular stakeholders to the design features/criteria of social labels. We then examine in more detail the empirical experience of a number of social labels and environmental labels.

# 5. Labels in Action

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**Key Points**

- Critical factors in the effectiveness of social labels are: relevance, clarity, trust, accessibility, accuracy, financial viability, legal viability, and impact.

- Looking at the effectiveness of different types of label - Civil Society-Business Partnership based labelling initiatives score most highly against these criteria.

- Success is also dependent on decisions and strategies related to the individual labelling initiatives and the market structure of the product/sector in question.

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A set of criteria will provide a framework for understanding how the design of a labelling initiative relates to the measures of impact and effectiveness identified in the previous section. In this section we began to highlight some of the principles that enable labels to function effectively and to build these into a systematic set of criteria. In this way we can learn how to replicate good practice, understand the limitations of labelling and anticipate the circumstances whereby labelling can be made more effective.

## 5.1 Developing Criteria

Each group has different criteria for an effective label, but ultimately a label can only succeed if it meets the needs and concerns of its audience, business intermediaries and its intended beneficiaries, or does not actively work against them. From the points set out in the previous section we can move towards a set of criteria against which labels can be evaluated.

Extending the work in the previous section, eight key criteria can be identified, along with the stakeholders to whom they are most relevant. Meeting some of these criteria is necessary for effective labels, though not necessarily sufficient. In this way these criteria offer some predictive power of the likely impact of a social label.

**Figure 10: Criteria for social labels**

| Relevance | *Is the issue important to the **consumers** and intended **beneficiaries**?* |
|---|---|
| **Clarity** | *Do **consumers** understand the label?* |
| **Trust** | Do **consumers**, **businesses** and **beneficiaries** believe in the legitimacy of the label and the way it operates? |
| **Accessibility** | *Can **consumers** buy labelled products?*<br>*Can willing **businesses** participate in the initiative?* |
| **Accuracy** | *Can **businesses** participating in the initiative be assured that the label's claims are verified?* |
| **Financial viability** | *Is the label consistent with the financial goals of participating **businesses**? Does it add additional assurance to that contained in the brand?*<br><br>*Are **consumers** able to afford labelled products?* |
| **Legal viability** | *Will participating **businesses** be acing within national and international regulations?* |
| **Impact** | *Does the labelling initiative have a 'positive' effect on **beneficiaries**? Do these outweigh negative side-effects?* |

There is considerable overlap between the criteria that each group of stakeholders consider important. This is essential since labelling initiatives depend for their success on the synergy between the concerns of producers, consumers and businesses in the supply chain. But as was emphasised earlier when we looked at the danger of 'policing' Southern producers into compliance with label criteria, the overlap can be active divergence as well as different perspectives. For example, each stakeholder will ask 'are these issues and standards relevant to *me?'* Their priorities will not always match. For example trades union rights come low in surveys of consumer concerns[43] but are high on the list of concerns of many workers.

Compliance with criteria may be important to labelling organisations, but may be seen as an outside and inflexible imposition by producers.

Processes of communication and negotiation go some way towards building common ground between consumers, businesses and beneficiaries. For example the Clean Clothes Charter on which the Clean Clothes Label is based has been negotiated and agreed by NGOs and trades unions.

Differences remain because each stakeholder group ascribes different levels of importance to the economic decision or relationship that a label relates to. While consumers may have a number of criteria that they consider important in consumption decisions, they have little vested interest in their relationship with a particular product as they make numerous such decisions everyday. For that reason, to the consumer group, a label's authority and credibility is likely to be more important than accuracy of information. Retailers, however, in effect, endorse the claims of labelled products and therefore are much more concerned about the accuracy of these claims.

Although the accuracy of a label is not something that many consumers will question, it is important for the companies who are selling and promoting products that the information their claims are based on is beyond challenge. Social labels and their claims are particularly vulnerable to media exposes of any fraud or hypocrisy - which over time will undermine *all* social and environmental claims[44].

## 5.2  Criteria, stakeholders and operating labels

**Figure 11: Operational Elements**



Criteria for social labels, as well as being linked to stakeholders can also be linked to the functions and related aspects of a label: Structure and governance; standards; monitoring; and marketing. Labelling initiatives can be thought of in simple terms as having four elements to their operation. The first element, which underpins the others is structure and governance. The

second tier are the standards that the labels embody. Next are the processes of monitoring that standards are met and certifying organisations or products. Finally there is the marketing and communication of the label which is the public face of the label. Each of these aspects has particular meaning to sets of stakeholders and in relation to criteria. For example *structure and governance* is important to the *trust* that *consumers* have of the label.

Information about these four areas can be used to describe the initiative and how it relates to the wider legislative and competitive environment.

The table on the following page highlights where the criteria identified in this section interact with these four key features of labelling initiatives. It lays out some of the key questions which need to be answered in considering whether and how an initiative meets each criterion.

**Figure 12: Criteria, Stakeholders and Operating Labels**

| | Structure and governance | Standards | Monitoring and certification | Marketing and communication |
|---|---|---|---|---|
| **Consumers' Concerns** | | | | |
| **Relevance**<br><br>*Do consumers care about the issue?* | | What standards are the label based on?<br><br>How important are these issues to consumers? | | What groups of consumers is the label targeted at?<br><br>How is it promoted? |
| **Clarity**<br><br>*Do consumers understand the label?* | | | | What information does the label itself convey?<br><br>What other information do consumers get? |
| **Trust**<br><br>*Does the label have legitimacy with consumers?* | Who is behind the initiative? | | | |
| **Financial viability**<br><br>*Is the label consistent with the financial constraints of households?* | | | | Is there a price premium?<br><br>Are consumers willing to pay this premium? |
| **Accessibility**<br><br>*Can consumers buy labelled products?* | | | What products/sectors are covered by the initiative? | Where are labelled products available? |
| **Business' Concerns** | | | | |
| **Accuracy**<br><br>*Can the label's claims be verified?* | | | How is compliance with the standards monitored?<br><br>Who is responsible for monitoring? | What claims are made about labelled products? |
| **Accessibility**<br><br>*Can willing companies participate in the initiative?* | | | How do products get certified?<br><br>Is eligibility limited?<br><br>What costs are involved? | |
| **Financial viability**<br><br>*Is the label consistent with the demands of business?* | How is the labelling initiative funded? | How high are the label's standards compared with current practise? | What are the costs to businesses?<br><br>How are these compensated? | Does the label confer a market advantage to the product? |
| **Legal viability**<br><br>*Does the label meet regulations?* | Is the label voluntary or mandatory?<br><br>How is it regulated? | Do the standards require companies to contravene national laws? | | Does the labelling and associated information comply with 'truth in advertising' and other regulations |

|  | Structure and governance | Standards | Monitoring and certification | Marketing and communication |
|---|---|---|---|---|
|  | Does it contravene WTO rulings? |  |  | on labelling? |
| **Beneficiaries' Concerns** | | | | |
| **Relevance**<br><br>*Is the issue important to the intended beneficiaries?* | How are the beneficiaries involved in standard setting? | What standards is the label based on?<br><br>Is the label awarded on a pass/fail basis or is it graded?<br><br>Are these important issues for the intended beneficiaries?<br><br>Do standards act as minimum or maximum standards?<br><br>Do standards change over time? | How is conversion facilitated?<br><br>Are there negative impacts of the initiative? |  |

## 5.3 Analysing Labels by Category

Earlier we divided social labels into five 'categories:

- Self declared e.g. CWS '99' Tea Corporate Brands backed by codes of conduct

- Industry body e.g. British Toy and Hobby Association

- Partnership e.g. FIFA/ICFTU, 'No Sweat Label' US, Forest Stewardship Council and SA8000

- NGO-led e.g. Clean Clothes Campaign, Max Havelaar, Fairtrade Mark, Transfair and Eco-Ok

- Official e.g. US 'Trend Setters' list, Kaleen, Investors in People

The type of labelling initiative (i.e.: who is involved) is a key factor in the **trust** and **relevance** of the initiative. In some cases there may not be a particular connection between the type of labels and the way in which they fulfil certain criteria. The table below goes into more detail.

**Figure 13: Criteria and categories of labels**

| Table 2. | Self Declared | Industry Body | Partnership Label | NGO/ Trade Union | Official Label |
|---|---|---|---|---|---|
| **Relevance** | 👍👍👍 retailers and manufacturers are close to consumers able to gauge their concerns<br><br>👎👎👎 may be conflicts of interest between producers/workers and brands/retailers | 👍👍 respond to member companies who are close to consumers.<br><br>👎👎may be conflicts of interest between producers/workers and brands/retailers<br><br>👎👎👎 limited by the need for consensus within industry | 👍👍👍 responsive to partner's concerns (generally business, consumers and development<br><br>👎👎 have often been dominated by Northern organisations - particularly in their start-up phases | 👍👍👍 responsive to concerns of initiating organisations (generally consumers, labour and development organisations)<br><br>👎👎 have often been dominated by Northern organisations - particularly in their start-up phases<br><br>👎👎 may be viewed as 'unrealistic demands' by business | 👍👍👍 based on internationally recognised standards<br><br>👎👎 little consumer recognition of/involvement in setting international standards.<br><br>👎👎wide ranging in nature- therefore do not focus on problem areas |

| Table 2. | Self Declared | Industry Body | Partnership Label | NGO/ Trade Union | Official Label |
|---|---|---|---|---|---|
| **Trust** | 👍👍 brands have established consumer recognition and trust<br><br>👎👎 self-declared social labels may not be believed without external endorsement | 👎👎 industry declared social labels may not be believed | 👍👍👍 civil society organisations have established legitimacy and trust<br><br>👍👍 companies have established consumer recognition and trust | 👍👍👍 civil society organisations have established legitimacy and trust | 👍👍 government and international organisations have established legitimacy. |
| **Financial Viability** | *Financial viability depends on success in the market*<br><br>👎👎 smaller companies may not be able to invest in improvements and costs of setting up monitoring systems. | *Financial viability depends on success in the market*<br><br>👍👍 companies able to share costs between large and small companies | *Financial viability depends on success in the market*<br><br>👍 able to draw on a wide range of sources for start-up and operating funds | *Financial viability depends on success in the market* | *Financial viability depends on success in the market* |

| Table 2. | Self Declared | Industry Body | Partnership Label | NGO/ TUC Label | Official Label |
|---|---|---|---|---|---|
| **Accessibility** | 👍👍👍 brands widely available and international<br><br>👍👍 wide product range<br><br>👎👎 only effective for branded goods | 👍👍👍 effectively cover a whole industry<br><br>👎👎 industry bodies generally limited to national/regional boundaries | 👍👍👍 developed in co-operation with business therefor uptake ensured<br><br>👎 product range limited<br><br>👎👎 may be limited to niche outlets<br><br>👎👎 limited capacity may put bottlenecks in producer certification process | 👎 product range limited<br><br>👎👎 may be limited to niche outlets<br><br>👎👎 limited capacity may put bottlenecks in producer certification process | 👍👍👍 can cover wide range of products<br><br>👎👎 may not be widely adopted by business |
| **Accuracy** | 👎👎 unless independently monitored, unlikely to be accurate (??) | 👎👎 unless independently monitored, unlikely to be accurate (??) | | | |
| **Legal Viability** | 👍👍👍 regulated by 'truth-in-advertising' legislation | 👎👎 may be subject to challenge as trade discrimination measures | 👎👎 may be subject to challenge as trade discrimination measures | 👎👎 may be subject to challenge as trade discrimination measure rues | 👎👎👎 likely to be challenged as trade discrimination measures |
| | | | | | |

Partnership and NGO processes score heavily in terms of success against criteria such as **Trust** and **Relevance**, and to a lesser extent **Accessibility** and **Legal Viability**. These criteria are predictors of success labels and as we will see from our empirical work suggests that strengthening them will strengthen labels.

## 5.4  Analysing Labels by Product/Sector

Existing social labels only cover a limited number of sectors, however evidence from these experiences and from the wider experience of consumer boycotts that particular products will lend themselves best to social labels:

- products bought and consumed publicly

- products which are identifiable

- products which are associated with social identity (e.g.: clothing)

- products which do not compete solely on price

- products which are simple to trace

- products which are clearly associated with a particularly production process e.g. agricultural commodities

# 6. A Look at the Evidence

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**Key Points**

- Civil activism acts as a form of awareness raising and marketing for labels, and in emphasising their relevance provides fertile ground to facilitate operation and effectiveness.

- The empirical evidence suggests that social labels are often more effective when clearly linked to civil action.

- For both social and environmental labels consumers and others do not want detailed breakdowns of what labels mean, they need clarity and simplicity and they do need to trust them.

- Involvement of stakeholders, clear organisation, and the high esteem of those running the label are key other elements for enabling labels to have the impacts that they seek.

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In this study we have laid a framework for understanding how social labels work and to try to define what it means for a label to 'work'. We have seen that this is a somewhat complicated process. In order to overcome these difficulties and to focus on the fundamental question 'do they work?' this section investigates some of the real life experience of labelling initiatives. It is split into three major areas. These are case studies of ecolabelling, and Rugmark and Max Havelaar social labels and a broader survey of nine other social and environmental schemes. These practical examples are then used to build up of ideas about good practice from which the labelling movement can draw lessons.

**Box 2: The Experience of Max Havelaar and Coffee: Labelling Legitimacy**

Max Havelaar began in 1986, emerging as an innovative development model. In the case of the Netherlands, the core group consisted of a small development organisation (Solidaridad), representatives of some progressive consumer-organisations and existing alternative trading organisations. The original concept was to empower farmers through organisation with access to markets, management support, prefinancing and information.

Max Havelaar had to invest heavily in promotion of the label to create a consumer-pull in the market. This promotional used classic channels of civil society: public media exposure, mouth to mouth promotion, mobilisation of support groups, commercials in newspapers, magazines, radio and television, etc. This process seems to have made some headway: 89% of consumers have heard of Max Havelaar.[45]

The label has not always met some of the criteria for which it is known, empowerment, elimination of intermediaries and the availability of pre-finance from buyers to producers. Only the minimum price has been effectively enforced in all cases due to its objectivity. Despite this the labels seem relevant to consumers needs (see figures below) though the quality and depth of the information transmitted seems to be low. The most important asset of the labelling organisations is the positive and authoritative value the label and the name (Max Havelaar) irradiates.

Coffee in the Netherlands with the label has achieved 90% penetration in main stream distribution outlets, Penetration in the catering market has been equally significant. Effective market share, however, is modest: ± 2.6% of overall coffee consumption. This is hampered mainly due to the fact that the roast and ground coffee market in the Netherlands is highly differentiated and that the leading brand Douwe Egberts has high levels of consumer brand loyalty.

Negative side effects do exist. A number of organisations operating within the fair trade market have entered in serious trouble, including bankruptcy. The label does not in itself seem to be enough. With tighter margins and fiercer competition, access to management, information and capital are crucial complementary needs. The fair trade labelling organisations are working on a response to this set of challenges.

**Box 3: The Rugmark: Labelling needs support**

The Rugmark Foundation was created in 1994 to encourage Indian manufacturers of hand-knotted carpets to produce them without child labour. The basic goals of the program are to monitor and inspect manufacturers of hand-knotted carpets and also to rehabilitate former child carpet workers.[46]The original idea came from the South Asian Coalition on Child Servitude (SACCS) who together with other NGOs and government started to work on a program to combat child labour in the carpet industry. Business participation was secured through a considerable fall in exports of carpets due to several consumer campaigns about banning of import of goods made by child labour.

Rugmark monitors and enforces the standards by licensee approval, inspection of a third of the applicant's loom sheds, and by carpet tracking. If working children are found, the loom owner is given a short time to replace them with adults, and if children are found during a second inspection, the licence application will be denied. Costs are covered by licensees paying 0.25 per cent of FOB value Importers pay one per cent of FOB price for education, health, and vocational programs for the former child carpet workers[47].

By mid-1997, 168 exporters had been licensed with 18,377 looms (about 11% of the total number of looms in India), and Rugmark inspectors have found 1,072 illegal child labourers on 642 looms[48]. Most Rugmark carpets are shipped to Germany which accounts for 30% of the rugmarked market. There are 28 Rugmark-licensed importers in Germany and one each in Belgium, Luxembourg, the Netherlands, Switzerland, and the United States.

Rugmark is controversial in India. One of the main concerns has been on the fate of the displaced child labourers. Part of the programme is to now rehabilitate and educate former child carpet workers. This re-emphasises a wider point that labelling may not in itself be enough.

Criticisms persist. Much of the child labour problem is outside the export sector where labelling would be difficult. As labelling initiatives mainly focus on the export industry they are also said to exclude some producers from the export markets, thereby playing into the hands of western protectionists[49]. This is one of the reasons why the Indian Government has gone on to set up its own label - Kaleen. The inspections of looms have also raised some concerns since children are easily moved from one inspected loom to one that hasn't been inspected, which makes it difficult to guarantee a child labour free rug. The difficulty of carrying out inspections in the immense area of the carpet belt (260,000 sq. km) is also said to be a problem. How many inspectors, and who, will do the actual monitoring, and who will pay for them?[50]

## 6.1 Baseline Information from the Survey

Most of the social labelling initiatives are aimed at consumers in the North and producers in the South. Many are expressly focused on alleviating poverty in the South (e.g.: fairtrade, Transfair) as well as environmental damage (ECO-OK).

Most social labelling initiatives are relatively new, having been started in the last ten years (ECO OK 1991, Transfair 1993, Step 1995, Fairtrade 1992). Max Havelaar (1986) is the oldest.

All of the social labels are attached to or emerge from civil society processes, this being the nature of the subject. Many of the initiatives covered were started by NGOs (e.g.: ECO-OK - Rainforest Alliance, Transfair- church based development organisations). Others are partnership based, .e.g. the Clean Clothes Campaign was started by a group of trade unions and NGOs who later began negotiations with companies. Some were started from negotiations between NGOs and Industry (e.g.:STEP, Abrinq).

## 6.2 The Survey and the criteria

There are a number of dimensions to the **financial viability** of labels. Most labels charge a license fee, the Max Havelaar Initiative is 90% funded from its license fee. Few are fully self funding. Financial support also comes from government (e.g. Soil Association - UK Ministry of Agriculture; STEP - Swiss Department of Foreign Economic Affairs; Max Havelaar - Dutch Government) and from intergovernmental bodies (e.g. Max Havelaar (EU)), charitable trusts (e.g. Fairtrade) and NGOs (e.g. Fairtrade). Support from public bodies has overcome questions as to whether social labels are anti-competitive.

Some labelled products are sold without a premium (e.g. ECO-OK, STEP- although strictly speaking STEP is an enterprise not a product label). Others such as the fairtrade labels have around a 15% premium on the supermarket shelves. Market share varies from 1-4% for Fair-traded beverages to 23% (STEP in Switzerland - a market known for its interest in social purchasing). Conventional understanding tells us that lower prices generally result in greater purchases. Limited evidence in the labelled sphere e.g. price reductions in Sainsbury's, a leading UK supermarket, of fair trade products confirms this.

Many labelling initiatives carry out promotional activities to emphasise the **relevance** of the label through the media, their own publications and through NGOs. This form of 'free publicity' is crucial given that, as noted by ECO-OK, promotion takes a lot of resources. Therefore there is a reliance of civil processes of influence, for example they focus their attention on promoting certification within the target industries and then attempting the leverage the resources of interested companies. They assist companies to promote the label as a way of differentiating their product.

Most of the labelling initiatives are based on a set of basic principles (e.g.: ECO-OK's three 'c's Conservation, Cultivation and Community) . The **accuracy** of these are in most cases backed by some form of 'independent monitoring' (i.e. monitoring by agents other than the company receiving the label). Common elements of these independent monitoring provisions are site visits on a regular and random (spot-check) basis. Very little information was provided by the labelling initiatives about how and by whom the monitoring is carried out and it is unclear about the extent to which businesses, consumers and others **trust** the labels.

## 6.3  Lessons from Environmental Action

Eco-labels fit within a broad move within environmental policy towards market-based instruments which go with the grain of corporate initiative and innovation. Eco-labels differ from other environmental information initiatives—such as corporate marketing claims or mandatory energy consumption labels—by being voluntary systems which award seals of approval to products that meet certain environmental criteria judged by third-party verification.

More attention is now being given to shaping the context within which voluntary eco-labelling schemes can be successful. This means placing greater emphasis on raising overall public awareness, targeting corporate supply chain management and public procurement and using other policy tools, notably economic instruments to stimulate changes in consumer behaviour. The international trade impacts of eco-labelling have also become a major bone of contention, with many developing countries raising concerns that eco-labels can be *de facto* trade barriers, particularly where criteria relate to the production process for the good concerned.

**Box 4: Mixed Fortunes: The Blue Angel and the EU Eco-Label**

The German Environment Label scheme (the Blue Angel) was the world's first eco-label initiative, launched by the Federal Environment Ministry in 1977. The scheme encouraged to buy low-waste. 15 years later the European Community Eco-Label award scheme was launched with the twin goals of 1) promoting the design, production, marketing and use of products which have a reduced environmental impact; and 2) providing consumers with better information on the environmental impact of products[51].

The Blue Angel scheme's coverage has grown from 45 labelled products in 1979 to *4500 products in 79 product categories in* 1997[52], while criteria for 12 product categories have been established by the EU Eco-Label.

The Blue Angel is generally regarded as highly successful, although there appears to be a decline in the proportion of consumers paying attention to the eco-label when doing their shopping from 79% in 1988, to 62% in 1993 to 51% in 1996[53],[54]. Furthermore, there is very little comprehensive information available on actual market shares of eco-labelled products, but for low emission paints, for example, the market share has grown from 1% in 1981 to above 60% in 1995 in the DIY sector.

The EU Eco-Label has not had the same penetration and has attracted considerable controversy. The small number of labelled products means that the EU scheme has a low consumer profile, with 11-12% of UK consumers recognising the logo.[55]

The EU Eco-label is currently in the midst of a reform process initiated in 1996 by the Commission, who made proposals for 1) the establishment of an independent European Eco-label Organisation (EEO) 2) the introduction of a graded system in place of a pass/fail system; 3) a requirement for national eco-label schemes to phase out product groups covered by the EU scheme; 4) reduced fees for SMEs and developing countries; and 5) formalisation of the consultation process. The proposals are currently before the European Parliament and will be finalised within the next twelve months. Already, however, doubts have been expressed about the support for the EEO, for a graded scheme or for phase-out of national labels.

A number of reasons for the different experiences of the Blue Angel and the Eco-label have been put forward.

While the Blue Angel has engaged with civil society, gaining coverage in the media and being the subject of campaigns consumer organisations boycotting products which were not certified, the eco-label has not achieved this kind of acceptance. The Eco-label has faced opposition from potential partners e.g. boycotts of the scheme by mainstream manufacturers in the paper, detergents and toiletries sectors.

There has been active corporate opposition originating in the USA against all eco-labelling: the US-based Coalition for Truth in Environmental Marketing Information Inc. representing corporations with $900 billion of world-wide sales opposes national and international eco-label schemes outright, with a number of individual companies lobbying against the EU and other scheme[56].

**Box 5: The Forest Stewardship Council: Partnership and Labelling**

The Forest Stewardship Council (FSC) was initiated by the World Wide Fund for Nature (WWF) to promote responsibility in forest products. It was based on market solutions and endeavoured to add clarity amidst the proliferation of green claims in this area.

In 1990 groups of timber users, traders and representatives of environmental and human rights organisations met in California to discuss ways of improving forest conservation and reducing deforestation. Criteria were agreed three years later cover both environmental issues and social issues such as respecting the rights of indigenous people. The criteria apply to all types of forest enterprise, large corporations, state enterprises, community managed forests in all regions of the world, tropical, or temperate. More detailed regional and national standards appropriate to local circumstances can be developed from them.

The trust and relevance of the scheme is aided by a diverse elected board consisting of representatives from business, conservation groups and indigenous communities. They cover economic, environmental and social interests, and are divided into North and South divisions. There are a number of Southern organisations in the process of being accredited by FSC which should increase the financial viability of the scheme.

Most of the marketing of the label has been aimed at industrial buyers and with retailers, convincing them that they should stock FSC certified products. This level of impact seems to be positive. In the UK the *1995 Plus Group* includes 80 companies, including ones such as Boots and B&Q committing to the FSC label. These companies have an annual turnover in wood products of £3 billion and are responsible for 14% of the trade in UK wood consumption.[57] They have committed themselves to import only FSC certified timber by 1999. The area of forests certified is growing fast, doubling between late 1997 and March 1998 to over 6.3 million Ha. in 20 countries[58].

Although there is no detailed studies on the impacts of the scheme on indigenous communities and few products have reached consumers yet. Paper, the biggest forest product now has a label after it was agreed that it should contain 70% content from certified sources. There is a race to get the first paper to market. This pragmatic, partnership or stakeholder model is likely to be a blueprint for future initiatives.

## 6.4  Some Lessons

The experience from the social and the environmental side of labelling provides many important insights for discussions of social labelling. In particular the experience from the Eco-label side shows international labels may be cumbersome to manage. The example of the FSC places the emphasis on stakeholder dialogue which seeks to smooth the functioning of schemes. There is also a flexibility to labelling as evidenced by the approach of Max Havelaar in coffee (and even more so in tea and coffee) and with the FSC on the labelling of paper. A degree of flexibility of qualifying criteria may be necessary as it is clear that consumers are not interested in excessive information. However, this must be balanced with a broad congruence between what consumers and other stakeholders think that the labels stand for. Labels that fail to do this may lose their legitimacy.

The experience of Rugmark shows both that the technical side of the label, in particular the monitoring needs to be effective, but also that labels themselves may need strengthening with other activities such as the rehabilitation of child labour. Finally, labelling in itself is not enough. Labels on their own are unlikely to take root. The ground needs to be fertile for this to occur. Public awareness is one crucial aspect of this. The experience suggests that while labels can make a positive difference it would be wise to consider and support complementary tools to enhance social and environmentally responsible behaviour. These may include fiscal incentives (for labels and other socially responsible behaviour), corporate supply chain management and other work to support beneficiaries such as child labourers.

# 7. Opportunities, Limitations and Challenges

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**Key Points**

- Social labels are limited in scope and potential impact as they are generally restricted to particular niches within the retail market.

- Nevertheless there are opportunities for using social labels as an effective strategy in tackling and highlighting problems in particular markets and products.

- Particular challenges are, competition with brands, the issue of resources and pricing and the question of consistency with national and international legislation.

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We have seen, both from the in-depth case studies and from the more descriptive analysis of a wide range of social labelling initiatives that there are a number of characteristics common to labelling initiatives, which have been successful in terms of gaining a small but significant niche in the market:

- They have been aimed at individual consumers at a retail level.

- They have emerged from and amid processes of civil action (e.g. campaigns, boycotts)

- They are resource hungry - and many rely on external funding to remain viable, as well as possible price premia.

- They have emerged around particular products - food, clothing and luxury goods

These characteristics, and the insights gained from understanding how social labels work point both to the potential for social labels and to the limitations to their use.

**Figure 14: Opportunities and Limitations of Social Labels**

| Characteristic | Opportunity | Limitation |
|---|---|---|
| The incentive for ethical purchasing comes from independent civil processes. | Social labels provide a way of translating concern into positive action. | Without these civil processes social labels are unlikely to be effective. |
| Social labels reduce the 'cost' to consumers of finding an ethical product. | Labels can ease the take up of labelled products. | Social labels can also increase 'costs', in terms of price or choice. |
| Labels can form part of self and group identity for consumers. | Products can be labelled on this basis, particularly for those products concerned with identity and lifestyle (e.g. clothing, branded goods). | Social labels are unlikely to work well on generic products and products which are heavily price competitive. |
| Social labels require significant resources - both to set them up and to promote and monitor them. | Social labelling initiatives are able to attract start-up and ongoing funding from a variety of sources. | Social labels may rely on external funding to avoid higher prices to consumers. |
| Social labels have emerged around 'hot' issues. | Social labels are likely to be most attractive where the issues and products are carefully targeted and backed up by campaigning and education. | Social labels do not provide a blanket solution for all products and all issues related to trade and labour standards. |

## 7.1 Limitations to Social Labelling

Social labels are criticised for being partial solutions to global problems. There are a number of factors inherent to the strategy of voluntary social labelling which limit the population on which they can have a direct impact:

- Generally limited to export markets

- Limited to particular products, sectors and issues which catch the public's imagination

- Limited by the need for comprehensive monitoring systems and the resources involved in this

- Limited to a niche in the market (although this may be a substantial niche)

- Limited to retail trade

- Only accessible to affluent consumers

- Unable to compete with unbranded goods on price

Equally, they are criticised for the scope and direction of their impacts. One criticism is that they deflect attention and energy away from other issues/sectors/countries where problems may be greater. Both consumer campaigns and social labels tend to focus on 'soft targets' - for example, US consumers focused on The Gap *because* of its socially responsible reputation. Social labelling initiatives tend to focus on relatively stable democracies such as India rather than potentially more difficult locations.

Therefore, while success can be claimed for many of the labelling initiatives featured in this report there are serious barriers for social labelling being used as a more widespread strategy for improving labour standards.

## 7.2  Opportunities for Social Labelling

Advocates of social labelling argue that while they are by necessity partial solutions they offer *'something positive'* for concerned consumers to do, rather than the traditional 'negative' strategy of boycotts. They also, as we have seen, have wider impacts than the direct impacts on producers who are awarded the label. Many labelling initiatives have *education* as part of their stated aims, this is particularly true in the case of the fairtrade movement. This is education not simply to raise awareness of the issues in order to create a market for the product, but as a more wide ranging aim to use products and retail outlets as a mode of development education.

Part of the rationale behind social labels and consumer campaigns which target high profile industry leaders and 'easy targets' is that if social labels are effective in

'regulating' some companies by the force of moral pressure, these companies will then want to level the playing field upwards so that other companies and/or industries are subject to the same constraints. They may exert pressure through industry bodies and lobbying activities, through skills transfer (such as through The Body Shop supported New Academy of Business and the Better Business Forum) and through peer pressure to widen the impact of ethical consumer pressure.

## 7.3  Challenges to Social Labelling

There are a variety of aspects of labelling that are open to significant challenge. These challenges may hamper the operation of product based labels. In particular these include price, competition with brands and government legislation.

### 7.3.1  Pricing

Conventional economics tells us that as prices rise so demand for the goods fall. It also tells us that if there are two like for like products then, other things being equal, consumers will opt for the cheaper variety. In the realm of labelled products other things are not supposed to be equal and this may mean that consumers may be willing to have accept a premium in the way that many prestigious brands are able to charge a premium. For example, the high sale price of designer-labelled clothing may signal the fact that the consumer is getting something different for their (extra) money. In the fair trade labelled market the extra price can be linked directly to the extra revenue that producers receive as part of the package that the label offers.

However, the counter-argument is that higher prices will deter consumers. Taken to its extreme it may even be that consumers should not only not pay a premium on labelled products, but should receive price incentives to do so. As one interviewee in this study said: "If you want me to sell more ethical products, they will have to be discounted in the market, rather than selling at a premium."

There is some evidence that shows that price does matter when it comes to labelled products. For example, when Sainsbury's supermarkets in the UK recently ran a promotion on Fairtrade tea and coffee offering price and 'points' incentives, it resulted in a sales increase. However it is difficult to distinguish the effect of price incentives from the increased visibility resulting from promotional point of sale information and adverts relating to the promotion[59].

Another dimension of this is that pricing in the market (or supermarket) is not set by those directly involved with labelling. In the case of Max Havelaar in the Netherlands it is known that the semi-monopolistic power of Douwe Egberts enabled them to force distribution margins to exceptionally low levels. As a result for many supermarkets, stocking a Max Havelaar brand gave them the opportunity to treat it as a high margin niche product. This resulted in higher price and higher availability and reduced volumes[60].

One method to get the price of labelled products down would be through reduced VAT rates and we will investigate such options in the following section on policy. But, perhaps as important as this type of discounting is the internalisation of social and environmental costs to the consumer. In the case of petrol, the additional duty on leaded fuel can be seen as an attempt to internalise such costs, while the lower duty on unleaded petrol is both a fiscal incentive and a recognition that its externalised social and environmental costs are somewhat lower. Put this way, the debate on fiscal incentives is turned round, from one which needs to positively discriminate in favour of labelled goods to one which is actually levelling the playing field for socially responsible products.

Overall, therefore it would seem that price does matter and that the higher prices of some labelled products does make market penetration for labelled products more difficult. Lower market prices, assuming none of the other salient features of the label are unchanged, is likely to help the impact of the label that is associated with sales.

### *7.3.2 Branding*

There is a complicated relationship between brands and labels. In some cases they co-exist with a strong brand, e.g. with Cafedirect and the Fairtrade Mark. In other circumstances they operate in generic markets without strong branding as is the case with the Rugmark. In other cases a brand, such as Levi's or The Gap has positioned itself to act as a social label.

The key question is to what extent there is an incentive for those with strong brands to take on social labels and how could their social impacts be systematically improved?

Brands are the public face of companies. Some companies may have a number of brands, for example Unilever in the detergents market, others such as Richard Branson's Virgin or The Body Shop have a single brand. In either case much effort

is invested in brands, from the design of the logo to ensuring that they are associated with positive attributes. There is evidence that this investment pays off. Kellogg's and Cadbury's are amongst the most trusted institutions in society—ranking above the Church and Parliament in a recent survey in the UK[61] Similarly many brands enjoy strong consumer loyalty. This means that there is little incentive for organisations such as them to to have their products labelled. This is re-inforced by the fact that labels on some products of the products of brands and companies infer that their unlabelled products have negative social or environmental impacts.

For small brands the situation may be quite different. As we see in the box below - in the Netherlands small coffee makers adopted the Max Havelaar label partly in order to gain a competitive advantage over larger rivals. In this case there can be a real synergy between brands and labels, particularly if retailers view labelled products in a favourable light.

Company/brand specific approaches to securing positive social impacts are attractive, as they overcome some of the limitations of social labels. Many leading companies and brands have adopted codes of conduct which cover *all* of their products—including subcontracted production. This allows the massive power of the brands to be leveraged to improve conditions down the supply chain. Major brands are more willing to devote resources to promoting an ethical image for their own brand than to promoting a generic social label which may also be used by their competitors. Company-wide approaches can have a wider impact than a social label which only cover a limited range of products. However, without independent verification, claims based on codes of conduct, are vulnerable to distrust. A number of initiatives are working to develop effective independent verification—some, such as the Apparel Industry Partnership and the Ethical Trading Initiative are civil society-business partnerships. One of the key issues which they will have to deal with is the question of *endorsement* which could bring the crucial element of civil society legitimacy to companies ethical claims.

**Box 6: Securing social impacts: Brands versus labels**

The question over brands versus labels for positive social impact has been ongoing. Before the Max Havelaar label was set up there were a number of considerations were made over the benefits of branding versus labelling. Advantages of a label over a brand were seen as:

- the amount of required risk capital was lower;

- the resistance against market introduction would be lower.

- there was no need to hire expensive technical experts for product development, quality control and marketing.

Disadvantages were seen:

- (partial) loss of control on the communication towards the consumer;

- visual inconsistency and thus loss of effectiveness, with commercial users of the label being in competition with each other and using different packaging

The choice was to go for the label as it became clear that for solidarity and opportunistic business reasons that a significant proportion of smaller and medium sized coffee roasters were willing to join the scheme.

### 7.3.3 Government and Regulators

Social Labelling has emerged as a strategy partly as a response to the perceived failure to address the link between trade and labour standards through the international organisations such as the WTO and the ILO. The issue of whether regulations on trade and labour standards should be linked and if so what organisation should be responsible remains controversial. Many NGOs who were involved in lobbying for a 'social clause' in international trade regulations have now turned their energies to developing and promoting social labelling.

The first thing to be stated in relation to the international trading environment and social labelling is the considerable 'greyness' in terms of what is and what is not legal. Much of the law in this sphere develops case by case and so one cannot make much progress second guessing what actions in support of social labels are likely or likely to come under scrutiny.

There are some limited provisions in international regulation for linking trade and labour rights. The GATT specifically permits governments to take measures to restrict the importation of products of prison, forced or indentured labour. The recent clarification of the US Tariff Act of 1930 interpret this to include *forced* child labour. It has been argued by some that all illegal child labour is by definition *forced labour* since the child workers have no protection under the law[62]. However, outside of the issue of forced labour, the WTO does not explicitly permit trade limitations on the basis of differing labour standards.

The USA, and now the EU have used their Generalised System of Preferences to address labour rights issues using the 'carrot' of preferential market access. It is not possible to base these preferences upon social labels as they operate at governmental level, established between countries, rather than on product or company level. In the EU these are based on additional preferences for countries which meet the requirements of core ILO conventions in the US, social conditions are imposed as a negative conditionality. In the EU these have not yet been implemented and are awaiting the findings of a review of the relationship between trade, labour rights by the WTO, ILO, OECD and other international fora[63].

The GATT/WTO is based on the underlying principle of non-discrimination between 'like products'. Products are judged to be 'like' on the basis of the product's attributes *not* on the basis of production processes and methods (PPMs). The WTO agreement on Technical Barriers to Trade covers *both* mandatory and voluntary labelling. Social Labels, by definition, discriminate between products on the basis of non-product PPMs - since the labels describe something about the production process, not an inherent property in the final product. It is therefore possible that voluntary social labels could be challenged as protectionist measures at the WTO.

No social labels have been challenged at the WTO, however there are some rulings on environmental labelling which give clues as to the position that the WTO might take on social labels. In particular 'dolphin-friendly' tuna labels have been challenged as being potentially protectionist in nature. However the WTO ruled against this and has continued to allow their usage. Eco-labels were discussed extensively in the GATT and by the Committee on Trade and Environment (CTE) of the WTO. The WTO's position is that trade-environment provisions which effect trade significantly must not discriminate between home-produced goods and imports, nor between imports from different trading partners[64]. The CTE when

discussing its work Programme for 1998 discussed the trade and environmental implications of eco-labels:

"The US said that eco-labelling was a valuable tool to achieve environmental goals and to provide consumer information. The EC said that it would be difficult to imagine a less trade restrictive alternative as eco-labelling schemes are voluntary and rely on the market mechanism of consumer choice. Many Members commented on the need to ensure that eco-labelling standards and schemes are voluntary, transparent, market-based and involve all relevant parties".

Source: Trade and Environment Bulletin, 14 May 1998[65]

Social labels differ from environmental labels in that many of them are specifically aimed at production in the South. Eco-labels on the other hand have generally been applied to products from the North. Social labels have not yet had a significant impact on trade. However many developing nations fear that they could have a negative impact on trade should they proliferate. Barbara D'Andrea of the WTO cites the case of the Rugmark as an example of the trade effects of labelling. Export of rugs not carrying the child-labour free label have declined significantly since the Rugmark was introduced.[66] However since many existing looms are being certified by the Rugmark, *production* and trade of unlabelled rugs will, it follows, fall if overall production and trade volumes remain stable.

A further factor to consider in terms of government policy and regulation is that of competition legislation. In the USA, the White House Apparel Initiative Partnership has been confronted with a potential conflict with US anti-trust regulations, given that an agreed approach to ethical sourcing would imply that a number of companies were construing to collaborate in positioning themselves in the market. This aspect of social labelling would need to be carefully examined in the light of existing European legislation.

There are no 'black and white' answers to the trading implications of social labels. The experience of eco-labels suggest that social labels will not fall foul of the WTO. But within WTO there are rules which appear to have the potential to undermine social labels, particularly if they negatively effect Southern countries. There is a need for the European Commission and others to attempt to clarify this situation with the WTO, perhaps setting up a working group to investigate the trading implications and how to ensure that the development of social labels will be in accordance with WTO stipulations.

# 8.  The Policy Implications

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**Key Points**

- The policy question is what public interventions, if any, can help to make social labels more effective.

- An informing and education role is most useful in promoting the development of 'ethical brands' but dialogue facilitation will be critical in developing effective independent monitoring and avoiding fragmentation.

- Promoting dialogue and the formation of standards are the most important interventions in assisting the development of partnership labels.

- Multi-lateral labels may require the EC to take a leading role in developing its own label.

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## 8.1  Labelling the Future

So social labels *can* work in some situations. Furthermore, there *is* a proliferation of social labels which is expected to accelerate over the coming period. The challenge for the European Governments and the Commission is not whether there *should* be (more) social labels, but rather what should be their response? What public interventions, if any, can help to make social labels more effective; are such interventions consistent with public policy and international agreements; are the expected benefits likely to warrant the costs involved in making such interventions?

The New Economics Foundation, in undertaking this research, has not offered recommendations to the Commission. However, we have made progress in understanding what are the:

- likely *future scenarios* in relation to which the Commission will need to make decisions;

- *types of public policy interventions* which the Commission may want to consider;

- *most appropriate interventions* for each scenarios considered.

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## 8.2 Postcards from 2003

Three scenarios have been developed for the purposes of this study. Each describes a possible situation in about five years time - that is, 2003 - in the area of social labelling. Some account has been taken of related developments, but no attempt has been made here to formulate or describe comprehensive scenarios of the social, economic, and environmental situation at that time. The scenarios are clearly not the only possible futures in the area of social labelling, nor are they likely to be mutually exclusive. Indeed the experience from the environmental sphere is progress along all routes, with the potential for confusion that comes with this. The scenarios chosen are ones that have emerged as likely options after lengthy discussions with experts in the field internationally, in Europe and elsewhere. These scenarios are named here

- **Ethical Brands,**

- **Partnership Labels,**

- **Multilateral labels.**

### Ethical Brands

There are no explicit social labels, but leading brands have been successful in promoting themselves as 'the ethical choice' and in ensuring, through the use of codes of conduct and independent monitoring that labour conditions in their supply chains are exemplary. Some brands are backed up by endorsements from trusted civil society organisations. Shoppers are guided by advertising claims, corporate reputations and by ethical ranking of companies in the consumer press. In some sectors, human rights standards have become the industry standard.

### Partnership Labels

Individual independent labels have mushroomed following the model of the Rugmark in the 1990s. There are now labels which certify Human Rights Friendly Oil Companies, Fair-play in Sportshoes and Union-made computers - among other issues and sectors. Each label is backed by consumer campaigns and educational activities and have a small but significant consumer following. To avoid confusion and fragmentation multi-stakeholder international bodies define both substantive labelling criteria and the process by which they can be awarded, following on from

the model of the Forest Stewardship Council and the Fairtrade Labelling Organisation. National organisations certify producers, retailers and brands and carry out their own promotional activities. National certification organisations have been set up both in the North and in the South. Many of the issues and standards which were initially highlighted by labels have been taken on, in a diluted form by mainstream companies and industry bodies.

**Mulitlateral Labels**

Consumers across the world are guided by internationally recognised multi-sector labels such as the International Fairtrade label, the Eco-label and the International Trade Union Label. These have achieved high level of penetration across a wide range of products and sectors and markets world-wide. Negotiations are proceeding to consolidate these labels into one multi-issue label which deals with issues of environmental impact, working conditions, human rights and indigenous communities and ethical marketing practises. International labels have taken off in the consumer consciousness in some areas where they coincide with civil society and media attention. In other areas they have had little impact.


## 8.3  Understanding the Public Policy Context

Scenarios are not merely possible situations into which we must fit. They are contingent futures that we can help to create. This is particularly the case for public institutions responsible for formulating, recommending, and implementing, public policy. The Commission needs to decide which of the three (or some other) scenarios appears most attractive, and what interventions would increase the probability of preferred options becoming reality. The Commission, for example, is committed to encouraging the implementation of the key ILO conventions internationally, and needs to examine which scenario would deliver on that objective most effectively and efficiently.

In considering public policy options, it is also necessary to take account of the changing nature of public interest interventions. In many ways, public policy and practice is moving from a 'command and control' to a more 'enabling' orientation. One element of this change has been the reduced emphasis by governments on regulations constraining business, and increased emphasis on market incentives and industry standards developed and adopted outside of the statutory realm. Future interventions are also likely to be guided by current political realities. For

example there are significant implications if the EC decided to provide fiscal incentives for socially labelled products by taxing non-labelled products.

In considering options, the kinds of support that has already been given in the area of social labelling are also relevant. These have been limited but include:

- financial support to new social labels (e.g. Rugmark and the German and Canadian governments)

- financial support for development education activities related to social labelling (e.g. The Clean Clothes Campaign and the EU)

- procurement agreements (particularly no-child labour and no-sweatshop clauses in local government and state university procurement policies)

- Trade-Labour measures within the EU and US GSPs and the NAFTA agreement (although not explicitly linked to labelling)

## 8.4  Exploring Public Policy Options

There are a wide range of possible interventions that the Commission might make in order to add quality and coherence to the social labels debate. These range from an informing and education function at the 'lighter' end of the intervention spectrum, measures involving changes in fiscal arrangements through to a more formalised, European-level, social label. A number of these possibilities are described briefly below.

One way to increase the impact of social labels would be to improve the environment within which they operate by ***supporting education and awareness raising*** around labour conditions, trade and consumption issues.

This research has made it quite clear that the 'civil movement' element behind social labels can be critical to their success. Governments and the Commission could therefore support the broad area by increased funding of consumer awareness programmes, and also by building more relevant material into education programmes which are already receiving public support. This could also, for example, include support for public events in member states, such as conferences, and in particular could focus on sponsoring the involvement of Southern organisations in these processes, both civil organisations and suppliers of European retailers.

In order to be most effective, education and awareness raising can be targeted with the help of research to understand the complex links between information via labelling and actual consumer behaviour.

The Commission could *facilitate dialogue and partnership* around labelling issues in a number of different ways. This could support emerging social partnerships seeking to define standards in the field. The Ethical Trading Initiative is an example of one such initiative that has received considerable support from the British government. This model is already being replicated, with a similar process being initiated in the Republic of Ireland, and one specifically designed for the extractive industries being established in the UK. There are calls for these initiatives to operate or be consistently linked at a European level, most of all by companies seeking to streamline their dialogue processes with civil society organisations across Europe. A similar argument is evolving at a trans-Atlantic level, which opens real opportunities for the Commission to facilitate such alliances being built at this level. As a fairly moderate start, the Commission could support the coming together of various European initiatives in this field, and also possibly support a programme of seminars across Europe to inform key constituencies in the commercial and non-profit communities.

This type of dialogue should also have a **strong international element** and involve potentially affected countries, their governments, producers, trade unions and NGOs. This could offer a way to build long-term trust and help to overcome some of the potential problems with WTO rules.

Going down a more formal route, the Commission could make a positive impact by sponsoring *annual awards* for companies demonstrating good and best practice in the social area. Awards could be given for both demonstrable positive social impact, and also for best practice in social labelling and other approaches to consumer information about social issues and impact. For the first category, there are examples of this, such as the CEP's long running Corporate Conscience Awards in the USA, and the UK's World Aware Awards. This approach is attractive in that it is fairly cheap to run - companies apply to be considered and provide information to the awarding body. Such an approach would tend to promote the development of *ethical brands*, rather than social labelling or standards.

In the second category, there are a number of precedents to draw from, such as the annual award for good environmental and social reports given by the Association of

Certified Chartered Accountants (ACCA) in the UK, and also the similarly oriented annual award of the United Nations Environment Programme (UNEP). Both of these and other award schemes have had the effect of encouraging companies to compete to go up the list, or more accurately perhaps, not to appear towards the bottom of the list. Once again, this is a relatively cheap thing to do, and it could of course be lodged within external bodies, such as the social partners, to prevent any difficulties in the Commission having to take a view on the relative performance of different European companies. It is also a pragmatic approach both supporting and giving meaning to ethical brands as well social labels, as the two are likely to develop simultaneously.

Another strategy is to encourage the use of **public procurement** - including the Commission itself - to promote and support appropriately labelled products. This strategy has been used by local government and parastatal organisations in promoting child-friendly, sweat-shop free and environmentally friendly labelling. The UK Department of International Development (DFID) is exploring the implications of requiring its major contractors working in the South to agree to comply with an ethical supplier code including key ILO conventions, particularly with regard to child labour. This approach is, however, vulnerable to challenge under WTO regulations - since it could be argued not to be 'the least restrictive measure available' to promote legitimate developmental aims.

However, under WTO regulations, a "Governement Procurement Agreement" has been set up which allows for more flexibility when using public procurement. It may be that as a first step such a policy could build upon rules set out by bodies such as the UK Department of the Environment, Transport and the Regions, that requires an environmental policy statement from many of its suppliers, albeit without any proof regarding implementation.

A final option is the use of **fiscal incentives** to reward socially responsible purchasing. As one business interviewee said during the research, "if you want me to sell more ethical products, they will have to be discounted in the market, rather than selling at a premium". One approach might be for the government to explore how best to use a variable tax policy to secure consumer interest through essentially offering price discounts based on demonstrated corporate performance, linked to consumer-oriented social labels. Experience and the views of tax experts is that VAT is not best suited to targeting specific activities for favourable treatment, since it has limited effect on sales prices since some of the cost reduction is

absorbed by retailers[67]. However, the experience of introducing 'lead-free' petrol around Europe has shown that the application of fiscal measures to reduce the retail price, even by a relatively small amount, can accelerate the take-up of a product which also meets the ethical and environmental interest of the consumer.

A more radical role for fiscal measures would be to tax goods and services whose prices do not reflect the social and environmental costs of their consumption. In some ways the high taxing of leaded fuel is an attempt to internalise certain environmental and social costs. If the Commission could find a way to encourage fuller costing of socially and environmentally 'damaging' goods and services then this would tend advantage more 'favourable' goods, some of which would carry labels. This emphasis not on subsidising labels, but on ending the implicit subsidies of many unlabelled products, will require a long term tax and revenue debate within Europe. In the short term the focus is more likely to be on variable tax for labelled products.

This approach could also extend to the trade and development field, whereby fiscal support was provided to producers inside and outside the EU enabling them to comply with labels. Similarly there could be reduced tariffs for production that meets with labelling standards via the General System of Preferences (GSP) mechanism.

The Commission could play a critical role in the development of pan-European standards in social labelling by playing an active part in agreeing, and possibly endorsing labels which had achieved agreed, ***standards for monitoring and verification***. The advantage of this route is that the Commission would not be responsible for dealing with *substantive* standards, but would instead inspect and where appropriate confirm that a particular labelling initiative has a monitoring and independent monitoring system in place that ensures that the claims of those using the label are being checked in a rigorous manner. This would then open the way for many private labels, but with the advantage that those with credibility would quickly be seen as those with the Commission's 'ring of confidence'. Again this could be run through a forum such as the social partners to avoid jeopardising the impartiality of the Commission.

Maintaining the veracity of non-labelled products and 'ethical brands' would be a crucial related function for the EC. The experience of confusion around phrases such as 'environment-friendly' or 'recycled' may have key lessons for social terms such as 'ethical'. It may be that in such circumstances legislation, in the form of

tough 'truth in advertising' controls which allow such terms to be used on strictly circumscribed occasions are a means of establishing standards and monitoring where labels are not present.

An important and the most interventionist route to consider is that of a **European social label**. Clearly there are attractions in that this provides the most comprehensive approach to standardisation and clarity. However, the research indicates that a 'bureaucratic' label, even one endorsed more or less willingly by the business community, is unlikely to work. Specifically, the less a label is associated with specific civil movements and the more extensive is the intended coverage of products, criteria, and geographical markets, the less effective is it likely to be. The 'mirror' effect is less likely to operate in such circumstances, which is particularly problematic as social standards are by definition subjective, implying that a process of negotiation and buy-in must take place. An EC-led process may not be the most effective way to pursue this, although the EC has an important role to play. On balance, therefore, the traditional approach to developing a European-level labelling standard, is not a recommended approach.

## 8.5  Summarising Public Policy Options

The table below summarises the policy options described above by mapping them against their relevance for each of the three scenarios described at the beginning of this section.

We can identify a pattern: as we move rightwards along the columns the policy becomes more formal and requiring more action on the behalf of the Commission. This increased 'intervention' varies from an educative and enabling role through to a more active role of endorsement and certification. Education lays the foundation for meaningful development of labels and 'ethical brands', but dialogue facilitation will be critical in developing effective independent monitoring and avoiding fragmentation. Promoting dialogue and the formation of standards are the most important interventions in assisting the development of partnership labels. While multi-sectoral, international labels imply a strong interventionist role on behalf of the Commission itself, perhaps in creating its own label.

| The Policy Matrix: Possible Interventions and their Effectiveness | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Policy Intervention** | | | | | | |
| **Scenario** | Education | Facilitating dialogue | Awards | Developing process standards | Procure - ment | Fiscal Incentives | Developing a label |
| **Big Brands** | ■ | ▨ | ▨ | ▨ | ▨ | ☐ | ☐ |
| **Partnership Labels** | ■ | ■ | ■ | ■ | ▨ | ▨ | ☐ |
| **Multilateral Labels** | ▨ | ▨ | ▨ | ▨ | ■ | ■ | ■ |

| ■ Important intervention | ▨ Quite important | ☐ Not applicable |
|---|---|---|

## 8.6    Conclusions

Social labels are amongst a number of devices that can help to deliver social change. In order to do this they need to offer something to their intended audience, intermediaries (particularly businesses), and to intended beneficiaries. This paper sets out an initial basis for understanding the extent to which labels can be used an instrument to develop and deliver benefits to the first two groups as a means of ultimately helping the third group, in this case workers in global production chains and their families and communities.

Existing experience and the evidence from environmental labelling suggests that labels can make positive impacts, increasing the returns to beneficiaries by triggering changes in the behaviour of consumers, retailers and brand companies. It is also clear that labelling is only one instrument in the policy toolkit for market transformation and needs to be supplemented with other measures, such as awareness raising, corporate partnerships and international diplomacy if it is to be successful.

In order to invest in the strengthening of social labels it is important to accept that they will co-exist with other tools, such as social auditing, codes of conduct and campaigning. The variety of approaches may lead to a degree of consumer confusion. However, civil society activism that raises awareness and levels of education will help to reduce confusion and prepare the ground for labels and related tools with positive impacts and processes. The EC has a fundamental role to play in bringing coherence to this field and learning to build upon the experience of environmental labels.

[11]     Invitation to Tender: Specification. DGV.

[2]      For a fuller discussion of civil society and action see Zadek, S., Lingayah, S. and Murphy, S., Purchasing Power: Civil action for sustainable consumption, NEF, London.

[3]      Sources: "When Truth Isn't Part of the Packet" The Guardian, 10/3/98, Liz Orton - Christian Aid. UK (Pers. Comm. March 16 1998), Consumers International (http://www. consumersinternational.org), Clean Clothes Campaign Magazine - March 1998, Clean Clothes Campaign. Netherlands.

[4]      NCC (1997) Green Claims: a consumer investigation into marketing claims about the environment, NCC. London.

[5]      Levi Strauss & Co. (1996) General Information (mimeo)

[6]      House of Commons, Canada (1997) Ending Child Labour Exploitation- A Canadian Agenda for Action on Global Challenges, Standing Committee on Foreign Affairs and International Affairs, February 1997. p.40.

[7]      Whereas boycotts involve campaigning against and refusing to buy goods or services on some ethical grounds, 'buy-cotts' describe the active process of purchasing goods and services and campaigning on their behalf, based on their positive ethical impacts.

[8]      For a discussion of the 'attention economy' see Goldhaber, M.H. (1997) "Attention Shoppers" in Wired, 15.12, December 1997.

[9]      Studies of consumer behaviour have found that, even for major purchases such as white goods, consumers rely heavily on brand reputation and do not consider the range of information available to them on price and quality of goods. For a discussion of how consumers make buying choices see NCC (1998), Can Consumers Save the Environment ? pp 102- 105. NCC. London.

[10]     Roper Poll (1989) quoted in Lefferts, L and Heinicke, M (undated) Green Food Labels. available at http://www.sustain.org

[11]     Examples of this kind of information include legal name, weight and ingredients listings on foods.

[12]     In 1989 Warwickshire Trading Standards Department prosecuted an organic flour manufacturer, whose product was found to have higher pesticide

residues than in non-organic products. The defence, supported by the Soil Association argued that organic labelling referred only to the production method. This argument was upheld in court. Since this case, EU regulations on organic food production have been laid out which state that the description 'organic' does refer to production methods only.

13    The 'Business of Change' project involving international development and human rights NGOs, social investment and corporate responsibility organisations and trades unions in Canada defines social labels to include companies' own reputations linked to codes of conduct. They cite the case of The Gap, clothing retailer where, because of their independent monitoring programme in just one factory in El Salvador , The Gap label represents a guarantee of good labour conditions to many consumers. [memo from Steelworkers Humanity Fund, March 11 1998].

14    Much research on Environmental claims and labels has drawn attention to public scepticism of private labels and claims. See for example, Ritchie, M (1997) Purchasing Power: Consumer Choices and Environmental Protection. Institute for Agriculture and Trade Policy. Minneapolis. and NCC(1997) *op cit.*

15    The Rugmark Foundation has registered 7% of India's looms. Fairtrade bananas make up 8.5% of bananas sold in the Netherlands. See case studies in Burns et Al (1997) *op cit.*

16    For a comprehensive discussion of consumer boycotts see Smith, C. (1990) Morality and the Market: consumer pressure for corporate accountability, Routledge. London.

17    National Consumers League (1997) " Apparel Industry Code of Conduct: A Consumer Perspective on Social Responsibility" - A Paper Presented to Notre Dame Center for Ethics and Religious Values in Business, October 6 1997.

18    Wollman, L (1916) The Boycott in American Trade Unions, John Hopkins Press, Baltimore.

19    CWS (1998) Press Release *'Ethical Sourcing: Definition of the distinction between Fairtrade Mark products and 'Sound Sourcing' Principles'.* May 1998. Manchester.

20     Although there is no formal definition, seven of the ILO Conventions are widely recognised as defining fundamental worker's rights. These Conventions were specifically picked out for promotion by the World Summit for Social Development in Copenhagen in 1995 and are the basis of an ILO campaign for universal ratification. They are: Convention 87 (Freedom of Association), Convention 98 (Right to Organise and to Bargain Collectively), Convention 29 (Forced Labour), Convention 105 (Abolition of Forced Labour), Convention 100 (Equal Remuneration), Convention 111 (Discrimination), Convention 138 (Child Labour).

21     Idea suggested by Paul Scott and Titus Alexander at NEF supporters day, March 1998.

22     S. Zadek and F. Amalric (1997) "Consumer Works !", in *Development* 41.1 Consumption, Civil Action and Sustainable Development, March 1998 SAGE.

23     Save the Children, Stitching Footballs: Voices of children in Sialkot, Pakistan (1997), London.

24     NCC(1998) *op. cit.*

25     Peter Rogan, CWS, Pers. Comm. March 1998.

26     National Consumer's League (1997), *op cit.*

27     *ibid.*

28     Smith, C. (1990) op. cit.

29     Consumer research for the cosmetics manufacturer Yardley found that the proportion of consumers who rated 'cruelty free' as the most important criterion in choosing cosmetics had risen from 6% to 61% in a nine month period in 1990 [Ethical Consumer- issue 2]

30     Wollman (1916) op cit.

31     NCC(1997) *op. cit.*

32     See New Economics Foundation/World Wide Fund for Nature UK, Signals of Success: A users' guide to indicators, 1997, NEF/WWF UK.

33     Smith, C. (1990) op. cit.

34     Reported in 'Let us Work' by Anthony Swift in New Internationalist-. No 292, July 1997.

[35] Albert Tucker, Managing Director, Twin Trading, personal communication, May 1998.

[36] Tesco (Undated) Freedom Foods Leaflet

[37] Cafedirect: Excellent Coffee - A Better Deal for Coffee Growers, October 1996.

[38] Personal communication *Cafedirect*, 26 March 1997.

[39] A Partnership for Fair Trade, Nestle UK ltd., 1995.

[40] Correspondence between Bob Thompson, Twin Trading and UCRAPROBEX--I-co-operative, El Salvador

[41] Nestle UK Ltd., 1995. op. cit.

[42] Sweeney, K.(1997) "The strengths and limits of consumer-driven codes of conduct" paper presented at Notre Dame Center for Ethics.

[43] Rob, Harrison, Ethical Consumer. Pers Comm. February 1998.

[44] Ritchie, M (1997). *op cit.*

[45] May 1998, Response to questionnaire for this study.

[46] Bureau of International Labor Affairs(1997) By the Sweat & Toil of Children U.S department of Labor, , p. 24

[47] Hilowitz, J (1997), Labelling Child Labour Products - a preliminary study, ILO Geneva. p. 24

[48] Rugmark (1997 )Progress Report of Rugmark Foundation's Activities for the year 1996-1997, Delhi, 1997

[49] Draft 14.5.98, Jenny Chapman, p. 13

[50] Hillowitz, J, (1997), *op cit.* p 27

[51] Council Regulation EEC 880/92

[52] OECD (1997), Eco-Labelling: Actual Effects of Selected Programmes, Paris.

[53] The Economist, Eco-babble, September 21 1991

[54] UNCTAD, (1997) Ecolabels and Green Consumerism in Germany, UNCTAD, Geneva, 1997

[55] Gerry Rendell, UK Eco-labelling Board, personal communication, April 1998

[56]     ENDS Report, Procter & Gamble steps up attack on eco-labelling, No 265, 1997

[57]     General Statistics for the WWF 1995+ Group, WWF, September 1997. Provided by Vanessa Sequeira, Forest unit, World Wide Fund for Nature, UK.

[58]     FSC-Uk (1998) The Forest Stewardship Council UK newsletter. March 1998. FSC-UK, Llanidloes, Wales

[59]     Petrina Fridd, J Sainsbury Plc. - by email.

[60]     Taken from background paper from Bert Beekman

[61]     UK consumers have a 'great deal' or 'quite a lot' of confidence in: Kellogs 84%, Cadbury's 83%, Heinz 81%, Church 25%, Parliament 10% - Source: The Henley Centre, 1997.

[62]     Pharis Harvey, International Labour Rights Fund - Personal Communication 10.5.98

[63]     For an introduction to Trade/Labour links and the WTO see John Jackson in International Organisations and Social Aspects of Trade Liberalisation Newsletter. November 15 1997. Graduate Institute for International Studies. Geneva.

[64]     http://www.wto.org/wto/environ/eco.htm

[65]     World Trade Organisation, Trade and Environment Bulletin, 14 May 1998.

[66]     D'Andrea, B.(1997) 'Social Labelling Schemes and the WTO Agreement on Technical Barriers to Trade' paper given at Workshop on Trade Liberalisation and Labour Markets and Standards. Quaker House. Geneva. 6-8 October 1997.

[67]     European Commission(1997), Report from the European Commission to the Council and the European Parliament, *In accordance with Article 12(4) of the Sixth Council Directive of 17 May 1977 on the harmonisation of the laws of the Member States relating to the turn-over taxes - Common system of value added tax: uniform basis of assessment.*

# Annex 1

# Social Labels Database

Max Havalaar
UK Register of Organic Food Standards
Forest Stewardship Council
Eco-OK
Step Foundation
Transfair, Germany
The Fairtrade Foundation
The Clean Clothes Campaign
Soil Association
Abrinq Foundation fo Children's Rights

| |
|---|
| **Labelling Initiative:**       **Max Havelaar** |
| *Address:* BO Box 1255 |
| 3500 BG Utrecht, Netherlands |
| *Telephone:* 030 - 233 4602 |
| *Fax:* 030 - 233 2992 |
| *email:* maxhavelaar@maxhavelaar.nl |
| *website:* www.maxhavelaar.nl |

| 1. *What is the aim of the labelling initiative?* |
| --- |
| To influence consumers, retailers, manufactures and traders to change existing trading practices in such a way that the disadvantaged producers in the Third World gain additional benefits from international trade. |

| 2. *When and how was the initiative set up ?* |
| --- |
| In 1986, as a response to the cry for help from Mexican coffee farmers, wanting a fair price for their coffee beans. In 1988 the first pack of MH Quality Mark coffee was introduced. |

| 3. *What products/sectors and geographical areas are covered by the initiative?* |
| --- |
| Coffee beans come from some 250 co-ops. in 17 countries<br>Cocoa: from six counties: Ghana, Sierra L. Cameroon, Bolivia, Ecuador, Costa Rica<br>Honey: from Mexico, Guatemala, Nicaragua, Chile, Uruguay, Tanzania and Vietnam<br>Bananas: from a co-operation in Ecuador and from a plantation in Ghana.<br>Tea has started in March, 1998. |

| 4. *How is the labelling initiative funded?* |
| --- |
| Licensee fees (business), external funds ( EC funding ) and commercial sponsors. |

| 5. *What are the criteria that the label is based on?* |
| --- |
| Direct purchase<br>Surcharge<br>Guaranteed minimum price<br>Credit allowances<br>Long term relations<br>Production criteria for plantations |

| 6. *How are the labelling criteria developed and agreed?* |
| --- |
| Max Havelaar is a member of FLO International. For each product there is an independent Register Committee involved. |

| 7. *What is the procedure for a new product/company to obtain the label?* |
| --- |
| To follow the criteria and to sign a contract with Max Havelaar. |

| 8. *How is compliance with the standards monitored?* |
| --- |
| By the Register Committees. |

| 9. *What are the costs to businesses of meeting the standards and of being certified?* |
| --- |
| It varies widely. |

| 10. *In what outlets and countries are labelled products available?*<br>Supermarkets, Natural Food Shops and local shops. |
| --- |
| 11. *How is the label promoted?*<br>Mass media and promotions. |
| 12. *What is the percentage difference in the price between comparable labelled and unlabelled goods?*<br>10-15% |
| 13. *What is the market share of labelled products?*<br>Coffee 2-3%, bananas 5%, chocolate, honey <1%, tea - too early to say. |
| *Additional comments e.g. on impact other than market share and challenges to the label*<br>Consumer awareness: 89% of those questioned have heard of Max Havellaar. |

| | |
|---|---|
| **Labelling Initiative:** | **UKROFS** |
| *Address:* | UK Register of Organic Food Standards |
| | Room G47 Nobel House, 17 Smith Sq. London SW8 3 JR |
| Telephone: | 0171 - 238 6004 |
| Fax: | 0171 - 238 6148 |

| 1. | *What is the aim of the labelling initiative?* |
| | To assure consumers that food labelled "organic" is produced to genuine organic standards. |

| 2. | *When and how was the initiative set up ?* |
| | UKROFS (UK Register of Organic Food Standards) was established in 1987. Nowadays most organic standards derive ultimately from the EC (Regulation 2092/91). |

| 3. | *What products/sectors and geographical areas are covered by the initiative?* |
| | Agricultural and horticultural production. |
| | Processing (including packing) |
| | Imports from outside the EC |
| | Geographical area: UK |

| 4. | *What organisations are involved in the governance of the initiative, and in awarding or endorsing labels?* |
| | UKROFS, Bio-Dynamic Agricultural Association, Organic Farmers and Growers Ltd., the Soil Association Organic Marketing Company, Organic Food Federation, the Scottish Organic Producers Association, Irish Organic Farmers and Growers Association + Foodsense. |

| 5. | *How is the labelling initiative funded?* |
| | Mainly by MAFF (Ministry of Agriculture, Fisheries and Food), although there is a contribution from sector bodies. |

| 6. | *What are the criteria that the label is based on?* |
| | EC regulation 2092/91. The regulation applies to products that bear indications referring to organic production methods, such as unprocessed agricultural crop products; also animals and unprocessed animal products, |
| | and products intended for human consumption composed of one or more ingredients of plant origin. |

| 7. | *How are the labelling criteria developed and agreed?* |
| | By discussion of member states in Brussels. The regulations are fleshed out if necessary by discussion by the UKROFS Board for incorporation in the UKROFS standards. |

| 8. | *What is the procedure for a new product/company to obtain the label?* |
| | UKROFS main role is the approval/ monitoring of the 6 organic sector bodies. They need to demonstrate to UKROFS the ability to run a scheme in keeping with UKROFS' requirements and the EC Regulation. Most individual farmers are registered with the sector bodies. |

9. *How is compliance with the standards monitored?*
The compliance of sector bodies is monitored by initial inspections on their operations and an annual check of their operation.

10. *What are the costs to businesses of meeting the standards and of being certified?*
Between 2 to 4 hundred pounds, depending on which body does the certification.

11. *In what outlets and countries are labelled products available?*
In the UK only. The UKROFS label is not itself widely used. Most operations use the logo of their sector body.

12. *How is the label promoted?*
The UKROFS label is not promoted.

13. *What is the percentage difference in the price between comparable labelled and unlabelled goods?*
In general organic products are 10% to 100% more expensive than the conventional equivalent.

14. *What is the market share of labelled products?*
Organic produce is believed to have a 1-2% share of the food market at retail level.

*Additional comments*
UKROFS main role is as the "policeman" for the organic sector, so we do not have a promotional role. The sector bodies are proactive in promoting organic food and farming.

| Labelling Initiative: | Forest Stewardship Council |
|---|---|
| *Address*: | Unit D, Station Building, Llanidloes |
| | Powys, Wales, SY18 6EB, UK |
| *Telephone:* | 01686 - 413 916 |
| *Fax:* | 01686 - 412 176 |
| *email:* | Hannah@FSC-uk.demon.co.uk |
| *website:* | www.fsc-uk.demon.co.uk |

1. *What is the aim of the labelling initiative?*

   To promote the protection and enhancement of the world's forests through a certification scheme to allow recognition in the market place for timber and timber products coming from well managed forests.

2. *When and how was the initiative set up ?*

   Internationally it was formed in 1993. The UK group was established in 1995.

3. *What products/sectors and geographical areas are covered by the initiative?*

   Forests, timber and timber products including paper and other composite products.

   The initiative is available in any country in the world, but is a voluntary scheme.

4. *What organisations are involved in the governance of the initiative, and in awarding or endorsing labels?*

   initiative.

   Independent certification bodies, of which there are currently five, are responsible for assessing, inspecting and awarding labels.

   The FSC internationally and nationally in the UK is responsible for the endorsement and governance of the label.

5. *How is the labelling initiative funded?*

   Forest managers, manufacturers and retailers of timber products pay the certification bodies for the certification system.

   The FSC both internationally and nationally in the UK is a non-profit making body funded by grants, donations, European funds, etc.

6. *What are the criteria that the label is based on?*

   The FSC international has developed a set of Principles and Criteria for forest management. Nationally, these are developed into standards that take account of local economic, social and environmental conditions.

   These standards are then used to assess forests in that country or region.

7. *How are the labelling criteria developed and agreed?*

   The national standards are developed through a comprehensive process of consultation with stakeholders in that country. These stakeholders include professional foresters, forestry industry bodies, retailers and manufacturers, environmental and social pressure groups and any other interested parties.

8. *What is the procedure for a new product/company to obtain the label?*

   Both the forest and the manufacturer using timber from that forest are inspected by one of the accredited certification bodies, to verify they meet the FSC's principles, criteria and chain of custody requirements, respectively.

9. *How is compliance with the standards monitored?*

Forests and factories are re-inspected at least once a year to make sure standards are complied with.

10. *What are the costs to businesses of meeting the standards and of being certified?*

The cost varies greatly on the size of the forest (and therefore the number of site visits needed) and the size and stages involved in the manufacturing process.

11. *In what outlets and countries are labelled products available?*

Labelled products are available in a large number of countries around the world although a definitive list is not currently available.  Europe and the USA are well covered, while a Japanese buyers group is being established.

12. *How is the label promoted?*

The label is promoted by manufactures and retailers in stores and through advertising.

13. *What is the percentage difference in the price between comparable labelled and unlabelled goods?*

In the UK there is no significant difference.

14. *What is the market share of labelled products?*

Between 1 and 2 percent in the UK.

| Labelling Initiative: ECO-O.K. Certification Program/Better Banana Project | |
|---|---|
| *Address*: | 65 Bleecker Street, 6th floor, New York, NY 10012 |
| *Telephone*: | +1 212 677 1900 |
| *Fax:* | +1 212 677 2187 |
| *email:* | eholst@ra.org |
| *website*: | www.rainforest-alliance.org |

| 1. *What is the aim of the labelling initiative?* |
|---|
| To transform social and environmental conditions in tropical agriculture through certification of well-managed farms. |

| 2. *When and how was the initiative set up ?* |
|---|
| It began in 1991, with seed funding from the Rainforest Alliance, in an effort to provide market incentives for improving environmental and social conditions in the Central American banana industry. |

| 3. *What products/sectors and geographical areas are covered by the initiative?* |
|---|
| Certification activities are underway in the following countries: Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Ecuador, Colombia and Brazil. Our aim is to provide certification services throughout Latin America and the Caribbean. The network has certification criteria developed for the following crops in the following regions: banana (Central and South America), coffee (Central America, cacao (South America), citrus (Central America), and sugarcane (Brazil). |

| 4. *What organisations are involved in the governance of the initiative, and in awarding or endorsing labels?* |
|---|
| The program is managed by the Conservation Agriculture Network (CAN), an association of conservation organisation throughout the Americas. The network includes five organisations located in the USA, Guatemala, Costa Rica, Ecuador and Brazil. Rainforest Alliance serves as the network's international secretariat. Network policy and certification principles are set by the members. Rainforest Alliance owns the certification mark but certification decisions are made by a certification committee that includes members of the network. |

| 5. *How is the labelling initiative funded?* |
|---|
| The initiative is funded primarily by private foundation, bilateral and multilateral donors, and certification fees. At present, approximately 80% of the annual budget for the entire network is derived from private foundations and multi- and bilateral donors. The network charges annual program fees to producers and vendors selling certified products. |

| 6. *What are the criteria that the label is based on?* |
|---|
| The certification Criteria are based on a set of nine environmental and social criteria. We describe these criteria as covering the three C's: <u>Conservation</u> of wildlife habitat and other natural resources; responsible <u>Cultivation</u> including soil stewardship and integrated pest management; and protection of <u>Community</u> well-being including fair treatment for workers, protection of worker safety, and respect for local communities. |

| 7. *How are the labelling criteria developed and agreed?* |
|---|
| The certification principles and criteria were defined through a series of stakeholder involvement processes. Typically, a member organisation of the Conservation Agriculture Network develops a set of draft criteria based on the nine principles and engages in a thorough and inclusive stakeholder-driven process to arrive at detailed certification criteria. The criteria are meant to represent a broad consensus of both local and international stakeholders. |

8. *What is the procedure for a new product/company to obtain the label?*

Farms are evaluated against certification criteria by a local member of CAN. The length of these site visits varies depending on the crop and size of the farm. A confidential report is issued and evaluated by the certification committee, made up of a representative of the local member and the Secretariat. The committee also seeks input from local communities, scientists and NGOs. Both members of the committee must approve the certification. Farming operations approved by the committee are presented a certification contract. Certification is granted when the contract is signed and all fees are paid.

9. *How is compliance with the standards monitored?*

Certified farms are re-evaluated on an annual basis. All farms are subject to random on-site audits to verify continued compliance. Farms found in non-compliance are subject to losing certification.

10. *What are the costs to businesses of meeting the standards and of being certified?*

It varies depending on the status of the farming operations. In some cases, the costs can be quite high if significant infrastructure changes are necessary. In other cases, farms are already in compliance and bear few costs. Certification fees also vary by crop and country. Banana farms in Costa Rica, for example, are charged US $5 per hectare and all direct costs associated with the annual and random site visits.

11. *In what outlets and countries are labelled products available?*

The certification mark ECO-O.K. is available for use in the USA and several Latin American countries. The mark may be used either on-product or in off-product promotional materials. The mark is not available for use in EU countries due to restrictions on the term 'ECO'. We have therefore created the descriptor "Better Banana Project" to be used in off-product promotion of the certification for banana companies marketing their products in EU member states.

12. *How is the label promoted?*

The network currently has few resources for promoting the label. We concentrate our efforts on promoting the certification within target industries and then attempt to leverage the resources of interested companies. In other words, if a vendor is interested in promoting the certification in an effort to differentiate their product, we assist them in producing accurate and fair advertising materials or on-product messages about the certification.

13. *What is the percentage difference in the price between comparable labelled and unlabelled goods?*

At present, vendors of ECO-O.K. certified product do not charge significant premiums. We do not have accurate data about what, if any, differential exists.

14. *What is the market share of labelled products?*

We do not, as yet, have accurate data on market share of certified products.

> *Additional comments*
> A major challenge for our program is centred around the fact that many producers in the Latin American tropics sell their products to European buyers. Yet the CAN does not have a Certification Mark acceptable within the EU. The costs and political challenges associated with obtaining one may be prohibitive.

| Labelling Initiative: | STEP Foundation |
|---|---|
| *Address*: | Monbijoustrasse 31 |
| | PO Box 8348, CH-3001 Bern, Switzerland |
| *Telephone*: | +41 31 382 77 88 |
| *Fax*: | +41 31 382 75 85 |
| *email*: | step@step-foundation.org |
| *website*: | step-foundation.org (under construction) |

| |
|---|
| *1. What is the aim of the labelling initiative?*<br><br>The initiative strives for the improvement of social, economic and ecological conditions in carpet production and the carpet trade and fights abusive child labour. |

| |
|---|
| 2. *When and how was the initiative set up ?*<br><br>In 1995 a Swedish movie ('the Carpet' ) about child labour raised strong reactions from consumers. Due to this rise in awareness, both representatives from the carpet trade and from NGOs sat at the negotiation' table in order to find a solution. After more than a year (in October 1995) a compromise was found and the STEP Foundation was created.<br><br>Its initiators are 5 development NGOs and the Swiss Association for a Clean Oriental Carpet Trade (IGOT). |

| |
|---|
| *3. What products/sectors and geographical areas are covered by the initiative?*<br><br>The STEP Foundation is concerned with oriental, hand-knotted carpets. So far, it is active in Pakistan, Nepal and India. A pilot project has started in Morocco and first contact have been taken in Iran and Egypt. |

| |
|---|
| *4. How is the labelling initiative funded?*<br><br>It is mainly funded through 2 channels:<br><br>- Carpet enterprises that sign the STEP code of conduct and thus receive the STEP label are contributing financially: for each square meter of carpet sold, they pay Sfr 4 to the Foundation<br>- The Swiss Federal Department for Foreign Economic Affairs is supporting the initiative for the next four years. |

| |
|---|
| 5. *What are the criteria that the label is based on?*<br><br>Allow fair working conditions; Actively fight abusive child labour; Promote ecological production methods; Transparency in production and trade. |

| |
|---|
| 6. *How are the labelling criteria developed and agreed?*<br><br>The criteria of the code of conduct are adjusted for each country. As an example, a fair salary will not be the same in Nepal as in Pakistan. The STEP Foundation is also starting its work from the legal basis of each country (the minimum age for working might vary from one country to another). It is the regional collaborators from the Foundation that decide what are fair conditions, according to the situation of their country. |

| |
|---|
| 7. *What is the procedure for a new product/company to obtain the label?*<br><br>The importers/traders applying for the STEP-label have to render transparent their policy and sources of their carpets. They are granted the STEP-label only if 2 existing STEP-license holders assessed them as qualified and the Foundation Council is in approval with giving them the label. |

8. *How is compliance with the standards monitored?*

There is an independent monitoring system which is adjusted to each carpet producing country. Verification visits are made regularly and without announcement. They are made by STEP representatives/local partners in each country.

---

9. *What are the costs to businesses of meeting the standards and of being certified?*

The cost to businesses are only minor. However, businesses are not only concerned with meeting the standards of the STEP label. Their financial contribution is used for all our activities: info lobbying, monitoring and verification, and projects (our goal is that 70% of our budget will be used to finance projects).

---

10. *In what outlets and countries are labelled products available?*

As indicated above, the STEP label is not a product label but an enterprise label. So far, STEP is concentrated in Switzerland. However, there is interest from other countries.

---

11. *How is the label promoted?*

- NGOs channels,
- Media work (events/bilateral contacts),
- STEP-info (quarterly publication)
- Consumer organisation's publications.

---

12. *What is the percentage difference in the price between comparable labelled and unlabelled goods?*

Normally none. The carpet businesses take the costs on their margins and hope to stay in the market thorough a fair business behaviour.

---

13. *What is the market share of labelled products?*

At the moment there are 12 licence holders, one of them with branches spread all around Switzerland. Their total market share is 23% of Swiss imports.

| Labelling Initiative: | TransFair, Germany |
|---|---|
| *Address*: | Remigiusstrasse 21 |
| | 50937 Koln |
| *Telephone*: | 0049 221 94 20 40 -30 |
| *Fax*: | 0049 221 94 20 40 - 40 |
| *email*: | t.gordon@transfair.org |

1. *What is the aim of the labelling initiative?*

   TransFair is a non profit organisation that supports Fair Trade with, so called, Third World countries. It wants to help disadvantaged producers in Africa, Asia and Latin America and improve their living- and working conditions. The motto is: fair wages instead of charitable donations.

2. *When and how was the initiative set up ?*

   It was set up in 1993 by two major German development organisations of the Catholic and Protestant church.

3. *What products/sectors and geographical areas are covered by the initiative?*

   Coffee, tea, honey, sugar, cocoa, bananas from Africa, Asia and South America.

4. *What organisations are involved in the governance of the initiative, and in awarding or endorsing labels?*

   Our executive board includes: Bread for the world, Miserear, Frederic Ebert Foundation, Naturschutzbund, Christliche Initiative Romero, Katholische Landjugendbewegung

5. *How is the labelling initiative funded?*

   90% by the licence  income, the rest via NGOs, churches, EU, German society for technical co-operation, employment office, donations

6. *What are the criteria that the label is based on?*

   Social standards such as: paying a minimum price plus a premium
   helping small farmers and co-operatives
   improve living and working conditions for the producers
   guarantee workers employment rights
   according to national and international law

   Environmental standards: to forbid or reduce the use of herbicides and pesticides
   waste recycling
   help to improve organic growth

7. *How are the labelling criteria developed and agreed?*

   They are developed in close co-operation with producers in a developed country for each specific product, taking into account the world market price situation and the domestic (German) market conditions.

   They are agreed by the Meeting of Members of the umbrella organisation Fair Trade Labelling Organisations International.

8.  *What is the procedure for a new product/company to obtain the label?*

    A company can obtain the label by signing a license contract which is a commitment to the rules of Fairtrade.

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9.  *How is compliance with the standards monitored?*

    1. Monitoring experts are sent by (FLO) Fairtrade Labelling Organisations International to monitor the producers
    2. Flow of goods monitoring is done by FLO and National Initiatives
    3. Companies are monitored by independent controlling bodies

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10. *What are the costs to businesses of meeting the standards and of being certified?*

    Companies that want to label a product have to sign a contract and pay a licence fee per sold amount of goods. Each product has a different pricing system.

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11. *In what outlets and countries are labelled products available?*

    Germany

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12. *How is the label promoted?*

    Press work done by the office in Cologne and much local activity by volunteers have created a great effect in the media. Thousands of newspaper articles, nearly one hundred TV programs and radio shows have dealt with TransFair.

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13. *What is the percentage difference in the price between comparable labelled and unlabelled goods?*

    It varies as prices are set by the different license holders of which we have over 100. We fix the price for the producer. Which means we have a minimum price per product plus a premium for organically grown products. Generally the fair traded products are slightly more expensive than unlabelled goods.

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14. *What is the market share of labelled products?*

    Coffee 1%

    tea 3-4%

    cocoa, honey, bananas - too early to tell

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*Additional comments*

There has been considerable pressure on supermarkets from well established multinational producers who do not want to see the idea of fairly traded goods succeed.

| Labelling Initiative: | The Fairtrade Foundation |
|---|---|
| *Address*: | Suite 204, 16 Baldwin's Gardens |
| | London, ECIN 7 RJ |
| *Telephone*: | 0171 - 405 5942 |
| *Fax*: | 0171 - 405 5943 |
| *email*: | fairtrade@gn.apc.org |
| *website*: | www.gn.apc.org/fairtrade/ |

1. *What is the aim of the labelling initiative?*

   To help alleviate poverty in the South by encouraging UK companies to buy and trade products from small producers in the third world in a way which gives them a fair deal and provides safe and decent social and working condition for producers and workers.

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2. *When and how was the initiative set up?*

   In 1992 by a group of NGOs, including CAFOD, Christian Aid, New Consumer, Oxfam, Traidcraft Exchange and the World Development Movement.

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3. *What products/sectors and geographical areas are covered by the initiative*?

   Product areas covered are coffee, tea, cocoa, sugar, honey and bananas. Geographical areas are central and South America, the Caribbean, Africa, the Indian Sub Continent.

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4. *What organisations are involved in the governance of the initiative, and in awarding or endorsing labels?*

   The initiative is governed by the funding members, who are represented on the board of directors.

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5. *How is the labelling initiative funded?*

   Core funding is provided by the founding members. Also, a licence fee is charged to the trading companies that are permitted to use the label on compliant products. We are currently in receipt of an EU grant for consumer education and various small grants come from UK charitable trusts for consumer education and producer development work.

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6. *What are the criteria that the label is based on?*

   For workers - decent wages, adequate housing where provided, minimum health and safety standards and environmental standards.

   For smallholders - a genuinely democratic producer co-operative, a 'fair' price, credit terms, pre-shipment financing and long-term trading relationship. A premium is paid which is used in consultation with workers or producers to benefit the community.

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7. *How are the labelling criteria developed and agreed?*

   For each product, the Fairtrade Labelling Organisations International (FLO), to which the Foundation is affiliated, sets up a Producer Register (e.g. Coffee Register, Tea Register). The Register committee comprises members of the relevant national initiatives and product experts. They formulate the criteria based on accepted international social norms and labour and environmental laws and recommendations

8.  *What is the procedure for a new product/company to obtain the label?*

    An importer/distributor must apply to the Foundation for registration as a licensee to be able to use the Fairtrade Mark. They must sign a Trading Terms Agreement which commits them to buying as directly as possible from registered Fairtrade producer groups, establishing long-term contracts, paying the set Fairtrade price and premium and providing pre-shipment finance when required

9.  *How is compliance with the standards monitored?*

    The Foundation monitors and audits the performance of the licensees against criteria and the Trading Terms Agreements from reports provided by the companies quarterly. It commissions an independent, in-company inspection and audit every year. The audit checks that the product is bought from registered Fairtrade producers at the set price plus premium and that all the product sold as Fairtrade was in accordance with the standards.

10. *What are the costs to businesses of meeting the standards and of being certified?*

    The trading companies pay a licence fee to the Foundation which is calculated as 2% of the initial £1 million of Fairtrade sales annually, then 1% on the next £1m-£5 million, with 0,5% on the remaining annual sales.

11. *In what outlets and countries are labelled products available?*

    Fairtrade marked products are generally available in mainstream supermarkets, healthfood shops and niche market charity shops. The Fairtrade Mark is valid only for UK and Ireland. There are other associated labels (Max Havelaar and TransFair) in other countries, but the Foundation has no jurisdiction over these.

12. *How is the label promoted?*

    Consumer awareness campaigns in retail and catering outlets, women's groups, trade exhibitions, etc. Press releases to national newspapers, trade journals, radio and television.

13. *What is the percentage difference in the price between comparable labelled and unlabelled goods?*

    Prices charged by the trading company or the retail/catering outlet are set on purely commercial criteria. In some cases, prices of Fairtrade Marked products are lower than equivalent product prices. There is no set formula for price setting, however, the average difference is between +10 and +20%.

14. *What is the market share of labelled products?*

    Fairtrade roast and ground coffee takes about 4% of the total UK roast and ground market. Fairtrade freeze-dried coffee takes about 2% of the premium freeze-dried market. Tea and chocolate take less than 1% of the total market.

| Labelling Initiative: | Clean Clothes Campaign |
|---|---|
| Address: | PO Box 11584 |
| | 1001 GN Amsterdam, Holland |
| Telephone: | 31- 20 4122 785 |
| Fax: | 31-20 4122 786 |
| email: | ccc@xs4all.ni |
| website: | www.cleanclothes.org |

1. *What is the aim of the labelling initiative?*

   Certify Dutch retailers and producers of clothing

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2. *When and how was the initiative set up ?*

   Negotiations started in 1994. Trade unions and NGO's in Holland discussed/drafted a proposal during 1992/1993.

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3. *What products/sectors and geographical areas are covered by the initiative*?

   Clothes, world-wide for production (suppliers) but the certification is for now limited to companies operating on the Dutch market.

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4. *What organisations are involved in the governance of the initiative, and in awarding or endorsing labels?*

   Dutch TU Federation, FNV, Dutch CCC, Novib, Dutch TU Federation CNV, Mirex (Association of Middle-sized Retailers), Fenecon (Association of Producers), NKC (Dutch Clothing Convention).

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5. *How is the labelling initiative funded?*

   Currently each pays own input and some joint contributions for external assistance. Once the proposed foundation is set up, equal shares of a 2-year project will be donated by the partners, some via own applications to the government. After the 2-year period the foundation is expected to run on the payments of companies applying for the label.

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6. *What are the criteria that the label is based on?*

   ILO labour standards and our proposal: Basic packet stated also in International CCC code. Final agreement on this has not yet been reached with all partners.

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7. *How are the labelling criteria developed and agreed?*

   There have been consultation with NGOs and Trade Unions within and outside Europe over the past 5 years. There has also been discussions with industry association focusing on the time frame of methods of implementation, and less on content of standards.

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8. *What is the procedure for a new product/company to obtain the label?*

   Proposed: First provide detailed info on sourcing supplier control to foundation (poss. via accountant certificate), info should include proof of complying with certain implementation criteria.

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9. *How is compliance with the standards monitored?*

   There is a 2 track system:

   1 - The foundation "subcontracts" part of the work to accredited "monitors", who do the job of ascertaining that standards/procedures set by the foundation are met.

   2 - There is a complaints procedure, that leads to an investigation.

| Labelling Initiative: | Soil Association Organic Standard |
|---|---|
| *Address:* | Soil Association Certification Ltd |
| | Bristol House, 40-56 Victoria House, Bristol BS16BY |
| *Telephone:* | 0117-9142400 |
| *Fax:* | 0117-9252404 |
| *email:* | soilassoc@gn.apc.org |

1. *What is the aim of the labelling initiative?*

   To certify organic food and farming to the Soil Association's standards which comply with EU and UK law and also those of IFOAM (International Federation of Organic Agricultural Movements)

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2. *When and how was the initiative set up ?*

   Set up in 1973 with the systems being developed over the next 15 years. It was initially started in a subsidiary trading company started by the SA.

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3. *What products/sectors and geographical areas are covered by the initiative?*

   All farmed goods, all foodstuffs and many non-food goods (from composts to cosmetics). We are currently developing standards for fish farming and textiles. Mostly UK based but we have certified abroad under request.

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4. *What organisations are involved in the governance of the initiative, and in awarding or endorsing labels?*

   The SA has overall responsibility for standards. SA certification Ltd carries out the inspection and certification and is the owner of the trademark.
   UKROFS (administered by MAFF) enacts EU regulation 2092/91

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5. *How is the labelling initiative funded?*

   90% by the certification fees from licencees
   10% by a grant form MAFF

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6. *What are the criteria that the label is based on?*

   The SA standards for organic food and farming.
   UKROFS standards (UK Register of Organic Food Standards)
   EU regulation 2092/91
   IFOAM Basic standards.

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7. *How are the labelling criteria developed and agreed?*

   Within SA:
   A) There are 5 standards committes (Horticuluture, Agriculture, Pigs and Poultry, Processsing and Retailing) that advise, recommend amendments.
   B) These standards are reviewed by the SA certification board.
   C) These standards are then put out for consultation to licensees.
   D) The final position is then agreed by the SA certificaiton board and ratified by the SA council.

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8. *What is the procedure for a new product/company to obtain the label?*

   Application; Inspection; Reviewed by the Certification committee; If approved then an annual Certificate is issued (this may be subject to conditions being met)

9. *How is compliance with the standards monitored?*

By annual inspections, as well as additional arranged or unannounced inspections.

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10. *What are the costs to businesses of meeting the standards and of being certified?*

The costs of meeting the standards varies. It depends on where the producer is starting from. The costs of being certified are:

For a farm: Initial registration and first years fee equal £350, with an annual fee of £200 plus 0.5% of organic sales.

For a dairy: £150 initial certification fee and an annual fee of £200 plus 0.5% of organic sales upto a maximum of £800.

For processes: initial £300 fee, then 0.3% of sales from a minimum of £300 to a maximum of £5,250.

Retailers pay on a similar sliding scale.

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11. *In what outlets and countries are labelled products available?*

Mainly in the UK but they also export to European countries, and the USA and Japan.

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12. *How is the label promoted?*

By the general educational, promotional and campaigning work of the SA parent charity.

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13. *What is the percentage difference in the price between comparable labelled and unlabelled goods?*

Organic standards are regulated by the Eu so there shouldn't be any unlabelled (uncertified) organic products on the market. The price differences between organic and conventional goods is anywhere between 0-100%, depending on the product.

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14. *What is the market share of labelled products?*

Organic food has 1-2% of the UK food market.

SA has about 80% of the organic food market in the UK (there are 5 other smaller UK certifiers)

| |
|---|
| **Labelling Initiative:**      **Abrinq Foundation for Children's' Rights** |
| *Address:* Rua Lisboa, 224. Sao Paulo, Brazil |
| *Telephone: 5511881-0699* |
| *Fax:* 5511881-0699 |
| *email:* info@fundabrinq.org.br |
| *website:* www.fundabrinq.org.br |

1. *What is the aim of the labeling initiative?*

   The Child-Friendly Company Programme engages companies to fight against child labour and supports the improvement in the quality of life of children and youth through projects in the field of education.

2. *When and how was the initiative set up ?*

   It was set up in 1995, after several campaigns against child labour.

3. *What products/sectors and geographical areas are covered by the initiative?*

   The initiative is carried out on a national level covering all products and sectors, but with an emphasis on situations with greater risk of child labour incidences

4. *What organisations are involved in the governance of the initiative, and in awarding or endorsing labels?*

   The administration of this initiative lies solely with the Abrinq Foundation; however it receives the support of ILO, UNICEF, and various business organisations.

5. *How is the labelling initiative funded?*

   Until now, a campaign has been run by the Abrinq Foundation with the support of the Yakult and Safra Foundation.  Our database has been funded by IPEC/ILO and UNICEF.

6. *What are the criteria t<hat the label is based on?*
   - Companies commit themselves not to employ child labour (children under the age of 14)
   - Companies themselves to promote this commitment in their production chains.
   - They must prove that they are investing in a project that benefits children and youth.

8. *What is the procedure for a new product/company to obtain the label?*

   Companies send documentation that proves their compliance with the three relevant criteria. This documentation is analysed by the program's team, which may need to make consultations, and the final decision is made by the Executive Board of the Foundation.

9. *How is compliance with the standards monitored?*

   There is no process of monitoring compliance at the moment.

10. *What are the costs to businesses of meeting the standards and of being certified?*

    There are no costs involved in getting the seal, however companies must make an investment that will be of some benefit to local youths.

11. *In what outlets and countries are labelled products available?*

    Throughout Brazil, Mercosul countries, and possibly in some European countries.

12. *How is the label promoted?*

    Through advertising campaigns, public events certifying such companies, and through the companies involved own actions.

13. *What is the percentage difference in the price between comparable labelled and unlabelled goods?*

    There is no real difference.

14. *What is the market share of labelled products?*

    At the moment, 1006 companies are accredited with the seal.  A small share of the total market. In some sectors, such as finance, foot-wear, sugar cane and the alcohol industry the participation is significant.