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Building Green Global Value Chains

Committed Public-Private Coalitions in Agro-Commodity Markets

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BUILDING GREEN GLOBAL VALUE CHAINS

Committed public-private coalitions in agro-commodity markets

This issue paper has been prepared for the Green Growth Knowledge Platform Annual Conference 2013 by IDH The Sustainable Trade Initiative, in collaboration with the Dutch Sustainable Growth Coalition and Ernst & Young.

Abstract

In this paper we explore why and how the private sector is working in partnerships with the public sector on building green global value chains. The findings and insights are based on the experiences of the companies associated in the Dutch Sustainable Growth Coalition and five years of intensive work of driving green growth in supply chains through IDH The Sustainable Trade Initiative. The Sustainable Trade Initiative was set up with support of the Dutch and Danish governments to build coalitions of companies, governments and NGOs that would transform markets towards sustainability at scale. This paper provides key lessons how to drive such change effectively.

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IDH The Sustainable Trade Initiative convenes coalitions of front running companies, civil society organizations and governments to transform markets towards sustainable production and consumption worldwide.
The scale on which IDH operates derives from the concept of working with private companies who bring in funds, entrepreneurship and procurement power, governments that add legislation, laws, regulations and funds, and civil society that brings in know-how, networks, local expertise and credibility.
With a €125 million co-funding grant from the Dutch Ministry for Development Cooperation, IDH organizes a €600 public-private investment portfolio of market transformation programs across 16 commodity sectors.
www.idhsustainabletrade.com

The Dutch Sustainable Growth Coalition brings together Unilever, DSM, AkzoNobel, FrieslandCampina, Philips, Shell, KLM and HEINEKEN. Together with other platforms, the DSGC develops and shares knowledge about integrated sustainable business models. The Members of the DSGC actively engage with the Dutch government and share the vision that financial and economic business growth is linked to environmental and social returns. Over the past decade Dutch multinationals have embedded sustainability in their organization as a business driver; an achievement that is increasingly recognized by sustainability benchmarks. The Coalition, which is Chaired by Jan Peter Balkenende, is facilitated by Ernst & Young and endorsed by VNO-NCW (Confederation of Netherlands Industry and Employers). The Coalition was launched at the 2012 World Economic Forum in Davos

BUILDING GREEN GLOBAL VALUE CHAINS

Committed public-private coalitions in agro-commodity markets

1 Introduction

UNEP defines a green economy as one that results in *'improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities'*. A green economy would be low carbon, resource efficient and socially inclusive while a brown economy, or 'business as usual,' is the reverse. With the right public policies, companies can help deliver the change from brown to green by building value chains that avoid adverse outcomes for the environment and the people. Their incentive is that they will be able to achieve growth in the long-term.

In agriculture, new green value chains are being built by committed coalitions of public and private players that recognise that 'business as usual' will not meet future demand. Agro-commodity markets are at a tipping point which sees a switch in power from buyer to supplier. Companies are responding to both their shareholders and stakeholders to find new commercial and operational approaches. They want to secure their future supply. They want the minimum deliverables of legality, safety, quality and reputation. More fundamentally, they want to enhance their competitiveness by improving the economic, social and environmental conditions in the communities in which their business operates. For leading companies, the sweet spot is the promise of a green economy. As Unilever's Sustainable Living Plan promises: *"We will grow our business while doubling our impact and halving our footprint"*.

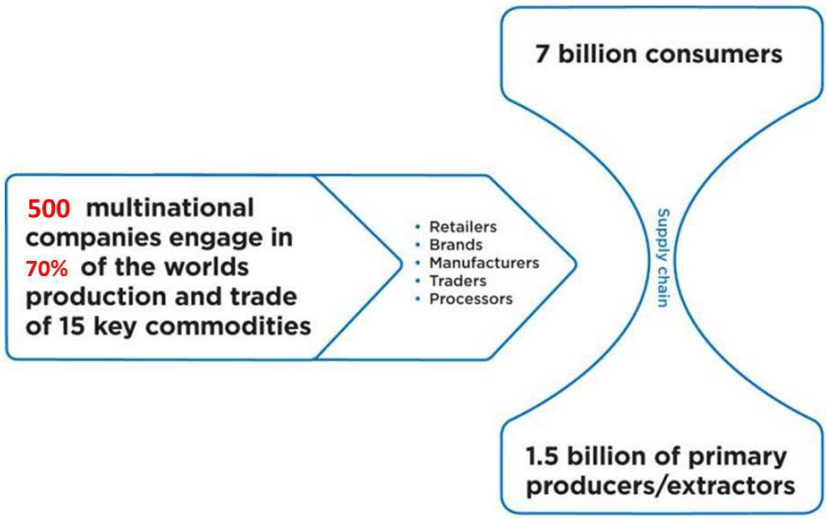
On the public side, a focus on the green growth of internationally traded agro-commodities makes perfect sense. These commodities are critical to satisfy global demand for food, feed, fuel and fiber. At the same time, how they are currently produced threatens the environment and the people involved. Research by the Worldwide Fund for Nature (WWF) has identified that there are just 15 commodities which account for the majority of impact on the planet:

> *"Taken together, these commodities include the five largest drivers of deforestation, the main sources of greenhouse-gas emissions from land use, and the most important fisheries for aquatic biodiversity and food supply. They also have a critical impact on the livelihoods of hundreds of millions of people, and particularly on many of the poorest on the planet[1]"*

Partnering with the private sector is crucial to green the production and trade of these commodities. About 70% of the value of these 15 commodity markets is controlled by fewer than 500 companies. By working effectively with this small group of companies, the outcome can be sustainable growth that impacts on 7 billion consumers and 1.5 billion producers. That's one big chunk of the green economy served on a silver plate.

[1] WWF, 2012, Better production for a living planet

Figure 1: Leveraging the supply chain to reach consumers and producers



In this paper we explore why and how the private sector is working in partnerships with the public sector on building green global value chains. The findings and insights are based on the experiences of the companies associated in the Dutch Sustainable Growth Coalition and five years of intensive work of driving green growth in supply chains through IDH The Sustainable Trade Initiative. The Sustainable Trade Initiative was set up with support of the Dutch and Danish governments to build coalitions of companies, governments and NGOs that would transform markets towards sustainability at scale. This paper provides key lessons how to drive such change effectively.

2. The drivers of change[2]

2.1. Shared value creation

Agriculture is estimated to be the direct driver for around 80% of deforestation worldwide[3].

Half of the world's undernourished people and the majority of the world's poor are smallholder farmers and rural workers in developing countries[4].

These facts expose systemic problems in the agricultural sector. The symptoms are expressed in the global crises of climate, biodiversity, fuel, food, water, poverty and undernourishment. Some of the root causes are:

[2]See also: UNEP, 2012, The Business case for the Green Economy

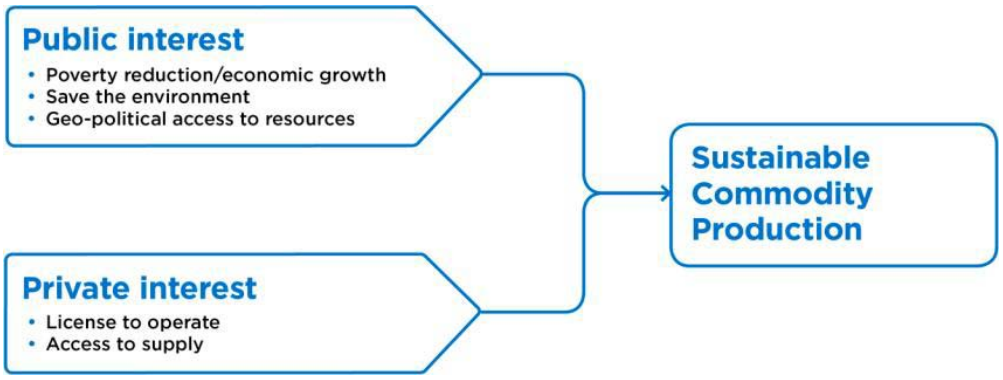
[3] Kissinger G., Herold M, De Sy V, 2012, Drivers of Deforestation and Forest Degradation: A Synthesis Report for REDD+ Policymakers. Lexeme Consulting, Vancouver Canada

[4] The World Bank, 2008, World Development report 2008: Agriculture for Development

- Most agricultural commodities are non-differentiated low margin bulk products subject to price speculation. Low prices and low margins result in a price-driven race to the bottom by which social and environmental costs tend to become externalized.
- Many governments in producing countries fail to implement effective policies and legislation. To name just a few: Agricultural extension services have been dismantled, a lack of investment in basic infrastructure, poor provision of rural education and ineffective enforcement of labor laws and forest regulation.
- The low margins in agriculture, combined with lack of effective regulation, results in high risk which deters banks and investors. Whereas agriculture represents between 40 and 80% of GDP in many African countries, the sector usually receives only 2 to 3% of credit at national level.

The solutions cannot be found by individual actors working alone. Instead, a new systemic approach is needed and we call this market transformation (see Box 1). Public and private stakeholders should work together to change the way agricultural commodities are produced and traded. Markets should be restructured in such a way that they generate welfare for the businesses and workers involved, while maintaining the natural resource base upon which they are built. In other words, markets should deliver public goods, as originally envisaged by Adam Smith. That idea has in recent years been rephrased by Michael Porter and Mark Kramer as *shared value creation*[5]. Business and society are not opposed; they are fundamentally interdependent. The competitiveness of business increases by improving the economic, social and environmental conditions in the communities where business operates and public and private interests combine to drive change.

Figure 2: Shared value creation in agro-commodity markets

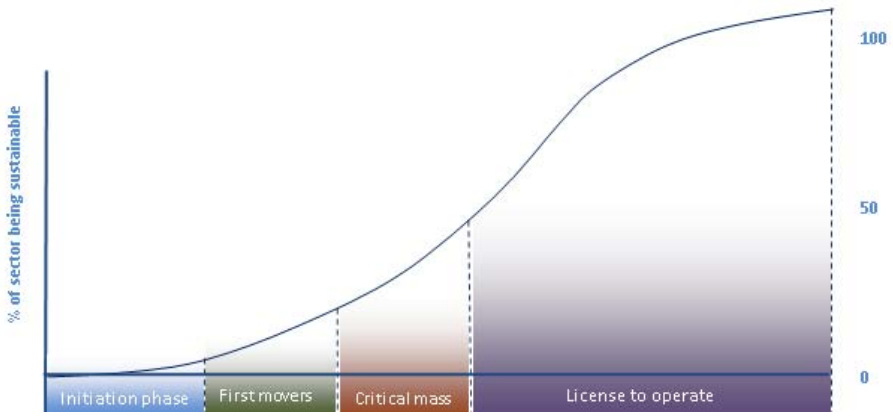


[5]Porter M. E., Kramer M. R., 2011, "Creating Shared Value: to reinvent capitalism – and unleash a wave of innovation and growth" Harvard Business Review

Box 1. Market Transformation

Market transformation is a process by which market players and public agents change the way supply chains work by changing the underlying set of rules and incentives. Leading companies drive the change by engaging their suppliers and customers in greening their value chains. Acting alone, the market has limitations. An effective green economy needs a level playing field created through effective regulation and public policy. Based on a model developed by NewForesight, there are four stages of market transformation[6]:

1. **Initiation phase**: Awareness of the problems in a sector is growing, often instigated by civil society organisations but there is no common vision on sustainability. There are only fragmented initiatives by first-mover companies and/or NGO projects.
2. **First movers:** First-mover projects generate certain evidence of how to deliver change. This inspires further learning, innovation, and up-scaling. Different stakeholders start to work together within formal governance structures to design shared approaches, involving standardisation and independent verification (e.g. round tables).
3. **Critical mass:** There are several standards in place and a critical mass in the market. Sector stakeholders recognize the need to harmonise the pre-competitive elements of standards. They involve local governments to institutionalise and coordinate local delivery thus expanding the drivers of change. New linkages are developed to foot printing, to carbon and water markets and improved access to finance.
4. **License to operate:** Sustainability is being institutionalised and it becomes a license to operate. The joint efforts of market demand and (local) governments working together in a coordinated approach removes final barriers and leads to the tipping point for commodities where sustainability becomes a market qualifier. There is a level playing field.



Work on delivering the green economy has begun but there is still a long way to go:

Table 1: Selected market share for sustainability certification (based on current annual reports)

Commodity	Standard	Founded	Production certified (%)
Cotton	BCI	2005	3%
Soy	RTRS	2006	3%
Palm oil	RSPO	2003	14%
Cocoa	Various	n/a	12%
Fish	MSC	1997	7%

[6] New Foresight, More about market transformation, 2011, http://www.newforesight.com/more-about-market-transformation

2.2 License to operate

The drive for growth has driven companies into new ventures internationally. The resulting restructuring has relocated value chain activities, meaning that multiple jurisdictions now apply. For example, in developed countries, legislation to improve air quality or to establish traceability has been implemented at some cost. Meanwhile, in developing countries, such legislation can be poorly enforced or non-existent. Low production costs and good access to resources are countered by dubious product integrity, poor labour standards and environmental degradation. Issues such as allegations of involvement in human rights violations and environmental failures can become major problems with a negative impact on sales and share price.

In addition, entering these emerging markets involves working with host governments and local stakeholder groups, each with their own policy needs and interests. For example, inclusion of small-scale farmers and provision of education to the households of workers may be a political necessity. Companies need to consider such local context and tackle new issues of poverty, labor standards and the environment.

Attempts to regulate the private sector at an international level have been made. For example, the ILO Tripartite Declaration and the OECD Guidelines on Multinational Enterprise aimed to strengthen the responsibility of multinational enterprises when operating in weak governance zones. Many years on, neither has provided more than a partial solution. Because of this vacuum companies have built their own approach. The traditional risk mitigation strategies have provided a steady flow of mostly similar policies and codes of practice into value chains around the world. For each multinational company with its large supplier base, this becomes expensive. The leading companies have found that proactive engagement and a shared approach can be a cost effective alternative.

The development of voluntary sustainability standards has reduced risk by making good practice a requirement that is independently verified. These schemes set and enforce their own regulations. This can mean a product meets all national legislative requirements but is still not acceptable to certain companies. This leads to a perception that private standards may be unfair. After all, they go beyond minimum legal requirements; they limit market access and create barriers to trade. It is an economic truism that efficiency and scale will prevail. When standards are applied to commodity production involving small-scale producers living in poverty, inevitable exclusion means that there is a social price for the public sector.

Inconsistency in regulations has now combined with multiple private approaches to create a new complexity. The driver for public and private stakeholders is to resolve this divergence. The level playing field that would provide a solution can only come from consistently enforced and harmonised national and regional regulations.

> *"Our Sustainable Living Plan commits us to a common approach across all our value chains. That means we have to work everywhere in the same way. On measuring for sustainability, Europe represents our key challenge because it will introduce the first legislation. This will affect how we operate. What would be a real problem for all companies is if significantly different regulations then emerged in various jurisdictions."* Nigel Bagley, Director of Industry Affairs, Unilever.

2.3 Access to supply

Higher commodity prices with increased volatility are being driven by demand factors such as economic growth, changes in diet and new policies on biofuels. In the next 50 years more food needs to be

produced than in the past 500 years[7]. There is neither a widespread understanding of the nature of this challenge, nor tried and tested globally collaborative solutions. The accepted reality is that 'business as usual' will not meet future demand, but the required change to business isn't clear. CEOs must answer this question: Will my company be able to secure enough commodities to continue to deliver growth?

The leading companies have understood the significance of this impending transition towards a market where power will be with suppliers rather than buyers. Their step change in sourcing strategy is about increasing control over supply with two key strategic options. For some, establishing direct control is possible with varying degrees of backward integration, land investment and product substitution. For the majority, that is not possible. Rather, the leaders have turned to each other for collaborative solutions based on transparency and a shared approach. Working together, they can exercise market power to achieve control and secure future supply.

To address the global supply challenge, a unique private sector agenda is being launched with unprecedented investment plans for African and other emerging economies. These investments are geared towards upgrading the supply base to achieve higher levels of productivity and efficiency. Public extension services that have been dismantled over the past decades are now being rebuilt by the private sector so that smallholder farmers and SMEs get access to knowledge, inputs and new technologies. Multinationals are acquiring upstream supply chain assets, such as upcountry buying stations, to operate these as hubs for service delivery to suppliers.

With the right mechanisms and partnerships in place, the public sector has a unique opportunity to leverage these private investments for the delivery of public goods. Successful examples of such innovative public-private collaboration are the national task forces implementing the New Vision for Agriculture as developed by the World Economic Forum.[8] Leading companies, local government and banks get together in Vietnam, Indonesia, Tanzania and other countries to implement national investments in agriculture to boost food security and spur economic growth.

"We have been active in emerging markets for years. We genuinely believe that we are true partners for growth in these markets and we can only succeed by creating shared value. To attract new investments, governments and donors invest in infrastructure and in education while we focus a significant part of our investments to improve the lives of our people (including heir health). In addition, we generate substantial tax revenues for the governments.
We measure our socio-economic impact in most of our key markets so we can see the impact of our business of the entire value chain. For example, in Nigeria we account for 4.5 % of the government's non-oil tax revenues through a combination of wage taxes from our direct (4500 people) workforce and the 681000 jobs that we support indirectly (which

3 What's happened?

This section presents two case studies about public-private coalitions working on market transformation, illustrating different partnership approaches.

[7] CSIRO, 2009, Sustainable Agriculture: Feeding the World, presented at the Science and Technology in Society Forum, Japan,

[8] World Economic Forum, 2011, Realizing a New Vision for Agriculture: A roadmap for stakeholders

3.1. Committed coalitions in cocoa: certification, farmer premiums and backward integration

West Africa accounts for 70% of global cocoa cultivation and farming is almost exclusively by smallholders, in total around 3 million farmers. Production takes place in conditions of poverty featuring the worst types of child labour. The cocoa producers do not have access to price information, finance or agricultural inputs. The future of cocoa farming looks bleak as young people seek a better life away from remote rural villages without adequate schools or access to health services. Production per hectare and on-field investments are extremely low and growing world demand is thus largely met by expansion through deforestation.

The industry is highly concentrated. Three manufacturers (Mars, Nestlé and Mondelez) make 40% of the chocolate consumed around the world and a handful of major traders and grinders provide two thirds of global bean processing and trade.

Initially, the key driver for industry was reputational, running CSR projects to deal with the issue of child labour. Since the commodity price hikes in 2008 however, the companies are more and more concerned about future supply. A million tonne shortfall looms ahead in 2020 as the world's growing middle classes provide an attractive new market, while precarious production conditions make farmers and investors look for more profitable and secure crops like rubber or palm oil.

The combination of reputational and supply risks has brought the industry together in the World Cocoa Foundation (WCF), a non-profit organisation with 100 members representing 80% of the global corporate market. Through public-private partnerships of WCF, the Bill and Melinda Gates Foundation and the Sustainable Trade Initiative, competing companies, suppliers, NGOs and governments are increasingly working together towards market transformation.

A key mechanism for change has been certification. Certifying groups of farmers that are producing sustainably has proven to be an effective mechanism to link farm production to field investments and to end markets. Certified production, largely absent just five years ago, is expected to surpass 12% of global production in 2014. Industry has worked closely together with NGOs and certification bodies to develop effective approaches of farmer field schools, grouping, auditing and chain of custody systems.

A key driver for certification has been Mars Inc., a family-owned brand manufacturer with €22 billion in annual sales and 65,000 employees. They buy 12% of all cocoa. Their business strategy has determined that 'business as usual' will ultimately result in cocoa shortages meaning that a mainstream transformation of cocoa production must happen. They consider that certification provides a pre-competitive system that every company can follow. It provides a business-to-business solution to create new linkages for companies with their upstream suppliers.

Mars has a target to source 100% of their cocoa from certified producers by 2020. Having considered that the start of the solution would be an improvement in farmer income, in 2009 they unilaterally started paying an extra €200 per tonne to their suppliers. This premium has raised farmer incomes and provided funds to finance the costs of training to achieve certification. In 2013, over 200,000 tonnes of Mars Cocoa will be certified, more than half of their global usage.

Their bold moves have driven change in the sector as other brand manufacturers have followed, thus building market demand for certified products while providing an attractive incentive package for farmers in terms of training, input services and premiums. Also, it triggered the traders of cocoa to build their expertise in farmer organization and certification because their customers, the global chocolate manufacturers, had started to demand certified cocoa. The result has been an integration of the supply chain to get direct access to farmers, pushing out layers of middle-men. Committed supply chain

partnerships between manufacturers, processors, local governments, NGOs, donors and certification bodies have driven this change.

There remains a question of integrity. If impact is to be delivered, then it must be credibly measured. Data on yield improvements and the social and environmental impact is not robust enough when the level of investment is considered. Child labour continues to be a problem. The standard owners (such as Rainforest Alliance, Utz and Fairtrade) know this failure exists and must find out how to share their challenges with the companies.

The private sector can only take certification so far. For Mars and others to achieve their aims, the certification standards for sustainability must eventually enter the mainstream with governments making them national regulations. The question of measurement must also be solved.

> *"You can't certify poverty; you need to certify sustainable business".* Peter van Grinsven, Director Sustainable Cocoa Supply, Mars Inc.

3.2. The Better Cotton Fast Track Program: Pooled funding, a consistent message and a relevant national approach.

Cotton is a dirty and thirsty crop whose production provokes serious environmental and social challenges. While the 27 million tonnes of cotton grown globally require only 2.5% of the world's arable land, it accounts for 6.8%[9] of pesticide usage. In developing countries, pesticide usage climbs to 50%, especially of the most hazardous types.[10] An estimated 3%[11] of water used worldwide is used on cotton, creating serious regional problems of water scarcity and salination. Other problems include countless smallholder farmers living in poverty and widespread use of child labour.

In 2007 the multi-stakeholder Better Cotton Initiative (BCI) was founded to green the cotton value chain and improve the conditions for smallholder farmers. It was an industry initiative supported by international NGOs (e.g. WWF and Solidaridad), aiming to develop and implement a sustainability standard that would drive change and could be adopted at scale. The standard was intended for the mainstream in contrast with the more the rigid demands of organic production but without premium payments to farmers.

To support the BCI system and to accelerate the transformation of the sector, seven leading brands joined forces in the Better Cotton Fast Track Program (BCFT) in 2010. It was convened by IDH The Sustainable Trade Initiative, as a pre-competitive collaboration between cotton industry, donors and civil society stakeholders. The BCFT coalition has driven change in a number of ways.

First, by joining forces, the brands were able to set ambitious targets for the creation and sourcing of sustainably produced Better Cotton. In 2010, a target was set of 1 million tonnes of cotton lint produced in 2015 and ready to be sourced into the manufacturing supply chains of these major brands. Over a five year period, the brands committed to invest €20 million, to be matched by a similar amount from four funders. This pooled funding enabled the growth of the BCI organization and the start of a comprehensive portfolio of farm support projects in South America, Africa and Asia. This has turned out to be so successful that

[9] Data provided to the International Cotton Advisory Committee Expert Panel on social, environmental and economic performance of cotton production (SEEP), 2010

[10] WWF, 2007, "Cleaner, greener cotton: impacts and better management practices",

[11] World Business Council for Sustainable Development, 'Sustain' issue 29, page 7. Their source: www.water footprint.org

targets were scaled-up to 1.5 million tonnes in 2015 and 9 million tonnes in 2020 (which would account for 30% of all cotton grown).

Secondly, the alignment of the brands, with the active support of major NGOs, helped to send a strong message into the cotton supply chain. The brands organized a yearly regional event, jointly calling upon their supply base of ginners, spinners and manufacturers, to convey the need to turn towards the production and sourcing of Better Cotton. These strong, united signals have helped to raise the commercial interests of major suppliers into this new approach.

Finally, this cotton case has brought to light the importance of country-wide adoption for accelerating green growth. Brazil is a clear case in point where the up-scaling of Better Cotton production has been rapid. The reason is that their cotton growers are well-organized and jointly see a commercial interest for the future of their industry. Their supply chain is well organized as farming is strongly consolidated on large properties with good vertical integration because these farmers also control the ginning process (the separation of seed and lint). The national cotton farmer association Abrapa, representing 90% of all Brazilian production, has embraced the concept. They see it as a proposition that not only safeguards the future of cotton production in Brazil but also strengthens their position on the world market. Abrapa are now undergoing the benchmarking of their own national standard with the Better Cotton System and have introduced a member levy to fund the costs. Similar moves are underway by national cotton growing and industry associations in Australia and Turkey.

Hence, an international voluntary standard is integrated into the national standards and strategies of both farmers and processors. If proven to be successful, this allows for a potentially rapid path for the adoption of voluntary sustainability standards and an accelerated move into market transformation.

4 What's next?

4.1 Benchmarking and equivalence

In 2011 there were 426 sustainability certifications and labels registered in the Ecolabel Index.[12] Proliferation continues. For the brand manufacturers and retailers who deal in thousands of products and ingredients, this is a problem because for consumers the claim of any single label becomes weaker with every new logo appearing on the market.

> *"Certification and labeling are time and money intensive; we can't — we shouldn't — certify and label everything… Rather than certifications and labels driving endless incremental improvement, we anticipate — we hope for — a future built on increasingly rigorous, pre-competitive standards for sustainability performance, above which brands compete to make sustainability intrinsic…"*[13]

Convergence can only be driven by a credible approach to benchmarking that major companies will accept and recognise. Within the Consumer Goods Forum[14], the world's biggest retailers and brand manufacturers are working together to benchmark good practice on product safety, social compliance and environmental sustainability. It is not about everyone doing the same thing. It is about objectively recognising that there is equivalence in different approaches. Companies should be able to work with a formally recognised range of standards.

[12] SustainAbility, 2012, 'Signed, sealed, delivered? Behind certifications and beyond labels'

[13] Ibid. page 3

[14] The Consumer Goods Forum (CGF) is a global industry network. It brings together the CEOs and senior management of over 400 retailers, manufacturers, and service providers across 70 countries. Forum member companies have combined sales of €2.5 trillion and directly employ 10 million people.

Their first approach started in 2000 when the Global Food Safety Initiative (GFSI) was launched with the simple aim: "Once certified accepted everywhere." In 2013, the GFSI Guidance Document, which sets out the requirements for food safety schemes and enables comparison and recognition of standards, is now in its sixth version. Currently 77,700 factories around the world are certified to GFSI recognized schemes. At factory level, there are six schemes that have been recognised. At farm level, there are further four schemes. CGF members have committed to recognizing the equivalence of the rigorous benchmarking process which leaves little choice for aspiring schemes than to work within the requirements of the Guidance Document.

CGF members launched the Global Social Compliance Program in 2006. Its aim was to drive convergence of approach for labour standards in supply chains, adding environment to its scope soon after. In 2013, the GSCP Equivalence Process now helps buyers, initiatives and standard owners overcome variations by allowing them to benchmark their standards, tools and processes against agreed best existing practice in a set of Reference Tools. The challenge for CGF members is that although they may dominate the consumer goods market all over the world, many sustainability standards are not business driven because both their roots and ownership is in civil society.

> *"Companies suggest that if consumers can understand the sustainability outcomes of their purchasing decisions, their choice will influence change. I see this thinking as being unrealistic. The message can end up as nonsense because of the complexity and variability in value chains. The leading companies need to edit the choice for consumers and get on with delivering the change. The regulators will follow them."*
> Ariel Brunner, Head of EU policy, Birdlife International

4.2 Measurement

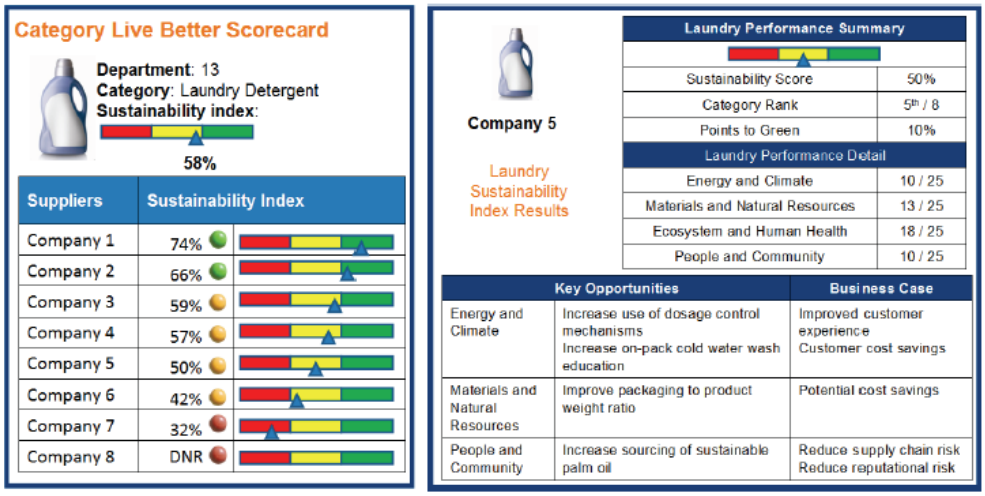
Certification for sustainability can only be considered as providing evidence that some good practice is in place and has been checked. A small fraction of value chains claim sustainability through certification labels while the mainstream is not measured. However, many significant producing and processing sectors have made great progress in dealing with environmental and social issues. Also, many low-technology farming systems can be inherently sustainable. This creates a confusing reality for any consumer who wishes to support efforts to develop sustainability. Labeled products may actually be no more sustainable than much of the mainstream.

If equivalence of impact between various approaches can be measured, the reward will be a leap forward based on what actually works. With credible measurement, investment can be allocated accurately and change accelerated. Making use of mobile ICT technologies, leading companies are upgrading and refining their supply chain data management systems to such a level that these include GPS measurement, farming practices, business indicators, and household characteristics of all of their individual suppliers. This enables them to track the effects of their investments with real-life data from the fields.

At a pre-competitive level, companies in the Consumer Goods Forum are working to align on impact measurement for their own operations and for the products they make and sell in partnership with The Sustainability Consortium (TSC), an independent global network set up by the Universities of Arkansas and Arizona. TSC is developing a science-based framework for the quantification and communication of sustainability-related information throughout the product value chain. The framework, called the

Sustainability Measurement & Reporting System (SMRS) serves as a common, global platform for companies to measure and report on product sustainability. It enables rigorous product level Life Cycle Assessments to be done at a fraction of today's time and cost and provides a platform for sustainability-related data sharing across the supply chain.

One TSC member, Walmart, have integrated the system into their buying process. This means that buyers have a tool to understand the issues and are expected to make informed procurement decisions beyond price. All of this has its roots in a common approach that TSC and CGF members will use to drive a new approach.



Source: Walmart

4.3 Boosting the role of local government

National governments can accelerate the implementation of green value chains through regulatory and policy formulation in alignment with private sector and standard bodies. Market transformation will get a great boost if the pre-competitive aspects of standards find their way into sector policy and public regulation. We presented emerging examples in the cotton case study (3.2) where the Better Cotton System is being carried forward by local stakeholders in Brazil, Australia and Turkey. The standards of the future will be those that are endorsed by both government and companies. This requires innovation in policies and partnership models:

> *"Often private standards fill the gap where governments do not implement/enforce standards they committed to. Although this seems to be better than complying with no social or environmental standards, this cannot be a satisfactory status in the long term as it further weakens the role of governments, particularly in developing countries. The relation between the public domain and private standards should rather be a complementary as opposed to a substituting one."* [15]

This not only means the adoption of baseline norms on social and environmental performance (see 4.2), but also the strengthening of supportive policies and institutions, such as land use planning, land

[15] Steering Committee of the State-of-Knowledge Assessment of Standards and Certification. 2012 *Toward Sustainability: The roles and limitations of certification*

tenure, water resource management, fiscal incentives, and green public procurement. The biggest win will come if public and private sectors are able to co-invest in a coordinated manner. The return on investment of the current wave of private sector financial commitments in emerging and developing economies will multiply if the public sector simultaneously invests in infrastructure, extension and social services such as health and education. Synergetic co-investment can be orchestrated in national task forces where leading companies and key public decision-makers are professionally facilitated along a shared roadmap, such as those set up by the World Economic Forum.

5 Key finding

In this paper we have shared the progress, lessons and challenges of public-private coalitions in agro-commodity markets. We have made the point that by partnering with a limited number of leading companies we can work to change the practices of 1.5 billion producers and 7 billion consumers. Naturally there is a short-term cost before long-term gain and sustainability will only be achieved when brown economies decline at a faster rate than the increase of the green economies. We have provided substantial evidence that the greening of global value chains provides a powerful opportunity to merge public and private interests.

Our key message is for governments to innovate and seek to leverage the enormous drive and investments of the private sector in earning both their license to operate and their long-term security of supply.

> *"The battle on the 2-degree warming limit is lost – we must come to terms with a 4 degree warmer atmosphere and urgently focus on adaptation, on flexibility and resilience to cope with the daunting challenges. Agriculture will become the key battleground of the 21st century because there will be an unprecedented rush for water and arable land and huge migratory movements thus triggered. That's the language of facts and figures".*
>
> Ulrich Hoffmann, Senior Trade Policy Advisor, UNCTAD secretariat.

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