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CSR and Trade: Informing Consumers about Social and Environmental Conditions of Globalised Production

PART I

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**TRADE DIRECTORATE
TRADE COMMITTEE**

Working Party of the Trade Committee

**CSR AND TRADE: INFORMING CONSUMERS ABOUT SOCIAL AND ENVIRONMENTAL
CONDITIONS OF GLOBALISED PRODUCTION**

OECD Trade Policy Working Paper No. 47 - PART I

by Barbara Fliess, Hyung-Jong Lee, Olivia L. Dubreuil and Osvaldo Agatiello

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ABSTRACT

Focusing on consumer demands in OECD markets and voluntary initiatives taken in the private sector, this study investigates how consumers are informed about the social and environmental conditions under which products have been produced. Consumers of OECD increasingly attach importance to how companies they buy from conduct their business, and the voluntary adoption of CSR policies is spreading in the private sector. But how do consumers know if producers and sub-contractors collaborating within global supply chains meet given standards? Effective communication has a potentially important role for engaging consumers who care about production conditions, and more broadly for enhancing awareness of companies' CSR activities.

The paper identifies four major information strategies through which consumers obtain information about social and environmental production conditions: certification and labelling, corporate reporting, consumer guides and corporate marketing. It investigates the extent to which these strategies are used to inform consumers in four sectors with globally traded products: fisheries, cut flowers, cosmetic, and textiles and clothing. Our research shows that the relative use of information instruments varies considerably across products. In all four sectors, products are available which originate from production controlled by private voluntary standards of production. With the exception of fisheries, where mostly environmental issues receive attention, the agenda of CSR communication covers both the social and environmental conditions of production. CSR communication also is at a more rudimentary stage in fisheries and cut flowers than in the other two sectors.

As markets become more concentrated at the retail level for these and other products, the influence of large buyers over suppliers' production practices is growing and CSR products are making their way into mainstream markets dominated by large retail chains and supermarkets. The growing power of large buyers and the crucial role of effective communication in helping bridge the observed gap between consumers' attitudes and purchase behaviours, but also the challenge and potentially trade-limiting impact resulting from the increase in and diversity of private social and environmental production standards, were among the various developments noted by stakeholders when they discussed the topic of this paper at a recent workshop in Rotterdam on 26 September 2006.

Keywords: corporate responsibility, corporate social responsibility, CSR, consumers, consumption environmental conditions of production, social conditions of production, certification, labelling, reporting, environmental reporting, social reporting, codes of conduct, consumer guides, CSR branding, CSR marketing, textiles and clothing, fisheries, cut flowers, cosmetics, eco-label, eco-labelling, social label, supply chain, value chain, retail, supermarkets, multinational enterprises, MNEs, OECD.

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The Working Party of the OECD Trade Committee discussed this report and agreed to make the findings more widely available through declassification on its responsibility. The study is available on the OECD website in English and French: <http://oecd.org/tad>

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EXECUTIVE SUMMARY

Consumers are a key constituency benefiting from trade liberalization. Therefore, where perceptions about negative effects of globalisation on the environment and social standards are shaping consumer opinion and behaviour, companies as well as government policymakers see a need to address this issue.

Developments in OECD markets show that, while price and quality are leading criteria in purchasing decisions, consumers increasingly attach importance to how companies they buy from conduct their business, and that the voluntary adoption of CSR policies is spreading in the private sector in response to concerns from consumers and other stakeholders. These consumer choices and private sector responses inevitably have an effect on international trade, which is often not transparent.

This study investigates how consumers are informed about the environmental and social conditions under which products they buy have been produced. Besides addressing one specific CSR issue, namely social and environmental conditions of production, the study focuses on consumer demands in OECD markets and voluntary initiatives taken in the private sector. It does not seek to address the broader political dimension of CSR or reflect the debate in a comprehensive manner that includes all stakeholders, in developed and developing countries

The actual effects of CSR on the perception and behaviour of consumers are mixed and unclear. Existing market research reveals that consumers of OECD increasingly attach importance to this issue and are interested to buy goods that match their expectations. However, the actual purchasing behaviour of consumers does not match what they say they would do. Several reasons may explain this gap. Polls suggest that effective communication could be one of the missing links between potential consumer demand and purchasing behaviour.

Marketing products on the basis of production attributes is complicated because conditions of production are not visible for the consumer. At the retail level, larger companies are key to mainstreaming consumption of CSR products, especially large retail chains such as supermarkets that are in daily direct contact with consumers and increasingly source directly from producers. Niche players such as Fair Trade however show that it is also possible to acquire a market for small-scale production.

Companies use four main types of communication instruments to inform consumers about the conditions in their global production chains: 1) certification and labelling, 2) reporting, 3) consumer guides and 4) marketing strategies. Setting and implementing quality, social or environmental standards for products or production processes typically entails a large degree of coordination, traceability and monitoring along different agents of the supply chain, with a variety of stakeholders participating. In important market segments, large buyers committed to CSR and in a position to require certified products from their suppliers play a significant role. From a business perspective, CSR can make good business sense. Reputation is a key incentive for companies to apply standards of responsible production and let consumers know. The broadening use of CSR practices however also has raised concerns about possible trade effects for smaller producers with limited capacity to develop or implement CSR policies, especially in developing countries.

To learn why market actors have voluntarily adopted CSR standards for production in certain global value chains and how consumers obtain information that goods have been produced according to these standards, the paper describes private standards for CSR and related communication strategies in four sectors: fisheries, cut flowers, cosmetic, and textiles and clothing.

The main findings of the sectoral studies are:

Since many fish species are over-exploited, sustainable fishing has emerged as a key concern in *fisheries*. Being aware of depleting fish stocks, fish consumers nowadays are more interested in gaining information on, beyond the quality and price, how and where the fish and seafood they buy were caught and produced. Several labelling schemes, such as the MSC logo and Dolphin-safe tuna, have been introduced in order to certify fish and seafood produced in a sustainable way. Labelling is the most widely recognised CSR information scheme in fisheries, although its market impact remains modest. Meanwhile, there are indications that CSR issues are becoming increasingly evident in the fisheries sector; yet other information systems such as company reports on CSR are still relatively underdeveloped and consumer guides do not focus on fish and fish products, although some stakeholders have begun to publish specialised fish guides. Like in retailing of other consumer goods, big supermarkets have gained large market share in fish and seafood sales making innovations in seafood trading and marketing. Based on their market power, they are likely to become more capable of satisfying consumer demand for information.

In the market for *cut flowers*, provision of information to consumers is not yet well developed as the CSR disclosure in this industry seems to be more business-to-business oriented than business-to-consumers. This highly competitive market has seen a gradual shift of production away from developed-country to developing-country suppliers including Colombia, Ecuador and Kenya. Starting in the early 1990s, campaigns by activist groups have highlighted a number of workplace and environmental problems on developing-country flower farms, ranging from low wages, long hours and poor sanitary standards to the hazardous use of pesticides, and land and water pollution. While these campaigns have sensitised consumers to issues linked to flower production, when they shop for cut flowers they have difficulties distinguishing between products on the basis of their production conditions. Certification and labelling schemes are relatively well established but focus largely at the business-to-business transaction level. This means that the consumer most often does not see a label when flowers are grown on farms with socially responsible production. While efforts to promote consumer labels are picking up, the nature of the product and characteristics of the supply chain and markets – producers selling to intermediary buyers and flowers being sold often by many small shops– may constitute special impediments to supplying consumers with relevant information at the point of sale. Neither corporate CSR reporting nor consumer guides play a major role in informing consumers. While marketing of product and production characteristics is widespread and lively in the emerging market for organically grown flowers, corporate advertising and promotional efforts are not prominent when it comes to the larger cut flower industry and CSR issues.

CSR communication in the *cosmetic industry* is sophisticated, well advanced and easily observed, although what is disclosed is mostly information related to product characteristics, not production conditions. As early as in the 1990s, when the issue of corporate social responsibility was not yet on the radar screen of many chief executive officers (CEOs), small and medium-sized enterprises (SMEs) from the cosmetic sector started to introduce this notion, and to report on their social and environmental impact. Cosmetic products are intimate to the consumer, as he or she uses them directly on the body or face. Moreover, CSR disclosure has brought consumers' trust towards a company. As a result, these cosmetic companies quickly gained the necessary market shares. They gained consumer trust, which in turn enabled them to compete with the big corporations and even become multinationals themselves. Remarkable in this industry is that SMEs have set the standard, and multinational corporations are now following in their footsteps and surfing on the natural-product, social and environmentally friendly company. They are now competing on CSR grounds to win those hard-to-get market shares. The industry has pioneering CSR-reporting companies, and it continues to hold this advantage over other industries. Cosmetics companies are not just trying to get into a niche market by publishing CSR reports; through internal CSR alignments they are answering to a widely shared consumer concern about trust in the companies that produce those products that people use on themselves.

In the *textiles and clothing industry*, companies use a variety of approaches to deliver and improve upon the CSR information conveyed to multiple stakeholders, and the image that they project. Non-governmental organisations (NGOs) highlighting problems with environmental and social standards in the supply chains for these products have contributed to the development of a considerable number of labels, but information on production under these labels is not broadly available to the consumer. CSR corporate reporting is broadly used in this sector as an information channel to meet increasing demands from NGOs and other stakeholders for more information on the working and environmental conditions in the supply chain. Many textiles and clothing companies have global sourcing and operating guidelines of their own and provide related information. There are also a large number of consumer-information publications. Besides the substantial information that is provided by regular or CSR-dedicated consumer guides, NGOs through their own, often website-based guides try to influence consumers by reporting on the social and environmental performance of companies. Brand positioning is important in the clothing industry and is thus reflected in different approaches of clothing companies towards CSR.

A review carried out for this study of relevant marketing literature about effects on company reputation of various approaches of corporate communication towards consumers revealed some advantages and some disadvantages for different claims, marketing, disclosure policies and third-party involvement. However, as quantitative indicators that would facilitate comparison of information instruments by their effect on individuals come mainly from experimental research, firm conclusions about most effective information schemes cannot be drawn on the basis of this study.

Our research shows that the relative use of information instruments varies considerably across products. Culture, market concentration and other factors seem to play a role. Looking at what companies are doing, it seems that many do not participate in certification and labelling schemes involving government but rather choose private standards, often with a view to what competitors are doing. Companies also engage in new inventive ways to communicate about their responsible practices and appeal to consumers. Overall, CSR communication is at a more rudimentary stage in fisheries and cut flowers than in the other two sectors. With the exception of fisheries, where mostly environmental issues receive attention, the agenda of CSR communication in other product sectors covers both the social and environmental conditions of production.

Providing input for this work, discussions at a multi-stakeholder workshop taking place in September 2006 in Rotterdam confirmed that consumers increasingly care about CSR but often do not select goods on this basis. Participants were in broad agreement that effective communication could help bridge the noted gap between consumer attitudes and purchasing behaviour; however, different views among stakeholders about what information schemes work under which circumstances, and the absence of quantitative data for the evaluation of impact on actual consumer behaviour preclude conclusions in respect to the relative effectiveness of different approaches. Speakers confirmed that private CSR production standards are spreading and some CSR products are entering mainstream markets in some OECD economies, where large retailers and other multinational buyers are increasingly requiring adherence to CSR standards from their suppliers. The co-existence of many private standards and the difficulties that this can create for consumers as well as suppliers, especially suppliers in developing countries, was noted. From the discussion emerged that greater consistency in communication was important and greater convergence of CSR systems would also lead to better informed consumers and would facilitate international trade. Some collaboration among companies exists; however, the competition among companies on CSR was viewed as a factor that limits the room for such initiatives.

I. Introduction

1. Consumers are a key constituency benefiting from trade liberalization. Therefore, where perceptions about negative effects of globalisation on the environment and social standards are shaping consumer opinion and behaviour, companies as well as government policymakers see a need to address this issue.

2. Developments in OECD markets show that consumers increasingly attach importance to how companies they buy from conduct their business, and that the voluntary adoption of policies of corporate social responsibility (CSR) is spreading in the private sector in response to concerns from consumers and other stakeholders. These consumer choices and private sector responses inevitably have an effect on international trade, which is often not transparent.

3. Definitions of CSR¹ vary across cultures and stakeholders and can encompass a broad range of activities and issues; however, many CSR initiatives seek to respond to the questions of how a company treats its employees and what it does to protect the environment in which it operates. As production and sourcing takes place on an increasingly global scale, voluntary standards addressing these two issue areas have become an issue also for companies collaborating within supply chains across countries.

4. Building on a proposal by the Netherlands, this study investigates how consumers are informed about the environmental and social conditions under which products they buy have been produced. In today's dynamic environment for international trade, implementing private standards of production is challenging. Chains of production and distribution are often complex, involving a large number of countries. Production standards relating to environment and labour in these different countries are not always at the level that consumers expect. But how do consumers know if suppliers and sub-contractors meet given social and environmental standards? To what extent are consumers a target of market actors' strategies to communicate about production conditions?

5. The objective of this investigation is to inform policymakers on what private companies as economic operators that have an obvious strong interest to track any possible trends in consumer perceptions do to communicate their policies with respect to social and environmental conditions of production. Informing consumers not only facilitates purchasing decisions underpinning well-functioning product markets but can also contribute to greater consumer confidence in global production systems and free trade, which is an imperative for maintaining support for an open trading system. Hence the need for policymakers to be aware of CSR developments in the marketplace.

6. The scope of this study is limited. The narrow focus on social and environmental conditions of production chosen for the project means that corporate philanthropy, efforts to combat corruption or other ethical conduct of companies will not be examined. Of course this is not to say that CSR issues and policies other than those related to production conditions are less important, but merely that social and environmental production conditions have received most attention from the perspective of consumers in OECD countries concerned about the global scale of production of goods and services. Recognising that business norms and standards, regulatory frameworks and stakeholder demands for CSR can vary

1 This paper uses the term "corporate social responsibility" or CSR, although some organisations prefer to use "corporate responsibility", or CR. In common use, both terms refer to voluntary business initiatives responding to a broad spectrum of societal concerns (workplace, social, anti-corruption, technology-related and environmental issues), not only social issues.

significantly across nations, regions, and lines of business, the study will not pass judgement on any standard applied either.

7. In addition, the study focuses on the demands of consumers in OECD markets and voluntary initiatives taken in the private sector. These limitations mean that this study does not seek to address the broader political dimension of CSR or tries to reflect the debate in a comprehensive manner that includes all stakeholders, in developed and developing countries.

8. The paper is organised as follows. Drawing on recent opinion surveys and other available research, *Section 2* documents consumer attitudes towards CSR and recent market trends for products bought based on CSR criteria. It examines what CSR-related information consumers expect to receive and what incentives or concerns corporate buyers and producers may have when adopting CSR policies. *Section 3* discusses four major categories of information schemes through which consumers can obtain information about CSR practices, both product-related and company-related. What form do these information schemes take and how do they operate? What do we know about their relative strengths and weaknesses? The information schemes presented range from certification and labelling schemes to traditional product advertising by companies. *Section 4* summarises findings from research on the use of these information schemes in four different sectors with globally traded products: *cosmetics, cut flowers, fish, textiles and clothing*. The detailed case studies of these sectors are issued as companion paper **Part II**. The themes and findings of this research were discussed at a workshop on *Informing Consumers about CSR in Production and International Trade* organised by the Netherlands' government in Rotterdam on 26 September 2006, which brought together a diverse group of stakeholders. Clarifications and observations resulting from this discussion are presented in the concluding Section.

II. Consumer and business perspectives of CSR and related information schemes

9. Societal expectations about CSR have grown during recent decades and so have company commitments to CSR. These expectations on the one hand, and commitments on the other hand, are having now a noticeable influence on the marketplace for goods and services.

10. Consumers express their expectations of companies' CSR practices through their product (and services and equity) purchase decisions. This can be a business advantage to companies that can integrate and communicate CSR effectively, differentiating their products from those of competitors. When companies buying abroad apply private standards of production to their supply chains, CSR standards can spread worldwide through trade.

1. Consumer interest in CSR and purchasing behaviour

11. Consumers have become more aware in recent years of the way companies conduct their business, both at home and abroad, and interested in CSR, including the issue of socially responsible production.

12. When asked in surveys, a large number of consumers affirm that whether or not companies are committed to social responsibility is important to them. Survey findings showing consumer attitudes towards CSR issues are presented in **Annex II.1**. From the surveys reviewed, a substantial number of consumers also express a willingness to pay more for products associated with acceptable environmental and labour conditions of production (see Annex II.1 Section B). Evidently, this willingness to pay depends on individuals' levels of income and other factors and has been observed to differ across countries.

13. While the conditions under which a product is produced are important, they are not necessarily leading the list of criteria or attributes determining purchase decisions. Consumer behaviour can be driven by many different motivations, rationales, excuses and justifications, of which concern for CSR is only one. Today it is only a minority of consumers that actually place CSR anywhere near the top on their list of decision-making criteria for shopping. Research finds that price and quality are the most important purchasing criteria. When CSR and non-CSR products are equal in price and quality, the share of consumers who choose CSR products increases.²

14. What is the observable level of consumption of products originating from socially responsible production? In most OECD countries, products falling in this category enjoy relatively modest but usually growing market shares.

15. While actual demand and markets are growing, market research reviewed for this study nevertheless suggests that behaviour does not quite match attitudes. There is a *gap between what consumers say and do*: many say they care but do not purchase based on their stated preferences. Various motivations, rationales and excuses may drive the actual purchasing behaviour of people, helping to explain this disconnect:

- Some consumers may not care under what conditions the products they buy are produced but do not want to admit this when asked in surveys;
- Some consumers may not feel that their individual purchase decisions will have an impact on corporate product policies and business practices; they rather see the issue as too big for an individual to have an impact;
- Some consumers may believe that governments, companies and the media should take the lead in fostering CSR. They may not act on their stated preferences in the expectation that someone else should or will deal with the problem;
- Consumers may be unwilling or unable to pay more for CSR products;

2 While it is difficult if not impossible to isolate the impact of CSR information from other factors determining purchasing behaviour, such as price, quality, safety, or prior personal experience, surveys provide some indication of how consumers rank different criteria. For example, when asked only 5% of the *British public* places ethical considerations *above all others* in purchasing decisions (Cowe and Williams, 2000); among *UK food shoppers*, 70% base their purchasing decisions on price, taste and sell-by-date – not ethics (Doane, 2005). When asked, *German consumers* ranked quality first, then price, environmental friendliness of products, followed by look and design, brand, country of origin and image of producer. When CSR and non-CSR products are of the same quality and price, 10% of German consumers always give preference to CSR products (Imug, 2003). In a market simulation conducted with German interviewees in 2005 of the jogging shoe market and using actual brand names, CSR performance of the shoe company and jogging shoe brand was found to make a difference with the interviewees, indicating a clear impact of a company's CSR performance on its market performance *provided consumers know about companies' CSR performances*: the top brand shoe obtained a significantly higher estimated 'market share' than equally priced shoes from rival top brands if the interviewees were told that CSR performance was 'best practice' or 'above average', respectively (Wirthgen and Schoenheit, 2006). When Home Depot stores in Oregon ran the experiment of offering *US shoppers* plywood that carried the certification label of the Forest Stewardship Council (FSC) alongside same-priced unlabelled plywood, FSC-labelled plywood outsold unlabelled plywood by more than 2 to 1. When the unlabelled plywood was less expensive, most customers preferred the cheaper product but a large minority (37%) still proceeded to buy the labelled product (Diamond, 2005, p. 475-6).

- Consumers may have doubts about the quality of CSR products, judging them to be inferior or less performing than conventional products;
- Where CSR products are not available in mainstream outlets, consumers may not be willing to go to specialised stores to obtain CSR products;
- Consumers may be sceptical of CSR claims of companies or products;
- Consumers may not have the information needed to make purchasing decisions that take CSR criteria into account.

16. Effective communication by companies to consumers might engage consumers who state that they care about CSR, to purchase accordingly and more broadly enhance consumer awareness of what companies are doing in this area. Market research indicates that consumers do not feel well informed about the CSR activities of companies, including about conditions and impact of production (see **Annex II.1**, Section C). Information provided about products and services may not be sufficient, or may not be communicated effectively, to enable consumers to make a conscious purchase decision that takes account of criteria such as socially responsible production. The observed low level of public awareness of corporate CSR practices also means that the CSR practices and accomplishments of many companies are not being registered by consumers.

17. To reach consumers, how should CSR be communicated? This obviously depends on a variety of factors such as cultural factors, product characteristics, the different consumer profiles (age, income, education) etc. Market research shows that consumer attitudes towards information schemes can vary considerably, implying that information strategies must be tailored to fit given consumer needs and situations (for examples see **Annex II.1**, Section D). The challenges include:

- Consumers may not trust some sources of information. For example, consumers lacking trust in companies may be unreceptive to corporate communications;
- There is a fine line between consumers' desire to be well informed and getting too much or too detailed information ("overload");
- At times consumers do lack understanding, for example, they may not know the meaning of a label or logo – or are confused, for example when different labels certifying the same or similar product or process attributes coexist in one market.

18. Consumers recognise information tailed to their needs and use it, provided they trust the source. Examples include the environmental "Blue Angel" and "Bio-Stamp" labels, which are recognised today by a very large majority of the German population. Both labels influence the purchase decisions as well, because half of those participating in a 2004 survey state that they look for these particular symbols when shopping (Kuckartz and Rheingans-Heintze, 2004).

19. Closely linked to consumers' need for information in order to act on their stated preferences is the issue of product availability and easy access. Consumers have buying habits and are less inclined to

purchase CSR or any other preferred products if these products are not conveniently available but require special efforts, for instance visiting a specialised store.³

2. *Business perspective*

20. Viewed from the perspective of business, voluntary initiatives by companies to develop internal corporate responsibility programmes or codes of conduct can open up areas of strategic advantage and improve management systems, which in turn can strengthen employee commitment and customer brand loyalty. Communication is seen to be an important aspect of CSR, since it is a channel of information between business and the consumer, making the market work and helping companies to focus on those initiatives that make the most business sense to them. Although consumer (and shareholder) demands will play an important role in individual company decisions, communication strategies can differ greatly. Many companies regard comprehensive CSR reporting as an important element in their business strategies, others report in less comprehensive ways, and some do not report at all but prefer to spend more time doing than communicating.

21. Also, implementing standards and communicating these to stakeholders entails costs. At times, these costs can be passed on to consumers. While consumers are prepared to pay higher prices for some products (e.g. organic food; Fair Trade Certified goods, natural cosmetics), this is not found across product markets in OECD countries and may not happen at all in poorer countries.

22. Is CSR profitable? The links between implementation of CSR policies and business performance are difficult to prove and empirical analysis of the relationship has not resulted in consensus. Some of the research and anecdotal evidence points to advantages that range from stronger financial performance and profitability through lower transaction costs and operational efficiency gains, to improved reputation and branding.⁴

3 In Europe, an important recent development boosting sales of Fair Trade Certified products has been the move of these products into mainstream marketing channels as more and more large retail chains carry these products on their shelves. In France for example, the arrival of Fair Trade brands such as Max Havelaar on the shelves of supermarkets and hypermarkets has coincided with a notable increase in Fair Trade food sales. From 2000 to 2003, sales of all kinds of Fair Trade products rose from 9 to 32 million EUR and jumped then to 149 million EUR in 2004 (of which 122 million EUR are food products) (Caillat, 2005; Nouvel Observateur, 20-26 April 2006).

4 A large body of research has investigated the link of CSR policies and companies' financial performance. For example, the results of a meta-analysis by Orlitzky et al (2003) of 52 studies spanning 30 years of research show that there is a positive association between corporate social/environmental performance and corporate financial performance across industries and across study contexts. The relationship tends to be bi-directional and simultaneous, and reputation appears to be an important mediator of the relationship. Similarly, a study of the University of Chicago found, in 2002, that Business Week mean ranking of financial performance of the 100 best corporate citizens is 10.42 percentiles higher than that of the remaining companies. They also calculated that Fortune magazine's mean ranking of most admired company of the 100 best corporate citizens is 19 percentiles higher than that of the remaining companies. Further support comes from a survey covering 33 countries around the world, in which the majority of CEOs across regions and industries subscribed to the view that CSR is important for any company's profitability (PriceWaterhouseCoopers and World Economic Forum, 2002). Other research has produced other results. For example, a recent thorough review of the literature by Vogel (2005) concludes that impact of green investment and green consumerism on companies' financial valuation is limited.

23. The lack of a clear-cut relationship between social responsibility and the bottom line, and the difficulty to gather data for the wide range of CSR behaviours means that no firm conclusions or generalisations can be made. The perception that CSR entails a zero-sum trade-off with corporate economic self-interest is strongly identified with neo-classical economics. Even CSR defenders accept this premise, while at the same time insisting that companies have a broader responsibility to society. The classic literature on business and society asserts that while CSR might entail short-term costs, it pays off for the firm in the long run (Burke and Logsdon, 1996).

24. Research suggests that CSR brings with it cost-related advantages, market advantages, and reputation advantages (Grieg-Gran, 2002):

- *Cost related advantages*, because CSR should lead to higher productivity, insurance premium should be reduced for companies perceived as less risky in the financial market, and so on.
- *Market advantages*, because CSR can assure consumer loyalty; it may also secure higher prices for the products or enable access to certain environmentally sensitive markets.
- *Reputation advantages*, because responsible business practices have a positive impact on the reputation of a company.

25. Depending on industry and market circumstances, companies may not obtain all of these benefits. Based on surveys and other research, a key incentive driving the adoption of private voluntary standards for in-house production and suppliers is *company reputation or brand image* (e.g. Latin Trade, 2004; PriceWaterhouse Coopers, 2003; OECD, 2006). A good public image builds consumer trust and loyalty whereas loss of reputation can depress sales, particularly when NGOs campaign for consumer boycotts. Moreover, the company's commitment to CSR and its overall reputation can be an important factor for retaining and recruiting employees.

26. Reputation also enhances product differentiation under increasing price competition. This incentive to maintain a good company reputation is only reinforced by the growing awareness of consumers of production methods. Especially in sectors with low margins and inelastic demand, such as food, scandals from occasional severe quality failure, strengthened legal product liability and growing awareness of consumers have induced companies to introduce and raise private standards beyond the level of government regulation. This includes private voluntary standards for the environment (ISO 14000) and social conditions (SA 8000) (OECD, 2006).

27. Companies doing business with suppliers and sub-contractors who embrace high standards of business conduct (e.g. by committing to observe buyers' codes of conduct) have found other benefits as well. Asking suppliers to commit to terms regarding their legal, environmental and employment standards has been useful in supporting a business culture that minimises corruption and encouraging compliance with relevant national social and environmental laws in countries where government enforcement is weak.

28. For companies managing often complex global supply chains, CSR raises often difficult issues of how compliance by all participating partners is ensured. Depending on the industry, the complexity of the supply chain and type of business relationship, and other factors, not all companies have the means or capacity, to promote and monitor observance of CSR objectives throughout the chain (BIAC, 2002). Among operators well-positioned to influence suppliers' production practices are large food and multi-product retailers, who have gained considerable buying power in recent years and source in global markets, often directly from producers. Working with retailers has the advantage that producers can forego the often substantial investment needed for informing consumers.

29. OECD research (2006) has documented the increasing use in the *agro-food market* of private voluntary standards as global business-to-business standards in procurement and as a governance tool to improve supply chain performance. One of the observations made is that the consolidation and concentration that has taken place in this market –observable also in other sectors– has given retailers strong market power, enabling them to transmit consumer demands to producers and manufacturers and impose product requirements and standards on their suppliers. These retailers also have strategic incentives to collaborate in the pursuit of harmonisation of different standards because this makes sourcing from multiple suppliers worldwide easier and more efficient.

30. In international trade discussions, labelling programmes in particular have prompted a number of concerns. Producers and governments of developing countries are not convinced that adherence to standards for CSR, even if private and voluntary, will benefit them. Many producers are small and unable to bear the additional costs of adopting CSR policies, engage in CSR reporting or participate in certification schemes. Also, developing countries often lack the infrastructural facilities for standardisation and certification.⁵ It is feared that initiatives to promote CSR production offer scope for discriminatory and protectionist practices leading to trade diversion (see **Box 1**).

Box 1. Developing-country concerns in regard to CSR standards for production

Adoption of CSR production practices leads to higher costs of production which many small firms cannot afford if not compensated by increased purchasing prices for the goods produced through responsible business practices. In addition, producers and manufacturers must pay fees for often multiple audits and certifications when buyers in developed country markets adhere to different CSR schemes, and for carrying the associated label or logo. Advertising and communicating CSR policy to stakeholders implies additional expenditures for producers, distributors, or other participants. Where price premiums cannot be charged or are not significant, the adaptation and compliance costs may be prohibitive for many producers and consequently bar their access to global supply chains and export markets.

Other concerns expressed by producers and governments of some developing countries are that private CSR standards and certification programmes do not always tailor solutions to local conditions; they may apply a one-size-fits-all approach, failing to reflect that one process or production method may be appropriate in one part of the world, but quite inappropriate in another. For example, some voluntary private labelling schemes may favour particular process and production technologies that may be unavailable, unsuitable or prohibitively expensive for trading partners. This by itself can negatively affect market access for third countries. Also, most CSR certification and label schemes originate with significant input from domestic producers who, in theory at least, may have vested (i.e. protectionist) interests in establishing particular standards. In these and other ways, private CSR initiatives are viewed as becoming de facto barriers to trade: supplying companies unable or unwilling to meet CSR standards may lose access to supply chains or export markets.

31. Some of these concerns would abate if greater convergence could be achieved for the numerous standards that trading partners today face in and across export markets. Convergence would reduce compliance costs. More hard data from developing countries showing that adherence to high social and environmental standards of production pays off would also be helpful.

32. Experience in a few developing countries where CSR initiatives enjoying multi-stakeholder support were implemented in specific sectors illustrates how CSR policies can become a competitive advantage benefiting entire industries. In the face of increased competition in the *global garment industry*, adherence to labour and environmental standards is reported to have helped producers in Bangladesh and

5 Comments on the study provided by VOICE, a consumer organisation based in India.

Lesotho, who cannot compete internationally on costs, stay in business and effectively market themselves to clothing retailers in export markets (AccountAbility, BSR and World Bank, 2005) Similarly, the rapid growth of the *handmade paper industry* in Nepal occurred largely because of local entrepreneurs' long-term commitment to CSR practices and the existence of similar traditions at the foundations of Nepalese society, coupled with an international demand for handmade products produced under socially responsible conditions (Biggs and Messerschmidt, 2005)

33. Other exploratory research into the role that CSR plays alongside various other known drivers of national competitiveness (such as technology, innovation, human capital, public institutions) finds that at all levels of national income, for many countries studied there is a correlation between economic growth and macro-measures of corporate responsibility (MacGillivray, Sabapathy & Zadek, Responsible Competitiveness Index 2003).

**ANNEX II.1. FINDINGS FROM SELECTED CONSUMER SURVEYS SINCE 2000
ILLUSTRATING CONSUMER PERCEPTIONS**

A. Importance attached to CSR issues

1. Around 8 in 10 of the **British public** reported in 2005 it was important to know about a company's activities in society and the community when forming an opinion of it; 35% said it was *very important* that a company showed a high degree of social responsibility when forming a decision about buying a product or service from a particular company or organisation [MORI, 1005 adults 16+, July-September 2005]. This share has declined somewhat over the last few years- it stood at 46% in 2001, according to a similar poll by MORI, having risen dramatically between 1997 and 2001 [Source: MORI, 2003. Survey of British public – 2026 British adults, interviewed between 7 July and 11 August 2003]
2. 33% of **British respondents** report having purchased five or more ethical products in the last 12 months. The products mentioned include free-range eggs (68% have purchased) , products with recycled content (57%), Fair Trade Certified products (56%) , organic products (45%) , energy efficient household appliances (43%) , products not tested on animals (41%) , GM-free products (24%) , and others. [Source: MORI, 2025 adults 16+, July-September 2005]
3. In a 2000 survey, 70 % of the **European public** stated that a company's commitment to social responsibility was an important consideration when buying a product or service. This was particularly prominent in Spain (89% agreed) and the Netherlands (81% agreed). [Source: MORI, September 2000. Survey of 12,000 individuals across 12 European countries: Belgium, Denmark, France, Finland, Germany, Great Britain, Italy, Netherlands, Portugal, Spain, Sweden and Switzerland]
4. 64% of **French participants** in a poll said they would like to know the conditions of production of the products they buy. 73% said a social label would influence their purchase decision. [Source: Alter Eco France, March 2000. Survey of 600 French consumers]
5. For German respondents, the leading company selection criteria mentioned were: No child labour (89% of respondents), environmentally friendly products (89%) and economical use of raw materials and energy (86%) and creation of jobs (85%). The importance of similar or same information varied across products. For example, respondents ranked the need for more information about respect of social production standards higher for food products (score = 71 on importance index) than for textiles (score = 66). They ranked the need for more information about environmentally friendly production higher for electricity (score = 68) than textiles or automobiles (score = 64 each) [Source: Verbraucherzentrale Bundesverband, 2003. Survey of 1000 Germans, conducted 14-25 July 2003]
6. A large majority (92%) of Canadians surveyed in 2005 said the more socially and environmentally responsible a company is, the more likely they were to purchase their products or services. 91% also said they preferred to work for a company that was socially and environmentally responsible. [Source: GlobeScan/HP, 2005.] In a different survey, 55% of **Canadians** said they had *consciously decided* to buy a product or service from one company over another because they felt the company was a good corporate citizen. [Source: Ipsos Reid, 2003]
7. A 2006 survey of adults in **several countries** found that on average 39% of respondents reported they had chosen to buy a product or service because of the company's ethical, social or environmental reputation. In individual countries the share was: 45% in United States, 42% in United Kingdom, 34% in France, 35% in Italy, 28% in Germany and 26% in Spain When asked whether they had advised someone against using a product or service of a company because of its environmental, social and

ethical policies, affirmative responses were: 41% in United States, 26% in United Kingdom, 22% in Germany, 21% in Italy, 17% in France and 16% in Spain. [Source: Ipsos G6 Study of February 2006, involving 1000 adults per country]

8. Respondents in **20 developed and developing countries** were asked what the most important thing was a large company should do to be socially responsible:
- Fair treatment of employees was regarded as the most important descriptor of social responsibility in many of the surveyed countries, including the United States, Switzerland, Italy, Philippines, and all Latin American countries surveyed (on average it received the highest score, 26 out of 100 respondents);
 - Environmental protection was the top item in Canada, United Kingdom, Australia and Indonesia (on average it received the second highest score, 19 out of 100 respondents);
 - Turks thought charitable donations were most important, while South Africans and South Koreans most often said that companies should give back to the communities in which they operate (the average respondent of the 20-country sample ranked these items lower [Source: GlobeScan, 2005, involving a subset of 100 respondents each in 20 countries].

B. Willingness to pay more for CSR products

1. In 7 of 12 **European countries** surveyed, a substantial portion of interviewees said they would be willing to pay more for socially and environmentally responsible products. This was particularly true in Denmark. At the other extreme, in Italy only 1 of 6 said that they would pay more. [Source: MORI - Market and Opinion Research International, September 2000. Survey of 12,000 individuals in Belgium, Denmark, France, Finland, Germany, Great Britain, Italy, Netherlands, Portugal, Spain, Sweden and Switzerland]
2. In 2000, 58% of **French respondents** polled said they would be willing to pay more for a product that was socially certified (10% more on average) [Source: Alter Eco France, March 2000. Survey of 600 French consumers]. In another survey carried out in 2003, 77% of **French respondents** stated that they were prepared to pay more for products made under socially acceptable working conditions; 80% of respondents were willing to pay more for products made under environmentally sound conditions. [Source: Ethicity/Carat Média Marketing, December 2003. Survey of 4500 French individuals]
3. In **Spain**, 40% of respondents stated they were unwilling to pay more for a CSR product; 46% were willing to pay 10% more and 10% were willing to pay between 11% and 25% more. [Source: Confederación de Consumidores y Usuarios, (CECU), 2004]
4. 58% of Korean respondents to a poll expressed interest in environmentally-friendly products, attaching importance to: ingredients and manufacturing process, consumption and disposal. 21% stated they had used eco-labelled goods and 73% indicated they would buy environmentally-friendly goods in spite of their premium. [Source: Korean Research Inc, 2005. Survey of 1000 South Korean consumers' perceptions on eco-labels]

C. Informedness and awareness

1. A poll conducted among Austrians found that 69% of respondents wish to obtain more information on whether the firm producing a product behaves ethically or responsibly vis-à-vis society [Source: UBIT and FO.FO.S., 2005].
2. 74% of the British public agree to some extent that their purchase decisions would be influenced if they had more information on company's ethical behaviour, with 25% agreeing strongly [Source: MORI, 2003].
3. 36% of French consumers state lack of knowledge as the main reason for not buying fair-trade products [Source: Alter Eco, 2005]. Also, there are very significant differences in the public's understanding and recognition of the Fair Trade Certified concept/labels across countries, with recognition ranging from 6% of the public in Norway to 60% in Switzerland and 74% in the Netherlands [Source: EFTA, March 2003].
4. A 2005 survey of German consumer households found that only 7% of interviewees felt really well informed about the subject CSR. Only 20% had ever heard about CSR although a content analysis of responses to an open question showed that the understanding and perception of business responsibility altogether was quite broad and respondents associated a wide range of social, ecological and other aspects with CSR. 60% of the interviewees showed an interest in CSR information, but only 25% indicated that they had already actively searched for CSR information. [Source: Wirthgen and Grünwald, 2006. Survey of 1008 representative German consumer households]
5. Public knowledge of specific companies' CSR performance continues to be limited: In 2005, when asked to name a CSR company, many people across **21 surveyed countries** were unable to answer. Those who did, often mentioned companies with strong brand recognition, rather than ones that are particularly active on CSR [Source: Brand Strategy, September 2005].

D. Attitudes towards different sources and the content of information, and recognition of products

1. Do you know 'Commerce Equitable' (Fair Trade)? The share of **French respondents** answering in the affirmative has grown from 9% in 2000 to 45% in 2003 and 56% in March 2005. Most respondents recognising Fair Trade Certified products did this because of the labels (51%); 34% recognised the products through the packaging; 8% through the brand; and 6.5% because they went to specialised shops. Asked how they had heard about 'Commerce Equitable' for the first time, 27.6% of French participants in a specialised survey indicated word of mouth, followed by 18.4% television, 18% newspapers, followed by 14.8% sales outlet. Only 0.7% indicated through the Internet. Both word of mouth and sales outlet have seen sharp increases in responses since 2000, whereas the role of television and newspapers has declined. [Source: Alter Eco, 2005]
2. A 2005 survey of 140 Japanese stakeholders (including consumers, NGOs, and business leaders) found that for information on CSR issues a majority (53%) trusted news articles and 43% trusted personal contacts (family and friends), but just 3% trusted advertising. Many respondents reported they used company websites to get information about a company, followed by newspapers. [Source: Edelman, 2005]
3. In a 2005 survey of consumer households in Germany, interviewees were asked which CSR information suppliers out of a given list of six possible kinds of suppliers they judged being helpful: Information of

consumer organisations topped the ranking (scoring 85 on a index of 1-100 where the higher the index, the higher the helpfulness judged), followed by reporting of media (score=75); information provided by environmental agencies (73); information campaigns of unions (64); information offers of companies (60); and critical book publications (54). [Source: Wirthgen and Grünewald, 2006. Survey of 1008 representative German consumer households]

4. In some cultures people appear more inclined to believe what they hear about a CSR programme from a source they know rather than from a glossy report. Research has found British consumers to be more likely to get information on a company's CSR practice by word of mouth than from any other source [Source: MORI, 2003] Still, when probed for their expectations about companies' social or partnership reporting outlining their impact on and contribution to society, the environment and the economy in which they operate, 26% of polled British individuals said that they would expect to see a copy if they were customers; 44% said they did not expect to see a copy but it would be 'nice' and 19% said they did not expect to see a copy but would like to know if a report had been produced. This compares to 87% expecting to see a copy if they were shareholders and 63% if they were an employee of the company [Source: MORI, July-August 2001, based on 936 adults 15+]
5. When asked how companies should communicate their social involvement the average European citizen preferred information on products and labels, while posters and leaflets as well as 'league tables' were viewed with less enthusiasm. Also, proactive and voluntary communication by companies about their social activities was widely preferred to compulsory environmental, social and community reporting. Furthermore, survey responses especially from Scandinavia showed a preference for communication through websites. [Source: MORI, 2000].
6. When asked which of the following types of information, if any, they would like to see on food and clothing labels to help them decide which products to buy, 65% of British participants in a 2005 MORI poll mentioned child labour assurances. This is followed by nutritional information for foods (61% of respondents), ingredients of materials used (58%), assurances that animals have been well treated in production (53%), assurance that the producers have received fair wages for their work (Fair Trade) (53%), followed by the country of production (46%), and other issues. Assurance that the environment has not been harmed during production was chosen by 42% of respondents, and assurances that producers have good working conditions by 36%. [Source: MORI/BITC, 1005 adults 16+, July-September 2005]

III. Types of information schemes in use - Overview

34. The emergence of a variety of voluntary regulatory systems addressing CSR issues is a key element of the current globalisation process in the production, trade and consumption of goods and services. As a response to a growing demand by stakeholders for information about production conditions, certification and labelling schemes, codes of conducts, corporate reporting, and other private self-regulation regimes have appeared in many markets. These systems set quality, social or environmental standards, and typically involve a large degree of coordination, traceability and monitoring along different agents of the supply chain. They also serve as tools for supplying information to interested stakeholders, including consumers needing to make purchasing decisions with knowledge and confidence.

35. Different types of schemes can complement one another when they provide different elements of information. Some schemes are useful for carrying product-related information while others are good at presenting company-level messages. For example, labels are easily associated with products, but reports usually convey information about the company's overall activity. Schemes also differ in terms of third-party involvement. Whereas third parties play an important role in the operation of labelling and consumer guides, reporting is produced by companies usually with limited third-party involvement.

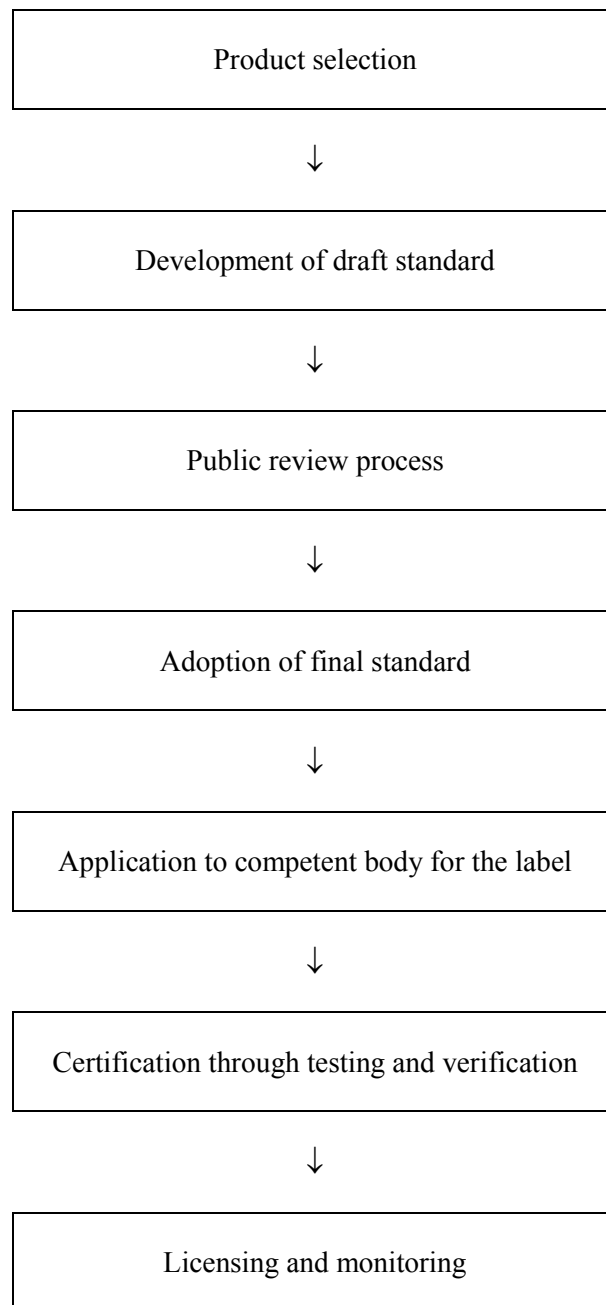
36. This Section discusses four major types of information schemes through which consumers obtain information about CSR practices, both product-related and company-related: 1) certification and labelling, 2) CSR reporting, 3) consumer guides and 4) corporate marketing strategies.⁶ Certain variants of these schemes or other modes of informing consumers about CSR exist (for example, provision of *on-request* information), but these are not widely used and will not be analysed.

1. Standards and labelling schemes

37. Labels are any words, particulars, trademarks, brand names, pictorial matter or symbols on any packaging, document, notice, board or collar accompanying or referring to a product (EEC REG 2092/91). Social and environmental labels are examples of approaches to providing information about social and environmental dimensions of business (Zadek, Lingayah and Forstater, 1998). These labels carry information about environmental and social conditions of producing the product accompanying the label and/or about the environmental quality of the product (*e.g.*, energy efficiency). They provide consumers with information about the production of the product that they purchase and hence help them choose goods and services produced in environmentally and socially friendly ways. Enterprises committed to CSR may take advantage of labelling schemes to communicate their commitments to and actions in support of social and environmental causes.

⁶ In 2001, OECD held a workshop on information and consumer decision-making for sustainable consumption, at which information channels such as ones examined in this report were discussed (OECD, 2001).

38. There are hundreds of labelling schemes operated by national, regional and local governments, enterprises and industries, or non-governmental organisations. These schemes, particularly third-party certification labels, are generally developed and operate based on the following procedures (modified from OCDE/GD(97)105):



a) *Main labelling schemes operating in OECD countries*

39. A large number of new labels have sprung up in the market since the 1970s with claims relating to the environment and more recently to social issues, such as child labour. In particular, the number of labelling schemes has soared since the 1990s. It is difficult to say exactly how many labelling schemes have been developed and are operating worldwide because they are widespread and differ from one another in terms of characteristics, operating mechanism and products targeted.

40. A literature review reveals a patchy picture of figures on labelling schemes:

- The WTO/CTE report published by the WTO Committee on Trade and Environment on 29 June 2000 provided a list of 85 technical regulations concerning environmental labelling and marking requirement notified under the TBT Agreement between 1995 and 1999.
- In 1998, the US Environmental Protection Agency documented a variety of different types of labelling programmes in the United States and primarily voluntary, seal of approval programmes in other countries, providing summaries of 49 environmental labelling programmes under operation and five programmes in development.
- In respect of Eco-Label Guides, the website run by the US Consumer Union lists 137 labels found in the US market, as of April 2006, under nine categories, namely organic, pest management, social responsibility, no genetic engineering, sustainable agriculture, sustainable fishing, animal welfare, sustainable wood and general claims.
- The New Economics Foundation's 1988 report on social labels included a database of 10 social labels.

41. Simply put, eco-labels are symbols or logos that indicate overall environmental characteristics of the product and/or environmental conditions of production. The German Blue Angel is the first and oldest eco-label initiative, launched by the Federal Environment Ministry in 1977. In the EU, the European Eco-label "the Flower" has been operating since 1993 as a part of the European policy of promoting sustainable consumption and production. National and regional eco-labelling initiatives have been developed for manufacturing goods and their organisations are associated under the umbrella of the Global Ecolabelling Network (GEN). **Annex III.1** provides information about major eco-labelling schemes operating in OECD countries, including their product coverage.

42. The precursor of social labels was associated with the trades union and the co-operative movement (Zadek, Lingayah and Forstater, 1998). In the United Kingdom, Rochdale Pioneers created the Co-op brand linked with the co-operative movement in the 19th century. In the United States, the National Consumer League developed and operated the use of the *White label* on women and children's underwear which guaranteed that they were made in factories adhering to all factory laws and employing no children under the age of 16. However, most social labels as we know today came into existence in the 1990s. In contrast to eco-labels, social labels are relatively new and not numerous. For eco-labels, national or regional initiatives have been developed; however, there is nothing similar for social labels. Environmental standards can relate to product-related Production and Process Methods (PPMs) or non-product-related PPMs, whereas social labels convey information on non-product-related PPMs.⁷

43. Many social labelling schemes target consumers in developed countries and provide information on producers in developing countries. Most of them address primarily export markets involving retail traders with market niche products. Drawing on Zadek, Lungayah and Forstater (1998), social labels can be classified into the following five categories, along with some examples:

7 Product-related PPMs refer to production methods which leave a trace in the final product (e.g. cotton grown using pesticides whose residues remain in the cotton itself), while non-product related PPMs (or unincorporated PPMs) refer to PPMs leaving no trace in the final product (e.g. steel produced at different emission levels).

- *Self-declared*: CWS '99' Tea Corporate Brands.
- *Industry body*: British Toy and Hobby Association, EUREPGAP.
- *Partnership*: FIFA/ICFTU, 'No Sweat Label' US, Forest Stewardship Council, SA 8000.
- *NGO-led*: Clean Clothes Campaign, Fair Trade marks, Rugmark.
- *Official*: US 'Trend setters' list, Kaleen, Investors in People.

44. **Annex III.2** provides a summary of the main environmental and social labelling schemes, focusing on their origin, product coverage and market reach.

b) *Labelling-related interests and concerns*

Labels as possible trade barriers

45. A 1997 OECD study of eight national eco-labelling schemes did not produce any hard evidence that the labels studied had changed trade flows (OECD, 1997). A UNEP study scrutinised the trade impact of five selected eco-labels on trade flows from developing countries and concluded that no reliable information was available on the extent to which any of the five eco-labels had affected trade flows from developing countries because of their possible role as technical barriers to trade (UNEP, 2005). According to the WTO, "... members generally agree that voluntary, participatory, market-based and transparent environmental labelling schemes are potentially efficient economic instruments to inform consumers about environmentally friendly products. Moreover, they tend to be less trade restrictive than other instruments."⁸ However it also cautions that environmental labelling schemes could be misused for the protection of domestic market.

46. Some market-access concerns exist however. At the OECD *Global Forum Workshop on Environmental Requirements and Market Access*, held in Delhi, India, in November 2000, several developing-country participants expressed concerns that both voluntary and regulatory environmental labelling and certification programmes may not be taking local market conditions and capacities into account, which they argued is a barrier to access of developed-country markets (OECD, 2003). As seen by *The Voice of Business in Europe* (UNICE), "a fundamental problem inherent in eco-labelling is that it is often more costly and burdensome for foreign producers to obtain an eco-label than for domestic producers, thus constituting an unnecessary barrier to international trade" (UNICE, 12 June 2003).

47. The WTO has discussed a variety of issues on the environmental labelling since 1994. The WTO Committee on Trade and Environment (CTE) and the Committee on Technical Barriers to Trade (CTBT) have identified and tabled a considerable number of issues relating to government involvement with labels (see **Box 2**). When WTO members adopted the Doha Declaration in November 2001, they instructed the CTE, in pursuing work on all items on its agenda within its current terms of reference, "to give particular attention to... (iii) labelling requirements for environmental purposes" (Paragraph 32 of the Declaration).

8 See the WTO website (<http://www.wto.org>)

Box 2. WTO rules and voluntary PPM-based labels

The relationship between voluntary PPM-based government-supported labels and WTO rules is controversial. There have been numerous debates over labelling-related issues both at the Committee on Technical Barriers to Trade (CTBT) and the Committee on Trade and Environment (CTE). The CTBT in particular has identified, *inter alia*, the following issues:

- the coverage and objective of the labelling initiative;
- relevant international standards and transparency procedures that were used in the development of the labelling initiative;
- the effects on market access, and in particular for developing countries;
- whether concerns have been raised by trading partners about the potential adverse trade effects of the scheme, and how these concerns have been taken into account;
- the possibility of accepting technical regulations/standards of other Members as equivalent.

Of various approaches suggested, one that has gained broad support entails distinguishing between product-related and non-product related PPMs. It is generally understood that at least voluntary product-related PPM labels are covered by the TBT definition of a “standard” and consistent with the WTO rules. However, there is still controversy whether non-product related PPM-based labelling fall under the TBT Agreement. Particularly developing countries are of the opinion that measures that discriminate on the basis of non-product related PPMs should be considered WTO inconsistent.

As early as the 1990s, the compatibility of a voluntary labelling scheme with the GATT rules had already been subject to the multilateral mechanism for settling trade disputes. In the Tuna Dolphin I case of 1991, the Panel concluded that eco-labelling did not breach the GATT national treatment provisions. It stated that the labelling scheme did not restrict sales of tuna products and that any advantage that might result from access to the label depended on the exercise of free choice by consumers to give preference to labelled tuna products.

48. At the practical level, there are two possible options to lessen the trade-related concerns arising from environmental and social labelling schemes. One is to harmonise standards, an option to which for instance GEN has attached priority. The other solution is to promote agreements for the mutual recognition of existing schemes (MRAs). In many cases, national labelling schemes have already concluded MRAs.

Consumers and labels

49. It is generally accepted that consumers are interested in the social and environmental conditions under which their purchases are produced. To what extent do consumers prefer socially and/or environmentally labelled products to non-labelled ones? According to a study by the UK-based Social Market Foundation, “Race to the Top: how government, business and consumers can drive CSR”, 64% of respondents taking part in a survey wanted clearer labelling so that they could judge whether or not products met CSR production criteria (SMF, 2003). However, work by Sedjo and Swallow (2002) shows that a willingness to pay a premium by a portion of consumers does not ensure that a premium will be forthcoming in the market. In fact, according to a survey and experiment carried out by the Wood Science & Engineering of Oregon State University, 183 respondents out of 299 total surveyed (61%) were willing to pay at least a 5% premium, but its experiment revealed that 102 people out of 279 (58%) actually paid a 2% premium (Anderson, 2003).

50. Loureiro, McCluskey and Mittelhammer (2002) argue that the more importance consumers attached to food safety and the environment, the more they were willing to pay for apples with an eco-label. Similar results were obtained by a study by Dickson (2001) using a fictitious “no sweat” label. In a European setting, De Pelsmacker, Driesen and Rayp (2005) showed that people who regarded themselves as idealistic and unconventional were willing to pay more for coffee carrying a “fair trade” label, while Verhoef (2005) showed that people who cared about animal welfare were more likely to buy “organic” meat. Together, these results suggest that consumers have at least some confidence that the labels actually represent what they claim to represent. Similarly, consumer surveys in the UNITED KINGDOM showed that consumers generally had favourable beliefs regarding such organic meat (Brennan, Gallagher and McEachern, 2003).

51. However, the plethora of labelling schemes together with their similarity in some cases have resulted in consumer confusion. In his market study of coffee, Giovannucci (2003) found that consumer confusion was indeed a problem, especially in European markets with a large number of labelling schemes and similar initiatives. This is not only a problem for consumers but also for suppliers who pay for certification. To avoid consumer confusion, the WWF-Norway has urged that there be fewer eco-labels with strong support from environmental organisations, industry and governments (Hansson, 2005).

Business views on standards and labels

52. Although it is difficult to generalise business views on eco-labelling, many businesses seem to be unenthusiastic. Some companies have supported labelling schemes in principle but also cautioned that labels might work as a barrier to trade. For instance, while the International Chamber of Commerce adopted a resolution in 1990 which recognised the eco-label as a suitable instrument in sustainable development, it also expressed concern that environmental labels could be used as trade barriers. The EU scheme has come under criticism from the Confederation of British Industry, who has pointed out numerous problems and a lack of credibility with manufacturers, retailers and consumers because of haphazard product selection procedure, and the high cost of applying for and slow process of awarding an eco-label (CBI, 1998).

53. Procter & Gamble reckons that many in industry have expressed concern that government-sponsored Type I seal-of-approval eco-label programmes⁹ have not fulfilled the goal of either informing consumers or encouraging environmental progress. The company lists the following industry concerns (P&G, 2005):

- The criteria used to select eligible products are often not based on scientific knowledge, but rather on political compromises.
- Type I eco-label criteria can create barriers to innovation, because they are based on an evaluation of products that exist in the marketplace today.
- Type I eco-labels provide only relatively little factual information to consumers beyond expressing a preference for one product over another.
- Government-sponsored programmes, even when voluntary, have the potential to create trade barriers, especially when criteria are related to how a product is made.

9 As defined by ISO, Type I is a third-party eco-label.

c) *Strength and weakness of labelling schemes for an information tool*

54. The main strength of labelling schemes lies in their visibility and simplicity.¹⁰ Particularly for consumer goods, they are a useful and effective way of communicating product attributes that meet consumers' social and environmental preferences. Labels can appeal especially to consumers that have no time to search for information about attributes of goods and services that are not readily visible. From a more general perspective, eco-labels remain one of the most widely accepted ways for a company to communicate environmental credentials (UNEP, 2005). Labels can be credible when they are accompanied by reliable standards and certification systems. Some international schemes have achieved a high level of trust and recognition internationally. All in all, the number of companies/licenses which have joined national eco-label initiatives to date indicates that a growing number of companies are willing to take advantage of labelling schemes to provide product information for consumers.

55. Labelling schemes as information tools also have some weaknesses. Foremost, they are available only for a limited number of consumer goods and are not easily adopted for intermediate goods. Labelled CSR products typically represent *niche* markets accounting often for no more than 2% of consumption of the relevant category of products. While the growing number of labelling schemes signals that the range of sectors where labelling occurs is broadening, the multiplication of labels likely will result in consumer confusion and possibly erosion of credibility. Moreover, experience over time with eco-labelling shows that labelling can be subject to fraud and misrepresentation. Overall, the success of labelling schemes critically depends on consumers being aware and able to understand such schemes on the one hand, and business acceptance on the other hand. A 1999 study by the OECD Committee on Consumer Policy recommended improved advertising and media campaigns for eco-labelled products, to promote consumer awareness and encourage a change in consumer behaviour (OECD, 1999). While consumer awareness has risen substantially over the last decade, business acceptance has lagged behind. This is in part because certification and licensing entail costs for companies. There have been complaints, for example, that FLO and MSC fees are burdensome for poor producers in developing countries.

2. *CSR reporting*

a) *Development of reporting*

56. Responding to increasing demand for disclosure of their social and environmental performance, a growing number of companies annually or periodically publish reports covering activities related to CSR, which are also accessible on their websites in varying formats.¹¹ This is a relatively recent phenomenon as the first environmental report dates back to 1989 when *Ben & Jerry's Homemade Ice Cream* commissioned the first one in the United States, separate from their financial statements, until when non-financial

10 However, there is a counter-argument that simplicity does not bear benefits. Roe, Teisl, Rong and Levy (2001) compared the effectiveness of labels with more detailed, quantified product information on environmental attributes in an experimental setting. Their results suggest that detailed information disclosure is more effective than third-party certification in producing consumer confidence in the information provided to them.

11 A thorough analysis on how to maximize impact through Internet reporting (format, medium, search engines, hyperlinks, updates, forums and bulletin boards, video and audio clips, feedback, online ordering, etc.) is provided by the Association of Chartered Certified Accountants' Environmental, social and sustainability reporting on the World Wide Web (2001).

reporting largely focused on occupational health and safety.¹² Other first movers were *Eastman Kodak Company* and *Norsk Hydro*.

57. Systematic and standardised social and environmental reporting originated in the expansion of traditional financial reporting requirements to account for contingent liabilities, obligations and risks that might have a material impact on profits and the long-term shareholder value of publicly traded companies, a trend that is evident in the filing requirements of the U.S. Securities and Exchange Commission or the Financial Services Authority of the United Kingdom, for example.

58. In line with a growing trend of CSR reporting, there have appeared several voluntary initiatives which provide guidelines or standards relating to procedure and contents of reporting or other forms of corporate communication with various stakeholders. They include the *OECD Guidelines for Multinational Enterprises*, which encourages companies to disclose financial as well as non-financial information, including through environmental and social reporting. The Global Reporting Initiative (GRI)¹³ offers *Sustainability Reporting Guidelines* which aim at providing globally applicable guidelines for reporting on economic, environmental, and social performance, initially for corporations and eventually for any business, government agency or NGO. Organisations that have produced reports are encouraged to inform and register their reports in the *GRI reports database*.¹⁴ A summary of relevant provisions set forth by these and other major initiatives is presented in **Box 3**. Their relative use by companies is difficult to gauge. According to a KPMG international survey of corporate responsibility reporting (2005), a growing number of enterprises mention GRI as having inspired their reporting: 52.5% of the Fortune Global 250 mentioned GRI in their report, 29% were specific about what parts were used and 6% declared to be in accordance with GRI, 40% used GRI to select issues for their reports and 9% of companies mentioned that GRI played a role in external verification (Kolk, 2005).

12 Kolk (2004) argues that there was the “first wave” of reporting related to social and environmental aspects of business in the 1970s, yet its momentum did not last in the 1980s.

13 The GRI is a multi-stakeholder process and independent institution established by a partnership between leading environmental groups, institutional investors in the United States, the United Nations Environment Programme (UNEP), NGOs, accounting firms, business associations and other stakeholders in 1997.

14 After three years of work developing sector-specific supplements and revising the existing guidelines, GRI launched in early October 2006 updated rules for ‘triple bottom line’ reporting (G3 Guidelines), intended to make reporting easier (<http://www.globalreporting.org/index.asp>)

Box 3. Disclosure provisions of major international guidelines and standards

The *OECD Guidelines for Multinational Enterprises* (MNEs) offer government-backed recommendations covering business conduct in a wide variety of areas, including disclosure of financial and non-financial information, e.g. environmental and social reporting. Enterprises are furthermore encouraged to communicate information such as statements of business conduct intended for public disclosure, including on the social, ethical and environmental policies of the enterprise and other codes of conduct to which the company subscribes. A separate provision addressing consumer interests states that companies should, as appropriate to the goods and services, provide accurate and clear information regarding the content, safe use, maintenance, storage and disposal of their products to enable them to make informed decisions. (<http://www.oecd.org/dataoecd/56/36/1922428.pdf>).

The *Global Reporting Initiative* (GRI) sets forth standardised reporting indicators to enable comparison of performance between reporting firms and against the codes of practice of firms or industry associations' standards. The indicators specify information to be provided in six areas of CSR. Under its transparency provision users are fully informed of the processes, procedures, and assumptions embodied in the reported information. Companies are called upon to make information available in a manner that is responsive to the maximum number of users while still maintaining a suitable level of details. Companies should also disclose externally developed, voluntary environmental, and social charters, sets of principles, or other initiatives to which the organisation subscribes (http://www.globalreporting.org/guidelines/2002/GRI_guidelines_print.pdf).

The *ISO 14000 series* sets forth standards for certification with a view to minimising harmful effects on the environment (<http://www.iso.org/iso/en/ISOOnline.frontpage>). They only require companies to determine on what environmental aspects they choose to communicate with whom, which entails considerable discretion on what they choose to disclose. In 2004, ISO began the process to develop a Guidance on Social Responsibility (ISO 26000). A core principle of the proposed draft CSR Guidance is disclosure of information; it recognises that communication is a key part of all social responsibility activities. ISO 26000 is expected to be published in early 2009 (ISO/TMB/WG SR No.80 dated 06 October 2006).

The *UN Global Compact* principles acknowledge the importance of communicating with stakeholders when supporting a precautionary approach to environmental challenges and encourage enterprises to develop sustainability indicators and measure, track, and report progress in incorporating sustainability principles into business practices. They should also adopt voluntary charters and codes of conduct in global and sectoral initiatives, and ensure transparency and unbiased communication with stakeholders. With consumers being increasingly aware of where the goods originate and the conditions under which they are made, enterprises are encouraged to use the Universal Declaration of Human Rights as a reference point. (<http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>).

Social Accountability 8000 (SA 8000) requires enterprises to ask their suppliers to comply with ILO standards, which cover a broad range of subjects concerning work, employment, social security, social policy and related human rights, and to monitor implementation. The standards do not require enterprises to inform consumers. (<http://www.sa-intl.org/>).

59. A requirement for CSR reporting has found its way into national legislation in several countries. With the *Nouvelles régulations économiques* of May 2001, France became the first country to mandate triple bottom reporting for publicly listed companies, including labour standards and environmental consequences of their activities. The Belgian government led the way in adopting the world's first social reporting and labelling law in January 2002. The EU *Accounts Modernisation Directive* adopted in June 2003 (2003/51/EG) stipulates that from reporting year 2005 onward large companies must provide a Business Review including non-financial environmental and social performance indicators, to the extent necessary for an understanding of a company's development, performance or position. As the EU Directive does not specify the indicators to be used, individual EU governments have taken initiatives, in consultation with national stakeholders, to provide companies with further guidance in this regard (e.g. Netherlands, 2003; United Kingdom, 2006). Recently some EU government have loosened their requirements on CSR reporting to avoid them becoming an unnecessary burden on companies, limiting the

information that is provided in annual reports as far as possible to what is relevant for the financial position of companies.

b) CSR reporting trend

60. Several sources attest that the trend of CSR reporting has been growing. The Financial Times reported in 2003 that more than half of the top 250 companies now produce reports on environmental, social and ethical performance.¹⁵ The GRI estimates that more than 3,000 CSR reports have been published voluntarily, and as of April 2006, the GRI database itself documents reporting from 831 organisations (mainly companies). KPMG Global Sustainability Services' assessments on the performance of the top companies of leading countries, that are published every three years since 1993, show a clear increase in reporting from 13% in 1993 to 28% in 2002 to 41% in 2005, with Japan, United States, Canada, United Kingdom, France, Germany, Netherlands, Finland and Spain reaching well above 30% (see also Kolk, 2005)

61. Corporate codes of conduct, which serve as basic institutional indications of commitment to corporate responsibility, have multiplied among OECD companies during the last decade and are common also among emerging market companies (*e.g.* OECD, 2001; OECD, 2005). Many of these documents contain general declarations of ethical purposes with weak implementation methods and no statutory or regulatory enforceability. Much has changed in the last few years, as this proliferation has prompted some NGOs, international organisations and governments to pool resources and develop streamlined reporting, measuring and auditing standards that reflect real-life situations rather than merely aspirational goals. Also, in some countries companies that issue a code of conduct but then do not put it into practice face regulatory action for misrepresentation (*e.g.* Australia, Sweden).¹⁶ Moreover, to encourage effective codes that satisfy consumer interests, the consumer authorities of some countries have elaborated voluntary guidelines identifying best practices in corporate code design and application (*e.g.* Canada, Japan).

62. As shown in **Figure 1**, 52% of the Global 250, the top half of Fortune 500 corporations, and 33% of the National 100 companies, the top 100 companies in 16 countries, issued separate CSR reports in 2005 (Kolk 2004, KPMG 2005). These are mostly large multinationals reputed as leaders in CSR performance. The CSR Network *2003 Benchmark Survey Report*¹⁷ corroborated these findings, including huge differences from industry to industry (led by financial services, electronics and automotives) and geography to geography (led by Japan, the United Kingdom and Canada). At the industry level, more than 80% out of top 250 companies of the Fortune 500 are reporting in electronics & computers, utilities, automotive and oil & gas sectors and most remarkable is the financial sector which shows more than a two-fold increase in reporting since 2002 (KPMG, 2005).

63. The current reports cover a wide range of issues on the CSR agenda. A clear tendency is that environmental reporting has broadened to an inclusion of social and sometimes also financial issues (Kolk, 2005). The common topics included in reports are: corporate governance, environmental performance, health and safety of employees, community contributions, supply chain, etc. The KPMG survey revealed

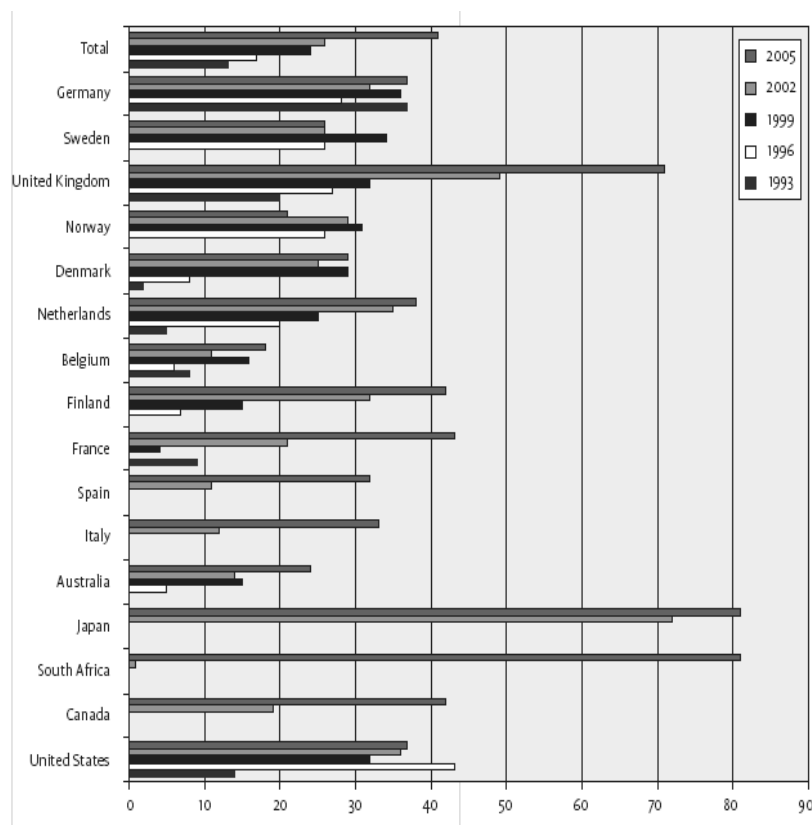
15 "Half top companies report on environment conduct" (Financial Times 09/09/2003)

16 See Tsuneo Matumoto et al (2006), Compliance management from a consumer point of view, Shoji-Homu, Tokyo (in Japanese).

17 See <http://www.csrnetwork.com/>.

that report content is most commonly decided based on the GRI guidelines (40%), with only a fifth (21%) mentioning stakeholder consultation. (See **Annex III.3** for some examples of CSR reporting).

Figure 1. Sustainability reporting in various countries in 1993, 1996, 1999, 2002, 2005 (in %)



Note: For years in which a country was not included in the survey, the % is set at 0.

Source: Kolk, 2005

c) *Different views on reporting*

64. The public's *right to know* is at the centre of a wave of transparency that redounds in enhanced benefits to consumers and investors. These benefits accrue directly, by helping consumers make informed decisions, and indirectly, by facilitating the work of market analysts and government supervisors who make their findings public. For instance, environmental disclosure on air, water and land pollution, known as pollutant release and transfer registers (PRTRs), are mandatory in all OECD countries and numerous non-OECD countries. Results from a survey conducted in the United Kingdom show that there is a strong majority of respondents in favour of compulsory reporting at least for companies above a certain size.¹⁸

18 "What do stakeholders think of company CSR reports?" (BITC, 11/12/03, http://www.bitc.org.uk/about_bitc/index.html).

65. Also, companies do not prepare their reports having specifically consumers in mind, yet some developed-country consumers are familiar with them. About half of the respondents from North America, Australia and some parts of Europe participating in a recent survey stated that they had either read or at least briefly looked at a CSR report themselves, or heard about one from somebody else (GlobeScan, 2004).¹⁹

66. It is claimed that CSR reporting benefits business in several ways. Foremost, reports help enhance stakeholder relations and credibility by meeting rising expectation for disclosure and transparency. It also protects and improves the brand image of a company, dismissing possible negative campaigns and upgrading the company image. Companies may use reporting in internal communications, educating and motivating employees. In responding to a growing demand for socially responsible investment, reporting provides for better accessibility to capital market. Indeed, Roe *et al.* (2001) investigated the effectiveness of detailed company disclosures regarding environmental attributes in an experimental setting. Their results suggest that disclosure by companies is more effective than third-party certification in producing consumer confidence in the information provided to them, and in attracting consumers to environmentally friendly companies.

67. However, CSR reporting is not welcome by all businesses. Many companies complain that it is unrealistically demanding, costly and not very useful to stakeholders when they have to provide information on 50 core indicators as well as those contained in sector supplements. Both *Gap* and *Nike*, for example, have stated that the current emphasis on social auditing is no longer sustainable and needs to be replaced by a system of constant management-workers review of working practices at the factory level. *The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting* (ISAR), a United Nations expert group devoted to corporate accounting and reporting issues and serviced by *the United Nations Conference on Trade and Development* (UNCTAD) in Geneva, has acknowledged these claims and proposed a more limited number of 17 core indicators. ISAR is currently developing guidance on social reporting indicators which focuses on a concise list of quantitative indicators that could improve the comparability of social reporting.²⁰

3. *Consumer guides*

a) *Consumer guides and CSR*

68. To help consumer choice, thousands of consumer guides offer product information, including prices, specifications, features, reviews, results of testing and comparisons. Some have a long tradition, dating back to the mid-1930s in the United States, when the Consumers Union started publishing its regular reports on food and clothing items. Nowadays, the *Consumer Reports* magazine claims a readership of 4 million (one of the top ten paid-circulation magazines in the United States) and also serves the public through newsletters, websites and radio and television programmes. Annex III.4 provides

19 These data come from the GlobeScan 2004 Corporate Social Responsibility Monitor survey involving interviews with 1,000 respondents in each of 21 countries, between December 2003 and February 2004.

20 With respect to consumers ISAR (2005a, <http://www.unctad.org/isar>) has noted that they “are interested in information on product safety measures, the effect of products on health, product quality, product liability and warranty, new product development and the product manufacturing process. Regarding the latter, they want information about the circumstances in which products are produced (e.g., working conditions). This group is not limited to present and future customers; it also includes former customers, who are interested in product liability and product warranty issues arising from past purchases”.

examples of internet-based consumer guides. Above all, the likes of *Consumer Reports* and *BestBuy* have accumulated a stock of trustworthiness with the general public that is perceived as a natural counterweight to the overwhelming and at times misleading presence of corporate advertising.²¹ Research on buying behaviour suggests that buying guides published by consumer organisations or other public and private entities perform an important role in the overall buying process.²²

69. More recently, buying guides and consumer information magazines began to cover CSR issues, ranking products and companies around the planet, from small independents to large multinationals. This is the case of *Which?* in the United Kingdom,²³ *Öko-Test* in Germany, *Konsument* in Austria, *Consumentengids* in the Netherlands, *Test-Aankoop* and *Test achats* in Belgium, *60 Millions de consommateurs* in France, *Choice* in Australia and *ConsumerOnline* in New Zealand. Many of them are published by consumer organisations so that readership is tied to membership subscription. The circulation of these lavishly-illustrated paper magazines is reported not only to hold steady but to continue to increase slightly; however, this may be a generational feature that will go away as younger consumers reach their consumption peak.

70. In some guides and magazines, product recommendations are made based on environmental, social, fair trade or ethical considerations. All of them offer a variety of printed and online materials. These include *Ethical Consumer* and *newconsumer* in the United Kingdom, *GreenerChoices* and *BuildingGreen* in the United States and *Consumer* in New Zealand, whose declared objective is to promote universal human rights and environmental sustainability through ethical purchasing (see **Box 4**).

71. They usually inform in detail on the producer's environmental reporting, sustainable farming, forced and child labour record, its code of conduct, irresponsible marketing, genetic engineering, and the like, further supplying references to specialised watchdogs like *Corporate Critic*, *Fair Trade Foundation* and *Anti-Slavery International* in the United Kingdom, *Corporate Europe Observatory* in the Netherlands or *CorpWatch* in the United States. The social responsibility (and irresponsibility) of firms is listed and analysed in numerous sustainability indexes and NGO rankings.

72. Many consumer organisations are members of Consumers International (CI), a private international coalition representing 234 public and private consumer organisations in 113 countries and promoting "the right [of consumers] to have the facts needed to make an informed choice worldwide" by encouraging "high standards of corporate responsibility" and supporting "sustainable consumption and production practices", including through the organisation of international campaigns.

21 As a proof of their commitment to informing consumers at their level, in 1980 Consumer Reports launched Penny Power magazine, later Zillions: Consumer Reports for Kids, now the online-only service Consumer Reports Online 4 Kids. In 1990 the Consumer Reports Education Department released a landmark study on commercial pressures on children, warning that "the barrage of advertising encourages continuous consumption and acquisition at the expense of reasoned decision-making, thrift, and environmental sensitivity".

22 Although a majority of consumers prefers to seek the information they need on the Internet, it is through television and newspapers that they normally get it (Steedman, 2005).

23 As well as its satellites *Which? Extra*, *Holiday Which? Gardening Which?*, *Computing Which?*, *Which? Books*, *Which? Good Food Guide*, *Drug and Therapeutics Bulletin*, *Treatment Notes* and *Consumer Policy Review*. Similar specialized publications exist in other countries. And still, only 2% of consumers in the United Kingdom reportedly say they have enough information to judge the ethical position of companies (Smith, 2003).

Box 4. Example of a consumer guide - *Ethical Consumer*

A typical *Ethical Consumer* report will take from two to eight pages, packed with information and illustrated with boxes, graphs, tables and photographs, designed to highlight product features, competing brands, corporate profiles, stories about campaigns against brands or companies. It will include useful links to obtain further information, like books, online advisory services, consumer associations and public authorities in charge of consumer protection (<http://www.ethicalconsumer.org/online.htm>).

The rankings it publishes are the overall scores given to manufacturers, distributors and retailers, and are based on the quality social and environmental reporting, presence in countries with “oppressive regimes” and tax havens, and corporate policies. Depending on the product, space is dedicated to questions of forced and child labour, fair trade and codes of conducts, and business practices in contentious areas, like irresponsible marketing, instances of human rights violations, contributions to political campaigns and involvement in environmental mishandlings. The related *ethiscore* online service calculates an ‘ethical score’ for a wide range of consumer products and services based on a company's rating in each of *Ethical Consumer's* 20 main ethical categories, including environmental reporting, pollution, nuclear power involvement, boycott calls, genetic engineering and fair trade, among others.

The information provided comes from producers, retailers, consumers, NGOs, financial and auditing services providers, and clearing by legal experts. *Ethical Consumer* sells 7000 copies, mostly to subscribers.

b) *Market impact*

73. Consumer guides normally use consumer-friendly language, deal with issues that people care about, or can relate to, provide expert guidance and raise public awareness. Information cannot substitute for the practical skills and competencies required to engage in public debate – the realm of NGO advocacy – but it can lead to sound purchasing decision-making by the lay customer.

74. Some experimental studies have investigated the influence of CSR information provided through a consumer guide type of format on consumers’ attitudes and preferences. Brown and Dacin (1997) provided information on a (fictitious) company using a “company report card” which was ostensibly prepared by “impartial industry experts”. They found that the positive information regarding philanthropy and community involvement provided in this way increased respondents’ ratings of the company’s CSR, as well as their attitude towards the company and its product. Madrigal (2000) replicated this result for environment-friendly production. Mohr and Webb (2005) showed that information on environment-friendly production, presented this way, also impacted consumer purchasing intentions. A comparison of the effectiveness of CSR information ostensibly provided through a consumer association and CSR information provided through a company website found that attitudes towards the company and its products as well as purchase intentions were significantly higher when the consumer organisation was the source (Swaen and Vanhamme, 2005).

75. When consumers were interviewed regarding their information preferences with respect to CSR in a more naturalistic setting, many thought that ratings available through the Internet would be particularly suitable (Mohr, Webb and Harris, 2001). On the other hand, although subscribers to *Ethical Consumer* trusted the magazine as a source of information on labour and environmental conditions, they often felt overwhelmed by the information, feeling unable to incorporate all the information into their purchase decisions (Shaw and Clarke, 1999).

76. Whether buying guides and consumer information magazines are of use to consumers more in a negative rather than positive sense, that is, to what extent they serve as catalysts for boycotts rather than buying trends, is not clear. According to GlobeScan’s *CSR Monitor*, a survey of 20,000 consumers in 20 countries published in 2002, 42% of respondents in North America and 25% in Europe reported not buying the products of companies whose social and environmental performance is perceived to be poor.

What is clear is that consumers do respond to information on CSR, when it is offered in a systematic and comparable way. Consumer guides are at the frontline of such efforts.

77. Moreover, as the Internet has facilitated information delivery –improved public access and unlimited quantity of information– but at the cost of diluting its reliability, now more than ever impartial, reputed intermediate sources that collect, compare, analyse, explain and disseminate raw and scattered information for ready use by consumers, can play a critical role in such decision-making process and in allaying uneasiness on industry-led production standards that can impact on public policy in general and environmental- and labour-sensitive production in particular (O'Rourke, 2004; Smith, 2006).

4. CSR communication through marketing strategy

78. Other than labels, reports, and consumer magazines, companies use many different tools and channels to communicate about their social responsibility activities and records. Overall they have what we consider *traditional* marketing tools, like advertising or public relation and what we consider *non-traditional* marketing tools, like off-media communication and Web based marketing for example. What channel, or what tools, they use for their marketing mix²⁴ depends on their overall strategy, the positioning of their product or the sector they operate in.

79. In terms of CSR communication, companies tend to use non-traditional marketing in a greater proportion in their mix than traditional marketing. This can be explained by the fact that overt advertisement from the part of a company is usually perceived by consumers as an untrustworthy source, and leaves the consumer feeling sceptical about a brand. The image of a product can suffer from this scepticism.

80. Reputation is a company's key asset. At a time when trust in business remains low, real commitment and performance matter most, and only substance sells. Aligning actions and words is essential to reconciling public relations (PR), advertisement and corporate social responsibility in a positive way, whether in safeguarding corporate reputations or advancing corporate responsibility goals.

81. For companies willing to strengthen their brand image by showing their preoccupation for social or environmental issues, providing evidence of internal alignment through a mix of non-financial reporting, public relations, awareness campaigns, rather than relying mostly on corporate communication and advertising, will help build consumers' trust. Materialising evidence, through products and connection to consumers' lives, as well as making the reporting transparent to avoid "greenwashing"²⁵ suspicion are important to maintain this trust.

a) Traditional marketing

82. Traditional marketing is what we usually think of when addressing corporate communication: it refers to advertising on radio and television, billboards and magazines; it refers to PR campaigns, press

24 The marketing mix is a crafting and implementing of a marketing strategy. It stresses the "mixing" of various tools and channels in such a way that both organizational and consumer (target markets) objectives are attained.

25 Term that environmentalists and other critics use to describe the activity of giving a positive public image to putatively environmentally unsound practices. The term emerged in the aftermath of the Earth Summit held in Rio de Janeiro in June 1992.

conferences and press releases, and is also about the marketing work behind a packaging design or a company magazine. It also relates to different marketing strategies, like Cause Related Marketing²⁶, which is most relevant to CSR.

83. **Advertising** CSR overtly is risky. To build publicity on CSR brings with it the risk of confusing the consumer about the message of the advertiser. Qualification such as “respects human rights” for example, is vague and might confuse consumers and therefore render them distrustful, if they perceive the advertisement as being uninformative and dishonest. Sophisticated CSR positioning is difficult to convey with this traditional marketing tool. Also, brands must be careful when claiming to be acting ethically. French retailer *Carrefour*, for instance, has been criticised for using an ethical proposition to attract customers without backing its claim, resulting in consumer mistrust. Companies can do more damage than good by stating their environmental or social concerns without backing them up. A survey from London-based Ethical Corporation found that in general, 70% of people say they don’t trust advertising and PR.

84. Some experimental research has demonstrated the importance of “backing up” advertising claims. Davis (1994) showed that specific advertising claims regarding environmental attributes of products (like “100% biodegradable”) lead to more favourable perceptions of the company’s commitment to the environment than general claims (like “Earth friendly”), and also to more favourable product evaluations and purchase intentions. Similarly, Berens (2004) found that a corporate advertisement highlighting specific environmental actions and performance was perceived as significantly more credible and diagnostic for the company’s CSR than an ad discussing only general principles and values. These results are also consistent with anecdotal evidence such as the high effectiveness of Chevron’s “People do” campaign, which focused on very concrete environmental actions like constructing wooden platforms above electricity wires to protect eagles (Winters, 1988).

85. The context in which an ad is published may be also an important aspect determining whether it is effective or not. Keller and Aaker (1998) found that corporate ads describing a company’s environmental or community-oriented actions enhanced consumer attitudes and purchase intentions much more when the product was also positioned as environmentally friendly or as helping the community.

86. When price and quality are equal, 81% of consumers are more likely to buy a product associated with a cause (UNEP, 2005). Moreover, an ethical stance is seen as fundamental rather than auxiliary to a brand’s equity as consumers have come to expect more from companies, including more social responsibility. As a matter of fact, consumer knowledge and power is driving the move towards **cause-related marketing**. (See **Box 5** for an example of such a campaign). With a large product array to choose from, product differentiation is becoming more than ever vital to a company’s expansion and survival. CRM is a useful tool to gain and maintain consumers’ affinity to the brand. US sponsorship spending on cause-related marketing will hit USD1.34 billion in 2006, according to the IEG Sponsorship Report, Chicago.²⁷

87. A large number of studies have been devoted to consumer reactions to this type of communication. Many studies have investigated the role of the fit or similarity between the cause that benefits from the marketing campaign and the company’s core activities. For example, Ellen, Webb and

26 “A strategic positioning and marketing tool that links a company or brand to a relevant social cause or issue, for mutual benefit.” From “Brand Spirit, How Cause Related Marketing Builds Brands” by Hamish Pringle and Marjorie Thompson, Wiley, 1999

27 See www.causemarketingforum.com.

Mohr (2006) found that when the cause fits well with the company's core activities, this leads to more favourable attributions regarding the company's motives for the campaign, and to higher purchase intentions. The positive roles of fit and perceived motives have been established by numerous other studies (e.g. Barone, Miyazaki and Taylor, 2000; Becker-Olsen, Cudmore and Hill, 2006; Pracejus and Olsen, 2004). Interestingly, results show that "self-serving" motives like image enhancement and generating sales are not necessarily perceived as bad, as long as they are not too blatantly egoistic. In fact, it may be best when consumers attribute both self-serving and other-serving motives to the company (Ellen, Webb and Mohr, 2006). In addition, studies have shown that the quality and price of the product are important in influencing consumer attitudes and intentions towards cause-related marketing (Barone, Miyazaki and Taylor, 2000). Finally, some results suggest that companies who have a "neutral" reputation benefit more from a cause marketing campaign than companies with a very good or a very bad reputation (Lichtenstein, Drumwright and Braig, 2004; Strahilevitz, 2003).

Box 5. Ben and Jerry's and the Family Farmer - CRM

In 2005 Ben and Jerry's launched a campaign to fight for small family farms. In a TV advertisement in the USA, they stressed that America loses over 330 farms every week, and the spot ends by saying "join our fight for small family farms". Ben and Jerry's stressing that the milk with which they make their ice cream comes from small family farms.

Ben and Jerry's won 8th place in the best advertisement campaign of ThirdWay "Most Effective Advertising" Awards 2005 with "**The Family Farmer**" campaign - Ben & Jerry's (<http://www.benjerry.com/familyfarms/>). As it can be read on the Thirdway web site, the reason for the award was: "Cause-based advertising is notoriously difficult to get right. Some brands with strong affiliations to causes get little credit for their efforts. Other brands are so heavy-handed with their self-promotion that they damage their image. Unilever and McKinney & Silver have combined efforts to make Ben & Jerry's look and feel small again by promoting the Campaign for the Family Farmer. It is a socially and politically astute choice that leaves little room for disagreement. By focusing on the cause and using the Ben & Jerry's name as an endorsement of the cause and to ask for support, Unilever brilliantly capitalises on the full affiliation value of the campaign."

Source: <http://www.thirdwayblog.com/?cat=41>

88. Certain companies owning different brands have decided to publish **magazines** for their consumers, informing them about their brands, their communication schemes (environmental sponsoring, or NGO partnership of a brand, for instance), or newly published CSR reports. An example of this is the Dutch company *Ahold*. Their magazine, *AllerHande*, is freely available in *Ahold* stores, as well as on the web, and contains information about their products in the midst of recipes and lifestyle articles. *Unilever* also has such a magazine called *Pour tout vous dire*.

89. As a general rule though, only big corporations can afford these expensive quadric-colour, multiple page printouts. Since they have many different brands, some respecting CSR (environmentally friendly, locally produced and therefore respecting local labour laws) and others not emphasising it, and perhaps even not respecting CSR, or not completely, these magazines are not the best way for these companies to communicate about CSR. CSR issues remain therefore pretty rare in those magazines, and they are not the media of choice for brands to communicate their CSR stance.

90. **Packaging** is also an important part of visual marketing, as it reaches the consumer just when he or she is prepared to buy the product in the aisle of the supermarket, for example. It can convey a message about a particular brand, a producer's CSR stance, the naturality or environmental friendliness of the

product and is also a medium to display self-declared CSR labels or awards earned by the product (best product of the year, etc).

91. Much research has been devoted to consumer perceptions of environmental claims on product packaging. Several opinion polls in the US have suggested that a substantial number of consumers are sceptical of environmental product claims (MayerScammon and Zick, 1993). However, Mayer, Scammon and Zick (1993) found that this scepticism does not seem to be related to the amount of exposure to the claims, suggesting that it is more a function of general scepticism regarding marketing claims than of the environmental claims by themselves. Indeed, Mohr, Eroglu and Ellen (1998) found that consumer scepticism towards environmental claims is strongly related to their general scepticism towards marketing, but not to their degree of knowledge regarding environmental claims. Finally, Roe *et al* (2001) found that while adding more “objective” information to environmental claims, such as seals of approval or quantitative information on environmental attributes, improved consumer perceptions of the usefulness of the information, it did not always influence consumer preferences. Particularly when objective differences between competitors were large, product claims by themselves were sufficiently convincing. These findings suggest that while consumers are critical of environmental claims, they do not necessarily discount all environmental claims they encounter. However, research has also shown that when consumers do feel that an environmental claim is misleading, this is likely to lead to a decrease in their evaluations of the product and their purchase intentions (Newell, Goldsmith and Banzhaf, 1998).

92. Which factors, then, determine the credibility of CSR-related claims on product packaging? As in the case of advertising, one factor may be how specific the claims are. Maronick and Andrews (1999) found that when general packaging claims (*e.g.* “ozone friendly”) were coupled with specific qualifiers (*e.g.* “no CFCs”) this led consumers to perceive a product as safer for the environment than when either only a general claim or only a specific claim was presented. While general claims may be perceived as obscure because they cannot be verified (as suggested by research in advertising), specific claims may be hard to interpret on their own. When used together, they may compensate each other’s weaknesses and increase consumer trust. Effective supervision of CSR marketing — by government authorities or self-regulatory bodies — may also serve to increase consumer confidence in claims.²⁸

93. Reviewing a large body of studies investigating the effectiveness of CSR communication, either by companies themselves or third parties, Berens (2006) concludes that corporate communication through advertising and product packaging appears to be quite adequate in establishing CSR as a credible product attribute in consumers’ eyes. Most consumers seem to be sceptical rather than cynical, only discounting a company’s message when they have a reason to do so. They perceive a company’s message as not credible when it clearly conflicts with the past actions of the company, or when the company does not back its claims with factual information. According to Berens, companies who have a poor reputation regarding CSR can influence consumer perceptions positively when they provide facts. Furthermore, combining corporate communication with third-party certification labels may give substantial credibility even to companies with poor reputations, provided that these labels are well known and trusted.

b) Non-traditional marketing

94. Non traditional Marketing includes techniques which have been developed recently as a way to move away from the lack of trust which consumers have in traditional communication techniques.

28 For descriptions of supervisory capacities and examples of enforcement cases concerning environmental claims in advertising in OECD countries see OECD (1999) at pp. 9-11.

Therefore, non traditional marketing tries to market a brand or product without being perceived as doing so by the consumer.

95. **Undercover communication, or off-media communication**, is considered to be the art of communicating with the consumer outside of traditional advertising spaces (radio, TV, press and billboards) without the commercial nature of the contact being noticed. This gives an opportunity for the brand to acquire a positive image and gain trust, withholding the aggressive image of traditional marketing. When axed around CSR, off-media communication is under the cover of informing people about social or environmental issues. It can be achieved through sponsoring, public relations but also conference participation or organising, printing and distributing CSR related brochures, street communication, online advertising games, and so on.

96. Some studies have examined how consumers react to such publicity efforts. For example, Belch and Belch (1987) examined reactions of boycotters and non-boycotters of *Coors* to a television documentary showing the company in a positive light with respect to labour issues. Their findings suggest that the attitudes of both groups towards the company became stronger after watching the documentary.²⁹ More recently, Sen, Bhattacharya and Korschun (2006) investigated the influence of publicity in the local news media regarding a company's campaign to support the local community. Their results showed that people who were actually aware of the campaign were more likely to believe that the company is socially responsible, had more favourable attitudes toward the company, and were more willing to buy the company's products, than people who were not aware of the campaign. However, even though it was highlighted extensively in the local media, only 17% of their sample was actually aware of the campaign.

97. Similarly, in an experimental setting Murray and Vogel (1997) found that a (fictitious) company's positive CSR actions regarding its employees (child care facilities), the environment, and communities, as communicated through a newspaper article, positively influenced consumer evaluations of the company's concern for employees, communities and the environment. In addition, the information positively affected consumer purchase intentions. However, consumers may also be sceptical of publicity, sometimes taking it to be "merely" PR (Mohr, Webb and Harris, 2001). Like corporate advertising, generating publicity regarding CSR may even have adverse effects in some cases. Swaen and Vanhamme (2004) showed in an experiment that the perceived integrity of a company after negative information regarding CSR was lower when the company had earlier emphasised its positive CSR actions through a press release than when it had not emphasised such actions. This result is consistent with that of Pashupati, Arpan and Nikolaev (2002) and Davis (1994a) in a corporate advertising context.

98. One of undercover techniques is called ***Guerilla marketing***. Guerrilla techniques include activist online, on pack and in-store campaign. These campaigns are in many cases coupled with cause-related marketing. Stores can constitute a cornerstone to this marketing approach: choosing to build one's own store to avoid retailer dependency and increasing the possibility of making information available to consumers, through leaflets, posters, and specific employee training programmes.

99. **Reporting in electronic format** can be a form of undercover or guerrilla marketing, and it is becoming increasingly commonplace. Electronic media include email, CD-Rom, and the Website. Electronic media and especially the Websites, offer the potential to improve public access to information on a company's doing, and to offer an unlimited quantity of information, allowing the user to download as much information as they want.

29 Unfortunately, it is not clear from the paper whether attitudes also became more favourable.

100. **Web-based** communication may include forum and bulletin boards (example: the “Tell Shell” site) where a dialogue is created between the company and consumers, or stakeholders. It acts as a form of public consultation process, emphasising transparency, a key element of CSR marketing. Other sites have feedback forms, like the online *Volvo* report, that can be completed in minutes and responses are sent to a data file that can later be analysed. This form of communication tool provides valuable information about the company stakeholders. Some companies also choose to sponsor a non-profit web page, having their advertising banner linked directly to their CSR report.

101. In a study, Swaen and Vanhamme (2005) found that communicating positive CSR through a company website enhanced product evaluations and purchase intentions in the face of negative publicity. This finding is consistent with results of Klein and Dawar (2004), who showed that positive CSR information protected a company’s image against negative publicity about the quality of its products. However, this protective effect may exist especially when a company has demonstrated its CSR activities over a relatively long time period (Pashupati *et al*, 2002).

102. Implementing CRM efforts at a **local level** can also reap huge rewards for brand equity. Consumers want to see the benefits of a campaign locally and also tend to trust brands that are close to them. Through micro events, multinational companies shift their image. Companies may sponsor a local organic market, a fair, a cause concert, etc. An example of a marketing mix is provided in **Box 6**.

Box 6. An example of Marketing mix: Coca-Cola and Machu Picchu

An example of *Guerilla*, *local level* and then *web based* marketing mix from the Coca-Cola web site: “At Peru’s famous Machu Picchu archaeological site, we organised an aggressive clean-up campaign, Campaña de Limpieza de Machu-Picchu, with the Machu Picchu Sanctuary Authority. The programme systematically removes trash that threatens the site - including PET bottles discarded by tourists, which are then recycled. The effort has collected more than 20 tons of garbage and has been highly praised by local authorities.”

Source: <http://www2.coca-cola.com/citizenship/waste.html>

103. **Buying CSR reputed brands** with the expectation of a ripple effect on the rest of the company’s brands is also a way to publicise one’s CSR. For instance, when *L’Oréal* buys *The Body Shop*, traditionally renowned as being a CSR-friendly corporation, this is relayed in the news and communicates to the consumer that *L’Oréal* is concerned with CSR, and that the *Body Shop*’s good social and environmental “behaviour” might have an impact on other *L’Oréal* brands.

104. However, although the public may get the perception of the multinational corporation trying to become good thanks to the new company that it is buying, the “ethical consumer” gets the opposite impression. In the case of *The Body Shop*, its *Ethiscore* (shown on the website of ethiscopre.org) dropped as a result of its buyout from 11 to 2.5. The website of *Ethical Consumer* as well as other ethical or green consumer guide sites have even called for a boycott of the company’s products.

105. Companies can include other stakeholders in their communication policies. For example, they can **partner with NGOs**, which can enhance their reputation or can provide specialised expertise that they do not have. For example, at Kellogg’s UK, CSR manager Bruce Learner insists that without the specialised expertise of NGO partners, the company’s sponsored breakfast clubs and health promotion programme couldn’t exist. Partnership with the Amateur Swimming Association, the Walking the Way to Health Initiative, and ContinYou, a community education organisation, have made Kellogg’s sponsored programmes credible, according to Learner. Also, their School Breakfast clubs, established with the help of ContinYou, would be less efficient had company executives lacking in knowledge of the UK school system attempted to set them up alone. According to Learner, working with NGOs has exposed him to different organisational structures, experience of which has helped the company to be more inventive when

trying to find ways to serve customers (EC Newsdesk, 2006). NGOs in turn, benefit from the multinational scope of the corporation, and huge marketing possibility, in monetary terms, that it offers.






106. Also, **employees** can be a brand or a company's best ambassadors in terms of spreading the word. Training them to convey a particular message about the brand to consumers can be a valuable communication tool, especially when it comes to explaining complex CSR issues that cannot be conveyed in simpler and shorter advertisement messages. Employee blogs have helped enhance the reputation of their employers (for instance *Microsoft*, *Sun Mircrosystem*, or *Stonefield Farms*), and also have damaged it (as for *Google*, *Delta Air Lines*, or *Friendster*). Blogs influence news, analysts, and regulators. This new form of internal and external communication is not to be underestimated, as consumers may find valuable and trustworthy (or perceived as) information about a company's practices, production and product information.



ANNEX III.1. NATIONAL AND REGIONAL PROGRAMMES IN THE OECD REGION

Country	Programme delivered	Standards/ Criteria sets	Licenses issued to companies	Certified products/s ervices
Australia	Australian Ecolabel programme	24	26	280
Canada	Environmental Choice ^M Program	160	230	>3,000
Czech Republic	National Program of Labelling Environmentally Products	39	72	176
EC	European Eco-label (The Flower)	23	231	--
Germany	The Blue Angel	86	571	3,359
Japan	Eco-Mark programme	45	1756	5,074
Korea	Environmental Labelling Program	102	448	1,765
New Zealand	Environmental Choice New Zealand	23	13	207
Spain	AENOR-Medio Ambiente	13	52	275
Sweden	Good Environmental Choice	13	223	786
	Nordic Swan (including Nordic countries)	59	~ 700 companies /1,067 licenses	>3,000
	Quality and Ecolabelling Program (TCO)	10	67	2,302
United States	Green Seal	43	99	493

Source: GEN Annual Report 2004

ANNEX III.2. SELECTED STANDARDS AND LABELLING SCHEMES

Schemes	Main features	Logo
The Blue Angels	<ul style="list-style-type: none"> ▪ First ecolabel initiative in the world ▪ Launched by the German Federal Environment Ministry in 1977 ▪ Coverage: grew from 45 products in 1979 to 86 products in 2004 ▪ About 3,700 products and services from approximately 580 label users in Germany and abroad ▪ 49% of Germans pay attention to the Blue Angel 	
European Eco-label (the Flower)	<ul style="list-style-type: none"> ▪ Set up by the Council Regulation (EEC) No. 880/92 of 23 March 1992 ▪ Revised in 2000 to streamline the scheme ▪ Part of a broader strategy aimed at promoting sustainable consumption and production ▪ 23 product groups covering 12 major areas of manufacturing and one service activity ▪ Holders: increased from only 33 companies in 1999 to 289 as of December 2005, textile-related business accounts for 64 companies, the biggest in number, followed by 50 paint and varnishes companies 	
Green Seal	<ul style="list-style-type: none"> ▪ Established in 1989 and incorporated in 1990 as a non-profit organisation ▪ Issued its first environmental standard in 1992 and completed the first product certifications in 1992 ▪ 493 products around forty categories were certified (as of 2004) ▪ Items: household cleaners, paints, appliances, etc. 	
Marine Stewardship Council (MSC)	<ul style="list-style-type: none"> ▪ Independent, global, non-profit organisation ▪ Established by Unilever and WWF in 1997 ▪ Certification programme for well-managed fisheries ▪ Fishery certification and chain-of-custody (CofC) certification ▪ MSC labelled products surged from 200 in 19 countries to 240 in 23 countries 	
IFOAM	<ul style="list-style-type: none"> ▪ Founded in 1972 as an umbrella organisation for the organic agricultural movement ▪ Accreditation is administered by the independent International Organic Accreditation Service (IOAS) ▪ In 2004 the global market for organic products achieved record growth, with IFOAM's 700 members in 108 countries reaching a landmark value of USD25 billion 	

Schemes	Main features	Logo
ISO 14000 Series	<ul style="list-style-type: none"> ▪ First published in 1996 (ISO 14001:1996) but improved again in 2004 (ISO 14001:2004) ▪ Developed for sound environmental managements ▪ ISO 14001 standard specifies requirements for an environmental management system ▪ By the end of 2004, 90956 certificates had been issued in 127 countries. 	
FLO	<ul style="list-style-type: none"> ▪ Started in the Netherlands in 1989 ▪ In 1997, 17 national initiatives together founded an umbrella organisation, Fairtrade Labelling Organisation (FLO)-International ▪ FLO-certification is run by FLO-Cert Ltd ▪ 531 producer organisations certified by FLO, representing over one million farmers and workers over 50 countries ▪ 667 registered traders consisting of exporters, importers, processors and manufacturers ▪ Between 2003 and 2004, the fair trade sales across the world grew by 56% to over 125,000 Metric Tones (MT) ▪ In the North America and the Pacific region alone, the 2004 retail value of Fair trade increased by 29% for a total of USD376.42 million 	
Social Accountability International (SAI)	<ul style="list-style-type: none"> ▪ Non-profit organisation dedicated to the development, implementation and oversight of voluntary social standard. ▪ Factory-level management requirement involving all stakeholders ▪ 12 accredited certification bodies in 6 countries including USA, UK and Italy ▪ As per end-2005, 881 facilities of 57 industries were certified around 50 countries ▪ not a product label 	
Ethical Trading Initiative (ETI)	<ul style="list-style-type: none"> ▪ Set up 1998 as an initiative to ensure decent working conditions ▪ UK alliance of companies, trade union and NGOs ▪ Underpinned by the ETI Base Code and the accompanying Principles of implementation ▪ Become a member by making a public commitment to adopt and implement the ETI Code ▪ Membership: increased from 12 companies in 1998 to 37 at the end of 2004 	

Source: OECD.

ANNEX III.3. GOOD PRACTICE IN CSR REPORTING: SOME EXAMPLES

Ford Motor Company – The 53-page Ford Sustainability Report 2004-2005, *Our Route to Sustainability: Connecting with Society*, the fifth of its kind, is based on the GRI guidelines. Ford was the first automaker to achieve ISO 14001 environmental management certification and it has committed to produce a regular climate change report. In 2003 Ford adopted a Code of Basic Working Conditions to safeguard human rights in the supply chain, including child labour, forced labour and health and safety standards worldwide and already reports against it. A Report Review Committee (comprised of representatives from Ford, NGOs like CERES, TERI Europe and the World Resources Institute, and academia, among others), commends Ford’s efforts for “the candour and clarity” of its reporting.

BP – In its 78-page Sustainability Report 2005: *Making Energy More ...*, BP emphasises the company’s commitment to responsible operation. Beyond compliance with the law, it declares to pursue “universal standards of individual and collective behaviour that are applied in every activity, everywhere around the world” in terms of “safety, integrity, security, environmental stewardship and people management”. It reports on emissions to air, water management, hazardous waste disposal, care for biodiversity, decommissioning of plants and their remediation actions in some 4000 sites, among other key topics. The 2005 report resulted from a revision of BP’s reporting practices in 2004 to assess the reaction of readers after conducting surveys, interviews, benchmark studies and workshops in Europe and the U.S. on them. The report claims to comply with the UN Global Compact principles, GRI and IPIECA standards, the Oil and Gas Industry Guidance on Voluntary Sustainability Reporting. Ernst & Young ascertains the information reported by BP against the AA1000 Assurance Standard.

Novo Nordisk – The Novo Nordisk Annual Report, *Financial, Social and Environmental Performance 2005* combines financial and non-financial reporting in a 116-page publication. In 2005 two more Novo Nordisk facilities achieved ISO 14001 environmental management certification and 340 suppliers were evaluated for their social and environmental performance, with 87% finding it satisfactory. Novo Nordisk operates in 79 countries and employs nearly 22,500 persons. Since 2003 the Danish company’s sustainability report is assured against the AA1000 Assurance Standard, the International Standard on Assurance Engagements 3000 and the UN Global Compact by PricewaterhouseCoopers.

Source: OECD.

ANNEX III.4. CONSUMER GUIDES ON THE INTERNET

Publication	Country	URL
<i>Consumer Reports</i>	US	http://www.consumerreports.org/cro/home.htm
<i>Consumer Reports Online 4 Kids</i>	US	http://www.zillions.org/
<i>BestBuy</i>	US	http://www.bestbuy.com/
<i>GreenerChoices</i>	US	http://www.eco-labels.org/greenconsumers/home.cfm
<i>BuildingGreen</i>	US	http://www.buildinggreen.com/
<i>Corporate Critic</i>	UK	http://www.corporatecritic.org/home.aspx
<i>Which?</i>	UK	http://www.which.net/
<i>Ethical Consumer</i>	UK	http://www.ethicalconsumer.org/ , www.ethiscore.org
<i>Newconsumer</i>	UK	http://www.newconsumer.org/
<i>Öko-Test</i>	Germany	http://www.oekotest.de/
<i>Konsument</i>	Austria	http://www.konsument.at/konsument/
<i>Consumentengids</i>	Netherlands	http://www.consumentenbond.nl/?ticket=nietlid
<i>Test-Aankoop</i>	Belgium	http://www.test-aankoop.be/
<i>Test achats</i>		http://www.test-achats.be/
<i>60 Millions de consommateurs</i>	France	http://www.60millions-mag.com/page
<i>Choice</i>	Australia	http://www.choice.com.au/
<i>Consumer</i>	New Zealand	http://www.consumer.org.nz/Default.asp?bhcp=1
<i>The Green Book</i>	Singapore	http://www.thegreenbook.com/
<i>The Consumer</i>	Singapore	http://www.case.org.sg/

Source: OECD.

IV. Findings from case studies of CSR communication in four sectors

107. Against the background of the general discussion of the range of communication strategies available to companies, this Section summarises findings from a systematic and detailed examination of whether and to what extent these strategies, and where applicable other tools not described in **Section III**, are being used to inform consumers about CSR practices in four specific sectors: *fisheries, cut flowers, cosmetics, and textiles and clothing*. Further details can be found in the sector studies issued separately in a companion document (PART II).

108. The summary offers some observations concerning the relative prominence of the use of the schemes within and across sectors. Data from consumer surveys or other sources allowing us to assess consumer reaction to the various schemes, and their impact on the different products markets, were not available.

1. Fisheries

a) Issues of corporate social responsibility

109. Fish production and trade have expanded rapidly in recent years, with developing countries accounting for around half of total world exports. In contrast, an estimated quarter of fish stocks are already overexploited or depleted and around half of stocks have reached their maximum level of exploitation (FAO, 2004). Hence, CSR issues in fisheries business centre on environmental concern and more specifically, the concept of “sustainable fisheries”. Social aspects have been less prominent, although fishermen work in a dangerous environment and fishing is an important source of income for developing countries.

b) Providing information on production conditions for fish and fish products

110. Most fishing enterprises convey to consumers and other stakeholders their commitments and adherence to sustainable fishing through labelling, websites, company reports or other modes of communication. However, information gaps appear to exist making it difficult for consumers to identify kinds of seafood that are overfished or caught in ways harmful to other sea creatures and the ocean environment (*e.g.*, Seafood Choices Alliance, 2003).

111. Though market impact reportedly remains modest, **labelling** is the most widely employed CSR information scheme in fisheries. Quite a number of national or global labelling programmes have emerged in the market. Among the most recognised programmes are the scheme developed by the Marine Stewardship Council (MSC) and dolphin-safe labels. The MSC scheme provides labelling services for fish and seafood originating from marines catches separately in two stages – the fish harvesting and the downstream supply chain. ‘Dolphin-safe’ or ‘Dolphin-friendly’ tuna labels are well-known eco-labels for tuna products. There are several third-party schemes as well as a large number of self-declared dolphin-safe labels.³⁰ An international survey carried out by nine leading consumer organizations (Decision News Media, 2004) pointed out that “up to six different logos and wording were found on 25 tins of tuna, each

30 For instance, all three largest US tuna processors, namely Starkist, Bumble Bee tuna, and Chicken of the Sea, have their own dolphin-safe logos.

claiming that the tuna was fished without harming dolphins.” Dolphin-safe labels are a typical case where numerous labels compete with each other, confusing consumers.

112. Although current retail sales of fish products carrying an eco-label are well below 1% of the total seafood market, there is noticeably increasing interest in certified fish on the part of consumers and retailers around the world. Existing studies also suggest that, in some cultures at least, consumers prefer labelling as the main source of information at the point of purchase, to other information channels such as newspapers, printed materials, or even the Internet.

113. Big supermarket chains prefer certified seafood, but the nature of fisheries is such that labelling is difficult to undertake, particularly in terms of verifying and monitoring, because most fishing takes place in remote seas and fishes from different sources may be mixed during processing. Hence, some observers question the integrity of fish labels and fishery labels are still struggling to gain and maintain credibility from consumers and producers.

114. Compared to labelling, **reporting** has yet to take root in this market. Actually, 831 companies that have registered their reports in the GRI database include no fisheries companies, and our website search suggests that fisheries companies seldom publish stand-alone CSR reports, with only a few exceptions (*e.g.* Unilever and Sanford Ltd).

115. Fish and fish products have hardly drawn attention from the editors of **consumer guides**. In fact, most consumer guides do not include product recommendation for seafood and, if any, they provide only quality-related information but not environmental and social information. Recently some environmental organisations, semi-state agencies and NGOs have begun to publish *fish guides*. In general, these locally-oriented guides list fish that are recommended or avoided, together with information on fishing gear, capture methods, bycatch and biology. However, they do not carry information relating to producers, processors and suppliers.

116. As far as **corporate advertising and marketing** is concerned, many fish harvesting and processing companies, including SMEs, as well as seafood retailers provide information and communicate with consumers and other stakeholders via their homepages on the Internet. On their websites, many fisheries companies state their commitments to sustainable fishing and provide related information, *e.g.* about adherence to ISO 14001 or SA8000, observance of a quality standard, sourcing policies and production practices. Another, more traditional, way of informing consumers is through product **packaging and labelling**. As is the case for other food products, packaging of seafood features such terms as ‘natural’, ‘eco’, ‘fresh’, ‘bio’, ‘organic’ and ‘pure’. Many companies also use self-declared labels as a marketing tool (*e.g.* private dolphin-safe tuna labels).

2. *Cut flowers*

a) *Issues of corporate social responsibility*

117. Over the past 10-15 years, the advantage for growing low-priced mass-produced cut flowers has gradually shifted away from the OECD region to Colombia, Kenya and other developing countries with favourable growing climate and low production costs. Meanwhile, consumption remains concentrated in Western Europe, North America and Japan. In these markets, the flower industries of Colombia and other developing-country producers has received some negative publicity in recent years, as labour unions, environmental activists and other NGOs have raised a number of issues linked to conditions of production on developing-country flower farms, such as dismal working conditions or unsafe use of pesticides and other toxic substances.

b) *Providing information on production conditions for cut flowers*

118. Despite awareness-raising campaigns, OECD consumers cannot easily identify the production characteristics of flowers when they shop.

119. In general, information schemes used in the market for cut flowers are dominated by **buyer or sectoral codes of conduct** governing social and/or environmental performance **and labels or symbols** that attest certification based on these codes. However, many important schemes (*e.g.* Milieu Programma Sierteelt, Florverde label in Colombia, Sello Verde in Ecuador) are geared towards facilitating *business-to-business transactions* along supply chains. Trading relationships in the cut flower market, and notably participation in the supermarket chain, increasingly require that thousands of flower growers in developing countries adopt suppliers' codes of conduct.

120. Although the situation seems to be changing, label programmes that tell *final consumers* whether the farms that grow flowers respect minimal environmental and labour conditions are relatively rare. Major initiatives are mostly in the European market (including Fair Trade Certified, the German Flower Label Programme, Fair Flowers and Plants (FFP)). Also, it is only very recently that cut flowers have found their way into the Fair Trade Certified scheme and so far they are being sold only in a few European countries (UK, Switzerland, Belgium, Norway). In North America and elsewhere certification and labelling schemes have not really taken hold (exceptions include *e.g.* the Sierra Eco label in Canada).

121. With rare exceptions (*e.g.* Dole Food Company Inc.), **corporate reporting** providing information about floricultural production conditions is not a standard practice of large retailers or supermarkets. Similarly, consumers consulting **guides on consumer goods** will seldom come across CSR information for cut flowers. The consumer-oriented informational websites on floriculture also do not usually mention flower certification labels or CSR in the flower industry. For the curious shopper, this makes the websites, electronic newsletters etc. of civil society groups engaged in this industry perhaps the most readily accessible source of information of a news-like or educational type. (*e.g.* Flower Coordination Switzerland, Fairtrade Foundation in UK, International Labour Rights Fund (ILRF) in the USA)

122. While it is common for flower producers, individually or via professional associations, to seek to increase their visibility and cultivate a consistent positive product image through **advertising campaigns and promotional activities**, CSR issues usually are not addressed and it is virtually impossible for a consumer to trace flowers carried by his or her florist shop back to a specific flower grower. A few online shops specialize in selling certified cut flowers, but none of several researched large **wire or web-based flower order services** based in the OECD region advertise that they carry certified products.

123. Only in the relatively new but growing niche market for *organically grown flowers* is the industry of some OECD countries visibly engaged in creating public awareness, educating consumers and positioning company brands. Also, flowers that are grown organically are eligible for inclusion in some of the existing voluntary organic label programmes certifying agricultural produce. New labels are emerging in this market niche, a development which is not confined to Europe but is taking hold also in the cut flower trade in North America.

3. *Cosmetics*

a) *Issues of corporate social responsibility*

124. Europe, the United States and Japan are the world's leading producers of cosmetic products and also the leading markets. Innovation is an important driver of growth in the cosmetics market, with *natural ingredients* making an important contribution. In terms of CSR objectives, the cosmetic industry is fairly

homogeneous and focuses primarily on environmental protection, ecological issues and social standards. Of importance to this industry is that these issues are somewhat linked to the nature of the ingredients themselves, “natural” being, for consumers, a good conveyer of corporate social responsibility while they perceive cosmetics containing natural ingredients as being beneficial for their own health, and of higher quality.

125. CSR issues have been long considered and assumed in the cosmetic industry, with pioneer CSR companies coming from this sector (Natura, The Body Shop and Aveda). These companies’ founders’ core ambition clearly was to change consumption patterns.

b) Providing information on production conditions for cosmetics

126. The marketing of CSR in the cosmetic sector is most of all a result of product positioning. Companies gain competitive advantage and market share by **branding their products around CSR**, making CSR an inherent part of the brand and of the image of the company. To achieve this positioning, their marketing mix is carefully chosen, with a moderate use of mass advertising, and a use of non-traditional marketing channels. These techniques, often referred to as guerrilla marketing techniques, or undercover marketing, enable the marketing campaign budgets to remain limited.

127. In their marketing mix, cosmetic companies also make a wide use of the media to convey their CSR image. With their PR teams, they communicate with local communities and organise special events that mix fun and CSR, enabling them to reach existing customers while generating significant impact with the media.

128. The cosmetic industry includes companies that have pioneered **CSR reporting** and continue to hold this advantage over other industries. The topics included in the main players’ reports are often similar and consistent with one another. They consist of: ethical trade, animal testing, supply chain, ecology, human rights, protection of the planet, packaging, partnerships with NGOs, employee treatment and involvement, ingredients, internal CSR organisation, and auditing.

129. **Consumer guides** only about cosmetics products manufactured under socially responsible conditions are mainly Internet-based, and consumer driven. A few printed general guides will have cosmetics tested once in a while, but their main focus has been on the chemicals used in the cosmetic’s recipe and their impact on consumers’ health rather than on the environment or the social conditions of production. A recent concern is with *organic cosmetics*, but again the focus is mainly on ingredients and not on the company as a whole, nor its labour practices or environmental impact.

4. Textiles and clothing sectors

a) Issues of corporate social responsibility

130. It is estimated that about 40 million workers are employed in the textile and garment industries worldwide, including around 10 million in the footwear industry. Both industries continue to be important sources of labour posts in developed and developing countries alike.

131. Even at the agricultural stage, some raw materials for the textile industry, like cotton, flax or hemp, are among the most environmentally damaging crops, often receiving multiple treatments of fertilisers and pesticides. Textile industries also use large amounts of chemicals in the dyeing, printing and washing processes.

132. A number of labour issues affect the textiles and clothing sectors as well, especially in developing countries that have a record of child, forced and prison labour, disciplinary practices that include mental and physical coercion, inordinate working hours, below-standards wages and benefits, hazardous health and safety conditions and discriminatory practices.

b) Providing information on production conditions for textiles and clothing

133. Textile companies resort to every available CSR tool in the market, including detailed reporting about their environmental and social practices, both printed and in dedicated sections of their corporate web pages, adhering to certification and labelling schemes, providing abundant information to impartial intermediaries, like consumer guides and investor screeners, resorting to monitoring assurance specialists, and adopting in-the-field initiatives –those that involve remedial action in conjunction with developing country monitors, for example– that are fit for media coverage and consumer recognition.

134. Retailers, manufacturers, importers and distributors of consumer textiles and clothing label their articles as required by government and international regulations as well as industry practices. A typical textile label for products sold in OECD markets contains information on fibre content and dealer identity, cleaning and caring, etc. **CSR labelling**, some of which is specific to textiles and clothing (*e.g.* Clean Clothes Campaign, Rugmark and No Sweat labels), can supplement the information contained in the other labels or be altogether separate. Although labelling is a widely recognised CSR information source for this industry, its impact on the vast majority of consumers is far from settled.

135. **Corporate CSR reporting** is widespread and is largely centred on the working conditions of international supply chains. Most reports are available to consumers and investors in both hard copy and a soft version that can be downloaded from company web-pages. Big textiles and clothing companies tend to report under more than one reporting scheme, cross-referencing information and ascertaining its accuracy through the involvement of independent assurance firms, most of them specialised offshoots of major financial auditing firms, although some segments of activity may require the participation of technical specialists, especially for environmental topics.

136. Many textile companies have global sourcing and operating guidelines of their own, to address their inability to control every aspect of their relationship with hundreds of downstream business partners around the globe. Some big companies have opted for releasing the names and locations of the factories that manufacture their products. CSR responsibility is, thus, altogether shifted to suppliers and subcontractors.

137. The number of **consumer information publications and online services** for the textile and clothing industry is very high, especially for the numerous segments of the production line. Both regular and CSR-dedicated consumer guides (*e.g.* Ethical Consumer, Ethiscore, Newconsumer, Lift the Label Ethical Directory, and Getethical) carry substantial information on production conditions and other CSR issues for textiles and garments, covering also clothing and clothing shops, carpets and flooring, ethical fashion, organic cotton, fair trade, etc.

138. Textiles and clothing companies also use a complex **marketing mix** to inform on their CSR performance, including the use of **newspaper, magazine and television advertising**, both in a targeted and diffuse manner, sponsoring international CSR forums, and the more common one of producing visually-attractive reporting, both in physical and virtual form. Part of their branding strategy, each company endeavours to show uniqueness and excellence, from presenting CSR efforts as an ever-challenging process to reconcile environmental and social mandates with the profit motive to using CSR disputes as a launching pad for their marketing efforts.

5. Comparing cases

139. This section sums up the key findings of the sector analyses from a comparative perspective. In all sectors surveyed, the social and environmental conditions of production are subject to efforts and initiatives in the private sector aimed at informing consumers. In fisheries, CSR has evolved mainly in the form of support of *sustainable fishing*, with relatively more emphasis on the environmental dimension than on social aspects. In the other three product markets surveyed, social and environmental issues are more evenly represented on the agenda of CSR communication.

140. **Table 1** provides a simple schematic comparison of the use of the various communication schemes across the four product markets studied. It shows how the use of communication schemes differs according to sector. From a broad perspective, CSR communication is at a more rudimentary stage in fisheries and cut flowers than in the other sectors. A more detailed comparison of findings for each sector suggests that:

- Certification and label schemes exist in all product markets surveyed but are relatively more frequent in the markets of cut flowers as well as textiles and clothing, where they are mostly business-to-business schemes. In other words, many cut flowers are sourced from certified producers but do not carry a consumer label.
- CSR reporting is widespread among producers of textiles and clothing as well as among cosmetics companies.
- With apparently increasing frequency consumers can access information about conditions of production also via general or specialised consumer guides; however, this mode of communication appears to be more developed in the markets for cosmetics and textiles and clothing than fisheries and cut flowers.
- With the exception of organic floriculture, neither corporate advertising nor branding play a major role as communication channels at the retail level of flower sales. A similar situation can be observed for fisheries. By contrast, CSR is an integral part of cosmetic companies' marketing strategies and product branding.

Table 1. Comparison of schemes

	FISH	CUT FLOWERS	TEXTILES	COSMETICS
Certification and labelling	several	several (mostly business-to-business)	many (mostly business-to-business)	seldom
CSR reporting	seldom	seldom	frequent	very frequent
General/CSR specialised consumer guides	only some fish guides	very seldom (general guides or CSR guides)	frequent	seldom
Corporate marketing	some	mainly in niche market of organic cut flowers	very frequent	dominant (branding)

141. Conclusions about effective information schemes cannot be drawn on the basis of this analysis of a few sectors. The reasons why companies prefer one scheme to another are not obvious and marketing research with quantitative indicators that would facilitate comparison of information instruments by their effect on consumers and markets is not available (except experimental). Our research shows that the relative use of information instruments varies considerable across products. Culture, market concentration and other factors seem to play a role. Looking at what companies are doing, it seems that many do not participate in certification and labelling schemes involving government but choose private standards, often with a view to what competitors are doing. Companies also engage in new inventive ways to communicate about their responsible practices and appeal to consumers.

142. The simple analytical framework adopted by this study — that private CSR standards and communication are driven by concerned consumers — overlooks the role that labour unions and other groups of civil society have been playing in the emergence of the CSR movement and diffusion of CSR awareness within and across societies. For cut flowers, advocacy campaigns by non-governmental organisations initially played — and still are playing — a prominent role. In the textiles and clothing sector, the Clean Clothes Campaign, a joint initiative of NGOs and trade unions, works to raise awareness among all kinds of groups of consumers on the issue of working conditions in the global garment industry and to mobilise their influence in consumer markets and with governments to achieve improvements. Interestingly, the trend towards CSR in the case of cosmetics was initially a supplier-driven phenomenon, which now has become consumer-driven.

143. The case studies confirm changes taking place in market structure and supply chain relationships that have been noted by other research focusing on the role of private standards in the agro-food sector (OECD, 2006), and which could influence market development and trade prospects for CSR products. For cut flowers, traditional florists (independent retailers) still play an important if not dominant role in distribution at the retail level in many OECD countries, but the role of retail chains (supermarket chains, do-it-yourself stores, garden centres) is growing. As the case of fisheries illustrates, supermarket chains offering their own private labels and covering a wide range of products are accounting for a growing and at times very large share of sector sales. In the other two sectors as well, large retailers are becoming important sellers of CSR products and buyers from producers/exporters across the globe.

144. These large retailers communicate and enforce CSR commitments and performance throughout their global supply chain relationships, often by issuing sourcing codes of principles or policies (*e.g.* Mark & Spencer's Policy on Sustainable Sourcing of Fisheries Products). Their large sales volumes give them considerable influence over supplier production practices and this leverage is reinforced by large retailers sourcing increasingly directly from producers. The research on private standards in the agro-food system suggests that direct relations between producers and retailers could reduce the investment needed to supply consumer information while making CSR performance more transparent.

V. Conclusions – Key issues raised by the study and relevant findings of the Rotterdam workshop

145. To provide companies, consumer organisations, standard-setting organisations and other relevant stakeholders an opportunity to discuss the issue and reflect on the findings of this study, the government of the Netherlands organised a multi-stakeholder workshop in Rotterdam on 26 September 2006. This concluding section highlights the main reactions from the discussion. A fuller summary of the discussion is provided in **Annex V.I**.

146. Products meeting high social and environmental standards of production represent today growing niche markets in most OECD countries. Consumers, through their purchasing decisions, NGO campaigners

and companies seeking to differentiate their products and build reputation advantages all are important drivers of socially responsible production. The survey data reviewed for this study suggest that consumer demand for CSR products could grow if ways can be found to bridge the gap between stated interest and preferences on the one hand and actual behaviour on the other hand.

147. Participants at the Rotterdam workshop confirmed the existence of a gap between what consumers say about how much they care about CSR and their actual purchasing behaviour. Consumers are receptive to information about how internationally traded goods are produced, but they are unwilling to trade off price and quality for CSR attributes of a product. Companies represented shared the view that CSR is not foremost on a consumer's mind and that product performance is the decisive selling factor. Once quality and price have been found acceptable by the consumer, information about CSR can add to the attractiveness of a product or brand. This view was shared by participating polling agencies. Consumer organisations pointed out that consumers' lack of time to process relevant information, the limited availability of 'CSR proof' products in stores, consumer scepticism and inertia all were factors that impeded broader consumer participation in the market for such goods. Participants from developing countries drew attention to affordability as the primary criteria driving consumer purchasing behaviour in non-OECD countries. There, price dominates other product attributes by far.³¹

148. This study found that for all sectors surveyed, products are available in the marketplace which originate from production controlled by private voluntary social and/or environmental standards. Often, these products are not identified to shoppers as such. For instance, many European consumers would not know if the flowers they buy were produced in observance of social and environmental standards. This can be explained in part by the fact that for major intermediary buying associations adherence by suppliers to standards for CSR production is more relevant than informing the final consumer at the end of the supply chain about these high standards and that some producers cannot financially afford to engage in marketing their CSR-proof products at the consumer end. Making CSR visible to consumers hence remains a challenge for companies and other stakeholders. Can we identify effective practices of informing consumers, and what do we know about their impact on CSR markets?

149. Debate of this question at the Rotterdam workshop revealed broad agreement that effective corporate communication is key to overcoming the observed attitude-behaviour gap, but different views by stakeholders and a lack of quantitative data on effectiveness precluded conclusions. From the experiences shared and views expressed, information schemes are so situation-specific that 'best practices' cannot be determined. Companies reported that they were looking for a balance in the extent and the detail of information they provide to consumers, as consumers' interest in CSR had limits. Confusing consumers by exposing them to too much, i.e. complex, information backfires on selling. The attitude of NGOs was mentioned as another factor influencing at times what and how much information companies disclose. Consumer organisations confirmed the importance of trust in the messenger. Some consumer organisations try to play the role of trusted messenger themselves by assessing products (or companies) for their CSR performance. This role is difficult or even impossible for them to fulfil if companies do not respond to their questionnaires or provided information of varying quality or hard to verify. That consistency is important

31 In written comments submitted after the Rotterdam workshop, *VOICE*, a consumer organisation based in India, stressed that because of the low purchasing power of consumers in developing countries, the assumption that consumers are willing to purchase CSR products at higher prices does not hold there. Rather, developing-country consumer buying behaviour encourages production of sub-standard goods that can create health hazards and other kinds of problems associated with poor quality goods. In the view of *VOICE*, if it were possible for a company to reach out to this large developing-country consumer base with a low priced product of good quality, this itself would be socially responsible behaviour in the developing country context.

for CSR claims of products or companies to be credible and effective was stressed by consumer as well as standard-setting organisations participating in Rotterdam.

150. Participants pointed out an increase in the number, diversity and level of private standards covering social and environmental aspects of production. Key motivations mentioned for why companies adopt or develop such standards are company reputation, risk management and sometimes the desire to pre-empt regulation, especially in sectors with controversial conditions of production. The sector studies provide some evidence for CSR products moving into the mainstream market dominated by large retail chains and supermarkets. Several companies confirmed that major retailers and other multinational buyers, compelled by the same motivations, increasingly require adherence to social and environmental production standards by their suppliers.

151. Representatives from developing countries expressed concern that multiple and ever more numerous private standards acted as additional non-tariff barriers to market access by developing-country exporters. Especially where mainstream multinational buyers require suppliers to certify their production according to the CSR standard of their choice, small-scale suppliers face the challenge of having to comply with a growing number of (shifting) standards.

152. The co-existence of numerous standards raises compliance costs for producers supplying different buyers and markets, each with different requirements. It furthermore makes it for consumers difficult to understand the meaning of each system and hence creates uncertainty and confusion. While there are obvious information-related and broader economic benefits (*e.g.* reduced transaction and compliance costs) when standards and associated information systems with similar objectives are harmonised that would facilitate trade and enhance consumer confidence, the sector studies find little evidence of convergence taking place.

153. What are the obstacles to convergence and what would make companies interested and willing to seek collaboration with other companies? Discussion of this issue at the Rotterdam workshop identified instances of collaboration among companies and with standard-setting organisations (*e.g.* Business Social Compliance Initiative (BSCI), Initiative Clause Sociale). According to standard-setting and monitoring organisations represented, incentives for companies to cooperate with other companies in the same industry and/or with third parties include enhanced credibility of standards and procedures, the possibility to share good practice and less duplication of effort by being able to rely *e.g.* on one audit per supplier. However, it was also stressed that the scope for collaboration is limited because companies use CSR to gain a competitive edge, and that thus the room for convergence of standards for socially responsible production and related information schemes is limited.

154. Multinational companies represented at the workshop underlined the advantages of voluntary approaches to CSR as a more effective policy solution compared to one-size-fits-all regulation to ensure CSR in traded production. The consumer organisations and standard setting organisations present did not wish to advocate such regulation either.

**ANNEX V.I. SUMMARY OF INPUT PROVIDED BY PARTICIPANTS IN THE WORKSHOP
'CSR IN PRODUCTION AND INTERNATIONAL TRADE' IN ROTTERDAM ON 26TH OF
SEPTEMBER 2006**

by The Ministry of Economic Affairs, The Netherlands

Background of the workshop

The OECD Trade Committee undertook a study in February 2006 on Corporate Social Responsibility (CSR) & Trade, based on a proposal of The Netherlands. An inspiration for this study was that where consumer concerns about the social and environmental impact of globalised production start to affect consumer confidence, they also affect support for trade liberalisation. Companies have responded to these concerns by voluntarily adopting policies of CSR concerning the conditions under which their production takes place. If corporate communication about CSR can address consumer concerns effectively, voluntary CSR can strengthen consumer confidence and thus stimulate world trade. Therefore the OECD study aimed at obtaining an overview of how companies around the world inform their consumers about the production process of traded goods. The study focused on social and environmental conditions as the most common issues of corporate social responsibility on which various international standards are available. To provide companies, consumer organizations, standard-setting organisations³² and other stakeholders an opportunity to reflect on this issue, the Dutch Ministry of Economic Affairs organised a workshop on the 26th of September 2006 in Hotel New York, Rotterdam. This report of the input provided by participants at the workshop will be attached to the OECD report.

The gap in consumer behaviour

Participants confirmed that there is a gap between what consumers say about how much they care about socially responsible production and their actual purchasing behaviour. Consumers are receptive to learning about how traded goods have been produced, but unwilling to trade off price and quality against

32 Companies participating were Unilever, Cargill, Sara Lee, Henkel, IBM, Kraft Foods, Philips, Chiquita, Sony, Tui, Timberland, Ahold, Panasonic, Shell, Confederation of British Industries, Heineken International, Frug I Com, Dutch Flower Wholesale Organisation, Chilean Exports Association ASOEX, Difrax babyproducts, Ipsos MORI, Beco Group, C&A, Modint (textiles).

Consumer organizations were represented by Consumers International, IDEC (Brasil), Stiftung Warentest and the Federation of German Consumer Organisations, Canadian Office of Consumer Affairs, Consumer VOICE and Pro Public (India), Kenian Consumer Information Network, Dutch Consumentenbond, Belgian consumer association Test-Aankoop.

Standard setting organizations represented were SAI, ISEAL, Rainforest Alliance, Fairfood, BSCI, Fair Wear, Made-By, Business for Social Responsibility and several persons involved in ISO 26000.

From the OECD Secretariat Dale Andrew and Barbara Fliess (Trade Directorate), Sarah Andrews (Consumer Policy Committee) and Monika Tothova (Agricultural Directorate) participated in the workshop.

CSR attributes of a product. Companies, consumer polling agencies and consumer organisations shared the view that CSR is not foremost on the consumers' mind and that a product's performance is the decisive selling factor. Information about CSR production can add to the attractiveness of a brand, provided the consumer found quality and price acceptable.

Consumer organisations pointed to the consumers' lack of time to process relevant information, the limited availability of 'CSR proof' products in visited stores, consumer scepticism and inertia all were factors impeding broader consumer participation in the market for 'CSR proof' goods.

Participants from developing countries drew attention to affordability as the primary criterion driving consumer purchasing behaviour in non-OECD countries. Price dominates by far other product features like quality or production methods that are socially responsible in these countries.

Effective corporate communication to overcome the gap

Participants agreed that effective corporate communication was key to overcome the gap between the receptiveness of consumers towards information about socially responsible production on the one hand, and their actual purchasing behaviour on the other hand.

Effectiveness of corporate communication was considered to depend on a variety of factors, like the kind of product, targeted consumers, culture, concentration of the market and the relation with consumer concerns and production methods that are specific for the sector in which a company operates. Different circumstances in sectors and markets result in different use of corporate communication practices around the world. In Europe, for instance, consumers reportedly prefer labelling, but this preference is not the same for every market and the consumer organisations represented in Rotterdam pointed to the limitations of labels or certification for conveying information about CSR performance. Participants did not think that third-party labels were superior to sector labels in this regard. Corporate reports could convey more detailed information, but according to consumer organisations these were usually not aimed at consumers. One company explained that in its experience when a more extensive corporate report was made available, it appeared not to be read at all.

The discussion concluded that not one or several best practices, but many different practices can be effective to convince consumers that a company produces in a socially responsible way.

Companies participating in the workshop reported that they were looking for a balance in the extent and detail of information they provide to consumers, as consumers are interested in CSR but up to a certain limit. According to several companies, overemphasis on CSR attributes could result in consumers perceiving the product as merely more expensive, not as offering more value for money. The attitude of certain NGOs was mentioned as another reason for companies to be cautious about what and how much information they disclose. Some NGOs were eager to find shortcomings in the information provided or something that would enable them to file a law suit. This discouraged companies to reveal information to consumers, who could make or break their reputation. A major food company explained that especially in the case of convenience goods, it would rather avoid confusing consumers with complex issues and preferred other channels to communicate about specific CSR policies. This was because consumer tests had shown that when consumers become confused due to exposure to too much information, they tend to decide in favour of the conventionally produced good product that they are used to.

An easier way for consumers to absorb a message about CSR, suggested a consumer polling agency, was word of mouth. A personal messenger which consumers could relate to (like an employee or community spokesperson) could enhance credibility. This may explain the preference of some companies in (Latin) America to invest in philanthropy and community work as the best way to show that they share

values with the community. In the view of consumer organisations, philanthropy was not enough to demonstrate CSR performance; they expected transparent, consistent reporting allowing information to be verified. Consumer organisations confirmed however the importance of trust in the messenger. Some consumer organisations try to play the role of trusted messenger themselves by testing products (or companies) on their CSR performance, but some companies made it difficult or even impossible for them to fulfil their role as trusted third party, by not responding to their questionnaires, by providing information of varying quality and by providing information which was difficult to verify.

Consumer organisations and standard setting organisations said consistency was important for effective, credible claims. As Consumers International put it, mature CSR communication aims at consumer assurance, defined as "the outcome whereby consumers gain confidence in the information they base their decisions on and the confidence that these decisions will not backfire on them" (AccountAbility and the National Consumer Council, 2006).

Why companies adopt information schemes or standards for CSR production and trade effects

Participants noted an increase in the number, diversity and level of voluntary information schemes and private standards covering social and environmental aspects of production. Key motivations mentioned for why companies adopt or develop such information schemes or standards were company reputation, risk management and sometimes the desire to pre-empt regulation, especially in sectors with controversial conditions of production. Several companies confirmed that major retail companies and buying associations, compelled by the same motivations, increasingly required adherence to social and environmental production standards from their suppliers, without offering them any assistance in complying with these standards. This could prevent smaller-scale producers from participating in the supply chain networks of these multinational buyers.

Representatives from developing countries pointed to the fact that these multiple and ever more numerous private standards imply an additional non-tariff barrier diminishing market access for developing country exporters. In particular in cases where mainstream multinational buyers increasingly require certification according to the CSR standard of their choice, small scale suppliers face the challenge of having to comply with a growing number of - shifting - standards.

Scope for cooperation and convergence of information schemes and standards

Convergence or rationalisation of these private standards would, of course, facilitate trade, enhance transparency and consumer confidence, but the discussion at the workshop suggested that this did not seem a realistic goal, at least in the short run. CSR was a field of competition between companies. The scope for cooperation between companies and with standard-setting organisations was thus limited where individual companies wish to set their own standards to gain a competitive edge. However, some collaboration exists. As standard-setting and monitoring organisations like ISEAL, SAI and BSCI explained, incentives for companies to cooperate with other companies in the same industry and/or third parties included enhanced credibility of standards and procedures, the possibility to share best practices and build on experiences gained, and the benefit of relying on a single audit per supplier. Many participants also commended the constructive, transparent multi-stakeholder process by which ISO 26000 was being developed and looked forward to this international standard on social conditions, expressing the hope that this new international standard would converge existing social standards.

Participants agreed that companies have a responsibility to explain to consumers -as well as to other stakeholders- what kind of standards they use and the reasons behind their choice. Policy makers, too, should explain why they supported -financially or otherwise- some and not all initiatives.

Views of market actors on the role of policy makers in encouraging CSR in production and trade

The question what role, if any, companies, consumer organisations and standard setting organisations thought government, and notably trade policy makers, could or should play in this area, required some preliminary discussion by participants on the relevant definition of CSR. An industry representative highlighted that companies define CSR as voluntary actions that address environmental and social issues beyond compliance to legal rules. Other participants could agree to a broader definition of CSR as an attempt to fill the gap in countries with weak governance between endorsement and enforcement of international law on basic social and environmental standards, by positively identifying socially responsible production.

A key note speaker of Consumer International had suggested in this respect that, in order to move from information to the intended motivation of consumers, policy makers should de-polarise the debates about responsible consumption, commit themselves to approaches that complement the efforts of consumer organisations to improve transparency for consumers and support the right-to-know of consumers. A number of other recommendations to government that received considerable support from other participants were:

- Round-tables for stakeholders and for representatives of different branches of government help to broaden the support for CSR initiatives and enhance coherence, thus contributing to the effectiveness of CSR policies. Reference was made to the round tables organised by the German government as an example of how a clear mandate and shared targets for sustainable development helped to integrate efforts from different branches of government.
- Governments of OECD countries should maintain a dialogue with countries to which a lot of production is being outsourced such as China and India, on environmental and social standards in expanding industries.
- They should help developing-country governments to build the capacity needed to implement and enforce their own laws on environmental and social standards.
- Governments should make sure that consumers are protected against misleading advertising (*e.g.* through adequate laws or consumer education).

Trade policy makers could also make other constructive contributions to help CSR production around the world according to some participants, *inter alia* by:

- Seeking further clarification or a ruling in the WTO in respect to internationally recognised standards. In particular, Annex 3 of the WTO agreement on Technical Barriers to Trade sets forth a code of good practice to standard-setting but does not specify which standards bodies fall within or outside its scope. The broadening support for market-driven initiatives like SAI, GRI, and ISO raises the question how credible, legitimate and authoritative such initiatives are, considering the linkages to (inter) governmental institutions and what their status will be in the long run: will they qualify as internationally recognised standards and as such need to be taken into account by laws and regulations that governments may develop in this area?
- Undertaking benchmarking work, on the basis of existing standards, to provide guidance on what constitutes a good certification standard or programme. Such work could usefully be carried out by the OECD, given its reputation and experience in developing the OECD Guidelines for MNEs.

- Commissioning a Working Group to examine the impact of WTO rules on global CSR in production.

In the course of the discussion, individual participants also mentioned some examples of ways and mechanisms by which trade policy makers already encourage CSR practices at home and abroad, inter alia by including criteria on CSR production in their public procurement programmes, offering developing countries that comply with internationally recognised standards additional benefits of market access (for example through the Generalised System of Preferences), regional or bilateral agreements aimed at lowering trade barriers that had side agreements setting forth commitments on labour and environmental practices, and voluntary eco- en social labels. An association of standard-setting organisations also mentioned two examples of how private CSR initiatives can sometimes function as a precursor for government regulation, referring to the recognition by the government of a wood-exporting developing country in their new forest law of certification by the Forest Stewardship Council (FSC) as equivalent to government monitoring and government regulation on organic production eclipsing ISEAL's organic standards. The lesson from 20 years of experience with FSC certification was that in order for sustainable production practices in developing countries to enjoy continuity, local stakeholder engagement and procurement, minimum standards as a base scenario and a common marketing platform all were important factors.

Last but not least, many companies made it clear that the strength of CSR was the flexible and voluntary response that it offered to companies for filling the gap between expected and actual compliance with international standards in developing countries with weak governance in an effective way, underlining that many companies go beyond the local law in their approach of CSR.

Companies strongly preferred voluntary CSR compared to one-size-fits-all regulation for these reasons. The consumer organisations and standard setting bodies that were present did not wish to advocate such regulation either.

WORKSHOP PROGRAMME

PLENARY SESSION - Speakers

Opening by **Roel Nieuwenkamp**, *Director, Trade Policy, Ministry of Economic Affairs*

Karien van Gennip, *Minister for Foreign Trade of the Netherlands*

Kees van der Waaij RA, *Chairman, Board of Directors Unilever Nederland on CSR as a private approach*

Manfred Schekulin, *Chair of the OECD Investment Committee, on consumer interest and OECD work on CSR: Can the guidelines play a role?*

Priya Bala, *Consumers International*

Ton van Lier, *Director at Timberland, providing views on effective ways to inform consumers about the environmental and social conditions of production in manufacturing industries*

Susan Aarensen, *Advisor, Washington Office of the ILO*

WORKSHOP 1. What information on CSR in production do consumers expect to receive from companies about traded products and what relevant information can companies provide to them through information schemes and other communication channels?

Chair: Johan Wempe, *School of Management, Erasmus University Rotterdam, the Netherlands*

Speakers: Jenny Dawkins, *Head of Corporate Responsibility Research, Ipsos MORI, UK*

Lisa Gunn, *IDEC (Instituto Brasileiro de Defesa do Consumidor), Brasil*

WORKSHOP 2. What could be effective practices of companies in this respect?

Chair: Guido Berens, *School of Management, Erasmus University Rotterdam, the Netherlands*

Speakers: Norbert Fedtke, *HENKEL, Germany*

Mark Huis in't Veld, *MADE-BY, the Netherlands*

WORKSHOP 3. What considerations make (retail) companies adopt a certain information scheme or CSR standard and what would make them interested and willing to seek collaboration with other companies when promoting or applying such information scheme or CSR standard?

Chair: Willem van der Leeuw, *Ministry of Economic Affairs*

Speakers: Lorenz Berzau, *BSCI (Business Social compliance Initiative), Belgium*

Dafne Salazar, *ASOEX (Asociación de Exportadores de Chile), Chile*

Jonathan Horrel, *KRAFT, UK*

WORKSHOP 4. What role do consumers, companies and private standard setting organizations expect trade policy makers to play in this area and how?

Chair: Kernaghan Webb, *Canadian Consumer Office, Canada (Chair)*

Speakers: Bryan Cress, *CBI (Confederation of British Industries), UK*

Sasha Courville, *ISEAL Alliance UK*

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