



Commodity Standards Update

What is the impact of certification on the business bottom line? This is a critical question for our field. The answer may help facilitate further uptake of better practices and unlock new opportunities for financiers. Yet the question has remained glaringly under-researched.

Meanwhile, soft commodity producers and their funding partners are required to make tough sustainability decisions in changing markets based on anecdotes and assumptions. This edition of WWF's *Commodity Standards Update* is dedicated to addressing this challenge and providing insights to help producers and their financial backers navigate the complexities of investing in sustainability.

To explore this issue in greater depth, we are proud to announce an upcoming report, *Profitability and Sustainability in Palm Oil Production*, produced in collaboration with FMO and CDC, the development banks of Holland and the UK. The report will examine the incremental financial costs and benefits of implementing the Roundtable on Sustainable Palm Oil (RSPO) production standard. Available in late March, the report's findings will provide clear guidance to aid palm oil companies and financiers in planning and decision-making.

In this edition, we also welcome the insights of Thomas Ursem of Rabobank International and Paulus Ingram of APG Asset Management. Based on their professional banking experience, these contributors share their thoughts regarding the benefits of RSPO, and other certifications, in financial decision-making.

Finally, we close the newsletter with a qualitative survey of certified producers in the soy, timber, wild-caught fisheries, cotton, aquaculture, and sugar sectors. As seasoned producers, they recount the overall costs and benefits of certification on their business operations. We hope these stories will both inform and inspire further research among our readers.



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Examining Certification's Dividends

Does certification make a sound investment? Do the benefits of certification outweigh the costs? What is the payout for investing in certified production? In the lead up to the launch of WWF's *Profitability and Sustainability in Palm Oil Production* report, two leading financial institutions share their views on the role of certification in financial decision-making. Has your organization witnessed similar results? Share your perspective on the dividends of certification by dropping us a note at internationalfinance@wwfus.org.

Thomas Ursem, Manager, Corporate Social Responsibility, Rabobank International

RSPO certification serves to benefit clients and Rabobank from a business perspective. This is because certified palm oil producers are usually the better performing, innovative companies that are able to build upon their reputation as reliable business partners. Furthermore, a certified producer offers the security and comfort that a bank looks for when considering a financing opportunity. Clients that have more sustainable operations pose fewer risks (for example reputation damage) to themselves and to the bank. As such, palm oil companies who are not willing to commit to the RSPO are not eligible for Rabobank financing.

Paulus Ingram, Senior Governance and Sustainability Specialist, APG Asset Management

Above all we want to invest in a responsible way as it will help our investment return, and in the end our pensioners want to retire into a safe and secure world. This is especially relevant in the production of our food supplies. Investors do not drive the agenda, but have a role to play in helping achieve these goals. Producers and buyers of palm oil are now able to understand, measure, and monitor production in ways previously impossible which allows for a better understanding of costs and benefits. Certification provides clearer supply chain responsibility, improved processes which benefit all of society, and support for the case of sustainability in agribusiness.

INITIAL FINDINGS: Weighing Profitability and Sustainability in Palm Oil

Profitability and Sustainability in Palm Oil Production is based on in-depth interviews with eight leading palm oil producers and surrounding smallholders in Malaysia, Indonesia, and West Africa —collectively representing 54% of total certified production. The resulting report will analyze the complete range of costs and benefits incurred by producers to achieve RSPO certification.

Primary Financial Benefits

- Major reductions in social conflict & associated costs (e.g. US\$10-15 mil in 10 years for single estate)
- Reduced input costs (e.g. US\$250,000 in pesticide costs/year)

Primary Financial Costs

- Initial certification and necessary staffing (US\$2.13-\$3.54 p/hectare)
- Ongoing certification and maintenance (US\$2.43 - \$13.03 p/hectare)

These examples are only a glimpse into key findings. For further details and case studies, please [request a copy](#) of the report.

Impacts of Certification on Business . . . Across Commodities

Soy - Roundtable for Responsible Soy (RTRS)

"Overall, the impact [of RTRS] is a more committed supply chain in issues relating to sustainability. Internal procedures and other operations (such as logistics) have been impacted through an increase in costs, especially under the Chain of Custody protocol. Other affected areas were an increase in management costs, due to the amount of information and verification required prior to audits. At present, no revenues have been perceived, although the costs of implementation have been covered. We hope to see revenues in future. RTRS has also had a positive effect on staff morale, especially in the Agriculture Department. And having been certified has opened up possibilities to access financing to continue expanding RTRS certification to other areas and stakeholders."

—Alex Ehrenhaus, Sustainability Coordinator, Los Grobo, Argentina

Timber - Forest Stewardship Council (FSC)

"Through certification, even during the last economic crisis, our demand for FSC-certified lumber has remained constant"

—Victor Espinoza, CEO, Asseradero Espinoza, Peru

Wild-Caught Seafood - Marine Stewardship Council (MSC)

"I'd say we are commanding premiums of 30-50% more for produce carrying the MSC label"

—Garry Hera-Singh, Chairman, Southern Fisherman's Association, Lakes and Coorong Fishery (Australia)*

"The EU imposes a tariff on Australian seafood going into Europe...and MSC certification was a very powerful tool in reducing it by half"

—Dexter Davies, Executive Chairman, Western Rock Lobster Council, Western Australia Rock Lobster Fishery*

"We have good penetration in Switzerland, Germany, and France...Our product was never in UK before, but now Sainsbury's, Tesco and all the big chains stock our albacore. Thailand is looking at processing it; the Loblaws grocery chain in Canada is demanding it from a processor in British Columbia. It's an example for fisheries around the world"

—Natalie Webster, Director of Operations, American Albacore Fishing Association*

***Net Benefits: The first ten years of MSC certified sustainable fisheries" (Sept. 2009)

Sugar - Bonsucro

"It is early to assess the financial benefits of adopting Bonsucro. However, access to the European market is granted by the certification, which in itself is an important benefit. In addition, better social and environmental practices have a good impact on reputation and staff moral which, apart from potential financial benefits, generates intangible value. We believe that in the long run, regardless of the revenue/cost ratio, all players will need to adapt to better social and environmental practices. It will become a matter of social license to operate. We expect, however, that certification costs will be outweighed by benefits, particularly for early adopters."

—Davi Alencar de Araújo, Corporate HSSE and Certifications Manager, Raízen, Brazil

Farmed Seafood - Aquaculture Stewardship Council (ASC)

"ASC certification is building on the standards and procedures already in place at our facilities while confirming for buyers that our practices are sustainable and responsible. It is difficult to measure the results brought by ASC certification as the standard has not been fully launched and implemented by the certification body. However, by obtaining ASC certification, we expect to comply with customer requests for ASC certified tilapia as well as open new markets."

—Laurent Metivier, Manager, Tropical Aquaculture Europe

Cotton - Better Cotton Initiative (BCI)

"We have carefully studied the impacts of the BCI on farmer profitability and will be releasing the first round of data in a forthcoming study. Yet I can currently share that in India, our research from specific project sites in 2010 found that when compared with conventional farmers, producers deploying BCI production standards achieved a 15% increase in average profits. This was due to an 81% reduction in pesticide use, 49% reduction in water use, and 18% reduction in use of chemical fertilizers. In Pakistan, when compared with conventional farmers, producers deploying BCI production standards achieved a 20% increase in average profits. This was due to a 38% reduction in use of chemical fertilizers and a 32% reduction in water use by farmers."

—Hammad Naqi Khan, Vice Chair of the Better Cotton Initiative and WWF Global Cotton Leader

Next Edition

In our next edition, we plan to officially present and discuss key environmental and social performance indicators for responsible investment in 11 high-impact, soft commodity categories, providing mainstream guidance for financiers and major buyers.