



Commodity Standards Update

We are witnessing a rapid increase in production of credibly certified soft commodities (albeit often from a small base), and, consequently, growing interest in this asset class from our finance sector partners and the broader financial community. There is a consistent message from producers that finance is a critical component in scaling up more sustainable production, but it is also clear that the types and scales of finance range widely across different commodities.

Beyond “sustainability concerns”, there are clearly also issues relating to the sophistication of potential clients and their ability to prepare compelling business models, the volume and ease of lending—especially to small-scale producers—and other barriers. In an effort to better understand

financing needs and opportunities, WWF is currently assessing the costs and benefits of certification in the palm oil sector and we will be disclosing our findings later this year (contact me if you want a copy of the report). We anticipate similar studies for other commodities in 2012. Finally, this is my last editorial – the next newsletter will be led and edited by my colleague Joshua Levin. I wish him every success!

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How Financial Institutions Can Engage on Commodity Standards

We polled commodity specialists from WWF and the Rainforest Alliance on how the financial sector can help drive uptake of credible standards. There emerged a recurring theme: A major barrier to more widespread adoption of the standards is the availability of credit to farmers to cover long-term investments in improved production practices. Uptake would be improved by a clear message from investors that they favor certified producers as clients. This can be achieved as more and more lenders recognize that certification can be a partial proxy for due diligence processes. The following table summarizes the status and key trends across a range of high-impact commodities:

Commodity	Standard Body	Total Annual Global Production	% Global Market Certified	Examples of Members/ Certificate Holders	Trends in Adoption of the Standard
<p>Palm Oil</p>	<p>Rspo www.rspo.org</p>	47 million tons	10% of production 4% of consumption	<p>Users: Unilever, Walmart, Kraft, Tesco</p> <p>Producers: Sime Darby, Wilmar, Cargill</p>	<ul style="list-style-type: none"> • RSPO has seen a steep increase in uptake of the certification scheme by growers. • The volume of certified palm oil capacity more than doubled in 2010.
<p>Pulp & Paper</p>	<p>FSC www.fsc.org</p>	390 million tons paper & board	12% of production forest (includes timber)	Domtar, International Paper, Nippon Paper, Oji Paper, Stora Enso, UPM-Kymmene	<ul style="list-style-type: none"> • Paper and paperboard demand increased by 4.2% in the UNECE in 2010 (UNECE/FAO, August 2011) • The recently finalized Finnish FSC standard is expected to increase supply in Europe.
<p>Cotton</p>	<p>BCI Better Cotton Initiative www.bettercotton.org</p>	25 million tons	4%	Better Cotton Fast Track Fund members include IKEA, Levis, H&M, M&S, Adidas	<ul style="list-style-type: none"> • Membership is growing, especially among manufacturers and suppliers of big brands. • Expansion beyond Pakistan, India, Mali, and Brazil is planned, starting with China for the 2012 season.
<p>Sugar</p>	<p>BONSUCRO BETTER SUGAR CANE INITIATIVE www.bonsucro.com</p>	164.2 million tons	0.06% (first certified product hit the market in June 2011)	Coca-Cola, Kraft, Cargill, Shell, BP	<ul style="list-style-type: none"> • Membership by producers is growing rapidly • The EU recognized Bonsucro certification for ethanol in July, counting towards the 2020 targets of 27 Member States.

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 <p>Cocoa</p>	 <p>www.ra.org/agriculture</p>	3 million tons	2%	Commitments from Kraft Foods, Mars, Unilever	<ul style="list-style-type: none"> Sales of RA-Certified cocoa grew from \$4.5 million in 2007 to \$16.75 million in 2008.
 <p>Coffee</p>	 <p>www.ra.org/agriculture</p>	7 million tons	2.3%	Commitments from Kraft Foods, Nestlé, Nespresso, Tchibo	<ul style="list-style-type: none"> RA-Certified coffee product traded globally has grown 30-50% per year over the last few years.

Near to Market

Biofuels: The Roundtable on Sustainable Biofuels' (RSB) corporate membership has grown by 18% in the last fiscal year. RSB certification launched in March 2011, and the first producer company is undergoing the initial steps of certification at the moment. In July, RSB gained EU recognition for meeting the sustainability criteria of the Renewable Energy Directive (RED), which means that economic operators can sell RSB-certified biofuels in the 27 EU member states and qualify for the various support mechanisms in place. (See <http://rsb.epfl.ch>)

Salmon and Shrimp (Aquaculture): Almost 60% of the world's salmon is produced via aquaculture, comprising a more than \$6 billion industry. Shrimp is currently at 44%, with production increasing approximately 10% annually. Standards for farmed salmon and shrimp are expected to be completed by the end of calendar year 2011. Many retailers are supportive and waiting for ASC to be fully operational so that they can ask their supply chain to work towards certification. Consumers will start seeing certified product on grocers' shelves in 2012 and 2013. (See www.ascworldwide.org)

Expert Opinion from William Bulmer, IFC's Environment, Social, and Governance Director

What is the importance of credible standards in lending and long term investment in global soft commodities?

IFC considers the development of standards and certification processes to be an extremely important market response to increasing consumer awareness and activism in this area. Investors and lenders are becoming more conscious of associated risks in company supply chains and credible standards provide important tools to mitigate this risk. IFC's own promotion of standards and certification are part of a risk mitigation strategy but, more fundamentally, presents an important way to improve development outcomes at the source of production. As part of its Sustainability Framework review and update, IFC has increased its requirements around the adoption of credible agro-commodities standards by our clients involved in primary production.

This commitment has also been specifically reflected in the recently adopted World Bank Group Framework and IFC Strategy for Engagement in the Palm Oil Sector. Under that Framework for Engagement, IFC will require palm oil producers to obtain RSPO and/or an equivalent certification scheme within a three-year period. Many other banks and companies use IFC's Performance Standards so this should increase the number of parties requiring certification. In addition, the increasing demand by end users for certified products will inevitably drive producers to obtain certification. I expect that technological advances will continue to lower the costs in important areas such as traceability, resulting in broader adoption. Industry is also desperately seeking more harmonization amongst standard setters and this would be a nice thing to see happen.

What impact can financial institutions have on driving the uptake of more sustainable agriculture and commodity production practices?

Most importantly, financial institutions can and will increasingly tie access to finance to sustainable practices. Banks and other sources of capital, bound by their own E&S standards, are looking to credible certification systems as proxy indicators of compliance as well as essential mitigators of risk. As more banks finance clients throughout the entire agro-commodity value chain this should provide the scope, leverage and control to influence adoption of good practices throughout the value chain.

The next Commodity Update will be available in December 2011, focusing on firm-level economics of adopting standards. Additional topics you would like us to explore? Please email [Joshua.Levin](mailto:Joshua.Levin@wwf.org).

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