

Governing Through Markets



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"Toward An International Forest Regime Based On Private Schemes?"
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Public and Private Forest Policies in the South*, 21-23, Paris, France

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Overview

- ☞ Identify a particular form of global authority
 - ☞ The “certification solution”
 - ☞ Recognizes environmentally and socially responsible firms
 - ☞ Sustainability/eco-label
 - ☞ I refer to this as “non-state market driven” (NSMD) global governance
- ☞ Key research question:
 - ☞ **How does NSMD governance gain authority?**
 - ☞ **Critical for understanding (on the ground) effectiveness**

Non-state Market Driven Governance

| | |
|--|---|
| Role of the state | Governments do not require adherence/compliance to the rules |
| Institutionalized Governance Mechanisms | Institutionalized system of societal input and policy adaptation |
| Policy focus | Enduring environmental and social problems |
| Role of the market | Provides compliance incentives |
| Enforcement | Compliance is verified |

NSMD Certification Proliferating

- Global forest sector one of first (1993)
- Fisheries
- Coffee
- Mining
- Sustainable Tourism
- Apparel (Sweatshops)
- Agricultural production (organic)
- Building construction (LEED)
- Climate
 - **Clean Development Mechanism “Gold Standard”**
 - **Potential for carbon offset projects**

NSMD potential

- ☞ Creation of “hard law” in the private sector
- ☞ Could replace ineffective governmental efforts
 - ☞ **Inadequate rules**
 - ☞ **Compliance problems**
- ☞ Different fundamentally from other private governance innovations
 - ☞ **Responsible care**
 - ☞ **Global Compact**
 - ☞ **Equator Principles**

NSMD challenges

☞ Firms must evaluate support as being in their self interest i.e. strategically

☞ **i.e. will not support if viewed as putting at economic disadvantage**

☞ Environmental and social groups evaluate them as effective

☞ **(i.e. ameliorate the problem for which they were created)**

☞ Conundrum

☞ **Requirements cannot be so high as to put supporters at competitive disadvantage**

☞ **If requirements are too low, they may not address the problem**

NSMD challenges

☞ Can they work to improve business sustainability in a globalized world?

☞ Or are they more rhetorical, and unable to affect economic and social problems associated with globalization?

☞ To answer this question must take three analytical steps:

☞ **Identify the “California effect”**

☞ **Assess key problems facing a sector**

☞ **Review what governmental efforts have produced**

Analytical Framework: The California and Delaware Effects

- The “California Effect” (Vogel)
 - Phenomenon where business in regulated markets
 - See strategic self interest in promoting similar regulations
 - on their less regulated competitors
 - Can lead to business and environmental group strategic coalitions
 - “Bootleggers and Baptists”



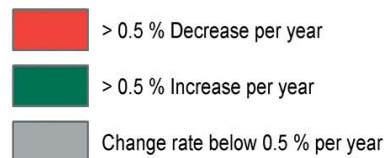
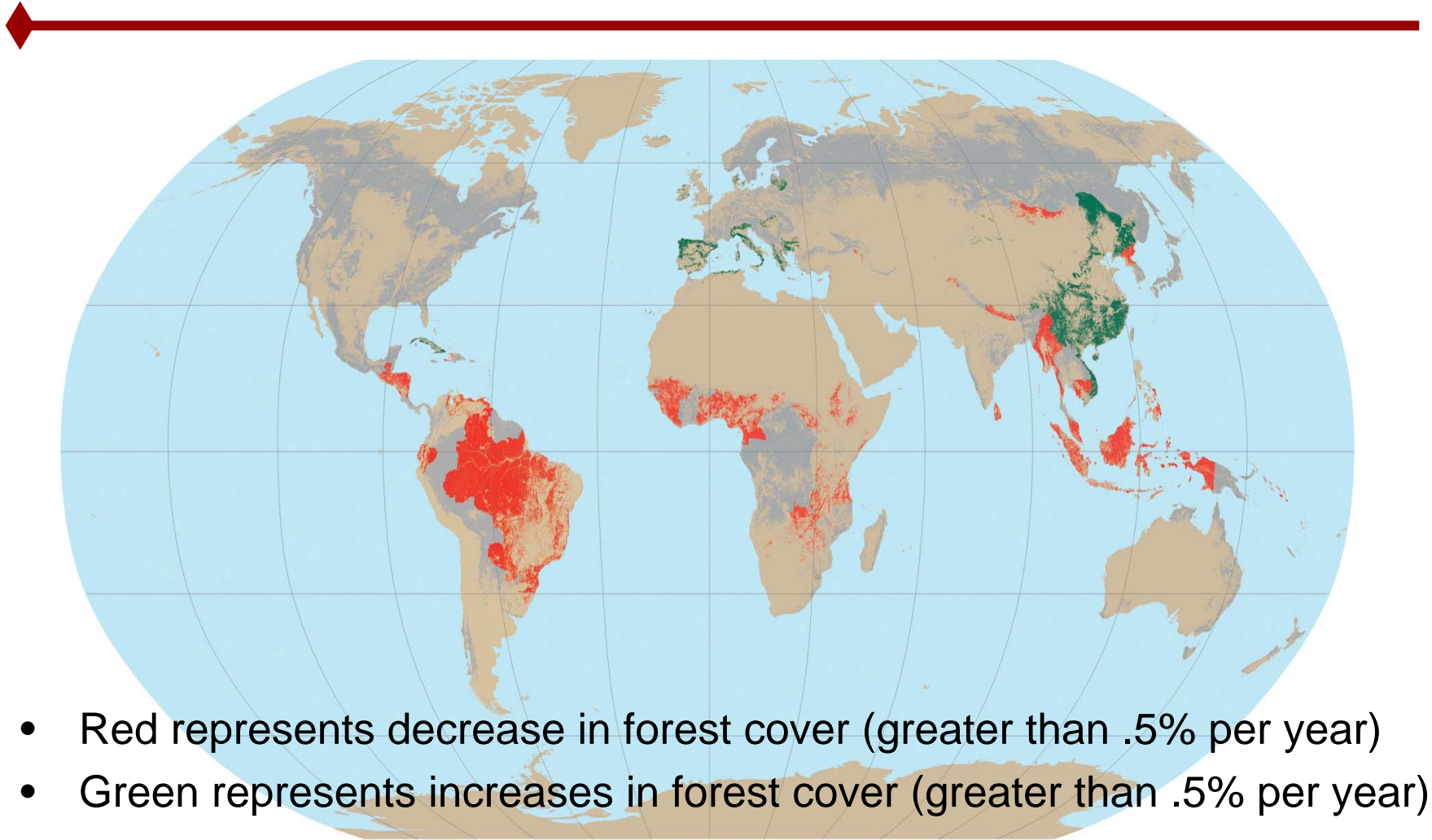
Analytical Framework: The California and Delaware Effects

- The “California Effect” (cont)
 - Market integration (economic globalization) requirement for such phenomena to occur
 - Prerequisite: active environmental and social NGOs
 - Spark initial regulations
 - Environmental groups’ markets campaigning healthy

Analytical Framework: The California and Delaware Effects

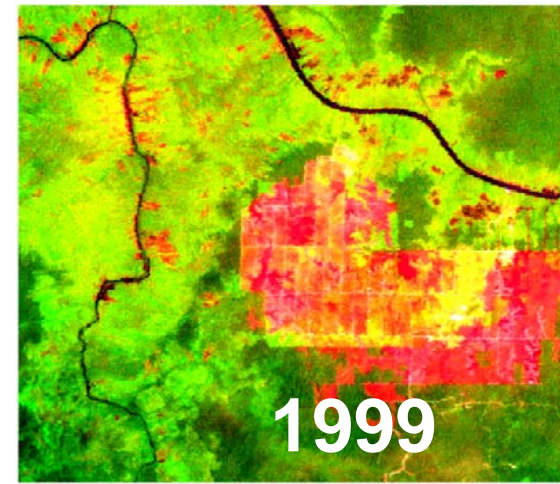
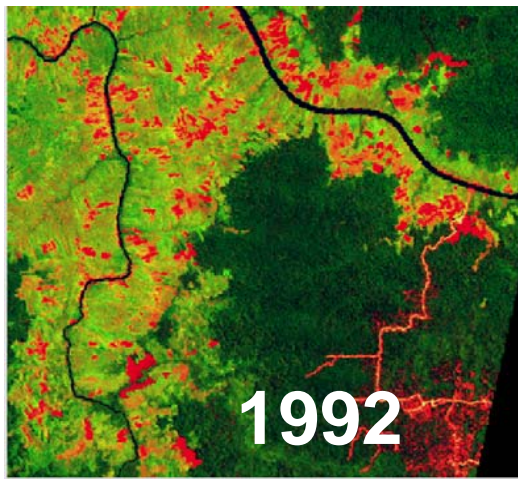
- The “Delaware Effect”
 - The Phenomenon where businesses flee to less regulated markets
 - Or act as break to increase regulations
 - Common phenomenon in an era of increasing economic globalization
 - Forest firms operating in Indonesia or Malaysia
 - or from US Pacific Northwest to US Southeast

Environmental Challenges in Global Era: Deforestation

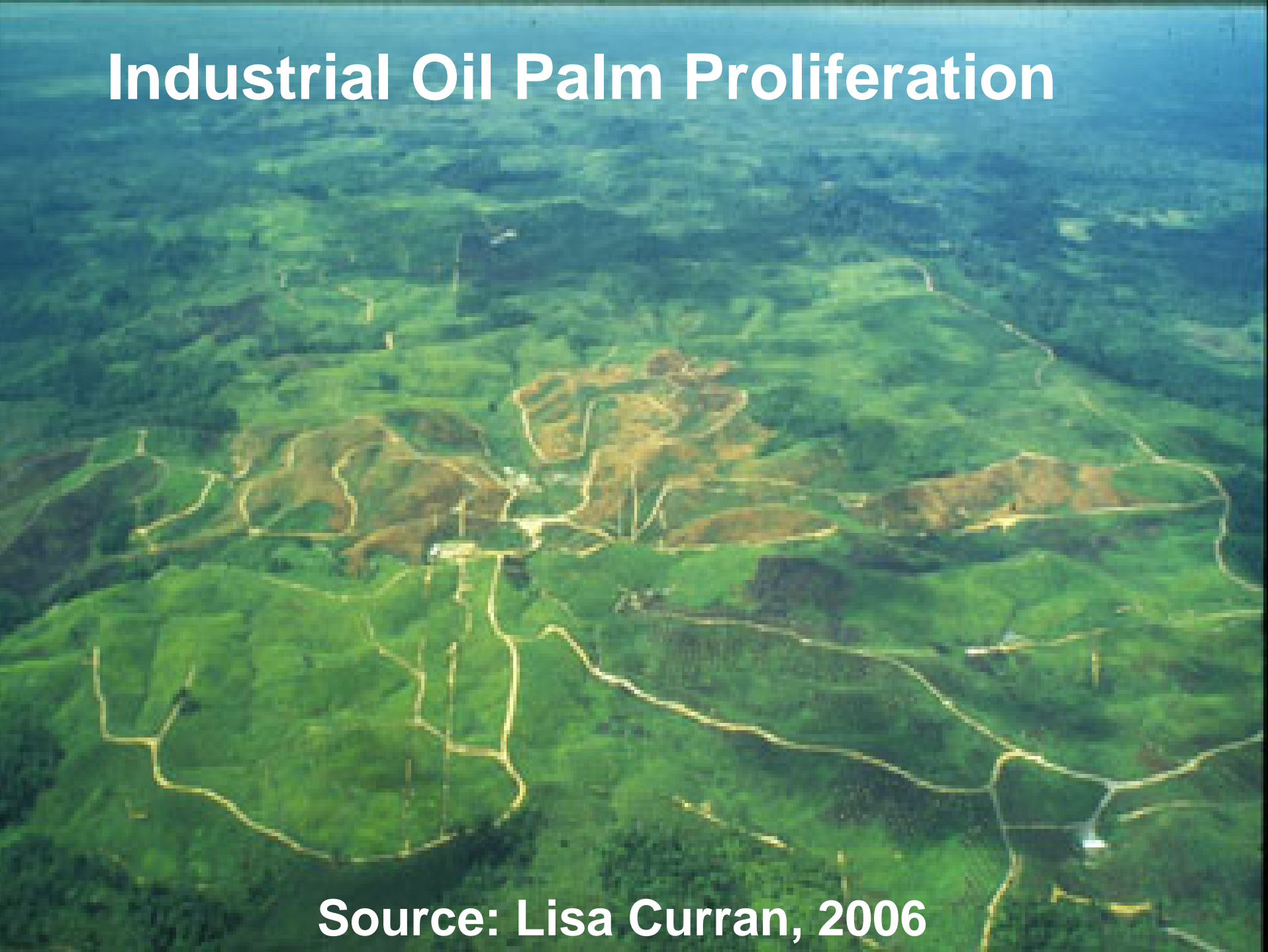


Environmental Challenges in Global Era: Deforestation

- Lisa Curran research
 - **Indonesia has the world's largest deforestation rate**
 - **In the time of this talk – forests equaling size of 100 football fields will be destroyed**
 - **Estimated at 25 to 28,000 km²/yr now**
 - **Surpasses Brazilian Amazon**
 - **Major: Industrial Oil Palm plantations – 40 fold increase from 1992 to 1996 (6,000-96,000 hectares)**
 - **Oil Palm \$14 billion industry**
 - **Compete with soya plantations**
 - **Provide oil for Oreo cookies and Nabisco crackers**



Industrial Oil Palm Proliferation



Source: Lisa Curran, 2006

Illegal Logging

| Country | Wood harvested illegally (estimates) |
|------------------|--------------------------------------|
| Bolivia | 80% |
| Brazilian Amazon | 85% |
| Myanmar | 80% |
| Cambodia | 90% |
| Cameroon | 50% |
| Colombia | 42% |
| Ghana | 34% |
| Indonesia | 51% |
| Russia | 20-50% |

Source: ITTO Tropical Forest Update. 2002. Vol. 12, No.1. The ITTO data is based on a wide range of sources employing different measurement methodologies.

Illegal Logging



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Climate Change: Affects Forest Operations?



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Brief History of Global Forest Policy Efforts

- ☞ Focus on tropical forest destruction in 1980s
- ☞ Boycotts failed
 - ☞ **Encouraged conversion of forests to other uses**
 - ☞ **Didn't distinguish responsible from irresponsible forestry**
- ☞ International Tropical Timber Agreement viewed as weak
- ☞ Efforts turned to 1992 Rio Earth Summit to agree on a Global Forest Convention
 - ☞ **Canada was a strong supporter**
 - ☞ **California effect**
 - ☞ **Sovereignty key issue**
 - ☞ **Failed**
- ☞ Left with “Non-Binding Authoritative Statement of Forest Principles”

Emergence of Forest Certification

- ☞ Emerged out of ashes of failed 1992 Rio Earth Summit
- ☞ International environmental groups and their allies
- ☞ *Bypassed* governments
- ☞ Created their own system of rules about what constituted responsible forestry
- ☞ Forest Stewardship Council
 - ☞ **Multi-stakeholder, three chambers**
 - ☞ **Wide ranging policies**
- ☞ FSC competitors
 - ☞ **Industry and forest owner associations**
 - ☞ **More flexible, business dominated**

Potential of Forest Certification

☞ What environmental challenges could forest certification address?

☞ **Conversion to palm oil plantation**

☞ **No**

☞ **Deforestation owing to subsistence forest use**

☞ **No**

☞ **Climate change?**

☞ **Marginal at best**

☞ **Promotion of Responsible Commercial forestry**

☞ **Yes**

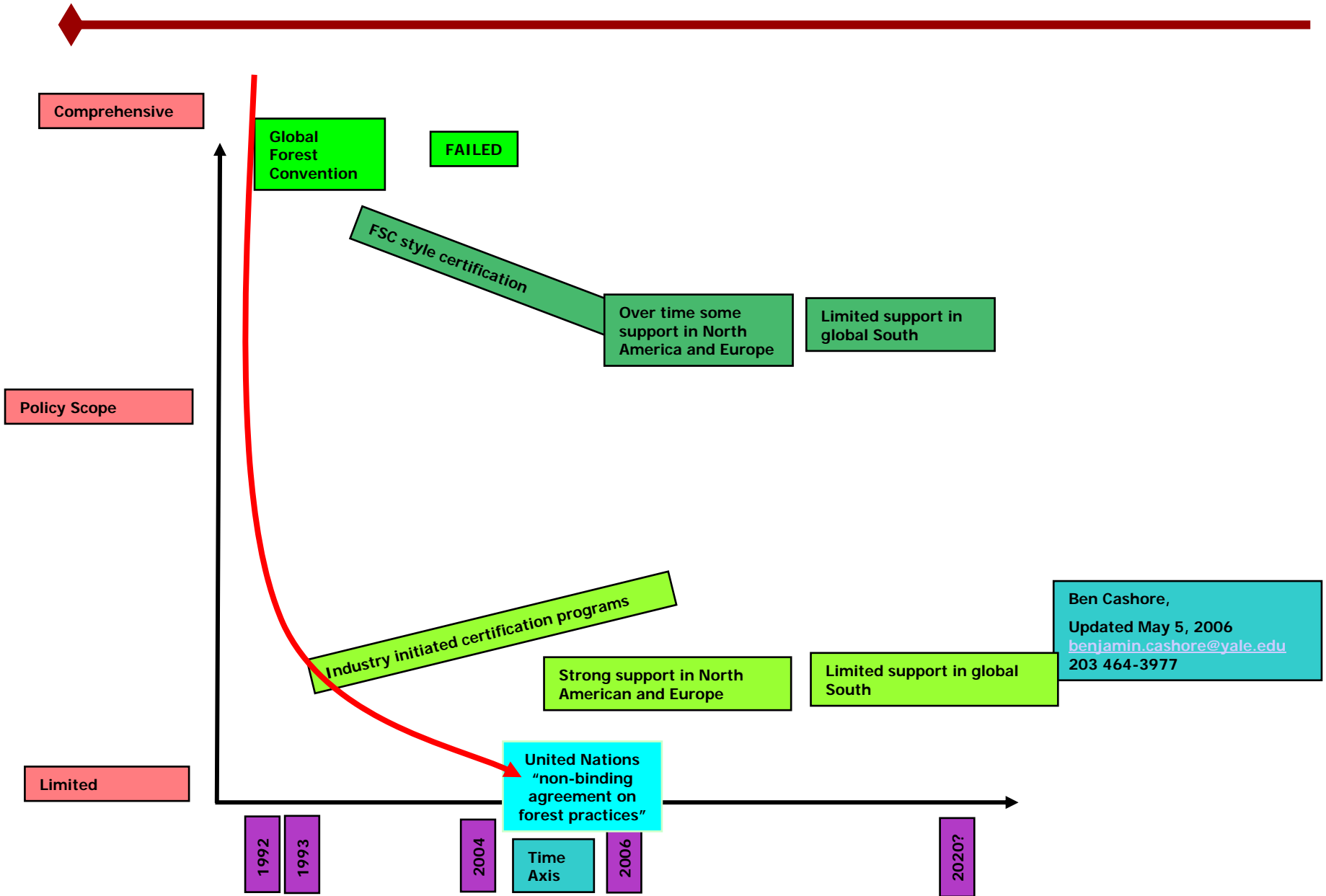
☞ **Illegal logging**

☞ **Yes**

What has happened to date

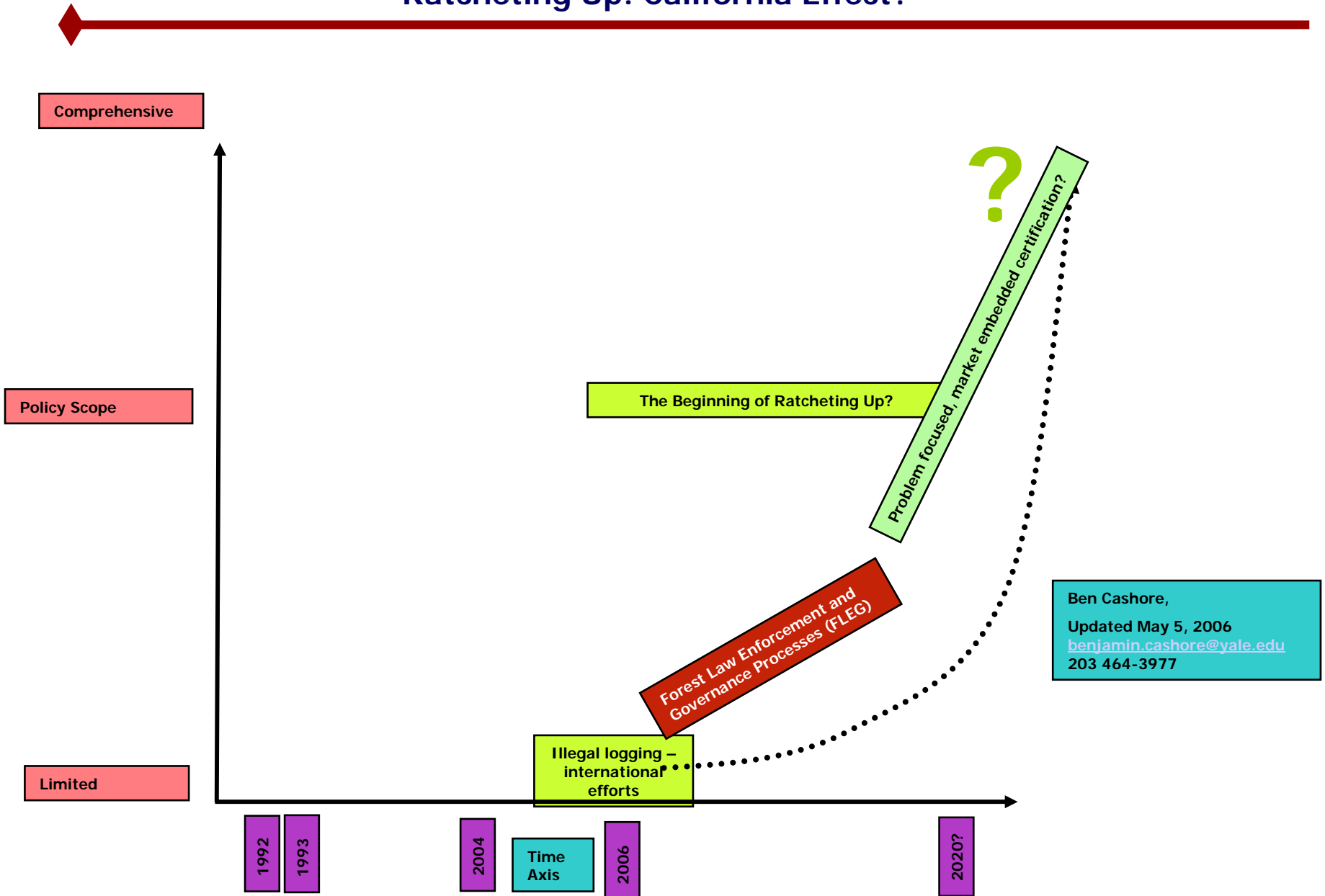
- Support for forest certification
 - **STRONG among industrial forest companies in Europe and North America**
 - **WEAK in developing countries**
 - **HUGE debate about which program is most appropriate**

Brief History of Global Efforts to Promote Sustainable Forestry 1992-2006



Future History of Global Efforts to Promote Sustainable Forestry 2006-2020

Ratcheting Up: California Effect?



What is future of certification?

- Can these downward trends be reversed?
- Is there potential to use certification to “spark upwards” environmental protection
- To create a “California effect” in the private sphere?
- I argue:
 - **Yes**
 - **But requires NGOS undertake**
 - **More innovative**
 - **Long term**
 - **Strategic thinking**

Current Strategic Dilemma

☞ First firms to accept certification

☞ **Those already operating close to the standards**

☞ **The highest performers “low hanging fruit”**

☞ Lessons

☞ **environmental strategists**

☞ **Standards work. Firms are doing them**

☞ **Desire to increase rules over time**

☞ **Evaluators**

☞ **Very little change on the ground– firms were already practicing close to those levels**

☞ **Canadian boreal, Sweden, South Africa**

☞ Most important question

☞ **How to move to widespread support**

☞ **To get firms who didn't join at Time 1 to join at Time 2**

Three Pronged Strategy”

1. California effect: rewarding the top

- **Set a bar that would**

- Use existing public policies as the “spark”
 - Certification of firms in relatively highly regulated regions
 - Create “bootleggers and Baptists” coalition
 - Used this support to gain traction for a global standard
 - That would address problems
 - *Elsewhere*
- *Support of FSC to date consistent with this logic*
 - *British Columbia, Maritimes in Canada*
 - *Sweden, Canadian boreal, South Africa*

Three Pronged Strategy

2. California effect: weed out bottom

- Use certification/tracking to weed out bottom
- Efforts to distinguish illegally harvested wood from legal sources
 - Most firms in industrialized countries
 - Have economic self interest in supporting this
 - AF&PA study estimated price of lumber in world markets would go up 15% in absence of illegal logs
 - Arguably greater immediate impact “on the ground”

Three Pronged Strategy

3. Create a better World

- Reduce confusion in the market place
 - Better world FSC
 - Better world Fair Trade Coffee
 - Better world Marine Stewardship Council
 - Better world no illegal logging

◀ Ultimate Project

- **Creation of “political legitimacy”**
 - “the acceptance of shared rule by a community as appropriate and justified” (Bernstein and Cashore 2007, Bodanksy 1999)
 - Support becomes engrained as routine practice
 - Whether this status can be achieved
 - Most important question for understanding NSMD effectiveness
- **End goal is still the same as before:**
 - Promotion of responsible forest management with highest of standards
 - Issue is the evolutionary logic for getting there