

Donatella Porrini
dporrini@liuc.it

SELF REGULATION, CERTIFICATION AND
LABELLING: THE CASE OF «BIO»

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LIUC COURSE:
CORPORATE CITIZENSHIP FOR GLOBAL FIRM

SELF REGULATION

- Economists take into account the complexity of people's decision making process, the so called self-interest bound comes into play.
- People care not only about material self-interest but also about their reputations: this attitude leads to compliance without enforcement.
- In the environmental context increasing attention to voluntary approaches.
- Firms are responsive to public pressure and try to capture people's demand.
- Firms show a growing interest in voluntary environmental regulatory instruments because they may face pressure to undertake positive environmental initiatives from citizens and they are anxious to regain society's trust

SELF REGULATION AS REGULATORY TOOL

- The adoption of voluntary technical standards in environmental regulations is an alternative approach, which may be viewed as less “legalistic” than the traditional command and control approach and therefore more acceptable to business, but it is and should be a complement to regulation, not a substitute.
- But also self regulation, as other regulatory tools, is motivated by economic incentive for the profit-maximizers firms
- A mix of regulatory instruments is required, tailored to specific policy goals.

Self-Regulation Vs Traditional Regulation ^{ex}



<i>ASPECT</i>	<i>SELF-REGULATION</i>	<i>TRADITIONAL REGULATION</i>
Rulemaking	Easier to develop, more flexible and faster to implement, inexpensive	Complex development process, lengthy implementation time, high cost
Agency oversight	Lower administrative resources, more cooperative	High administrative costs, more adversarial
Ease of conformance to standards	Easier to conform, more flexible, less paperwork	More complex, difficult to conform to standards
Public trust	Lower degree of public trust, depends on the amount of government involvement	High degree of public confidence
Stakeholder involvement	Typically low stakeholder involvement, non-inclusive process	More open process, high degree of public involvement
Sanctions for non-conformance	Low or minimal sanctions	High sanctions

DIFFERENT SELF REGULATION CASES

Code of Ethics: report on rights, duties and responsibilities (beyond the law) that the company declares to assume towards the actors it has to deal with

Reporting: document on the environmental and social performances of the company (Social Report, Sustainability Report...)

Environmental/social certification: voluntarily international principles defining requirements and standards of management (ISO 14001, SA 8000, ISO 26000...)

Corporate Social Responsibility: “CSR is a business approach that create long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social development.”

Self Regulation

Arguments For

- Addresses social issues business caused and allows business to be part of the solution
- Protects business self-interest
- Limits future government intervention
- Addresses issues by using business resources and expertise
- Addresses issues by being proactive

Self regulation

Arguments Against

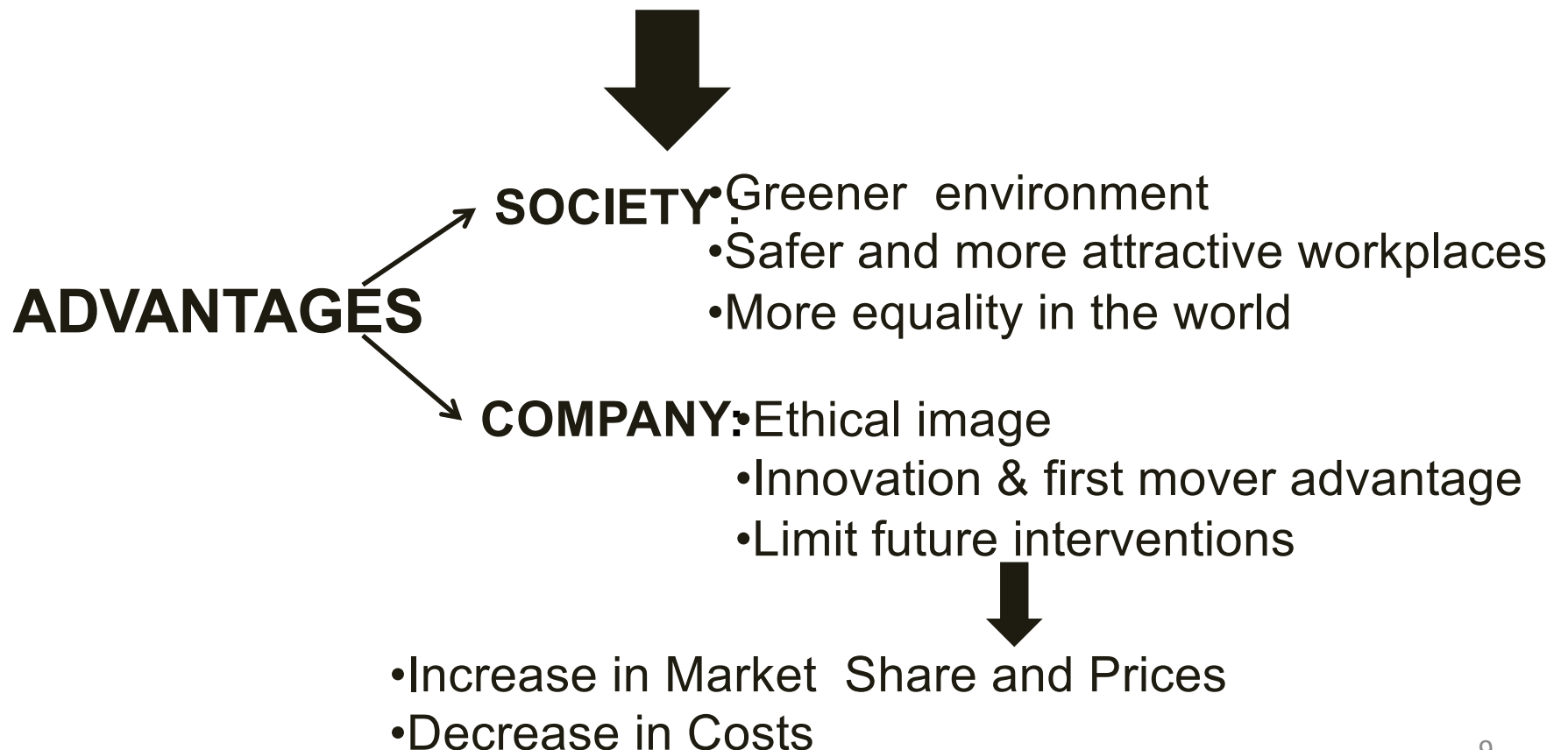
- Restricts the free market goal of profit maximization
- Business is not equipped to handle social activities
- Dilutes the primary aim of business
- Increase business power
- Limits the ability to compete in a global marketplace

Self Regulation as Business *Responsibilities*

- Demonstrate a commitment to society's values and contribute to society's social, environmental, and economic goals through action.
- Insulate society from the negative impacts of company operations, products and services.
- Share benefits of company activities with key stakeholders as well as with shareholders.
- Demonstrate that the company can make more money by doing the right thing.

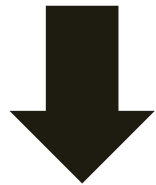
The industry point of view

Form of self regulation: *“companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”*



A STRATEGY for companies' competitiveness:

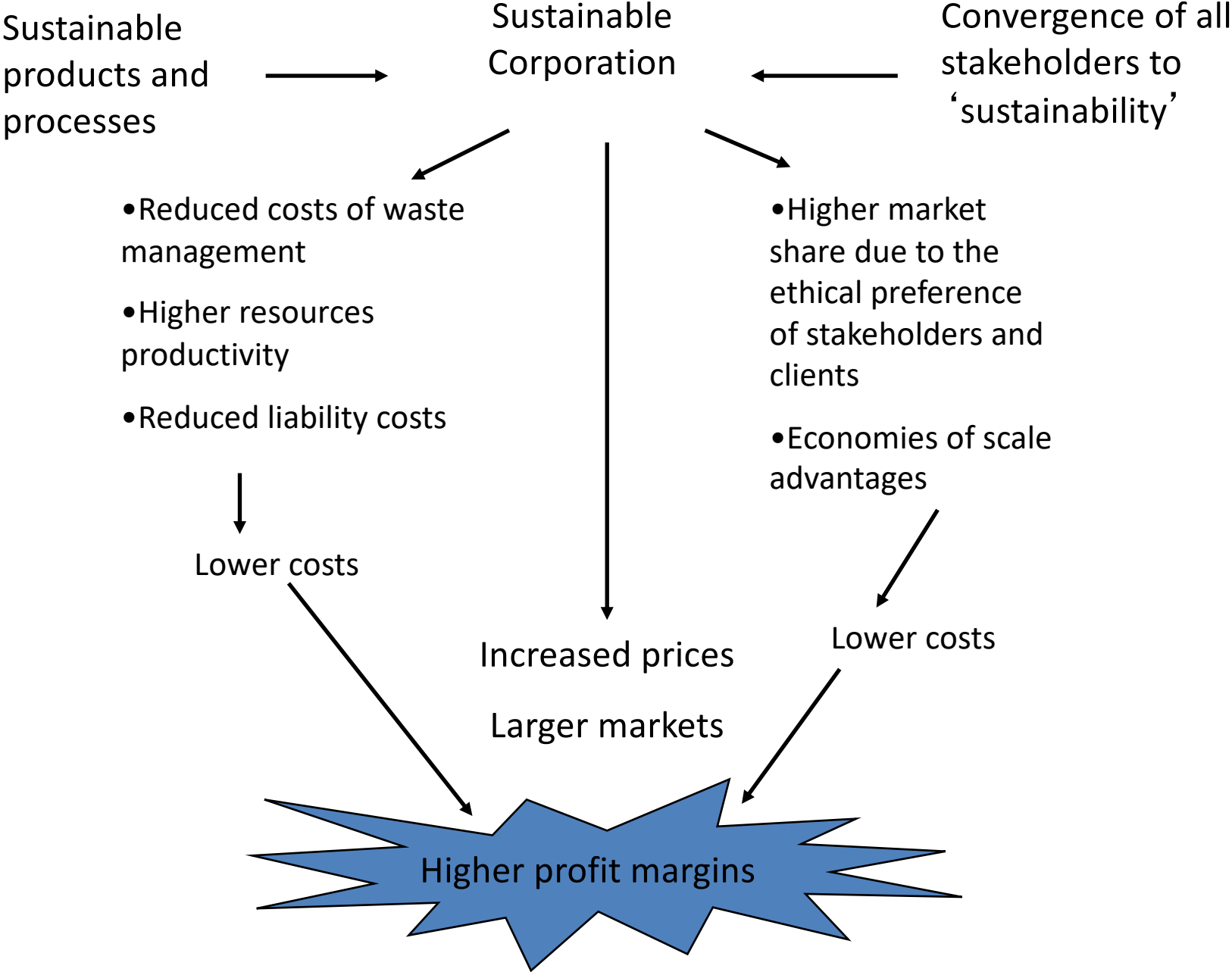
it enables to anticipate and to exploit the fast changing expectations and operating conditions of the society, to develop new markets and to create opportunities for growth.



The long run's positive results are more and more recognized by companies

Some enterprises are worried that the short term performance may be negatively affected by socially responsible strategies

Does Sustainability pay?





*THE BIO AND
THE SELF-
REGULATION OF
ORGANIC INDUSTRY*



“Sum of agronomic techniques whose foundations lay on the interactions within an ecosystem and which exclude the use of chemical products”

Chemistry is categorically banned

In Agriculture

- ✓ No herbicides, fertilizers and insecticides
- ✓ No intensive soil and farming
- ✓ No hormones and/or chemical preservatives
- ✓ Preventive natural strategies

In Farming

- ✓ Diet of fully organic products
- ✓ Respect the nature of the animals
- ✓ No use of hormones
- ✓ No manipulation of genetics
- ✓ No sedatives



Differences in

- Production and Labor Costs
- Product Loss Probability
- Sensibility to Exogenous Shocks
- Prices of Final Output/Products



The Organic Sector in Italy



#1 for number of organic producers
among the European Union

- 59,959 operators
- 1,492,579 hectares
- X3 Turnover in ten years
- +6,1% consumption in 2012

Source: Sinab 2016



The Organic Sector in Italy

	TOTALE al 31/12/2014	TOTALE al 31/12/2015	Var. % '15 / '14
SICILIA	303.066	345.071	13,9
PUGLIA	176.998	180.918	2,2
CALABRIA	160.164	170.290	6,3
SARDEGNA	149.947	146.050	-2,6
TOSCANA	118.630	131.796	11,1
LAZIO	110.277	111.245	0,9
EMILIA ROMAGNA	88.899	100.011	12,5
MARCHE	57.030	63.021	10,5
BASILICATA	48.255	49.904	3,4
PIEMONTE	31.656	34.136	7,8
UMBRIA	30.875	34.468	11,6
ABRUZZO	25.022	29.032	16
LOMBARDIA	23.352	29.511	26,4
CAMPANIA	20.548	19.139	-6,9
VENETO	15.773	17.419	10,4
Prov. Aut. BZ	6.413	6.934	8,1
Prov. Aut. TN	6.612	6.173	7,1
MOLISE	4.611	5.062	9,8
FRIULI VENEZIA GIULIA	3.701	5.149	39,1
LIGURIA	2.902	3.834	32,1
VALLE D'AOSTA	3.621	2.977	-17,8
TOTALE	1.387.913	1.492.579	7,5

Organic Food : System of Control and Regulation

- Organic food is heavily regulated by strict system of control and certification, and it is on this sound and rigid system that the consumer relies when he decides to opt for a more expensive product as it is in the case of organic products
- Respect standards: more activities than a conventional farmer. requirements regard every aspects from farming, storage, transport and sale.

Certified Organic : Definition (EPA)

- Avoidance of synthetic chemical inputs (e.g. fertilizers, pesticides, antibiotics, food additives), irradiation, and the use of sewage sludge;
 - Avoidance of genetically modified seed;
- Use of farmland that has been free from prohibited chemical inputs for a number of years ,often three or more, (overcome a transaction period),
- For livestock, adhering to specific requirements for feed, housing, and breeding;
- Keeping detailed written production and sales records (audit trail); recording activity
- Maintaining strict physical separation of organic products from non-certified products;
 - Undergoing periodic on-site inspections.



1972

The International Federation of Organic Agriculture Movements (IFOAM) was established. It is an international organization that sets international standards for organic agricultural methods, legally enforced by many nations.

1992

The European Union approved an harmonized system since 1992, thus resulting in a comprehensive regulation for all European countries.

The European Legislation

It defines the production method : every process from the production to the distribution including seed suppliers, farmers, food processors, storage, labelling, distribution to retailers and restaurants as well as imports.

It clearly establishes control and certification procedures : impose compulsory inspections from certification authorities appointed by each national government.

The European legislation plans two types of inspections :

- one of them has to be done at least once in a year and requires to notify the farmer some days in advance,
- 10% of the other type of additional inspections have to be done without notifications

The Italian Legislation

Italian certifying bodies for organic production (updated on 6th December 2016) are:



The Label

Some compulsory written forms:

- "Da agricoltura biologica" (organically-produced);
- "Regime di controllo CE" (EC system for control)
- "Controllato da (nome dell'ente certificatore)" (controlled by - followed by the name of the certification authority);

A specific code, as the following:

"IT CPB 1506 T032678" which has to be interpreted:

IT indicates Italy

CPB initialism of the certification authority (in this case "CCPB")

1506 code identifying the producing firm (in this case Bioitalia)

T transformed product (F instead for fresh- not transformed-product)

32678 represents the progressive number of printing labels'

authorization, issued by the control body of certified amount of production



EFFECTS ON PRICE

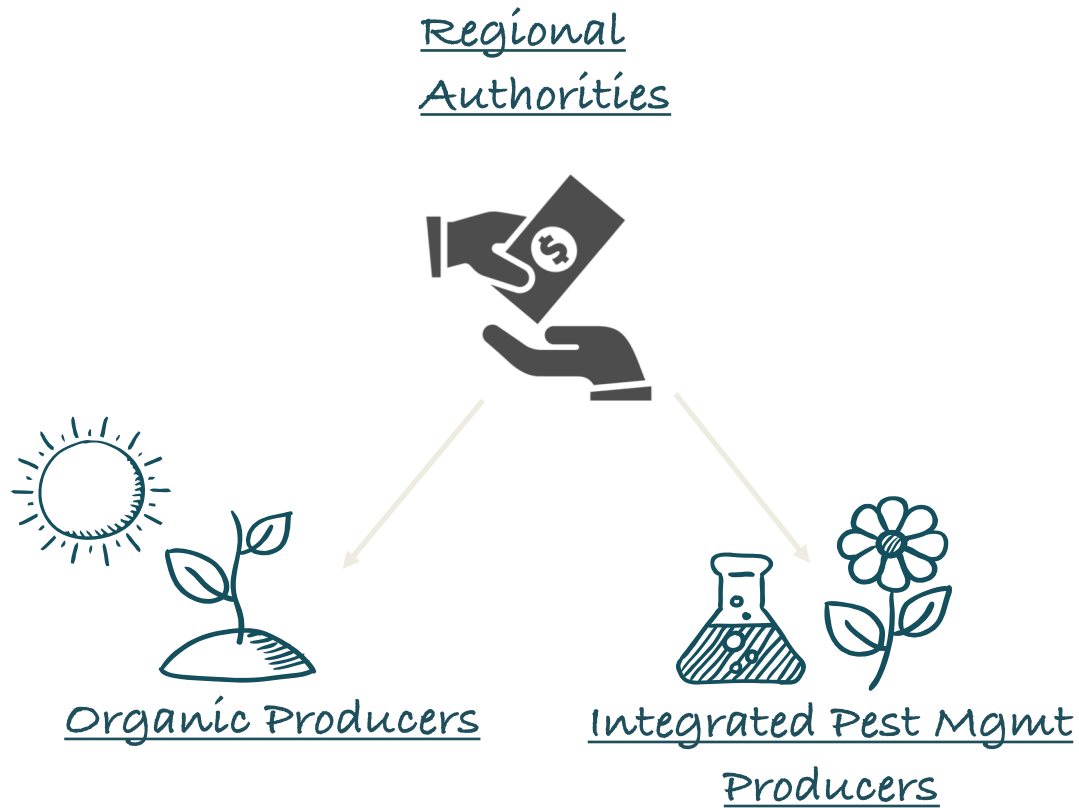
Selling organic products is a big opportunity to increase significantly revenues:

Earlier conversion of soils

Early sales of "semi-organic" products on the market

Pre-existent organic producers loose market shares and consumers pay higher prices

EU funds distribution



Uneven distribution of EU funds

Farmers are more subsidized in using chemicals

Exorbitant prices for consumers (+90%)

Organic = niche product

The system of Certification

Sales of organic goods are driven by consumers' behavior: firms are incentivized to speculate

External weaknesses

- Misleading advertising/packaging of products
- Government's failure in promoting the sector



Certificates weakness



Internal weaknesses

- Firms that have to be supervised own the organization which must monitor them
- Managements of checks is entrusted to private organizations, selected and paid by farmers



Big concerns on the certification system's validity

- Nobody worries about verifying the validity of the previous certificate
- Conflict of interest between producers and supervisory authorities
- Inspections are notified in advance to the producer, giving this latter the possibility to rearrange possible non conformities to the system.

Negative results

- Consumers pay higher prices to buy identical, treated (conventional) products
- The organic industry loses credibility and, consequently, revenues



In Conclusion:

- Some manipulations arise around the organic certification system in order to provide misleading images to the consumer and induce him to pay a higher price

It is thus worth reestablishing the organic industry's primary role, namely protect consumers' health and the environment and rather than gain profit