



The TPSA Project Conducts a Training Workshop on the Environmental Aspects of Global Value Chains

Building the comprehension of Indonesian policy-makers about how environmental issues and standards shape global value chains (GVC) helps them understand the opportunities and challenges that arise from GVC participation.

Background

The TPSA project partnered with several other organizations to offer a two-day training workshop on the environmental aspects of global value chains, or GVCs. These are a recent phenomenon, related to globalization, that sees various production stages take place in different countries. GVCs have restructured international trade in many industries. Technical standards (and certification) have played a critical role in organizing and coordinating fragmented global production processes. These include environmental standards and certifications (such as eco-labels), both publicly and privately developed, which are increasingly shaping some industries' GVCs (including coffee, cocoa, and palm oil). They have added another layer of complexity, and some stakeholders are concerned they could become a new form of non-tariff trade barrier. However, environmental standards and certifications could also become a major market-access determinant in high-income countries and high-margin market segments (such as organic foods). This trend is likely to continue as the world shifts towards a greener, low-carbon economy in response to climate change and other global environmental challenges.



Participants at the workshop on the environmental aspects of GVCs.

Developing countries can benefit from GVC participation through increased exports, employment (especially for SMEs), productivity, and technology transfers. However, GVCs rely on logistical efficiency, good transportation and communication networks, trade facilitation, and productive labour, and therefore can also pose major challenges for these countries. To reap the benefits of participation, Indonesian policy-makers need to understand how GVCs operate in specific industries, especially those that have competitive advantage potential. This includes understanding how environmental

issues and standards affect GVCs in trade-policy deliberations and in poverty reduction. Facilitating the capacity-building of policy-makers will support the Indonesian government's export-oriented policy deliberations.

Objectives

The workshop's objective was to provide participants with an understanding of how GVCs shape the global economy and international trade, and of why and how environmental issues and standards shape GVC governance structures, institutional dynamics, market access, and related opportunities and challenges. The workshop employed case studies from coffee GVCs, including research results about the impacts of environmental standards on farmers' livelihoods.

Activity Description

The first day of the workshop, sponsored by TPSA, was facilitated by Jeffrey Neilson, a GVC expert from the University of Sydney, Australia, and Rita Lindayati, TPSA's senior environmental expert. The second day was sponsored and facilitated by the International Social and Environmental Accreditation and Labelling (ISEAL) Alliance, the Sustainable Coffee Platform of Indonesia (SCOPI), and the Australian Center for International Agricultural Research (ACIAR).

The two-day workshop provided participants with both an analytical framework and case studies. The first day introduced a framework for understanding how environmental issues and standards affect GVC governance, including market access, and the key role of leading firms in this process. A discussion about environmental standards and certification, including the challenges they pose and the market opportunities they offer, was lively and stimulating.

The second day used case studies to show how environmental issues, standards, and certification have been implemented in specific localities. Local dynamics and institutions have shaped implementation of voluntary sustainable standards (VSS), resulting in unexpected impacts on livelihoods and poverty alleviation. Increased market access and GVC value capture can contribute to poverty alleviation in favorable institutional environments.

Day One

The workshop was opened by Greg Elms, TPSA Field Director, and Novi Anggriani, representing Global Affairs Canada. There were 30 participants (15 men and 15 women) representing five Indonesian government ministries, two government agencies, and two coffee associations. The ministries represented were Trade, Agriculture, Environment and Forestry, Co-operatives and Small and Medium Enterprises, and Industry. The government agencies represented were the National Standardization Agency and the Indonesian Coffee and Cocoa Research Institute. The industry associations represented were the Specialty Coffee Association of Indonesia and the Sustainable Coffee Platform of Indonesia.

The first session, presented by Rita Lindayati, covered the linkages between sustainable development, the green economy, and international development, and provided context for how increasing global environmental awareness and the sustainable-development movement are affecting international trade and GVCs. Sustainable development focuses on balancing social, economic, and environmental objectives. There are increasing concerns about the environmental impacts of economic activities, including trade. Commodities trade has many environmental effects, including during the raw-materials acquisition, processing and manufacturing, transportation, use, and disposal life cycles.

Different stages generate different impacts, but the magnitude depends on the type of product. A product's cumulative environmental impact is



Rita Lindayati discusses the linkages between sustainable development, the green economy, and international development.

usually assessed through life-cycle analysis. As production processes are increasingly fragmented all over the world, so is a product's environmental footprint. Greening trade and global value chains must take the product's life cycle into account and focus on reducing environmental impacts at the most critical or polluting stages (so-called environmental hot spots). However, the environmental impacts of trade are complex and depend on factors such as the scale of trade, the type of product and its position in the country's economic structure, technology, and environmental regulations. International trade can also improve environmental conditions when, for example, it involves clean-technology products or when the destination market requires high environmental standards.

Jeffrey Neilson discussed how GVCs shape international trade and the global economy. When the production process is fragmented globally, trade is no longer dominated by completed products, but by tasks and intermediate products. Production is often coordinated or governed by transnational corporations. GVC participation can accelerate a country's economic development. Countries usually focus on finding strategies to improve their position in GVCs, whether by product upgrading (moving to more sophisticated and higher-quality product lines), process upgrading (transforming inputs into outputs more efficiently), functional upgrading (acquiring new functions such as the *hilirisasi* process in Indonesia), and/or inter-chain upgrading (moving into new but often related industries). For example, in Indonesia, value can be added by improving the quality of green coffee beans sold on both the domestic and export markets. The per-unit value of higher-quality specialty coffee sold as green beans may even be higher than that of processed soluble coffee.

However, GVC participation does not always guarantee improved jobs and livelihoods, as it can lead to a "race to the bottom" whereby countries loosen their social and environmental standards and requirements to attract global investment. So the question is: Under what conditions can GVC participation encourage regional development and improved livelihoods? The process of "strategic coupling" has been coined to describe the favourable conditions by which a country's institutional

settings are aligned with the needs of global transnational firms. This condition enables "value capture" within a country or region.

Ms. Lindayati discussed the emergence and increasingly widespread application of global environmental standards and certification. Economic globalization has encouraged widespread adoption of global technical standards, as they facilitate more efficient communication and coordination, thereby lowering transaction costs. Technical standards can be created by firms, industry associations, governments, or non-governmental organizations, although their credibility in the eyes of customers varies depending on such factors as whether an independent third party is involved in the auditing and monitoring process. Global voluntary sustainable standards, or eco-labels, have gained strong track records in some industries (such as cocoa, coffee, and palm oil) as customers demand more environmentally responsible products.

Jeffrey Neilson then spoke about how environmental governance affects GVCs. More than a government's formal environmental regulations and policies, environmental governance is a confluence of formal and informal institutions, rules, and processes that condition stakeholders to make decisions about, and take action on, the environment. Globalized production systems are associated with a shift from state-centered to globalized environmental regulations, such as voluntary sustainable



Jeffrey Neilson discusses how environmental governance affects GVCs.



standards. The role of the state in environmental management has weakened as it has become just one of many stakeholders.

More and more leading firms (including coffee roasters) have adopted voluntary sustainable standards (VSS) to improve their supply-chain environmental performance, either as a part of their corporate social responsibility or as a response to consumer demand or NGO pressures. In the coffee sector, leading firms "govern" the chain by dictating the conditions other actors must comply with in order to participate. This is done through various sourcing policies, codes of conduct, quality standards, sustainability programs, and demands for certified products. The strategies and policies of these firms are increasingly impacting the lives of Indonesian coffee farmers.

"Today's discussion not only gave me new information but also enhanced my knowledge by using actual cases. As regulators, we also want to ensure that we have a broad perspective. In the future, I hope the same kind of training can be done with a wide range of business operators who bring their experience in overcoming obstacles, especially environmental standardization. I would like to learn more from their experiences."

—IMMANUEL ALFONSUS

*Directorate of Export of Agriculture and Forestry Products,
Indonesian Ministry of Trade*

Many participants asked questions related to the emergence and increasingly widespread application of global environmental standards. There was confusion regarding the different types of environmental standards (including ISO 14000, Organic, Fairtrade, and Rainforest Alliance). This is understandable, as VSS proliferation (there are approximately 400 to date) has also led to confusion among producers and consumers. Some participants voiced their concerns that these environmental standards are becoming another trade barrier for developing countries. The facilitators agreed that these standards could indeed

have both positive and negative effects on trade. When a leading firm adopts VSS for its supply chain, it is aligned with that firm's corporate strategies. VSS results are a function of its interaction with pre-existing trade networks, which can be positive or negative. Understanding the broader institutional environment and social networks in which the VSS are implemented can help increase their effectiveness.

Day Two

The second day of the workshop, co-hosted by ISEAL Alliance, SCOPI, and ACIAR in collaboration with the TPSA Project, shared insights from two research projects focused on Indonesia's smallholder coffee sector. The workshop was opened by Moenardji Soedargo, Chairman of SCOPI, and Marta Maireles González, Impacts and Innovations Manager at ISEAL Alliance. They were followed by a brief description of the global presence of sustainability standards in the coffee sector by Rosie Forsyth of ISEAL Alliance. Veronica Herlina of SCOPI then spoke about the Indonesian coffee sector and its sustainability challenges.

The day's main purpose was to share preliminary research findings on the livelihood and poverty-alleviation impacts of the 4C Association and Rainforest Alliance voluntary sustainable standards. This five-year study (2015–2019) is being conducted by a University of Sydney research team led by Jeffrey Neilson and Russell Toth.

The study was conducted in Semendo (South Sumatra) and Tanggamus (West Lampung). Preliminary findings indicate that VSS has brought positive impacts to farmers, but in unexpected ways. Farmer VSS participation is associated with increased market security and coffee quality. This allows households to engage in additional non-coffee agriculture, permitting them to earn larger incomes. This result deviated from researchers' initial theory, which postulated that VSS benefits would motivate farmers to invest more in coffee production. The sustainable standards-linked intervention in Semendo does not appear to have had a significant impact on poverty alleviation, which often occurs off-farm (e.g., petty trade), while farm production provides backup livelihood security.



Participants celebrate the conclusion of a successful training.

The facilitators also engaged stakeholders in a dialogue about how to strengthen the benefits for smallholder farmers. The role and relevance of sustainability standards in meeting the smallholder farming sector's key challenges, including innovation and collaboration, were also discussed. It is often perceived that VSS and certification are key to sustainable coffee production and could strengthen the position of small-scale coffee producers in global value chains. Sustainably certified products are also often associated with premium prices that directly benefit farmers.

Participant Feedback

Nearly all participants indicated that the environmental aspect of GVCs was a very new and very relevant topic for them.

Feedback from the participants indicated that the training was successful and overall levels of satisfaction were high.

All 26 participants who answered this question reported that their knowledge and skills related to the training subject were increased: 46 per cent said "significantly" and 54 per cent said "to some extent." Nineteen per cent of participants noted that their new level of confidence in applying the knowledge gained from the training was "excellent," 46 per cent said "very good," 31 per cent said "good," and 4 per cent said "fair." All participants said they would use the knowledge at least occasionally.

"As part of an important coffee-industry stakeholder group in Indonesia, one of my tasks is to provide input to the government of Indonesia in preparing policy for developing the coffee industry as a whole. The discussion we had in the workshop is enlightening, especially the review of market conditions and how our position in the value chain may help us to identify the most efficient and effective strategies."

—DAROE HANDOJO, VICE CHAIRMAN
Specialty Coffee Association of Indonesia

The feedback indicated the relevance of the content based on participant roles and how they will apply the knowledge going forward.

About the TPSA Project

TPSA is a five-year, C\$12-million project funded by the Government of Canada through Global Affairs Canada. The project is executed by The Conference Board of Canada, and the primary implementation partner is the Directorate General for National Export Development, Ministry of Trade.

TPSA is designed to provide training, research, and technical assistance to Indonesian government agencies, the private sector—particularly small and medium-sized enterprises (SMEs)—academics, and civil society organizations on trade-related information, trade policy analysis, regulatory reforms,



and trade and investment promotion by Canadian, Indonesian, and other experts from public and private organizations.

The overall objective of TPSA is to support higher sustainable economic growth and reduce poverty in Indonesia through increased trade and trade-enabling investment between Indonesia and Canada. TPSA is intended to increase sustainable and gender-responsive trade and investment opportunities, particularly for Indonesian SMEs, and to increase the use of trade and investment analysis by Indonesian stakeholders for expanded trade and investment partnerships between Indonesia and Canada.

The expected immediate outcomes of TPSA are:

- improved trade and investment information flows between Indonesia and Canada, particularly for the private sector, SMEs, and women entrepreneurs, including trade-related environmental risks and opportunities;

- enhanced private sector business links between Indonesia and Canada, particularly for SMEs;
- strengthened analytical skills and knowledge of Indonesian stakeholders on how to increase trade and investment between Indonesia and Canada;
- improved understanding of regulatory rules and best practices for trade and investment.

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