

# GENERAL AGREEMENT ON

## TARIFFS AND TRADE

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Group on Environmental Measures and International Trade

### AGENDA ITEM 3: TRADE EFFECTS OF NEW PACKAGING AND LABELLING REQUIREMENTS AIMED AT PROTECTING THE ENVIRONMENT

#### PACKAGING REQUIREMENTS

##### Note by the Secretariat

1. This Note responds to requests at the Group's meeting on 4-5 February 1993 that the Secretariat prepare a paper addressing, in a generic manner, trade effects and concerns that could arise from new forms of packaging requirements. The Note draws on discussions that have taken place in the Group, submissions made by individual delegations on their national experience with packaging requirements, and material from other sources.

#### I. Aims of packaging requirements

2. Traditionally, packaging requirements and regulations have focused on public health and safety concerns. They have aimed to ensure, for example, that packaging is not polluted during its manufacture such that it affects adversely the quality of the packaged product, that toxic or hazardous materials of which the packaging are made do not migrate into the packaged product (which is of particular importance for food packaging), and that packaging is well adapted to specific product needs (e.g. child-proof lids on chemical and pharmaceutical containers).

3. The main aims of new forms of packaging requirements with an environmental focus are:

- (i) first and foremost, to reduce the amount of packaging that enters the waste stream, notably for final disposal through incineration or landfill. Packaging waste is viewed as a pressing problem in an increasing number of countries, where traditional means of waste disposal are considered to be at or near exhaustion; and
- (ii) to reduce the resource-intensity of packaging, both with respect to the materials it is made of (e.g. it should contain no environmentally sensitive materials such as CFC-gas propellants, and rely as far as possible upon recycled products, such as paper) and the methods used to produce it (e.g. foam blown with CFC-gases, or materials requiring high energy, water or air-intensive processes). This is considered important in the context of longer-term solutions to waste management, which rely upon reducing the quantity of, and changing the materials used for, packaging at source, as well as the general need to manage the use of exhaustible natural resources more efficiently.

4. The hierarchy of packaging policy objectives is not the same everywhere, but it appears broadly speaking to be reduce first, recover, re-use and recycle second, and incinerate and landfill last.

5. Life-cycle analysis is being used increasingly at the national level to define the preferred characteristics of packaging and to frame requirements and regulations accordingly. Life-cycle analysis is complex. To produce a clear policy guideline, weights have to be assigned to different characteristics of packaging, such as the materials it is made from, the methods used to manufacture it, and the means of disposing of it as waste. Concerns raised at the stage of manufacture may not coincide with those raised at the stage of its disposal -- for example, energy-intensive materials, such as glass or aluminium, may nevertheless be considered more desirable in the context of packaging's recyclability.

6. At present, there does not appear to be a large degree of consensus on what the relative weights should be. Consequently, one feature of new forms of packaging requirements is that they differ, at least in their details, from one country to another. This has led to suggestions, particularly from private industry and in the regional context, that greater efforts towards international harmonisation could make a useful contribution to reducing distortions and restrictions to competition.

7. Finally, it seems worth noting that new forms of packaging requirements treat packaging as a product in its own right, separate from whatever it might contain.

## II. Policy instruments and their potential trade effects

8. Given the priority being attached to problems of disposing of packaging waste, new forms of packaging requirements tend to target the point at which packaging is discarded. Generally speaking, that does not occur at the time a packaged product crosses a national frontier, but rather once it has reached its point of intermediate or final consumption within the national marketplace.

9. Packaging may fall into one of three categories: sales or primary packaging, which ends up with the consumer or final user of the product; grouping or secondary packaging, which is removed from the product at the point of sale by the distributor; and transport or tertiary packaging, which facilitates transport and handling of products in bulk.

10. In view of the generally longer distances to markets that face overseas suppliers, they may find it necessary to use greater quantities of transport or tertiary packaging than their domestic competitors. That apart, there would appear to be no reason to believe that the packaging needs of overseas suppliers will differ significantly from those of their domestic counterparts.

11. Overseas suppliers may nevertheless encounter higher costs or other difficulties where: (i) they have to meet a variety of different packaging requirements in the different markets they supply. Important differences can exist in such areas as specifications of materials of which packaging can be made, recovery, re-use and recycling targets, and the characteristics of recovery or return systems; (ii) insufficient information is available to overseas suppliers about the requirements they have to meet in a particular market; and (iii) short deadlines are set for meeting new requirements, although it should be noted that in general new packaging programmes do envisage phasing-in periods to allow producers time to comply with the new requirements.

12. Trade may also be affected by the particular packaging requirements that are chosen, the way they are formulated, or the way they are applied in practice. Packaging waste that results from the consumption of imported products is unlikely to represent a country's most important source of such waste; consequently, packaging requirements are likely to be chosen and formulated with the most common forms of domestically-generated packaging waste and with domestic waste disposal facilities and priorities in mind.

13. In order to reduce the amount and control the quality of packaging, restrictions on the use or sale of packaging made from certain materials may be imposed. For example, the use of aluminium cans, plastic bottles or wooden crates may be banned. To the extent that such packaging represents the usual or preferred form of packaging material for overseas suppliers, for reasons of national resource endowment, technological capacity, or production or transport costs, their competitiveness may be affected.

14. Short of an outright ban, the proportion of certain types of packaging in the domestic market may be restricted (disposable beverage containers may be limited to a specific percentage of total beverage containers that can be marketed, for example, so as to favour returnable and refillable containers). This may limit the choice of packaging for overseas suppliers, for example if they have difficulty in gaining access to the distribution of quotas for the proportion of packaging that is not subject to restriction.

15. Requirements that packaging waste must be recovered, re-used or recycled may impose a greater burden on overseas suppliers than on domestic producers. Recovering packaging waste and re-exporting it back to its source is unlikely to be a commercially viable option, and differences in dimensions, design and technology may prevent its re-use locally. Overseas suppliers are likely, therefore, to have to rely upon their local distributors or independent local waste disposal services to undertake the recovery and disposal for them. In this respect, they may find themselves at a disadvantage because they generate larger amounts of transport packaging waste than domestic suppliers, or because their local distributors are unwilling to undertake waste disposal services for them (particularly when they do not have to do so for domestic suppliers who dispose of their own packaging waste), or because they face greater difficulties and/or higher costs in accessing local waste disposal services.

16. Difficulties in accessing local waste disposal services may arise for several reasons. First, there is a large variety of non-standard export packaging in use in international trade, and no realistic prospect that some varieties will find the necessary facilities for collection, sorting and recycling at their final destination. Such facilities tend to be established to meet national standards and the practices and preferences of domestic industry and consumers. Wooden packaging materials, for example, which are often readily available and widely used in many developing countries, may be little used and hence discouraged in their export markets in favour of plastics, corrugated paper or paperboard. Without access to the right to indicate to distributors and consumers by a label on their packaging that it will be recovered (e.g. with a "recirculating arrow" label), overseas suppliers may find that they face a considerable disadvantage in marketing their products.

17. Second, even where the necessary local facilities exist, there may be conditions associated with using them that are more difficult for overseas suppliers to meet. Collection, sorting and re-use or recycling programmes, whether operated by public or private concerns, tend to have the following features: they deal with only certain types of packaging waste (other types may be banned altogether, or remain the responsibility of suppliers to dispose of, or otherwise face dissuasively high disposal charges); a fee is charged for access to the programme, which involves typically the right to carry on the packaging a label that indicates it will be accepted in the programme; samples of packaging must be tested and approved before being accepted into the programme.

18. Among the particular problems that may arise for overseas suppliers are the following:

- (i) small suppliers may find that the costs associated with joining such a programme (membership subscription and fees, as well as any additional production costs involved in making their packaging acceptable under the programme) are high in relation to their total sales in that market;
- (ii) overseas suppliers who use more packaging per unit of product than their domestic counterparts because of the longer transport distances involved may find the programmes more costly, since charges typically depend upon the volume or weight of packaging handled;
- (iii) packaging production industries on which overseas suppliers rely may not be able to meet the standards set by the programmes. Meeting requirements that packaging be made fully or partly from recycled material, for example, may be difficult for overseas suppliers. Similarly, programmes may accept only those types of plastic or metal packaging that are customarily used by domestic suppliers, but which may not be readily available to overseas suppliers;

- (iv) programmes may require that packages be bar-coded to identify their constituent materials. As these codes typically vary from country to country, it may be difficult and expensive for overseas suppliers to apply the correct bar-codes in each case;
- (v) overseas suppliers may face greater difficulties in submitting their packaging for evaluation and certification, and in obtaining acceptance of it in the programme. This may be true particularly for certification schemes which require on-the-spot inspection of production and packaging facilities;
- (vi) it may be felt that confidential business information would have to be disclosed in order to gain access to a labelling scheme or recovery programme;
- (vii) by and large, it would appear that packaging programmes do not make any special provisions for dealing with packaging waste from developing country suppliers, who are likely to be the source of much of the non-standard types of packaging that end up in the marketplace.

19. A significant proportion of packaging, and particularly export packaging, will not be recovered, re-used or recycled at its final destination. In order to keep the need for final disposal of such waste to a minimum, dissuasively high charges may be imposed for incineration or landfill. These will fall most heavily on overseas suppliers to the extent that their packaging is of a non-standard variety for which alternative disposal possibilities are not available.

### III. Concluding comments

20. The trade effects and concerns outlined above can usefully be reviewed and revised as further information is made available to the Secretariat by individual delegations on their national experience with packaging requirements.

21. It would appear that some trade effects and concerns relate primarily to differences in comparative advantage. This is the case, for example, where overseas suppliers face higher costs than domestic suppliers because of their need to use and ultimately dispose of greater quantities of transport packaging. The trade effects are of the same nature as those that arise from the need of overseas suppliers to pay higher transportation costs to deliver their products to market.

22. Similarly, differences in national factor endowments of materials from which to manufacture packaging and of disposal facilities to deal with the waste, as well as different national preferences of industry and consumers, would appear to account to a large degree for the variety of packaging.

requirements and regulations that exist. Given that the packaging associated with imported products is not likely to contribute the major share of domestic packaging waste, that national priorities for disposing of packaging waste are likely to differ, and that it is unlikely to be economical to set up programmes to deal with all non-standard forms of packaging waste, it may be unavoidable that overseas suppliers suffer some disadvantage. International harmonisation of packaging and of disposal services may offer a means to reduce that disadvantage, but it is unlikely to remove it entirely; nor is it necessarily desirable that it should do so to the extent that national factor and environmental endowments differ.

23. The main areas in which it would appear there may be scope to reduce unnecessary trade effects arising from differences in national packaging requirements are (i) ensuring the greatest transparency possible and (ii) ensuring national treatment for overseas suppliers in their access to local programmes for the use and disposal of packaging, including testing, certification and labelling.