

ECO-LABELLING: FRAMEWORK AND ISSUES

Submission by the United States

- I. ECONOMIC AND ENVIRONMENTAL FRAMEWORK: WHY LABEL?
 - A. The environmental perspective
 1. Advantages
 - (a) Provides information about environmental externalities.
 - Consumer preferences can affect extent of internalization of externalities through purchasing decisions.
 - With accurate information, more environmentally friendly production/consumption patterns encouraged.
 - Market thus reinforces efforts to internalize environmental costs.
 - (b) Stimulates eco-interest.
 2. Disadvantages/concerns
 - (a) Would technology-based standards tend to discourage innovation (this is not unique to eco-labelling)?
 - However, it is argued that in certain circumstances, eco-labelling standards may serve as a catalyst to technological development.
 - (b) How can eco-labelling schemes involving judgments about environmental friendliness or preferability be designed in a way to effectively communicate the possible trade-offs among different environmental impacts?
 - (c) Should eco-labelling schemes take into account variances in local environmental situations and priorities? How?
 - (d) Could proliferation of different eco-label schemes harm their credibility and thus their effectiveness?

B. The economic perspective

1. Advantages

(a) Importance of information to market outcomes.

- Lack of information or false/misleading information about traded goods can lead to inefficient resource allocation and welfare loss.
- Thus, market outcomes based on decisions made with key information deficiencies may be less than optimal.

(b) Market-based policy tool, allows consumers to directly express environmental preferences.

2. Disadvantages/concerns

(a) Can consumers identify the meaning of the label (informational and education campaigns)?

(b) Would a proliferation of eco-labelling contribute to greater market segmentation and losses in economies of scale?

(c) Does label reflect objective criteria relative to consumer preferences and does it provide a means for objectively evaluating the performance of products or producers according to those criteria?

C. The business perspective

1. Advantages

(a) Management tool: producers' examination/improvement of product or process may stimulate technological advance, reduce pollution and save money.

(b) Marketing tool: tap into eco-consumerism.

(c) Business opportunity: certification companies address market information void.

2. Disadvantages/concerns

(a) To what extent do the costs of complying with different eco-labelling schemes inhibit participation of a company in terms of competing in certain markets?

(b) How to handle situation where there are conflicts between domestic regulatory requirements and foreign eco-labelling criteria?

(c) What is the potential for disguised barriers to trade?

D. The government perspective

1. Eco-labelling as a possible alternative or supplement for addressing environmental effects and externalities.

(a) Examine environmental/economic aspects of choice between policy instruments such as:

- prohibition on use of input x to in production of good y;
- tax on input x used by producers of good y;
- label for good y telling whether input x was used in production process.

2. Environmental impacts/effects exist whether or not these are reflected in consumer/business preferences.

(a) Eco-labelling depends on the market outcome, does not compel a direct environmental course of action.

3. Governments may want to control certain aspects of eco-labelling as a means to promote environmental improvement.

(a) Are criteria developed in relative or absolute terms and what are the environmental and trade implications of either choice?

(b) Are criteria aimed at addressing domestic environmental issues? Global issues?

4. Governments whose companies believe they are being unfairly impacted by eco-labelling schemes may perceive these to be forms of disguised protectionism, thus leading to trade frictions.

5. What are the environmental credibility, competition policy and consumer protection issues involving manufacturers' use of environmental claims?

(a) Case study: Joint FTC-EPA guidelines

II. QUALITY, UTILITY, RELEVANCE OF INFORMATION PROVIDED?

A. Basic principle - information about full environmental impact of products would enable better decision making by consumers

1. However, currently there are key methodological shortcomings that make the objective determination of the full environmental impact of products difficult.

(a) Eco-labelling schemes that assess the environmental preferability of one product/process versus others must deal with trade-offs between differing environmental impacts and must involve assumptions and judgments.

B. Different types of eco-labelling programmes, different goals

1. **Seal of approval** - identifies products or services as being overall less harmful to the environment than similar products or services with the same function.
2. **Report card** - information about a product or company's environmental performance in multiple impact categories. May or may not involve an explicit attempt to draw overall assessment of one product/company versus another.
3. **Single attribute certification** - validates truthfulness of an environmental claim made by the manufacturer or certifies that a product has certain environmental attributes.
4. **Information disclosure** - neutral information giving facts about product that might not otherwise be disclosed by the manufacturer, usually mandatory.

- Multi-issue, information disclosure labels are similar in concept to nutrition labels in the United States.

Another way of looking at the difference between programmes is to examine whether they merely aim at providing quantifiable information about the product or whether they attempt to draw some judgments about the relative merits of one product versus other, competing products.

C. Life-cycle assessment (LCA)

1. Fundamental to schemes that attempt to assess the overall environmental friendliness or preferability.
 - (a) Widespread agreement on the need for rigorous, scientifically justifiable examination of all aspects of a product's life cycle in order to provide credible and complete inventory of a product's environmental effects.
 - (b) Manufacturers find LCA very useful as an internal tool to determine the energy and environmental impacts of a particular process or production method for a given product.
2. Current limitations in the use/interpretation of LCA
 - (a) LCA is not yet well enough developed as a technical tool to allow specific comparisons promoting one product as better for the environment than another.
 - While accepted models for such internal LCA inventories are available, there is no international consensus on an acceptable model on which to base comparisons between companies, processes or products, nor is their agreement on the role of LCA as a public policy tool.
 - Certain countries are committed to using LCA as a basis for eco-labelling regimes and significant work is being undertaken to strengthen and improve LCA as an analytical tool.
 - (b) Given these methodological issues, the use of LCA results to set criteria for eco-labelling or to substantiate environmental claims is cause for debate.

- Caution is urged that LCA must use validated scientific methods, avoid arbitrary hierarchies, evaluate trade-offs and complexities among various environmental parameters, and adequately deal with difficult questions of environmental resource valuation.
- The limits on the use of LCA have given rise to questions whether LCA provides a clear basis for judging overall "environmental friendliness". There is a need for further analysis of LCA methodology.
- An alternative use of LCA that may be less problematic involves the identification of specific ranges of impacts or providing the basis for disclosure of information on a product's multiple environmental impacts.

D. What environmental impact is the eco-label addressing?

1. Local, regional or national environmental impact.
 - (a) To what extent should criteria reflect local, regional or national environmental priorities and endowments, as well as consumer preferences?
 - (b) What stages in the product life-cycle are important (e.g., production, transportation, consumption, disposal)?
 - Should the eco-label address production-related concerns with regard to imported products?
2. Environmental impact both in country applying eco-label and in country of origin of the product.
 - (a) Again, what stages in the product life-cycle are important? Does this differ as between domestic and imported products?
 - (b) Whose environmental situation would be used as basis for criteria? Are criteria based on domestic priorities and endowments appropriate for application to production abroad, particularly if those criteria are related to process and production methods (PPMs)?
3. Transboundary, regional or global environmental impacts
 - (a) To what extent should criteria be determined nationally or based on international standards/agreement?
 - (b) To what extent would broadly-based international criteria render eco-labels ineffective in promoting the desired environmental outcomes at the national level?
4. Does the label cover the packaging, contents, both?

III. TRADE-RELATED ISSUES RAISED

A. Coverage under multilateral trade rules

1. To what extent are eco-labelling requirements covered by TBT disciplines?

- (a) TBT rules appear to apply less strictly to voluntary standards.
- (b) To what extent does eco-labelling or current TBT rules raise legal and policy questions about the distinction between "voluntary" and "mandatory" eco-labelling programmes.
 - Does the degree of government involvement in the development or implementation of an eco-labelling scheme affect this voluntary-mandatory distinction?
- (c) To what extent do the trade implications of eco-labelling schemes that involve seal of approval labels or overall life cycle assessments and judgments about "environmentally preferable" products differ from those aimed at information disclosure only?
- (d) The operational effect of new Uruguay Round TBT disciplines and Code of Good Practice has yet to be demonstrated.

B. Discrimination

1. Eco-labelling is designed to allow market participants to discriminate as between products in making purchasing decisions.
2. Important to avoid discrimination between domestic and foreign applicants for eco-labels or as between different foreign applicants. Questions to consider:
 - (a) Is there open access to development of criteria?
 - (b) Are all qualifying products allowed to receive label?
 - (c) Are criteria neutral, objective and validly related to environmental protection?
 - (d) On what basis, if any, are the criteria revised?
3. Environmental conditions and preferences reflected in the eco-labelling criteria
 - (a) Localities may wish to give market expression to their environmental conditions and preferences through eco-labelling criteria.
 - Are the criteria based on national environmental endowments, preferences and regulatory regimes, and to what extent are these applicable to/compatible with situations existing in other producing areas?.
 - To what extent should consideration be given to similar or equivalent standards applied in other countries?
 - What is the potential for local interests to "capture" the choice of products, criteria and threshold levels to their own advantage?
4. Focus of criteria on physical product characteristics and/or process and production methods.
 - (a) Considerable difference of views.

C. Adverse trade effects/transparency

1. What are the potential technical/administrative barriers?
 - (a) Lack of transparency of product selection, criteria development and threshold setting processes.
 - (b) Difficulty for exporters to gain information about schemes, failure to understand criteria.
 - (c) Process of obtaining label or ensuring compliance might pose greater difficulties for foreign producers.
 - (d) Potential for market fragmentation arising from different eco-labelling regimes.
 - (e) Differentials in costs and access to marks.
2. To what extent is harmonization of eco-labelling programmes or mutual recognition of credible national programmes appropriate?
 - (a) Can harmonization be sensitive to national needs and policies for local environmental protection?
 - (b) To what extent will harmonization/mutual recognition help avoid technical trade barriers?
 - (c) How dependent is the viability of harmonization or mutual recognition on credible certification to avoid misleading consumers?
3. Are GATT/WTO transparency requirements for eco-labelling programmes sufficient?
Disagreement in EMIT.

D. Costs and competitiveness

1. What are the direct costs to firms of participation in eco-labelling schemes and how able are firms to absorb these costs?
 - (a) Application for product certification
 - (b) Annual fees for use of label
 - (c) Petitions to have new product categories covered
 - (d) Delay in introducing new products, additional barrier to entry in a market.
2. To what extent do exporting firms may face higher costs to meet a variety of different labelling requirements in different markets?

(The issues listed in the above sections on discrimination and technical barriers to trade can also raise competitiveness concerns.)

IV. ENVIRONMENTAL PERSPECTIVE ON RELATIONSHIP WITH TRADE RULES

A. Development of labelling programmes is at an early stage. Different ideas, methods being tested

1. To what extent do we need to provide for further flexibility in trade rules for entities to develop effective labelling systems?
2. How can this best be accomplished while taking due account of trade concerns?

B. Eco-labelling standards as a potential catalyst to improved environmental protection and technological development

1. How can eco-labelling schemes be designed to have a positive effect in improving standards and best promote the development of new processes and technology that are less resource intensive?
2. How can eco-labels be designed to encourage flexibility and innovation in pursuit of environmental improvement?

C. Eco-labelling as a basis to help correct market imperfections and promote internalization of environmental costs, which will help to ensure that trade is consistent with and supports environmental protection and sustainable development

D. Cooperative work on eco-labelling as a means to promote both environmental and trade objectives

E. Development of international environmental standards or criteria/indicators for sustainable development to strengthen the basis for eco-labelling and help identify environmental impacts linked to traded products

V. INTERNATIONAL FOCUS ON ECO-LABELLING METHODOLOGY ISSUES

A. Berlin Statement on Environmental Labelling (1990)

1. Products and/or product groups must be looked at in a comprehensive and technically sound way.
2. Requires thorough assessment, where possible comprising the entire life-cycle of a product and the relevant environmental aspects which apply.

B. Lesvos Statement on Environmental Labelling (UNEP - 1991)

1. Determination of criteria based on life-cycle review of a product category.
2. Criteria levels established to encourage the development of products/services that are significantly less damaging to the environment.

C. International Organization for Standardization (ISO)

1. Draft principles on eco-labelling, TC 207 Sub-Committee on eco-labelling, as of Summer 1994. (Subject to change)

- (a) Environmental labelling shall be truthful and non-deceptive.
- (b) Environmental labelling should, wherever appropriate and possible, incorporate life-cycle thinking.
- (c) Information used to assess the environmental impact of a product or service shall be meaningful, accurate, verifiable (that is, collected using methodology that is based on prevailing scientific principles and that has been shown to be repeatable and reproducible).
- (d) Testing methods should follow ISO or other recognized standards wherever appropriate and possible.
- (e) The process and methodology used in an environmental labelling programme shall be transparent to all potentially affected parties.
- (f) Environmental labelling programmes and schemes should be accessible to all interested parties.
- (g) Effective communication of information on environmental attributes of products and services should be provided by environmental labelling claims, programmes and schemes.
- (h) Environmental labelling should be non-discriminatory in its treatment of domestic and foreign products and services (i.e., eco-labelling schemes should not give rise to trade barriers.)
- (i) Environmental labelling criteria should not inhibit but, where appropriate, should encourage technology innovation and improved environmental product design and performance.

D. Intergovernmental Organizations (UNCTAD, UNEP, OECD)

1. United Nations Conference on Trade and Development (UNCTAD) and United Nations Environmental Programme (UNEP)

- (a) UNCTAD has begun analysis of eco-labelling as an environmental policy tool. This has resulted in a number of papers.
 - "Green Consumerism, Eco-labelling and Trade"
 - A discussion paper entitled "Eco-labelling and International Trade", (May 1993) describes the procedures for eco-labelling programmes and the potential effects of such programmes on developing countries.
- (b) UNCTAD and UNEP are considering joint action to develop initiatives on certification for "environmentally friendly" products

2. Organization for Economic Cooperation and Development (OECD)
 - (a) The OECD developed a paper entitled "Environmental Labelling in OECD Countries" (1991)
 - (b) More recently, OECD hosted a workshop on Life Cycle Management and Trade (20-21 July 1993) to explore various uses of life cycle assessment and the environmental and trade concerns associated with them. This workshop, a summary report of which is available, included discussion of the trade implications of eco-labelling.
 - (c) The OECD also sponsored a workshop in London (6-7 October 1994) explicitly on eco-labelling. A summary report of this workshop will be produced.