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The Environmental Impact of Private Standards – Discussion

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Chairman, Delegates, Ladies and Gentleman, I would like to thank the WTO for inviting me as a discussant in this afternoon's session on environmental impact of standards. It is a privilege and a pleasure to be here.

1. Background

The value of markets certified to private voluntary standards have grown enormously in recent years. As incomes have grown, consumers have more money to pay for environmental benefits from food, fibre and timber products. Frustrated by what they see as government's inability to address social inequalities and environmental problems, consumers use the shopping basket to effect change.

Private standards have been successful in bringing about real environmental improvements. Scientific evidence has shown us for example, the benefits of organic farming particularly in terms of carbon sequestration, net biodiversity gain and reduced water pollution.

However, private standards also have limits to what they can achieve in generating environmental goods and services. I would like to outline some of these.

2. Knowing what schemes deliver

Due to proliferation, it is difficult for consumers to know what each label is delivering in terms of environmental impact. There are many standards all of which make a claim on environment and sustainability. But these are now normative, value laden terms. One man's sustainability can be another's green gloss. The onus on the industry to regulate to protect its reputation is strong. This has happened with organic in all developed countries and to a large degree explains the sector's enduring success.

Another problem with proliferation is that consumers can take in only so much information. Economists refer to this problem of bounded rationality – our way of dealing with this is to put faith in certain schemes or migrate towards the most emotionally appealing labels and stories. The best marketed schemes have a competitive advantages over other schemes, but this does not guarantee success in generating environmental gains. Style can be a substitution for content.

Indeed, schemes are created for different reasons, not all of them altruistic desire for environmental improvement – it can include a company's CSR, a retailers' desire to differentiate products, a farm lobby wishing to protect a market, an NGO wanting to create an income stream. Conflicts of interest can arise.

[1] The opinions expressed in this paper reflected those of the author and do not necessarily reflect the position of ITC.

3. Swamped by wider issues

Unfair competition

In the face of huge environmental problems around the globe, private standards markets have emerged as a high profile response to bring about more sustainable trade in natural resources. However, despite their rapid growth in developed country markets, their ability to deliver is severely constrained by the subsidized competition they face. This is a particularly acute challenge facing the organic sector.

Conventional farming enjoys implicit subsidies like water clean up costs and human health problems for pesticide use. These are subsidies because taxpayers not farm businesses pick up the bill for these costs. There are explicit subsidies like for fossil fuels which make fertilizers and tractor fuels cheaper than they should be. This unlevel playing field makes breaking out of the niche or "mainstreaming" of sustainable farming a huge hurdle. This is worrying when we think of major market failures like climate change and the challenge of reducing emissions and deploying climate mitigation technologies. So we have a situation where in the main only rich country, upper income groups can afford more "sustainable lifestyle" options like solar panels, hybrid cars and certified environmentally friendly food and timber.

Poverty and corruption

More broadly, private standards cannot compete with the overwhelming effect of poverty and corruption that drives the destruction of rainforest. Slash and burn agriculture in tropical regions is due to the landless poor looking for a livelihood. Unsustainable forestry management is often cited as a governance issue.

4. Free riding

Using private standards to generate public environmental benefits are constrained by the free rider problem. Private *voluntary* standards are just that, *voluntary*. Consumers can choose not to buy them. There is plenty of scope to let others pay extra for environmentally friendly products and then free ride on these benefits like, for example, reduced pesticide drift from local farms. The free rider problem means these public goods are undersupplied.

This limitation of standards in achieving environmental change, is most obvious in the climate change debate, which I would like to end up saying a few words about.

5. The case of carbon standards

We now have the choice in many supermarkets in the developed world to buy products that tell us how much carbon is used in their production. The aim of these standards is according the UK Carbon Trust to "empower us all to make informed choices and in turn drive a market for low carbon". Implicit is the assumption that we are sufficiently powerful as consumers to take us to a low carbon future, a future below 450 ppm of carbon dioxide, a future in which we can adapt to changes in the climate.

The problem with this approach is two fold. Firstly, it is voluntary. This means that we can free ride on the efforts of those who shop in a low carbon way. Secondly, the label is rendered meaningless if we

drive to the supermarket to buy the product. Also there are many different standards making comparison impossible. Not to mention the difficulty of working out what 70g CO2 means on the packet. Is that a lot or not?

Carbon is too cheap and easy to use and this is not a problem we can adequately deal with by labeling food products. We live off cheap carbon and there are insufficient incentives to wean us off it. If a company executive knows he will make a deal by flying to a meeting rather than using video conferencing he will. If he doesn't the competition will. Similarly it takes a very rare individual to reduce personal consumption for environmental reasons when the rest of us can free ride on his lower carbon footprint and enjoy high carbon living.

Only governments setting prices can put us all on the right direction of low carbon lifestyles. Stopping climate change requires a wholesale de-carbonization of the economy - a new industrial revolution. The first industrial revolution happened in the UK because of relative prices were favourable. High labour costs and low carbon costs led to the deployment of coal power technologies, firstly in the UK and soon after globally. Today our main way out of climate catastrophe is pricing carbon high enough to bring about a new low carbon industrial revolution so that we can develop without destroying our basis for life. Only governments can do that.

6. Summary

So, in summary, private standards give consumers a dynamic option to bring about change. However, their effectiveness relies on a high levels of transparency and credibility and their reach is mainly limited to high income groups. They are just one tool to generate change and should not become a diversion for addressing systematic policy failure. The market failures we commonly face today require urgent government intervention.