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**DRAFT REPORT OF THE AD HOC WORKING GROUP ON TRADE,  
ENVIRONMENT AND DEVELOPMENT ON ITS FIRST SESSION**

Rapporteur: Mr. B. Alipur (Islamic Republic of Iran)

**AGENDA ITEMS 3 and 4 (continued)**

Speakers: Pakistan  
Venezuela  
Egypt  
India  
Mexico  
Republic of Korea  
Argentina

**Note for Delegations**

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated **by Friday, 9 December 1994 at the latest** to:

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Chapter I

**INTERNATIONAL COOPERATION ON ECO-LABELLING AND  
ECO-CERTIFICATION PROGRAMMES**

- (a) Comparative analysis of current and planned programmes, with a view to discussing concepts such as mutual recognition and equivalencies;
- (b) Examination of possible ways to take into account the interests of developing countries in the elaboration of eco-labelling criteria

(Agenda item 3)

**MARKET OPPORTUNITIES FOR "ENVIRONMENTALLY  
FRIENDLY" PRODUCTS**

Ways and means to define and certify environmentally friendly products

(Agenda item 4)

(continued)

Addendum

1. The representative of Pakistan said that the major global environment problems were primarily due to the very high level of carbon dioxide and chlorofluorocarbons emissions by developed countries. The level of emissions in the developing countries was drastically less. Eco-labelling, although an attractive idea, had the potential to be used for trade protectionism. It would be unwise to try to harmonize product standards in a world which was so sharply divided in terms of economic and technological advancement. For example, a coal-dependent developing country could not conveniently resort to fuel-switching and thus reduce its annual energy burden. High standards of pollution control and reduction in emissions per unit of product processed in some developed countries had been achieved at a considerable cost, which the developing world could not afford. Neither did developing countries have the financial means to introduce new technologies through government-assisted schemes. Under the emerging eco-labelling requirements, the choice of such technologies would become increasingly important as the exports of developing countries would be expected to comply with

cleaner production systems. He questioned whether eco-labelling was a panacea for controlling bad manufacturing practices and ensuring safe products and processes, or whether it might trigger a generation of problem-solving devices which might cause other unknown problems? He also questioned the trade-off between different environmental criteria. For example, an industry might have cut down its sulphur dioxide emissions through flue-gas desulphurization and solved locally the acid deposition problem but what about the carbon dioxide emissions that increased in the process of using such end-of-the-pipe technologies and threatened the global environment with climate change? UNCTAD should be mandated to look into this issue.

2. He stated that if eco-labelling meant enforcing environmental regulations and achieving emission levels equivalent to those existing in the developed world, then developing countries would require heavy financial and technological investment. Enforcing the stringent environmental standards desired by the developed countries would mean lower productivity levels and slower economic growth in the developing countries. Developing countries' manufacturers, unable to get a label for their products, would find themselves shut off from consumers who were sensitive to the environmental characteristics of products. To solve this impasse, a two-stage life-cycle analysis had been suggested in the UNCTAD secretariat report, i.e. "cradle to export-border" and "import-border to grave".

3. In closing he observed that in the context of developing countries, the environmental friendliness of a product should reflect: whether the product had created more jobs or replaced more people in a production process; whether the product had used more indigenous resources or relied more heavily on external inputs; whether the production mechanism had benefited the local community and added to its quality of life or made it poorer.

4. The representative of Venezuela said that possible negative trade effects of environmental policies could be avoided through international cooperation. The same was true in the case of eco-labelling. Eco-labelling could have negative trade effects. The increasing use of life-cycle analysis could involve practical and conceptual problems. For example, differences across countries in values and environmental priorities made the application of process-related eco-labelling criteria problematic. Criteria related to process and production methods also posed the problem of extraterritorial application of environmental criteria. Solutions sought through international cooperation should be based not only on technical considerations but also on a clear political understanding between developed and developing countries. The secretariat's report provided orientations for possible solutions. Among those suggested mutual recognition seemed preferable. In this context, option (b) presented in TD/B/WG.6.2

paragraph 67 appeared particularly useful. According to this option, product-related criteria could be developed by the importing country, whereas compliance with the process-related criteria developed by the eco-labelling programme in the exporting country could be a basis for awarding the label of the importing country's programme. However, special attention should be given to cases where there were transborder or global environmental effects, which needed to be addressed bilaterally or multilaterally. He added that developing countries could perhaps be exempted from certain process-related criteria and that it could be examined whether preferential tariff treatment for "environment-friendly" products was feasible. He concluded by stressing the importance of technical assistance.

5. The representative of Egypt commended the secretariat for the high quality of the background documentation. Eco-labelling was a complex issue that gave rise to many unanswered questions. The setting of criteria for awarding eco-labels often required judgements concerning the whole life-cycle of a product, especially on its production process. When applied to domestic products, these criteria would provide consumers with useful information about the product concerned. However, where international trade was involved it might be less successful. Countries with different environmental and economic endowments needed different environmental policy approaches. The Rio Declaration states this fact in its principle 11. The OECD did the same in its note on the implementation of the "polluter pays principle". The environmental impact of production normally depends on where the production takes place. If the production activities are well-spaced, the natural absorptive capacity of the environment may be able to cope with the pollution impact. Ability to cope with pollution is simply a natural comparative advantage, comparable to having a warm climate or a rich mineral stock. To argue that a corresponding environmental standard in a country was unfairly low would be equivalent to arguing that some countries were unfairly warm or unfairly fertile. Countries may have different environmental standards because they have different levels of income. Poor countries may be more willing to accept lower environmental standards than rich countries.

6. He questioned whether the impacts of eco-labelling schemes should be to improve the environment or to work as a trade barrier to developing countries exports. In the latter case, they would be, environmentally-speaking, counter-productive. Eco-labelling could surely lead to a negative demand for foreign producers and undoubtedly create a barrier to market entry for their products. Even if the same standard were set for both domestic and foreign producers, there might be de facto discrimination because of unequal access to environment-friendly technology. Moreover, production standards could be set in ways that

eased compliance for home producers but not for foreign producers. Access to the labelled segment of the market could increase costs for all firms but if domestic firms were initially closer to meeting the standard, their foreign rivals would face a relatively greater increase in costs. The criteria for environment-friendliness may then conflict with comparative advantage in the determination of trade. If environmental standards changed in the future, producers in developing countries might find that after having gone to the expense of obtaining a label a sudden change in environmental science rendered the standard invalid forcing them to begin the whole process again.

7. He felt that to try to solve environmental problems through non-environmental measures was perhaps not a useful approach, as this might generate additional problems. Measures to improve the environment in developing countries should include: (a) poverty eradication; (b) transfer of "green" technology; (c) rich nations financing poorer ones in order to help them adjust environmentally; and (d) giving developing countries a chance to develop and grow by allowing them better access to developed countries markets. Such an approach would make it easier to apply confidence-building measures aimed at achieving mutual recognition of the various eco-labelling schemes.

8. The representative of India commended the secretariat for the interesting proposals presented in its analytical documentation. The effects of eco-labelling on trade and development merited examination. The question should be raised as to whether eco-labelling schemes were really voluntary because in an international market (which was increasingly becoming accustomed to eco-labelling) a firm or an enterprise could ignore recognition of its products as being environment-friendly only at the peril of losing its market share. While, on the one hand, environmental objectives were being promoted in one country, this effort should not, on the other hand, lead to negative effects on the economy of another country resulting in degradation of its environment.

9. Concerning process and production methods criteria based on life-cycle analyses, he stated that, for example, to some countries the amount of energy consumption was an important consideration while, to others, lower emissions would have priority and to still others biodegradability would be uppermost. Uniform standards and criteria for eco-labelling might not be the right course to pursue. They did not take into account the different assimilative capacities of different countries. In the selection of products for such labelling schemes and the establishment of criteria, the domestic industry might be consulted as it could play a major role. There was the issue of whether this role would involve purely environmental considerations or whether market-share concerns

would be dealt with which might lead the home industry to have those products and criteria which gave it a greater market share.

10. If the developing countries were not involved in the identification of products and the criteria for the award of eco-labelling, they could suffer through lack of information, adjustment to the requirements of different markets, and the expenses of testing and inspection of their products and facilities. In this case, the small and medium-scale enterprises would be quite adversely affected.

11. The international community was attempting to engage in a comprehensive consultation process to ensure that there was no adverse effect of eco-labelling on trade and development. In so doing, it would be essential to give developing countries access on a preferential basis to clean technologies, adequate training facilities in the sectors targeted for labelling schemes and adequate time for adjustment.

12. The representative of Mexico stated that global industrial processes were fostering the relocation of waste-generating technologies to developing countries, in most cases without adequate policies for environmental protection. He considered that developing countries could not be responsible for the transfer and use of obsolete technologies in ecological terms, as these were the only ones to which they had access, because of the scarcity of their resources and the pressures of international competition. He further considered that innovative agreements on resource and technology transfer to developing countries should be implemented, leading to the use of environment-friendly production processes and methods, with concrete provisions to favour micro and small enterprises and improvement of infrastructure.

13. Referring to eco-labelling, he emphasized the need for further studies. It was difficult for developing countries to comply with the high thresholds established by some environmental criteria determining the eligibility of a product for an eco-label. Hence, more studies were necessary to define thresholds, in particular for products exported by developing countries.

14. With regard to process and production methods (PPMs) criteria, he stressed the need for studying the matter more carefully. Aspects that could be examined were: (a) whether the country applying a PPM-related trade measure controlled its own production; (b) if there was a possibility to identify precisely those products directly leading to environmental damage; (c) whether there were other, less trade-restrictive, means to reach the environmental objectives without resorting to the use of PPM measures.

15. The representative of the Republic of Korea stated that eco-labelling was primarily directed at achieving environmental objectives. However, there were concerns that eco-labelling could discriminate against imported products and foreign suppliers, in particular those from developing countries. The criteria for the application of eco-labelling were often based on life-cycle analysis or process and production methods (PPMs) in accordance with the environment and development conditions in each country. The use of criteria based on PPMs gave rise to practical as well as conceptual difficulties, particularly for imported products, since production-related environmental externalities affected the environment of the producing country.

16. He supported splitting life-cycle analysis into two separate stages, namely, that of "cradle-to-export-border" analysis and that of "import-border-to-grave". Enhancing transparency and producers' participation in the development of the schemes was of crucial importance and UNCTAD, ISO and GATT/WTO could contribute to the attainment of these objectives. ISO was preparing a draft of internationally agreed guidelines on eco-labelling; these guidelines had to be negotiated with the full participation of developing countries since these countries were very concerned about the potential trade effects of eco-labelling programmes.

17. The concept of "different but equivalent" standards offered the best possible language in the UNCTAD context since it would take into consideration the environmental conditions and policy priorities of different countries. Nevertheless "different but equivalent standards" might be more readily applicable among countries at a similar developmental stage. He suggested that country-specific and sector-specific studies should be carried out to accumulate more empirical knowledge on the applicability of this concept. In closing he stressed that great emphasis should be placed on providing technical assistance to developing countries. Moreover, studies had to be carried out in the field of environment-friendly products, particularly with regard to the issues of definition and credibility.

18. The representative of Argentina underlined that the deliberations of the Ad Hoc Working Group were complementary to those within the GATT: in UNCTAD eco-labelling was analysed from the standpoint of developing countries, an emphasis which necessarily differed from that in the GATT. The important question was how the developing countries could create the eco-labelling schemes and have the market access of the OECD countries. It was essential to take into account the interest of developing countries in existing schemes, even if it would be difficult to influence their design. The extent to which eco-labelling measures were voluntary and whether they were covered by the Technical Barriers of Trade

Agreement was not clear. UNCTAD could provide important inputs into the GATT negotiating process even though the actual rules were determined in the GATT.

19. It was necessary not only to avoid trade-distorting effects of eco-labelling but also to substantiate environmentally positive effects. In this area, he considered it necessary to involve UNEP in the work, in order to develop the concept of equivalence of environmental criteria. Another important requirement was to internalize environmental externalities wherever they occurred. Thus, work on life-cycle analysis should include developing criteria on the basis of externalities at each production stage on the site where they occur and should be adapted to local production conditions.

20. Finally, he stressed that UNEP should focus on the concept of equivalencies, while UNCTAD should strengthen its technical cooperation activities, particularly with a view to developing criteria for certification. In addition, UNCTAD should examine mechanisms for improving access to markets where eco-labelling schemes currently existed.