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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: Thailand
Colombia
Austria
UNIDO
United States of America
Ethiopia
Australia

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 Thailand said that his country had recently emerged as one of the major export-oriented developing economies. He went on to describe developments pertaining to eco-labelling in his country. A recent report on the introduction of a "green label" scheme in his country had been prepared with the assistance of an expert from the Federal Environmental Agency of Germany in cooperation with the Thai Government, industry and business environment bodies. Subsequently, the Ministry of Industry established the "Thai Green Label Scheme" headed by a board composed of members from relevant agencies. The functions of the Board are to select product groups for consideration for eco-labels and to take decisions on the basic priorities of the eco-label scheme, the criteria for a product group, the structures and level of fees for the eco-label and the supporting activities. Subsequently technical and review committees and sub-committees will be established. The technical committees will develop criteria for the eco-labelling scheme and deal with special product groups. Composed of experts from industry, consumer organizations, environmental groups and others,

as appropriate, these technical committees will develop proposals for an eco-label. The review committee will consist of people from the interest groups concerned as well as the public. It will discuss the proposals of the board before decisions are taken. Supporting subcommittees will be established or experts invited to carry out specific tasks. Recently, a draft report on the interlinkages between trade and environment, financed by UNDP, was completed in June 1994. This report pointed out that, to date, the impacts of eco-labelling in Thailand's key markets, i.e. North America, East Asia and Europe, had not been significant. He mentioned that none of the Thai export promotion offices had heard of products from Thailand that had either been granted or refused an eco-label.

2. The representative of Colombia stated that eco-labelling schemes had considerable impacts on the trade and export competitiveness of firms from developing countries. This affected, in particular, small firms which could not absorb the costs implied in the use of cleaner technologies, environment-friendly raw materials and more sophisticated but also more expensive production processes. She stated that the majority of the existing schemes were promoted by domestic industries in developed countries but the products selected were in most cases those for which developing countries had an export interest, such as textiles, footwear and flowers.

3. The investment needed in order to comply with eco-labelling criteria could be justified when developing country exporters had secure access to markets in developed countries. In regard to the Colombian experience with the introduction of eco-label schemes for textiles and flowers, difficulties had arisen in assessing the opportunities that eco-labelled products would enjoy in foreign markets. There was no empirical evidence of the extent to which such labelling would result in greater market opportunities and in terms of returns on investment.

4. As to further action to be undertaken in this area, she suggested three broad areas: first, carrying out studies leading to mutual recognition of standards and eco-labelling schemes and of the concept of equivalence; secondly, undertaking studies to establish empirical evidence concerning the environmental impact of products, processes and raw materials, so that measures for environmental protection could be targeted to those that were the most harmful to the environment, and finally technical cooperation as a high-priority area of action.

5. The representative of Austria mentioned that full-cost pricing could be approached through appropriate policies and measures that would promote

internalization of environmental externalities, but that this was unlikely to be attained in the near future. Therefore, it was suggested that in parallel with striving to promote progress towards the achievement of full cost pricing, efforts which promised success in the short or at least medium-term would have to be pursued. One approach would be to reduce the environmental impact of consumption by identifying environmentally preferable products with less harmful environmental impacts during their life cycles, and to increase the awareness of consumers and industries about the existence of such alternatives. In this context public awareness of environmental concerns would induce producers to take into account these concerns and to make efforts towards internalizing environmental costs. Providing convincing evidence of their efforts to consumers would enable the latter to make environmentally sound purchasing decisions and in turn increase the availability of information on environmental aspects of products.

6. Lack of full scientific proof for the environmental friendliness of products should not be used as a reason for postponing cost-effective measures to prevent environmental degradation. A pragmatic step-by-step approach should strive to reduce this lack, by continuing to generate, collect and systemize scientific knowledge with regard to factors that are likely to indicate that products are environmentally preferable and have less harmful environmental impacts during their life cycles.

7. The representative of the United Nations Industrial Development Organization (UNIDO) stated that the Industry and Environment Programme Activity Centre of the United Nations Environment Programme (UNEP IE/PAC) and UNIDO were jointly launching a new field programme on a pilot basis to promote cleaner production. This programme supported national cleaner production centres in approximately 20 countries for a five-year period. Cleaner production, also called pollution prevention and waste minimization, eliminates waste at the source, thereby improving environmental quality and often even enhancing profitability. Cleaner production requires the continuous application of an integrated preventive environmental strategy to processes and products to reduce risks to humans and the environment.

8. The national cleaner production centres would augment ongoing UNIDO technical assistance activities in this area by promoting cleaner production and serving as national focal points to (a) improve awareness of the problem and provide information; (b) offer training and human resource development in cleaner production and clean technologies; (c) carry out sectoral and cross-sectoral demonstration projects in order to ensure a multiplier effect; (d) provide the link and ensure cooperation between industries and national government agencies.

Owing to the parameters of this UNIDO activity, there was a limit to the range of clean technologies demonstrated, with a focus on small- and medium-sized enterprises. UNIDO would work closely with the centres to provide on-going support. The centres would be managed by experienced nationals of the countries concerned and set up preferably in existing institutions. Phase I of the programme would provide funding for eight centres for three years. This phase would also determine the demand for such centres in developing countries because all of them, together with the economies in transition, had been invited to participate. Individual centres would develop both five-year and annual work plans and implement the activities so planned. There would be an advisory board review. Phase II of the programme would provide funding for the eight centres for two additional years and for five years for 14 or more new centres, depending on the availability of funding which will be requested from special-purpose donors to the Industrial Development Fund of UNIDO. In addition, bilateral support is anticipated for both phases for consultants and demonstrations.

9. To date 39 organizations/institutions from 25 developing countries had transmitted requests to become national cleaner production centres. In November 1993, an external review panel met and drew up a short-list of nine institutions in nine countries which were visited by UNIDO/UNEP representatives in 1994. Representatives of six developing countries and two countries with economies in transition were invited to a UNIDO/UNEP High-level Advisory Seminar on Cleaner Production in Warsaw, in October 1994. The seminar was followed by a larger training programme for national cleaner production centre personnel; the final selection of centres was to be made during November 1994 by a panel of UNIDO/UNEP representatives.

10. The representative of the United States of America welcomed the work of UNCTAD in the area of eco-labelling and certification of environment-friendly products. He agreed that it was particularly necessary to focus on eco-labelling schemes where there was government involvement, as such schemes could imply government endorsement of the product in question. He recalled that eco-labelling was intended to give consumers the opportunity to factor environmental considerations into their purchasing decisions. As such, it was intended to reward producers who met these consumer preferences by allowing them to increase their sales and/or prices. In so doing, eco-labelling promoted sustainable development. While eco-labelling schemes had not posed significant trade problems in the past, concern over market access was gaining attention. It should not be forgotten, however, that by providing a way of identifying environment-friendly products, eco-labelling could create new markets for such products or allow producers to sell at a higher price. On the issue of transparency, he said that perhaps the best way to avoid discriminatory eco-

labelling practices was through greater transparency in the selection of product categories, criteria and thresholds, and that third-country producers should be able to participate where their interests were affected. However, participation need not be limited only to producers: the process had to be equally open to consumer representatives, technical experts, non-governmental organizations, and suppliers of relevant environmental goods and services. The new Technical Barriers to Trade Agreement provisions calling for publication of a notice, opportunity for comment, and establishment of "enquiry points" were useful ideas which had relevance to eco-labelling. ISO's initiative to develop guidelines for eco-labelling was also useful. However, it remained the responsibility of the eco-label authorities to establish actual criteria and thresholds.

11. On the process and production methods (PPMs) issue, he said that the United States shared the concerns of developing countries about the risks of discrimination and trade protection in eco-labelling schemes. Where PPM criteria addressed local environmental harms, there might be merit in making allowance for differing local conditions, not only among countries, but even within countries. However, process impacts should not be ignored in eco-labelling schemes, nor relegated to an enquiry as to whether local environmental regulations were met, since the purpose of eco-labelling was not to encourage compliance with government regulations but rather to encourage producers to improve the environmental friendliness of their products. The overall environmental impact of a product might include a substantial contribution from the production process and thus be of direct interest to the consumer. The proper approach to PPMs lay somewhere between the two extremes of excluding them from any consideration, or insisting on a rigidly uniform approach. PPMs had to be addressed on a case-by-case basis. On the issue of verification, eco-labelling had been, in part, a response to the boom in "green marketing" and to scepticism regarding the reliability of environmental claims. Credible verification was thus essential, not only to protect the consumer, but also to protect those producers who spent time and money on complying with eco-criteria. Third-party certification was therefore essential. There might however be ways to minimize the cost and disruption of the verification process. Possibilities suggested in the UNCTAD secretariat's paper included using international certification firms or building up verification capacity in developing countries. On mutual recognition and equivalency, mutual recognition required "mutual confidence" among eco-labelling and certifying authorities. However, it was a concept that had just been added to the rules of the multilateral trading system and the results remained to be seen. The concept of equivalency also required further analytical work, especially if it was used in a different way than product standard equivalency. It would be important to have the input of the

environmental community before defining and assessing the efficacy of these approaches in the eco-labelling context.

12. Regarding environment-friendly products, the distinction drawn in the UNCTAD paper between eco-labelling and the identification of such products seemed rather hazy. Moreover, consumer boycotts did not belong among the topics; in any case, it was not for governments to dictate consumer preferences. One aspect of promoting consumer confidence in manufacturer's environmental claims (Type II labelling) that had been somewhat underestimated was the experience of several Governments in developing guidelines for truth in environmental advertising. In the United States, such guidelines were issued jointly by the Federal Trade Commission and the Environment Protection Agency in 1992. Finally, he said that the issues raised in the context of eco-labelling fell within the mandate of several international organizations, therefore it was important to make use of the expertise of each of them, while avoiding duplication of work. UNCTAD had an important role to play in analysing this issue and further exchanges in the future should prove fruitful.

13. The representative of Ethiopia emphasized the need for the participation of developing countries, including the least developed countries, in the debate on eco-labelling and market opportunities for environment-friendly products, since these issues had a great impact on their economic growth, in general, and their export growth, in particular.

14. Many developing countries had not yet identified their experts in this field and so emphasis should be given to the widest possible participation of experts from the developing countries, and particularly the least developed among them. In this context, the need was stressed for technical assistance to developing countries, including especially the least developed. Developing countries should identify their needs and the areas of technical assistance requirements. The topic of technical assistance should be discussed under a separate item in the future deliberations of the Ad Hoc Working Group.

15. The representative of Australia reported that his country did not have any Type I eco-labelling schemes involving third-party certification, although an attempt had been made to initiate one a few years ago. He then noted that UNCTAD was well placed to make a particular contribution to the work on trade, environment and development and commended the secretariat for its work. One of the most important contributions which UNCTAD and the Working Group could make to the debate on trade and environment was the sharing of experiences and the encouragement of a wide-ranging policy debate. The Working Group and other appropriate forums should explore the scope for international cooperation to

address issues such as the concerns raised in relation to eco-labelling schemes. The guiding principle should always be the search for equitable and cooperative solutions to problems of global concern, whether environmental, trade or development issues.

16. When the introduction of measures such as eco-labelling schemes were being considered, and certainly where there was government involvement in such schemes, an appropriate range of agencies should be involved to ensure that environment, trade and development considerations were all taken into account in the decision-making processes, and that concerns such as transparency, participation and avoidance of discriminatory practices were addressed.

17. In many cases, the problems in the application and implementation of measures such as eco-labelling schemes, on the one hand, and exploring market opportunities for environment-friendly products, on the other hand, could be addressed together. For this to happen, the means should be found to turn the instruments which at first sight appeared to be creating problems into positive tools for advancing the developmental and environmental objectives of promoting sustainable development.