Expanding Public-Private Partnerships
Economic Competitiveness and Environmental Concerns in the Asia-Pacific Region
WORLD BANK / PBEC ROUNDTABLE • HONG KONG, CHINA • SEPTEMBER 13–15, 1998

Trade and the Environment: Environment Management Systems and Product Eco-labels

Premises for discussion:

- International standards for environmental management systems and product eco-labels are here to stay—because they benefit companies and governments
- Current standards are not significant barriers to trade—concerns arise primarily from a lack of access to the standard setting process, a lack of information, and fears over their future use

Challenge for participants:

Creating mechanisms for increasing:
- Access to information and support on such international environmental standards, as well as
- Transparency and consistency in their future development and implementation.

International standards for environmental management systems and product eco-labels are here to stay—because they benefit companies and governments

The use of international standards for environmental management systems (such as ISO 14001; see Box 1)[1] and product environmental labels (such as the Japanese Eco Mark Program; see Example 1 at the end of this paper) is on the rise.

Such standards are forms of the information-based environmental policy tools described in the Regulatory Dialogue Issues Paper (also see Example 4). They work by making new information available to new parties

Box 1. ISO 14000—Summary of main features for environmental management systems

The ISO 14000 series includes efforts to develop a number of voluntary, internationally agreed standards on: environmental management systems; environmental labeling; environmental auditing; environmental performance evaluation; and product life-cycle assessment. It builds from the ISO 9000 series of quality standards and applies a typical management systems approach to internal operational processes.

ISO 14001 is focused on environmental management systems at individual sites. It provides a basis for companies' facilities to be certified as having management systems that meet ISO standards. Five elements must be included:
- An environmental policy;
- An assessment of environmental aspects of the facility's operations, as well as the legal and voluntary obligations to be met;
- An internal environmental management system;
- A series of periodic internal audits and reports to top management; and
- A public declaration on how ISO 14001 is being implemented.

ISO 14001 is not without its critics—from both the environmental and business communities. Some point to its focus on paper plans—not actual performance—and its use of local—not international—standards as evidence that it is unlikely to lead to large improvements in environmental performance. Others point to the potentially high costs of involvement as evidence that only a limited number of companies will sign up—unless customers or governments force them to.

Source: UNCTAD, 1996, *ISO 14001: International Environmental Management Systems Standards – Five Key Questions for Developing Country Officials*, New York.

(customers, neighbors, company management) who can then use it to increase the pressure for improving both business and environmental performance.

Such standards for environmental management systems and product eco-labels are here to stay—because they help an increasing number of companies and governments achieve their core goals.

More and more companies see environmental management systems and product eco-labels as conferring commercial advantage. For example, Philips Electronics uses ISO 14001 as a vehicle for cutting energy and other costs, while improving its global management systems (Example 2).

Banana producers in Costa Rica have also developed a voluntary "eco-O.K." certification program as part of their effort to increase exports to Western Europe (Example 3).

At the same time, more and more environmental advocates—including those in governments—see environmental management systems and product eco-labels as ways to improve the efficiency and effectiveness of local environmental programs. Instead of addressing environmental issues solely through costly and unpopular administrative rules and enforcement, environmental management systems, product eco-labels and other information based policy tools create incentives for companies to improve their environmental performance while also improving their businesses (as noted above and in Example 4).

Collaborative efforts between developing country governments and multinationals are also on the rise to help small and medium sized companies work with the new standards. For example, Philips Electronics (working with the Yale/UNDP public-private partnerships program) has provided its internal ISO 14001 training to local companies and technical institutes in India, China and Brazil (see description in Box 4 of the Regulatory Dialogue Issues Paper). Similarly, the government of Mexico and the World Bank have been running a "mentoring" program on environmental management systems for small and medium sized companies in Guadalajara (see Example 2 in the Regulatory Dialogue Issues Paper).

Current standards are not significant barriers to trade—concerns arise primarily from a lack of access to the standard setting process, a lack of information, and fears over their future use

While beneficial to many, the growth of international standards for environmental management systems and product eco-labels has created tremendous concern in many developing countries and companies:

> *Trade criticisms of eco-labels have come from developed and developing countries. At the urging of the United Nations Conference on Trade and Development (UNCTAD), developing countries have held up eco-labels as a test case for the larger threat they believe domestic environmental measures pose as hidden protectionist barriers.*
>
> *Intense industry interest in environmental labels likely arises out of fear that labels will be used as protectionist non-tariff trade barriers and, more important, that label criteria will be adopted as the basis for government public procurement programs.*
> —J. Salzman (1997, "Informing the Green Consumer," *Journal of Industrial Ecology*, Vol 1, No. 2)

While these concerns clearly are legitimate, experience to date suggests that such standards are not now significant barriers to trade. For example, a recent survey on the issue concluded that:

> *To date, the impact of eco-labeling schemes in Thailand's key markets—North America, East Asia and Europe—has been negligible. None of the Thai Export Promotion Offices in those countries had heard of any products from Thailand which had either been granted or refused an eco-label.*
>
> *So far, few Thai producers have shown any concern about the potential negative effects of eco-labeling on their export opportunities. However, this may change as Canada, Japan, Scandinavia and the EU are all planning to bring out labels for textiles, one of Thailand's key exports."*
> —OECD (1997, "Eco-Labeling: Actual Effects of Selected Programmes," Paris.)

Products manufactured in Malaysia have received the most Japanese Eco-Marks, while those from Thailand the third most (see Table 1).

To the extent there have been problems, they appear to stem from three major sources:

Table 1. Number of products awarded Eco-Marks in various economies

Economy	*Number*
Malaysia	17
United States	14
Thailand	11
China	4
Chinese Taipei	3
Indonesia	2
New Zealand	2
Singapore	2
Sri Lanka	2
Canada	1
Germany	1
Hong Kong	1
Portugal	1
Total	61

Source: OECD, 1997, "Eco-Labeling: Actual Effects of Selected Programmes," Paris.

- *A lack of effective access* to the processes by which the standards are set for governments and companies from developing countries;
- *A lack of information on particular standards*, especially whether and how to meet them; and
- *A fear over the future use of such standards*, especially whether "voluntary" standards will become "mandatory," and how best to address the market fragmentation that results from different standards in different countries.

There is a perception among governments and companies from developing countries that they do not have effective access to the processes by which standards for environmental management systems and product eco-labels are set. And, this is true in many cases. Even if the standard-setting body is trying to include as many parties as possible, the practical difficulties facing a company from East Asia trying to participate in a standard setting process occurring mainly in Western Europe or North America are great. Certainly, these issues contributed to the developing country concerns over the various European eco-labeling and product take-back programs.[2]

Once standards for environmental management systems or product eco-labels are set, there are often problems over how to meet the standards—should a company choose to do so. These can range from the simple (how to obtain copies of the standard) to the complex (whether a national certification body exists). Even if a local certification body does exist, local companies are often concerned about the cost of certification, while those from industrialized countries fear that the local certification process may not be sufficiently rigorous.

Initially, there are many questions over how such standards may be used in the future. At the moment, most are voluntary. As more and more customers—particularly governments—consider making ISO 14001 certification or award of a particular eco-label mandatory, a whole new set of issues arise. Would such mandatory standards violate World Trade Organization rules, particularly as they relate to production processes and methods? How should the fragmentation of markets by different product eco-labeling programs best be addressed—through international harmonization of standards for eco-labeling or mutual recognition of different standards?

Challenge for participants: Creating mechanisms for increasing access to information and support on such international environmental standards, as well as increasing transparency and consistency in their future development and implementation.

PBEC members and Southeast Asian governments share many goals relevant to trade and environment issues, particularly:

- Expanding access to export markets; and
- Addressing environmental pressures in the most cost-effective, flexible and effective manners possible.

These shared goals provide a strong basis for working together to manage the risks posed by international standards on environmental management systems and product eco-labels, as well as to capture the opportunities they create for improving business and environmental performance.

Major areas for dialogue and collaboration include:

- How best to participate in and influence the development of international standards for environmental management systems and product eco-labels?
- What should any new standards be?
- To what extent should such standards be harmonized across markets?
- How should they be implemented?
- How can local companies obtain information on the standards adopted?
- How should local companies decide whether, when and how to comply with the adopted standards?
- How can the standards best be met across markets, including the scope for mutual recognition?

The PBEC member companies and national ministries represented at this workshop are a powerful group for addressing the real issues facing exporters in the region. Whether and how the participants in this meeting decide to carry the dialogue forward on these issues is up to them. As an aid to focusing the discussion, however, one approach to follow-up is for the participants to:

- Establish or support an information clearinghouse or network for small firms and governments in the region on international standards for environmental management systems and product eco-labels.
- Jointly provide technical support, mentoring and training on such standards to suppliers and other small firms in the region.
- Develop and promote mechanisms for simplifying the implementation of product eco-labels and ISO 14001 across markets, such as accessible certification systems, along with harmonization of standards or effective systems for mutual recognition.
- Coordinate efforts at the WTO to increase the influence of firms and countries from the region in its work on trade and environment.

Notes

1. The International Standards Organization (ISO) is a global, industry-based body that promotes the development of voluntary, international standards to facilitate the exchange of goods and services.
2. See V. Jha and Simonetta, 1994, "Eco-labeling Initiatives as Potential Barriers to Trade," in *Life-cycle Management and Trade*, Paris: OECD.

Example 1: Product Eco-labeling—Examples of Initiatives in Asia

Japan—Eco Mark Program

Over 2000 products have received the Eco-Mark in over 70 product groups.

Thailand

Has developed green labeling programs for products such as CFC-free refrigerators.

Singapore

The eco-label is found on over 700 products, including recycled papers and batteries.

India

Has created an eco-labeling scheme for products such as leather.

"Smart Wood"

Founded by the Rainforest Alliance in 1989, it has certified over seven million acres of environmentally sensitive forest operations in East Asia, Latin America, and the United States. Over 30 companies use the "Smart Wood" label, including both timber producers and wood product manufacturers.

Source: Extracted from multiple articles (newspapers and journals) and reports.

Example 2: Philips Electronics—Commercial Gains through Improved Environmental Management Systems

Philips Electronics is using environmental management systems to improve its production efficiencies, reduce its waste and establish needed infrastructure. Over 90 of Philips' 300 facilities around the world have received ISO 14001 certification. The company's goals for the year 2000 are to:

- Reduce energy use by 25 percent
- Reduce packaging materials by 15 percent
- Incorporate elements of eco-design and sustainability across its operations.

The company is seeing a two year return on these investments, sometimes much shorter. In addition to cost savings, some local governments are increasingly rewarding companies with strong environmental management systems by simplifying administrative processes (such as permitting). This can be a major commercial advantage for companies, as it allows production to begin sooner. Finally, improved attractiveness to customers is another commercial motivation.

Source: Informed Outlook, 1997, "Philips Builds on ISO 9001/2 to Lighten Environmental Impacts," *The Informed Outlook*, June, Vol. 2, No. 11; B. Gentry, personal communication, 1998.

Example 3 Banana Producers—Increased Attractiveness to Export Customers through Product Certification

As part of their effort to increase exports to Western Europe, a group of Costa Rican banana producers established the "Eco-O.K." program in 1993. Developed with the support of two NGOs (the U.S. Rainforest Alliance and the local AMBIO Foundation), its purpose is to provide consumers with proof of an "environmentally friendly" banana.

Under the program, the companies commit themselves to comply with certification standards that exceed local legislation. An environmental audit is performed by the certifying organization to determine whether the standards have been met. If they have, the bananas can use the Eco-O.K. label.

The program requires companies to establishing integrated programs on hazardous substance handling, waste collection and disposal, worker health protection, environmental research and education, water quality monitoring, as well as restoring and conserving the ecosystems where banana production takes place.

Source: J. Rivera, 1998, "Bananas: The Costa Rican Experience," in B. Gentry, ed., *Private Capital Flows and the Environment*, Aldershot: Edward Elgar Publishing Ltd.

Example 4: Information Based Environmental Policy Tools—Asian Examples

The dissemination of environmental information is a valuable policy tool where formal regulations are difficult to implement. For example, in Indonesia and the Philippines, the release of information on environmental performance has increased public pressure to improve industrial behavior. Through Indonesia's PROPER and the Philippines "Ecowatch" program, firms are graded based on their level of environmental performance. The ratings are then made available to the public and facilities are held accountable in the media.

Source: M. Keene, 1998, *Developing a Culture of Industrial Compliance*, World Bank Discussion Paper, Washington, DC: World Bank.