

# Challenging preconceptions about trade in sustainable products

Towards win-win-win for developing countries

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## **Acronyms and Abbreviations**

CAFTA	Central America Free Trade Agreement
CBTF	Capacity Building Task Force on Trade, Environment and Development
CBD	Convention on Biological Diversity
CDM	Clean Development Mechanism
CTE	Committee on Trade and Environment
EPPs	Environmentally Preferable Products
EGS	Environmental Goods and Services
EU	European Union
GEF	Global Environment Fund
GEN	Global Ecolabelling Network
GMOs	Genetically Modified Organisms
GSP	General System of Preferences
ILO	International Labour Organisation
ITF	International Task Force
ISEAL	International Social and Environmental Accreditation and Labelling
ISO's	International Organization for Standardization
LCA	Life cycle analysis
MAELA	Latin American Agroecological Movement
MEAs	Multilateral Environmental Agreements
MSC	Marine Stewardship Council
NGO	Non-Governmental Organisation
npr-PPMs	non-product-related PPMs
OECD	Organisation for Economic Co-operation and Development
PPMs	Production and Process Methods
Pr-PPMs	product-related PPMs
TBT	Technical Barriers to Trade
STIC	Sustainable Trade and Innovation Centre
SP	Sustainable product
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization

# 1. Introduction

Sustainable products can be defined as those products that generate greater positive or lower negative social, environmental and economic impacts along the value chain from producer to end user than conventional products. The benefits of sustainable products can be realised through the production, consumption and/or disposal processes and can accrue value throughout the chain.

Sustainable products have been identified as having the potential to make an important contribution to sustainable development in developing countries. In fact, in addition to their potential environmental and social benefits, developing countries may have some advantages in their production; international markets for sustainable products are very dynamic with almost every country in the industrialised world expressing some preference for sustainable products, with consumers often being prepared to pay premiums for them.

However, several factors are hampering the growth of these markets in developing countries, thereby preventing them from reaping the rewards usually associated with such markets. At national level, the limited development of sustainable products in domestic markets, the poor internalisation of environmental and social externalities, and the lack of market information are some of the main reasons behind this slow expansion.

At international level, ecolabelling requirements, although they may help the identification and marketing of these products, also impose complexities and financial burdens, particularly on smaller-scale producers. Industrialised countries' domestic policies designed to support local production also undermines the ability of developing countries to compete in the production and trade of sustainable products.

Lack of clarity of the World Trade Organization (WTO) rules on private voluntary ecolabels present an additional problem. While there have been discussions on how to regulate the production and process methods (PPMs) since the creation of the WTO in 1995, this has proved to be a key sticking point in international discussions on trade of sustainable products and very little progress has been made towards an international agreement on how to deal with PPMs. This has been regarded as a new means of discriminating against developing country exports, and has provoked strong reactions whenever PPMs have been mentioned.

The above suggests that developing countries need to create a competitive advantage in these products if governments and/or the private sector are to consider it an area worth promoting. However, in order to do this, they first have to overcome some of the common preconceptions associated with sustainable products that are circulating among developing country producers and civil servants. Challenging these preconceptions would help to open up the discussion on sustainable products and possibly induce a more positive view of them from the more traditional political and economic sectors.

This paper aims to bring some fresh perspectives to the debate on international trade, sustainable products, ecolabelling and PPMs, with a view to initiating constructive dialogue and helping developing country governments to draw up suitable policies to support sustainable products.

The paper is structured in the following way. Chapter 2 highlights some key concepts to be considered. Chapter 3 discusses the main linkages between sustainable products and

sustainable development. Chapters 4, 5 and 6 describe the general preconceptions about sustainable products and the countervailing arguments. Chapter 7 reviews the main existing initiatives for promoting sustainable products at national and international level. Finally, based on the findings of the previous chapters, Chapter 8 puts forward some recommendations on how to achieve some form of coordinated action on sustainable products and PPMs.

## 2. Sustainable products, PPMs and ecolabelling: some important concepts

- *Sustainable products*

Sustainable products include a wide range of products, which are distinguishable because of their reduced environmental, social and/or ethical impacts. The United Nations Conference on Trade and Environment defines ‘environmentally preferable products’ as ‘industrial or consumer goods whose production, end-use and/or disposal have reduced negative, or potentially positive, environmental impacts relative to a substitute good providing similar function and utility’ (UNCTAD 1995).

By applying social concerns to the above definition, for the purposes of this paper, we can define sustainable products as those that generate greater positive or reduced negative social, environmental and economic impacts along the value chain from producer to end user than conventional products. Benefits are realised through production, consumption and/or disposal processes and can accrue value throughout the chain.

Defining what counts as sustainable under this definition is complex and inevitably subjective, as there can be conflict between environmental and social goals, and between different types of environmental goals. For example, smallholder production and export of agricultural crops to developed countries can generate social benefits but imply greater ‘food miles’ and consequent transport emissions. There can also be conflicting equity issues. Improved practices are not always fully paid for by consumers; quite often a disproportionate amount of the price consumers pay for a ‘better’ product is appropriated before it reaches the producer.

An important characteristic associated with most sustainable products, is that they are recognised by consumers through certification and labelling systems that make claims about their sustainable development benefits through a life cycle analysis (LCA). There are a number of voluntary certification and labelling programmes, which define social, economic and environmental standards for different products, each one emphasising a particular aspect. For example, paying fair prices to growers and using organic pesticides. There is also a number of private sector initiatives where individual companies are attempting to reduce the most serious negative environmental and social impacts associated with specific products, without necessarily any link to a third-party certification programme. This paper focuses on sustainable products that are certified or labelled by a third party.

- *Production and process methods (PPMs)*

According to the Organisation for Economic Co-operation and Development (OECD), the term PPMs refers to ‘the way in which products are manufactured or processed and natural resources are extracted or harvested’ (1997:7).<sup>1</sup> OECD defines two main categories of PPMs; *product-related PPMs* (pr-PPMs) and *non-product-related PPMs* (npr-PPMs). Pr-PPMs seek to regulate processes that generate consumption externalities, and concern themselves with

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<sup>1</sup> OECD (1997) ‘Processes and Production Methods (PPMs): conceptual framework and considerations on use of ppm-based trade measures’. Paris

product characteristics such as chemical or physical properties, health and sanitary risks, mandatory types of packaging, waste disposal, and recycling of the product, etc. Npr-PPM measures, on the other hand, address production externalities focusing on the front end of a product life cycle (starting from the beginning of cultivation to exploitation of natural resources, extraction of raw materials and production/manufacture of goods). Npr-PPM may be distinguished according to whether they seek to address consumption or production externalities. Npr-PPMs are relevant for most categories of sustainable products.

As we will see in Chapter 5, the distinction between product and non-product related PPMs is relevant for this paper, as the two categories differ in terms of their trade effects and their treatment by the WTO.

- *Certification*

*Certification* is a process that assesses, audits and gives written assurance that a facility, product or service meets specific standards.<sup>2</sup> It may award a marketable logo to those that meet or exceed baseline standards. In general, certification is linked to companies or production processes whereas labelling is linked to products.

- *Ecolabelling*

For the purposes of this paper, *Ecolabelling* refers to a voluntary method of environmental performance certification and labelling. There are two definitions of ecolabelling that are useful for this paper. The first is the ‘Type I environmental programme’ of the International Organization for Standardization (ISO) which is defined as a ‘voluntary, multiple-criteria-based third party program that awards a license which authorises the use of environmental labels on products indicating overall environmental preference of a product within a particular product category based on life cycle considerations’.<sup>3</sup>

The second one is the Global Ecolabelling Network (GEN) definition of ecolabelling, which defines it as ‘only one type of environmental [performance] labelling, and refers specifically to the provision of information to consumers about the relative environmental quality of a product’ ( GEN 2004:1).<sup>4</sup>

- *Ecolabel or environmental label*

In accordance with ISO’s definition of ecolabelling, this is a *declaration* indicating the environmental aspects of a specific product. It may take the form of a statement, symbol or graphic on a product or package label, in product literature, technical bulletins, and advertising or in publicity. It is a label which identifies overall environmental preference of a product or service within a specific product/service category based on life cycle considerations.<sup>5</sup> GEN defines an ecolabel as:

*‘a label which identifies overall environmental preference of a product (i.e. good or service) within a product category based on life cycle considerations. In contrast to a self-styled*

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<sup>2</sup>FAO (2003) ‘Environmental and Social Standards, Certification and Labelling for Cash Crops’, Food and Agriculture Organization of the United Nations, Rome

<sup>3</sup> See ISO (1999:pp) ‘International Standard ISO 14024: Environmental Labels and Declarations –Type I environmental labelling- Principles and Procedures’. International Organization for Standardization

<sup>4</sup>GEN (2004) ‘Information Paper: Introduction to Ecolabelling’, July 2004, available at [http://www.gen.gr.jp/pdf/pub\\_pdf01.pdf](http://www.gen.gr.jp/pdf/pub_pdf01.pdf).

<sup>5</sup> See ISO (1999:pp) ‘International Standard ISO 14024: Environmental Labels and Declarations –Type I environmental labelling- Principles and Procedures’. International Organization for Standardization.



*environmental symbol or claim statement developed by a manufacturer or service provider, an eco-label is awarded by an impartial third party to products that meet established environmental leadership criteria' (2004:1).<sup>6</sup>*

- *Social labelling*

Several initiatives have developed verifiable labour standards on the basis of (core) International Labour Organisation (ILO) conventions. Some examples include the SA8000 standards of Social Accountability International and the Base Code of the Ethical Trading Initiative. However, neither of these provides a label for the product. Other standards, such as environmental and fair trade standards include labour conditions requirements based on ILO conditions<sup>7</sup> and provide a label for the product based on its environmental, social and economic performance.

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<sup>6</sup>GEN (2004) 'Information Paper: Introduction to Ecolabelling', July 2004, available at [http://www.gen.gr.jp/pdf/pub\\_pdf01.pdf](http://www.gen.gr.jp/pdf/pub_pdf01.pdf).

<sup>7</sup> FAO (2003) 'Environmental and Social Standards, Certification and Labelling for Cash Crops', Food and Agriculture Organization of the United Nations, Rome.

### 3. Linkages between sustainable products and sustainable development

It is often argued that sustainable products represent real opportunities for developing countries to achieve sustainable development. In economic terms, markets for sustainable products are one of the most dynamic, and currently almost every country in the industrialised world expresses some degree of preference for sustainable products. Additionally, some of these products enjoy premiums in certain markets and there is excess demand for them in industrialised countries.<sup>8</sup>

Though markets for sustainable products are a vital component in delivering the sustainable development benefits of these products, they only constitute one aspect of such benefits. Markets ignore the public good elements of sustainable products,<sup>9</sup> and so their environmental and social impacts also need to be considered when assessing their contribution to sustainable development. Even though sustainable products should, by definition, imply social and environmental benefits beyond their conventional counterparts, this does not necessarily hold true and is often questioned by sustainable product sceptics.

Evidence of environmental and social impacts resulting from certified or ecolabelled sustainable production is just beginning to be researched and is still very limited. Where efforts are made to identify and quantify impacts, they are mainly focused on the economic impacts of a few types of sustainable product (such as organic and sustainable forestry products), while the evaluation of environmental and social effects is still very scarce and remains merely qualitative. Moreover, available evidence tends to be centred on developed countries. The lack of information in this area contributes to the still sceptical attitude of many actors towards sustainable products, especially in developing countries.

Table 3.1 summarises the main evidence of social, environmental and economic effects of selected categories of sustainable products.

**Table 3.1 Summary of main impacts of selected categories of labelled sustainable products (compared to conventional products)**

Product/Impact	Economic	Environmental	Social
<b>Organic Agriculture</b>	<p><b>Access to new markets: value added</b></p> <p><b>Price premium:</b> They exist, but frequently reflect a mismatch between demand and the higher cost. However, limited as the majority of the produce is traded as conventional produce</p> <p><b>Yield:</b> Lower in general, but there are exceptions</p> <p><b>Costs:</b> Increased overall</p>	<p><b>Pollution:</b> Elimination of agrochemicals leads to reduced soil and water contamination. But there are cases in which the use of natural fertilisers has resulted in higher toxicity levels.</p> <p><b>Soil quality:</b> Improvements</p> <p><b>Biodiversity conservation:</b> Enhancement of biodiversity on the farm, in terms of both time and space. But there are also cases where organic production has been linked to deforestation and biodiversity reduction</p>	<p><b>Development</b> of rural areas and communities.</p> <p><b>Employment generation:</b> due to new market opportunities and higher labour requirements –improving local livelihoods</p> <p><b>Better labour and bargaining conditions for workers</b></p> <p><b>Unfair distribution of benefits along the value chain:</b> Premiums tend to be caught within the upper stages of supply chain and not by primary or small producers</p>

<sup>8</sup> Borregaard et al (2002); Willer et al (2001); Budkowski (2001); UNCTAD, (2002); FAO (2001).

<sup>9</sup> Bartram and Perkins in OECD (2003).

	costs due to conversion, certification and extra labour costs, which outweigh the lower costs of agrochemicals.	and biodiversity reduction. <b>Greenhouse gas (GHG) emissions:</b> results tend to vary depending on the scale of measurement (i.e. kilos versus hectares). Also, GHG emissions due to 'Food Miles'  Use of water: there are some concerns, as organic guidelines do not set any regulation regarding this aspect.	primary or small producers <b>Regressive nature of certification schemes:</b> certification costs are relatively higher for small farmers and producers
<b>Sustainably Managed Forest (SFM) Products</b>	<b>Access to new markets: value added</b> <b>Costs:</b> increased due to conversion and certification costs, lower yields <b>Price premium:</b> they exist, but they are temporary, concentrated on specialist segments, and tend to reflect the extra costs.  Positive benefits from adoption of a more business-like approach and strengthened internal mechanisms of monitoring and assessment.	<b>Shift towards a more scientific rigorous forest system:</b> some concerns prevail about the adequacy of some SFM systems to deal with the local environmental conditions. <b>Improvements in biodiversity conservation</b>	<b>Greater equity in participation</b> and collaboration amongst the main stakeholders <b>Employment:</b> Increase in rural employment <b>Better working conditions?</b> <b>Regressive nature of certification:</b> extra certification costs higher for smaller producers.  <b>Unfair distribution of benefits along the value chain:</b> certification costs are relatively higher for small farmers and producers
<b>Fair Trade</b>	<b>Access to new markets: value added</b> <b>Price premium:</b> price to primary producers are estimated on the basis of average production cost, plus certification costs and a 'living wage'. However, this is limited as the majority of the products are traded as conventional products. <b>Costs:</b> increased due to certification procedures. <b>Others:</b> better bargaining positions, credit worthiness and economies of scale.	<b>Pollution:</b> fair trade initiatives that apply production techniques that avoid the use of chemical inputs <b>Enhanced biodiversity:</b> fair trade initiatives that respect the ecosystems and contribute to the conservation and a sustainable use of natural resources. <b>Environmental projects funded through fair trade income</b>	<b>Small farmers inclusion:</b> system especially developed for small farmers <b>Increased income and rural employment:</b> improving the livelihoods of small farmers. <b>Better working conditions</b> <b>Better access:</b> to health services, education and other basic infrastructure.

Source: Borregaard & Dufey based on various sources

As Table 3.1 shows, sustainable products provide important benefits, such as better market access, value added, managerial skills, employment, improved livelihoods and more sustainable production systems. However, there are also several concerns, especially regarding the distribution of the benefits along the value chain: who captures the price premiums? and as most certification and labelling scheme are regressive in nature, is this too

expensive and complex for smaller producers? Criticisms have been levelled at certification and labelling schemes for being market access requirements or ‘entry tickets’ set by the private sector, rather than tools for differentiation and value-added. Although not intended, this becomes very costly, particularly for smaller producers in developing countries. Box 3.1 elaborates further on the main problems and limitations related to certification and labelling schemes. These need to be addressed if the ultimate goal is to maximise the sustainable development benefits of sustainable products.

### **Box 3.1 Main limitations of certification and labelling schemes**

- **Cost:** the complex procedures and high costs involved in the processes. Some studies suggest different costs for organic, fair trade and ecolabelled coffee. For example, since many of the costs are fixed, the impact on producers depends greatly on how much of the certified product is actually sold. As such, many certified fair trade and organic producers in developing countries do not sell more than 25-35 per cent of their produce.
- **Sustainability of the programmes and their suitability to different contexts:** The ‘one-size-fits-all’ approach of many international certification schemes leaves no space for country-specific differences in terms of absorption capacities or different environmental/social priorities. This often leads to discrimination against smaller producers in developing countries. On the other hand, there is no consensus as to which production and processing methods are the most sustainable.
- **Lack of evidence on impacts?** Research on the environmental and social impacts of certified or ecolabelled products compared to their conventional counterparts has only recently begun. Moreover, most certification and ecolabelling programmes certify against prescriptive standards; they do not measure results. Consequently, there are increasing concerns about how sustainable certified production is.
- **Proliferation, lack of transparency and mutual recognition:** At the international level, the proliferation of different ecolabelling programmes and the lack of harmonisation or mutual recognition between them, has contributed to the reduced transparency and credibility of certification and ecolabelling schemes. This is especially true of schemes elaborated by developing countries, which also increase the costs incurred by producers and add to consumer confusion.
- **Lack of clarity of WTO regulations:** The lack of clarity of the WTO’s labelling regulations is also problematic. Very few ecolabelling schemes (mandatory and government-run) are explicitly regulated by WTO rules, while for the majority of such schemes (voluntary and private) there is uncertainty as to whether the Agreement on Technical Barriers to Trade (TBT) applies. A further category, ‘the international standards schemes’, falls under the TBT’s annex Code of Good Practice. There are concerns about these becoming unacceptable barriers to trade and they are therefore regarded with suspicion at the WTO.

Although there are conflicting claims regarding the impacts of sustainable products, it can be argued that there are important sustainable development benefits associated with them. There are additional problems to consider, but these are not so difficult to address. The remainder of this paper examines the main issues and preconceptions that policy-makers need to overcome in order to take a more proactive approach towards sustainable products and to help resolve these difficulties.

#### **4. Preconception 1: Sustainable products are just niche markets that provide limited opportunities**

There is a common preconception that markets for sustainable products are very limited. But what was possibly true at the beginning of the 1980s and for most products up to the beginning of the 1990s no longer applies. Today, there are several examples of products, such as fair trade bananas, that are surpassing their conventional counterparts in market size. The dynamism of the markets for organic and sustainably managed forest products raises expectations about the increasing importance of these markets for a diverse range of products.

Today, sustainable products constitute one of the fastest growing markets.<sup>10</sup> The global market for organic products was estimated at USD 25 billion in 2004, with growth rates of between 5 and 40 per cent, depending on the country. After aquaculture, organic is generally considered the fastest growing segment of the food industry. In terms of market participation, organic vegetables comprise over 6 per cent of vegetable sales in Denmark, Sweden and Switzerland.<sup>11</sup> The organic vegetable market accounts for most revenues, but the organic fruit market is forecast to show the highest growth. In the case of fair trade products, market sales of products officially labelled as fair trade passed from 25,972 MT in 1997 to 83,480 MT in 2003, an increase of 221 per cent in six years. The largest fair trade markets are those of the UK and Switzerland, together accounting for 57 per cent of 2003 sales. UK sales of fair trade labelled products grew by 51 per cent during 2004.<sup>12</sup> The forecasts for organic and fair trade future growth are very optimistic. The dynamism of the sustainably-managed forestry market also raises expectations about the increasing importance of sustainable products. In September 2004, sustainably certified forests accounted for 165 million hectares, just over 4 per cent of global forest area. In some developing countries such as Chile, 75 per cent of the industrial wood production is certified.<sup>13</sup> Since the Marine Stewardship Council (MSC) became fully operative in 2000, more than 155 product lines around the world have been awarded the MSC label. At present, around 3 per cent of world trade is in 'green products', not including ISO 14,000 certification.

A key driver for such products is the demand from industrialised countries, which provides incentives (often tangible premiums) delivered through market mechanisms that trickle down through the supply chain. In many industrialised countries the increase in demand is higher than the increase in supply, (e.g. 40 per cent and 25 per cent respectively in the UK), which means these countries have to rely on imports,<sup>14</sup> thus providing the opportunity for developing country producers to supply sustainable products. Imports represented 22 per cent of Europe's total sales volume in 2004, with organic fruit comprising the majority of this. Off-season organic fresh produce and tropical and exotic fruit are the main imports and have the greatest growth prospects.<sup>15</sup>

In developing countries, on the other hand, local markets for sustainable products are still small, therefore providing interesting potential for future growth. For instance, in Latin

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<sup>10</sup> See Borregaard, N, Dufey, A and Guzman Z 2002 "*Bienes y Servicios Ambientales: una definicion desde la perspectiva americana*" ('Environmental Goods and Services: a definition from the American perspective'), Fundacional Latinoamericano and Recursos e Investigacion para un Desarrollo Sustentable, Quito.

<sup>11</sup> OM 2005 'The European Market for Organic Fruit & Vegetables', Organic Monitor, June 2005.

<sup>12</sup> Fairtrade (2005) 'Awareness of the Fairtrade Mark rockets to 50 per cent', Press release, Fair Trade Foundation, May 2005, available at <http://www.fairtrade.org.uk/pr270505.htm>.

<sup>13</sup> Dufey (2003).

<sup>14</sup> UNCTAD (2004).

<sup>15</sup> OM 2005 The European Market for Organic Fruit & Vegetables', Organic Monitor, June 2005.

America 10 per cent of the organic produce is sold within the region; sales of organic food and drink were estimated at US\$100 million in 2002 and they are expected to increase, especially within the big cities of Argentina and Brazil.<sup>16</sup>

In China, the market for 'green' products has increased dramatically and in countries such as Malaysia, Thailand and India markets for organic products are expected to grow, as organic farmers step up production in these countries.<sup>17</sup>

Growth in the sustainable product market has largely been brought about by demand from consumers in high-income countries, who for various reasons favour these products. In the case of organic production, the following are often quoted among the most important factors in the sector's growth: improved health and environment, improved quality and taste of food; better accessibility of fresh produce; helping small-scale local producers, communities and markets; recent food safety scares in some countries; and concerns about GMO technologies.<sup>18</sup> In the case of fair trade, market expansion has partly been attributable to increased consumer awareness of social justice issues.<sup>19</sup>

Growth in sustainable products has also been attributable to increased participation and active promotion by the major large-scale retailers. In the European Union (EU), supermarkets dominate sales of organic fruit and vegetables, with 48 per cent of the market share.<sup>20</sup>

The preference for sustainable products has not been limited to individual consumers. Industrialised country governments' procurement policies are indicating a preference for sustainable products.<sup>21</sup> At the multilateral level, some *Multilateral Environmental Agreements* (MEAs) and other international initiatives are also increasingly expressing preferences for sustainable products. Both the *Convention on Biological Diversity* (CBD) and the Ramsar Convention on Wetlands, for instance, promote the use of labelling. The *Clean Development Mechanism* (CDM) of the Kyoto Protocol put forward important incentives for the development of environmental services in the forestry sector and the *World Summit on Sustainable Development* (WSSD) Plan of Implementation includes, among other things, commitments to supporting the creation and expansion of markets for environmentally friendly goods and services, including organic products.

Trade agreements are also starting to introduce preferential treatment for sustainable products. The EU's General System of Preferences (GSP), for instance, set preferences for sustainably managed produce; the Central America Free Trade Agreement (CAFTA) presents the development and promotion of sustainable products as one of the priority areas for cooperation under the Environmental Cooperation Agreement; promotion of fair trade is explicitly mentioned in the Cotonou Agreement (Art. 23 g). At the multilateral level, under the Doha Round, WTO members are discussing trade liberalisation in environmental goods and services (EGS), and some countries have suggested the inclusion of some categories of sustainable products within these negotiations.<sup>22</sup>

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<sup>16</sup> Willer and Yussefi (2004).

<sup>17</sup> Willer and Yussefi (2004).

<sup>18</sup> Vitalis (2003).

<sup>19</sup> FAO (2003).

<sup>20</sup> OM 2005 'The European Market for Organic Fruit & Vegetables', Organic Monitor, June 2005.

<sup>21</sup> At present, several EU governments e.g. Sweden, Denmark, the Netherlands, Germany and UK are developing guidelines for government procurement in the forestry sector, whose criteria are based on those of the FSC.

<sup>22</sup> See Section 7.1.

All these developments in favour of sustainable products have been reflected in a growing interest in these markets on the part of developing countries.

## **5. Preconception 2: Certification is a private sector issue – there is no role for government**

There is a common preconception that certification schemes are private sector schemes. They are seen as market responses to market needs by clients or consumers or as opportunities to capture new markets for high quality goods.

For some sustainable products it has been the private sector together with environmental or other non-governmental actors that has developed and implemented the certification system (the best example of this is the certification of sustainably managed forests and the products derived from these). In other cases, the government plays an indirect but important role. For example, in the case of sustainable fisheries, governments have a role in the certification and other processes within the regulatory frameworks that prevent species overexploitation. In other cases the role of government is central: in the case of organic agriculture, the government has assumed a regulatory role as overseer or accreditation agency of the certification schemes. In addition to these functions within the certification processes, industrialised-country governments have also become active promoters of sustainable production and internalisers of externalities.

In developing countries, the trend has also been towards increasing public sector involvement. The governments of developing countries recognise the benefits of sustainable products and have been showing a more proactive approach, such as: setting up ambitious programmes to develop markets for sustainable products;<sup>23</sup> introducing policy tools to internalise positive externalities;<sup>24</sup> providing counterpart certification schemes;<sup>25</sup> strengthening the framework for certification and accreditation procedures;<sup>26</sup> providing additional financial or technical assistance and training programmes;<sup>27</sup> providing mutual recognition agreements,<sup>28</sup> and most importantly, increasing market intelligence and marketing activities.<sup>29</sup>

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<sup>23</sup> The 'Green Markets Programme' of Colombia (see section 8).

<sup>24</sup> For instance, the Government of India is providing subsidies and tax exemptions to organic producers (see section 8).

<sup>25</sup> Governments of Chile, Brazil, Ghana and Malaysia in the forestry sector (see Section 8).

<sup>26</sup> In many developing countries certification is closely linked to the normalisation procedures and governments have provided substantial support in some cases to the whole system of conformity assessments (see for example Argentina and Brazil in the case of Latin America).

<sup>27</sup> The Government of India, for instance (see section 8).

<sup>28</sup> Argentina and Costa Rica's organic regulations were recognised as equivalent to the EU's organic regulations ("Third country" status).

<sup>29</sup> In Chile, for instance, the National Agency for Promotion of Chilean exports, ProChile, has included sustainable products within its activities and has organised special events, provided assistance to missions to other economies, and participated in specialised trade fairs such as the Organic Trade Fair Biofach.



## **6. Preconception 3: Developing countries have a comparative advantage in the production of sustainable products, which they can easily exploit to obtain competitive advantages in the market**

It has been suggested that developing countries have a comparative advantage in the production of sustainable products<sup>30</sup> and that they should be able to capitalise on this by expanding their production and increasing exports of these products. However, it is often forgotten that there is a difference between a comparative advantage and a competitive advantage.<sup>31</sup> Some of the following points provide evidence of the difficulties faced by developing countries to effectively create a competitive advantage. The production of sustainable products incurs a variety of costs and cost considerations that go beyond the traditional equation of labour, land and capital costs, and this has a significant influence on supply and demand and the final market outcome.

### **6.1 Internalisation of social and environmental externalities<sup>32</sup>**

As suggested earlier, in developing countries, in most cases, there is still only an incipient internalisation of externalities, both positive (as described above) and negative. Environmental regulation and its enforcement, only began in earnest approximately two decades ago. Application of the 'polluter pays principle' through the use of taxes and charges is still very limited. For example, while the use of pesticides and chemical fertilisers is subject to an additional charge in many industrialised countries, there is no counterpart policy within developing countries.<sup>33</sup> Very few developing countries have implemented tax or charging systems for different pollutants or for the exploitation of natural resources.<sup>34</sup> On the other hand, positive externalities are integrated into environmental policy-making in Europe and other industrialised countries through support payments. However, developing countries do not have the equivalent financial support. The financial support given to European organic farmers, for example, is justified on grounds of their contribution to the diversity of rural landscapes and the minimisation of nitrate run off, amongst other things.

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<sup>30</sup> One example is in organic agriculture. Organic horticulture tends to be more labour intensive than traditional horticulture and also bans the use of agrochemicals. Given that, labour tends to be cheaper in developing countries, on the one hand and, developing countries' access to agrochemicals is often restricted and therefore they naturally produce 'organic' on the other, it is often argued that developing countries have advantages in organic production.

<sup>31</sup> Two of the most important concepts in international trade theory are the competitive and comparative advantages, which are two different but interrelated concepts. A comparative advantage refers to the potential that different resources endowments provide for reaping economy rents, and then it explains trade patterns and under an scenario of totally free trade. A competitive advantage, on the other hand, refers to the factors that explain why some firms are able to appropriate these economic rents, and then it explains the trade patterns under current (real) trading conditions.

<sup>32</sup> Environmental externality can be defined as an environmental benefit or damage that results from the consumption, production or disposal of a good or service that is not directly reflected in the price charged for the good or service or compensated for in some other, non-price way.

<sup>33</sup> Possibly also not necessary given that pollution levels with nitrate and phosphate for example are in general much lower in developing countries as compared to industrialised countries.

<sup>34</sup> See for example Acquatella (2001) for the Latin American case.

Authors such as Borregaard et al. (2002) have demonstrated using concrete examples of organic production that these types of support payments can be very significant, representing in some cases approximately 20 per cent of production costs. Even though there has been significant progress with regard to environmental policy-making in most developing countries over the past two decades, the level of environmental protection and regulation is still comparatively low. Just as some companies might benefit from having to comply with low environmental standards, those that produce positive externalities are not compensated for these. Thus, the opportunity cost involved in the production of conventional products versus sustainable products is significantly higher than in industrialised countries. Clearly, if there is no compensation for the additional effort sustainable production processes require, (in form of premiums in the prices), the producer, although generating positive externalities and comparatively less negative externalities than a conventional producer, does not have an economic incentive to embark upon sustainable production. In this context it is worth mentioning the importance of international mechanisms such as the Kyoto Protocol's CDM to compensate at least a selection of positive **global** externalities, specifically those within the context of global warming. Other potential global externalities related to the production of sustainable products refer to the preservation of biodiversity. Bilateral or multilateral aid has been directed towards this aspect, and the Global Environment Fund (GEF) has been created in order to finance projects directed at biodiversity protection. However, no global financial mechanism similar to the CDM has yet been developed, that would be more easily and un-bureaucratically applicable to private sector activities.

## 6.2 Certification

Certification costs can be significant, and certification procedures require expertise on behalf of various economic agents besides the company. In general in developing countries there is a lack of domestic infrastructures and institutions prepared for certification, accreditation and metrology.<sup>35</sup> The certification of sustainable products requires well-established efficient and effective institutions of certification, normalisation, metrology and accreditation. Certification systems for sustainable products contain criteria in the area of the environment, management, social, cultural and participative aspects beyond the merely technical attributes that are common amongst other types of certification systems. This interdisciplinary thinking and teamwork imposes a challenge for the traditional certification and accreditation institutions. Although each system requires strong counterparts at all levels, at the same time a structural change is necessary to be able to respond to new requirements.

On the other hand, the certification schemes that have been developed in industrialised countries very often consider only the reality in industrialised countries. For example, certification according to the organic agriculture schemes existing in Europe integrates parameters that might not be priority for developing countries; where the use of chemical fertilisers might be a priority issue in European farming, in Latin American farming, a priority issue might be the replacement of native forests with farming activity or the respect towards indigenous rights.

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<sup>35</sup> See for example Blanco and Bustos (2004).

### **6.3 Market Intelligence and Information**

The commercialisation and marketing channels for sustainable products are rather different to their conventional counterparts. This requires expertise and new types of intermediaries, involving sometimes new and different technologies.

This process has been described in Borregaard et al. (2002), for the case of the commercialisation channels for organic wine and forestry products. In the case of the former, a high percentage is commercialised in specialised shops or through direct marketing. Specialised fairs as well as internet sales have been significant in this market segment. The proliferation of a great number of certification schemes in the organic sector does not help the producer in their efforts to market these products. Instead this makes the task of selling complex and sometimes very costly; having to adapt to various certification criteria when selling to different markets. In the case of products from sustainably managed forests, the intermediate products are just as important as the final products. Buyer Groups have been established in different countries and within different subsectors to exert pressures on the agents in the value chain to assure specific types of certification or specific criteria within the certification.

Moreover, there are no official statistics on sustainable product imports and exports and market information in general is very scarce. The geographical separation between developing country producers and industrialised country consumers implies more difficulties and costs for obtaining reliable market information.

### **6.4 Insufficient Domestic Markets**

In general, there is a lack of internal markets for sustainable products within developing countries. Not only do small enterprises have to look for export markets, but when sustainable products are not selling to export markets, there is no internal market alternative. Moreover, experience and training in the sustainable product market cannot initially be acquired locally.

In summary, a competitive edge for selling sustainable products needs to be created within developing countries for the government and/or the private sector, (ideally both), to deem it an area worthy of promotion.

So far, in most countries there has been little political will to promote the area. This situation is not based on a careful or detailed analysis of the potential costs and benefits of such promotion, but rather on the previously mentioned 'preconceptions', combined to some extent, with the increasingly liberal market doctrines prevailing in developing countries which presume a minimum of state intervention. In this context, environmental policy-making consists fundamentally of establishing the basic conditions for environmental protection and remediation. Human and financial resources are scarce and currently dedicated to the most significant and urgent environmental problems, not at identifying opportunities. In addition to this, Economic Ministries are dedicated primarily to basic market regulation, such as the water or electricity sector, and to the protection and/or promotion of small and medium sized companies.

## **7. Preconception 4: Government promotion of markets for sustainable products implies opening up the PPM debate and recognising the validity of trade barriers based on PPMs**

The PPM debate consists, in its core, of the resistance of developing countries towards technical barriers based on non-product related process and production methods, which may undermine their competitiveness. This debate has been extensively carried out in the context of the Committee on Trade and Environment (CTE) in the World Trade Organization (WTO), with discussion peaking in the mid 1990s, with a strong re-appearance since then.<sup>36</sup>

A debate on sustainable products certainly involves the question of production and process methods, which are often unrelated to the final characteristics of the end product. In the Agreement on Technical Barriers to Trade (TBT), only product-related barriers are permitted under the conditions and procedures specified in the Agreement. The main body of the Agreement covers technical regulations and the annex to the Agreement contains the Code of Good Practice regarding international voluntary standards such as those detailed in the International Organization for Standardization (ISO).

However, to date there is no clarity about whether certification schemes, such as those for sustainable forest management for example, fall within the guidelines. On the other hand, products derived from sustainably managed forests were included in the European Union's GSP as early as the beginning of this decade. They are still included in the latest version of the EU's GSP (2004). Sustainable products have also been integrated into the purchasing policies of some EU governments.<sup>37</sup> Thus, at international level, promotion of sustainable products already exists in several countries. This does not imply that barriers based on product-related PPMs have by any means been accepted. So far, the interests of developing countries have been safeguarded, in that there have not been any mandatory schemes concerning sustainable products or explicit negative discrimination against conventional counterparts.

### **7.1 WTO level discussions on ecolabelling and PPMs**

The discussions on sustainable products, ecolabelling and PPMs at WTO level have been going on for about a decade. A good overview of where the discussion stands today is provided in the CTE session of July 2003. This was the last CTE session that included the topic of Labelling for Environmental Purposes, with specific reference to Doha Paragraph 32 (iii) negotiations on labelling.<sup>38</sup> In this session the EU presented a recommendation to take forward to the trade ministers at the WTO Cancun meeting, for approval from the CTE. The recommendation, aimed at promoting ecolabelling, and specifically at convening three special sessions on this topic in the context of the CTE, was not approved. The following are the main issues raised in the discussion and some arguments put forward on the topic in CTE sessions between 2003 and 2005.<sup>39</sup>

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<sup>36</sup> See section 7.1 for more details.

<sup>37</sup> See for example the German and the Austrian case.

<sup>38</sup> WTO, CTE, Report of Meeting Held on 7th of July 2003, WT/CTE/M/34.

<sup>39</sup> Specifically from WTO, Committee on Trade and Environment, UNCTAD'S Work on Environmental Goods and Services, Briefing Note, 5 October 2004, TN/TE/INF/7; World Trade Organization TN/TE/10, 6 December

- There is considerable difference between industrialised country and developing country attitudes towards ecolabelling. In general, industrialised countries recognise the opportunities while insisting that ecolabelling systems should not be misused to create trade barriers, while developing countries insist there is an imminent risk of the creation of trade barriers through the promotion of ecolabelling. Industrialised countries insist on the positive approach, emphasising the proposals for the elimination of trade barriers for environmental goods and services under the ongoing negotiations
- Although, in general, developing countries reject negotiations on ecolabelling, some emphasise the importance of mutual recognition and equivalency agreements for ecolabelling schemes.
- Many developing countries complain about the workload in the CTE and are reluctant to include another item such as ecolabelling on the agenda. Other items are higher on their priority list.
- In addition to the above, developing countries consider the inclusion of ecolabelling on the agenda of the CTE a duplication of work of the Committee on TBT. They consider the TBT to be a more appropriate forum to discuss ecolabelling, pointing out that the key issues of transparency, participation, harmonisation and mutual recognition are dealt with under the TBT. Several industrialised countries have concurred with this.
- Concerns are also raised about the interaction between the WTO and other stakeholders involved in ecolabelling. Various countries point out that other stakeholders are generally private actors, associations, standard setters, NGOs or companies.
- Many countries emphasise the importance of UNCTAD and UNEP's involvement in this topic, with regard to the above point about stakeholders.
- It has been pointed out that no consensus had ever been reached on the WTO compatibility of ecolabelling. Some feel that even though ecolabelling schemes are voluntary, they were not automatically consistent with WTO rules.
- The definition of concepts is not clear. While the EU and some other industrialised countries see a very close relationship between ecolabelling and life cycle analysis (LCA),<sup>40</sup> developing countries consider LCA to be too complex and lacking a clearly defined scope and meaning. Australia proposed that consumer information tools be looked at more closely and that the focus should not just be the LCA or ecolabelling as other forms of consumer information exist.

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2004 (04-5347), Committee on Trade and Environment Special Session, Report by the Chairperson of the Special Session of the Committee on Trade and Environment to the Negotiations Committee; World Trade Organization, CTE, Restricted, TN/TE/R/9, 16 July 2004, Special Session, Summary Report on the Ninth Meeting of the Committee on Trade and Environment in 22 June 2004; WTO, CTE, TN/TE/R/8, 13 May 2004, Special Session for the 19 April 2004, Summary Report on the Eighth Meeting of the Committee on Trade and Environment.

<sup>40</sup> See for example the Swiss contributions in which the representative states that Swiss policy is that a product can only be considered environmentally friendly if its entire life cycle was environmentally friendly.

- Australia raised doubts about how ecolabelling schemes can achieve or have achieved the environmental objectives set for them. It criticised the assumption of mutual support between trade, environment and development when dealing with ecolabelling.
- Indonesia stressed that there are many ways to promote sustainable production and consumption, ecolabelling being just one of them.
- With regard to definitions of environmental goods and services, developing countries are generally not in favour of entering into the PPMs debate and prefer a definition from predefined lists. Thus, the need for evaluation of the environmental impacts of these goods and services is emphasised. Developing countries would apparently prefer to lose out on market opportunities for sustainable products by the lowering of tariffs and non-tariff measures when the price to be paid becomes part of the PPMs debate.

## 8. Promoting sustainable products: current initiatives

In spite of the prevailing preconceptions and obstacles at different levels, there has been a growing interest in these markets on the part of developing countries in the last decade. This has been reflected in the market statistics presented in the previous section, and in a variety of initiatives that have been launched by governments and/or the private sector in specific sub-sectors or in more integrated approaches. This should be taken as a sign that most of the above obstacles can be overcome in one way or another. In this section we provide examples of existing initiatives.

### 8.1 Initiatives at national level

Today there are signs of a change in the hitherto passive attitude of developing country policy-makers towards sustainable products. In a recent survey of the activities of Latin American countries in the area of trade and the environment,<sup>41</sup> development of strategies towards the production and consumption of sustainable products was identified as one of the seven priority areas in which Latin American environmental authorities should and would like to be more active in the future. Amongst the existing initiatives in this area the survey identified various biotrade programmes that countries in the region have implemented with UNCTAD support between 2002 and 2004. There are also several other important initiatives:

- The Green Markets Programme in Colombia, is a programme financed by the Ministry of the Environment, in which the Ministry of Foreign Relations and the Ministry of Industry also cooperate. Product areas include products derived from the sustainable use of agro-biodiversity,<sup>42</sup> ecological industrial products,<sup>43</sup> and environmental services.<sup>44</sup> The key elements of this programme are:
  - A national programme for ecolabelling (PEC) for environmentally less harmful products;
  - Product evaluation according to a pre-designed form/questionnaire. A different questionnaire is used for each of the product groups;
  - Cooperation agreements with important private and public actors.

This programme, which was initiated in 2000, is a systematic attempt to promote green markets. It has highlighted the lengthiness of the process of defining criteria and of encouraging the participation of the private sector in these programmes.

- Systematic attempts to economically value ecological goods and services. These initiatives are important steps towards the promotion of sustainable products based on nature – such as ecotourism or products derived from native forests. One of these initiatives is the ‘Valoración económica de los bienes y servicios ambientales de las praderas altoandinas en el Perú’, 2001, financed by the National Natural Resource Institute of Peru, (INRENA).

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<sup>41</sup> See [www.idb.org](http://www.idb.org) This survey is part of the Interamerican Development Bank’s initiative of Regional Policy Dialogues, a network that brings together Latin American ministers in different policy areas including the environment.

<sup>42</sup> Natural non-forest products, natural forest products, organic agriculture products, and biotechnology products

<sup>43</sup> Sustainable mining, clean energy, recycled products, clean technology and environmentally less harmful products.

<sup>44</sup> Ecotourism, clean development mechanism, environmental education, sanitary sector, environmental consultancy.

- In Uruguay efforts have been made to promote ‘Natural Uruguay’, and a law has been passed aimed at promoting products and services certified as ‘natural’ (Law 17.283).
- In Chile, the Ministry of Economics has recently formed a Public-Private Working Group on Environmental Goods and Services that is developing a strategy in the area of environmental goods and services. Sustainable products have been prominent in the meetings of this working group.<sup>45</sup>
- There are various initiatives at the subsectoral level, especially in the forestry, tourism and agricultural sector. The following gives an idea of this variety:
  - Brazil and Chile’s sustainable forest management certification, called Certflor and Certfor, respectively.
  - Argentina and Costa Rica’s organic agriculture certification system, which have obtained international recognition, for example at EU level.
  - Uruguay’s ‘Natural Meat’ system, established by the National Meat Institute.
  - The Uruguayan Rural Association has certifiers for ‘ecological’ products.
  - The Paraguayan Programme for Organic Production and Commercialisation (NGOs CERTEZA y Altervida).
  - Costa Rica’s ecolabelling system for ecotourism, which has been adopted as a model for the development of the Sustainable Tourism Stewardship Council.

Initiatives in other regions also worth mentioning include:

- Malaysia and Ghana’s sustainable forest management certification systems
- India’s policy tools for the promotion of sustainable products, which include:<sup>46</sup>
  - 50 per cent subsidies for organic producers and processors in organic certification during the conversion period;
  - Tax exemptions for entrepreneurs engaged in production of vermicompost, compost, press-mud and other organic inputs;
  - Financial support to farmers engaged in organic farming through development of various schemes;
  - Government farms / Krishi Vigyan Kendras set up vermicompost units;
  - A biogas programme promoted under the non-conventional energy scheme.

As illustrated, there are various initiatives in different countries aimed at promoting sustainable products in one way or another. Of course, many of these initiatives are limited in the scope and range of products and services included, and in terms of the financial resources available to them. The case of Uruguay is an interesting one: a general framework was first established and subsequently different, relatively autonomous individual product initiatives were integrated. In Colombia’s case, the initiative set up by the Environment Ministry is very ambitious as it aims to promote different sustainable products in a specific manner under the Green Markets Programme. Evaluations have not been carried out of either of the programmes.

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<sup>45</sup> See Report ‘El Mercado de los Bienes y Servicios Ambientales en Chile: Elementos para la Discusión’, commissioned by the Working Group to Edmundo Claro and Ana Maria Ruz, and see minutes of the Working Group meetings.

<sup>46</sup> For more detailed information, see UNCTAD (2004).



However, on the basis of these existing programmes and other initiatives in industrialised countries, evidence of a comprehensive approach towards sustainable products at national level can be identified:

- Evaluation of the market situation, market potential, as well as the environmental and social benefits and costs of groups of sustainable products or selected individual sustainable products;
- Assessment of whether groups of sustainable products or individual selected sustainable products could form part of an existing government strategy or policy (such as the overall tourism policy in the case of ecotourism, or the agricultural sector's environmental agenda in the case of organic farming);
- Financial and/or technical support programmes. While in industrialised countries these support programmes have acquired a comprehensive character - including the internalisation of externalities through permanent compensation schemes<sup>47</sup> - in developing countries financial support is extremely limited and programmes consist mostly of technical assistance or in some cases in preferential credit schemes for initial capital investments;
- Assistance with regard to the marketing of the products in the importing countries. This type of assistance is generally provided by the export promotion agency of the country. It might include market information, promotion through embassies, and financial support for participation in trade fairs;<sup>48</sup>
- Provision of market intelligence has been included in most of the efforts to promote sustainable products. However, long-term provision of information is a considerable challenge and can only be realised if significant financial resources are available from government or if producer interest is sufficiently high for the system to be self-financing;<sup>49</sup>
- Strengthening of the institutions of certification, metrology, and/or accreditation. In the past this has been achieved by default rather than by design. Thus, in practice it has been limited to a coping strategy by the standardisation organisations in developing countries;<sup>50</sup>
- Whilst in industrialised countries NGOs play an important role in the certification of sustainable products, in developing countries producer participation has been important. This is an important factor to keep in mind when attempting to develop an international strategy for sustainable products. It is directly related to the fact that in general markets for sustainable products are very limited in developing countries.

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<sup>47</sup> See for example Borregaard et al (2001) for the case of organic agriculture in Europe.

<sup>48</sup> See for example [www.prochile.cl](http://www.prochile.cl) for the Chilean case or <http://www.minambiente.gov.co/mercadosverdes/> for the Colombian case.

<sup>49</sup> In the developing country context there very few examples of good practice in this area. A notable exception has been the CIMS in Costa Rica, <http://www.cims-la.com/>.

<sup>50</sup> For a description of the problems related to this situation see for example Rotherham, T. (2003) *Developing Country Experience Implementing Environmental and Health & Safety Standards and Technical Regulations*, paper prepared for the Trade Knowledge Network, [www.iisd.org/tnk](http://www.iisd.org/tnk).

In some cases promoting a specific sustainable product on its own would not be effective because it would lack the necessary weight, as in the case of a dedicated line of preferential credits or financing for technical support. In other cases, there might be advantages to promoting an individual sustainable product, for example when promotion of the product is linked to an overall sectoral strategy that might be more of a priority in a particular country than a general strategy on sustainable products.

## **8.2 Initiatives at international level**

There have also been recent initiatives at international level to deal with sustainable products. These include bilateral, multisectoral, multilateral sectoral and multilateral multisectoral initiatives. The following is a description of some of these initiatives.

### **8.2.1 Regional trade agreements**

Several regional trade agreements have recently integrated sustainable products into their work programmes, if only in a preliminary way. Asia-Pacific Economic Cooperation (APEC), Chile, has submitted a project proposal on Voluntary Initiatives for Sustainable Production as part of an overall initiative to strengthen sustainable development in the APEC fora.<sup>51</sup> This project aims to take stock of voluntary initiatives for sustainable production in the APEC region, and is based on the various ongoing sectoral APEC activities in this area, including the tourism sector, the mining sector and the aquaculture sector. In the MERCOSUR (Common Market of the Southern Cone) one of the four thematic areas of the Framework Agreement on Environment, signed in 2004, consists of 'environmentally sustainable productive activities', and mentions explicitly sustainable tourism and sustainable forest management. The four thematic areas provide the outline for future work. The European Union has integrated some work on sustainable products into its sustainable trade programme. The European Commission has provided financial support to the Sustainable Trade and Innovation Centre, (STIC), which was launched in 2002.<sup>52</sup> The EU has included sustainable forest management as one of the criteria in its Generalised System of Preferences (GSP).<sup>53</sup> The EU has also carried out some work on specific sustainable products, such as: organic farming products, for which it has established an EU-wide certification scheme; sustainably-managed forestry products, for which it is discussing a draft regulation that will create a voluntary certification scheme for timber imports into the EU; and fair trade products, for which it is currently examining ways of encouraging trade flows.

### **8.2.2 Multisectoral initiatives**

Two of the most significant multisectoral initiatives in this area are the Global Ecolabelling Network (GEN), and the International Social and Environmental Accreditation and Labelling (ISEAL) Alliance. The latter has established a Code of Conduct for Setting Social and Environmental Standards, with a draft code launched in January 2004, and an accompanying

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<sup>51</sup> See APEC Secretariat, 2004, Sustainable Development APEC 2004, Paper for consideration submitted by Chile, 2004/SOMIII/ESC/002.

<sup>52</sup> This initiative aims to 'assist developing country exporters to respond, anticipate and ultimately shape the environmental and social dimensions of international trade.' Whereas the start-up financial and technical support to the initiative was significant in 2002, the initiative now seems to have lost impetus.

<sup>53</sup> However, this system is currently being revised and simplified, for which reason this criterion will probably be eliminated.

manual published in 2004.<sup>54</sup> In December 2004 the code was translated into Spanish. It is too early to say whether this initiative will be successful in penetrating the sustainable product market and voluntary standard setting practice. It is certainly an important step towards creating, at least, voluntary rules, particularly regarding the transparency and participatory procedures involved in standard setting. It also emphasises the importance of harmonisation in voluntary standards, stating that harmonisation should be pursued ‘where there is a possibility to do so without compromising the rigor of the standard’. The members and participants in the ISEAL Alliance are predominantly NGOs. For example, the representative for sustainable forest management is the Forest Stewardship Council.

The GEN<sup>55</sup> was established to develop, improve and promote the ecolabelling of products, the credibility of ecolabelling programmes worldwide and the information on ecolabelling standards from around the world. The 26 members are primarily public sector ecolabelling schemes or multinational member organisations, who come mostly from industrialised countries, eg, Europe, North America, Australia and Asia. ISEAL is also a member of the GEN, and there is no overlap in membership organisations. The GEN works on a multi-year project called GENICES aiming to finalise and adopt common criteria and encourage other GEN members to also adopt and/or reference the common criteria in their respective ecolabelling criteria documents. “Phase I” focused upon development and adoption of common core criteria for paints and toner cartridges, and the “Phase II” work programme has focused on development of common core criteria for televisions, video players and multifunctional office equipment.

In 2003, the GEN published a paper on ecolabelling and trade, in which it states the following:

- *‘if inappropriately practiced, any type of environmental labelling could have the potential to create unnecessary barriers to trade;*
- *to date, no concrete concerns have been addressed at specific Type I ecolabelling programmes;*
- *a range of WTO agreements address standards and standardising bodies, but were negotiated without specific knowledge of or concern about ecolabelling;*
- *a lack of clarification and disagreement remains on the degree to which WTO agreements apply to Type I ecolabelling programmes;*
- *ISO 14024 does contain many of the requirements under the relevant WTO agreements and is referenced by GEN members as a code of good conduct;*
- *Ecolabelling is growing around the world, in both developed and developing countries;*
- *environmental attributes of products have the potential to create trade opportunities, particularly for goods aimed at developed country markets, regardless of point of origin; and*
- *there is a need to find sustainable solutions instead of being preoccupied with the more negative threats and difficulties; this will allow the debate to take a turn for the better,*

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<sup>54</sup> Both available at [www.isealalliance.org](http://www.isealalliance.org).

<sup>55</sup> See [www.gen.gr](http://www.gen.gr).

*and the energy now spent on arguing about potential problems re-focused to evaluate and pursue opportunities’ (p.13-14).*

In its 2003 Annual Report, the GEN states that ‘while GEN officials see considerable value in the guidance provided by the ISO 14024 Principles, they also place great value on the GEN’s own Conditions of Membership and the Code of Good Practice contained in the TBT’. They also mention the work by ISEAL on the Code of Conduct, which had not been finalised at that time.

### **8.2.3 Multilateral initiatives**

- *ISO*

The ISO has worked on standardising standard-setting procedures, specifically under ISO 65. In 1999, it established Principles and Procedures for Ecolabelling, under ISO 14024. The ISO is also working to improve the participation of developing countries. The first of the five key objectives of the Action Programme 2005-10 on developing countries, relates to the need for an awareness-raising campaign in developing countries on the role of standardisation in their development.

- *UNCTAD- Biotrade*

UNCTAD has established a biotrade Initiative. ‘Biotrade’ stands for the trade in products and services derived from biodiversity, such as medical plant extracts, whose production processes support sustainable use and conservation of biological diversity while generating local income and jobs. UNCTAD launched the Biotrade Initiative at the third Conference of the Parties of the Convention on Biological Diversity (CBD) in November 1996. The mission of Biotrade is to stimulate trade and investment in biological resources to further sustainable development. The initiative has assisted developing countries in the development of national Biotrade programmes, particularly in Latin America. It has supported the export promotion of biotrade products and stimulates private sector investments through the organisation of investor forums, the most recent of which was held in Lima, Peru, in June 2004. In 2004, UNCTAD announced three new partnerships in support of biotrade in Brazil, Ecuador and the Amazon region.

This initiative can be considered a bottom-up initiative. These initiatives do not stipulate or impose any criteria or procedures, and they are developed in partnership between the national organisations and UNCTAD. At the same time UNCTAD has participated in the International Task Force on Harmonisation and Equivalence in Organic Agriculture. UNCTAD has also assumed an important role in capacity building through its Capacity Building Task Force on Trade, Environment and Development (CBTF). This programme, implemented in conjunction with UNEP since 2000, operates on the basis of five areas, including thematic research, country projects, training, policy dialogue and networking and information exchange. Two of the twelve thematic areas are directly related to sustainable products: the production of, and trading opportunities for, environmentally friendly products; and ecolabelling and process and production methods. Additionally, one of the six training modules is denominated ‘environmentally preferable products’ (EPPs). There have also been several country projects on different types of sustainable products.

- *The International Task Force on Harmonisation and Equivalence in Organic Agriculture*

The International Task Force on Harmonisation and Equivalence in Organic Agriculture, convened in 2002 by FAO, IFOAM and UNCTAD, serves as an open-ended platform for dialogue between private and public institutions (intergovernmental, governmental and civil society) involved in trade and regulatory activities in the organic agriculture sector. The objective is to facilitate international trade and access of developing countries to international markets and to seek solutions to international trade challenges that have arisen as a result of the numerous public and private standards and regulations for organic products that now prevail worldwide.

More specifically, the International Task Force (ITF):

- Reviews existing organic agriculture standards, regulations and conformity assessment systems
- Formulates proposals for the consideration of governments, Codex Alimentarius Commission, relevant bodies of FAO, UNCTAD and IFOAM, and other appropriate organisations on:
  - Opportunities for harmonisation of standards, regulations and conformity assessment systems;
  - Mechanisms for the establishment of equivalence of standards, regulations and conformity assessment systems;
  - Mechanisms for achieving mutual recognition among and between public and private systems;
  - Measures to facilitate access to organic markets, in particular by developing countries and smallholders.

## 9. Recommendations for co-ordinated action on sustainable products and PPMs

As can be seen from the above, some progress has been made in recent years in dealing with some of the problems related to trade in sustainable products, both internationally and at developing country level. However, there remains a significant difference between the preconceptions and views of industrialised countries and those of developing countries at international level. In this sense progress has been very slow.

Sustainable products have become increasingly important, not only in terms of markets but also in terms of their influence on national and international regulations and agreements. However, developing country actors barely participate in the discussion. In the WTO it has become apparent that there is some ambiguity on the part of developing countries, which on the one hand are interested in the promotion of sustainable products, but on the other hand fear that an accommodating approach towards ecolabelling would imply legitimising the PPM debate.

GEN (2004), cited above, pointed out that:

*“...there is a need to find sustainable solutions instead of being preoccupied with the more negative threats and difficulties; this will allow the debate to take a turn for the better, and the energy now spent on arguing about potential problems re-focused to evaluate and pursue opportunities.” (p.14)*

The changes required will, however, take time and without understanding and challenging the preconceptions described in this paper, progress will be extremely difficult and slow. Courville and Crucefix (2004)<sup>56</sup> have come to a similar conclusion in their paper prepared for the ITF on mechanisms for harmonisation and mutual recognition in organic agriculture:

*One of the key lessons learnt from the review of models from different sectors is that harmonisation, equivalence and mutual recognition efforts happen neither quickly nor easily and that trust and understanding must be built up to find solutions. Many activities at many levels and between different actors can contribute to this process and the ITF is itself one of these activities. Others could include international conferences, one on one meetings, joint evaluations between CABs and between accreditors (including government approval mechanisms), sub-contracting of work (private-private and public-private). Some such events are happening already.” (pp:36)*

As might be deduced from the WTO level discussions described above, the WTO at present is not the appropriate forum for leading on the discussion on ecolabelling. Other actors will have to take the lead, or at least contribute more substantially to the process. In addition to the national initiatives and actors described above, important actors at international level are:

- international organisations
- international certification schemes and labelling associations

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<sup>56</sup> See Courville,S., Crucefix,D. (2004) Existing and Potential Models and Mechanisms for Harmonization, Equivalency and Mutual Recognition. Discussion Paper prepared for the International Task Force on Harmonization and Equivalence in Organic Agriculture, authors' affiliation: Regulatory Institutions Network, Australian National University, International Organic Accreditation Service.

- NGOs and research institutes

The contributions each can make in the future are discussed below.

## 9.1 Contribution of international organisations

International organisations relevant in this context are UNCTAD, UNEP, ISO<sup>57</sup> and FAO. As described above these organisations have in the past carried out three tasks:

- created space for dialogue
- built capacity in developing countries
- provided direct support to promote trade in sustainable products

Although the ISO is not a multilateral organisation of the same type as the intergovernmental organisation, it has a potential role in creating space for dialogue. ISO is recognised as the most important organisation in standard setting. And it has embarked upon strengthening developing country participation. However, ISO is not the appropriate organisation for creating space for dialogue and discussion on anything other than areas strictly related to its standards or standard setting procedures. What is needed is for ISO and UNCTAD, UNEP and/or FAO to enter into an agreement of working together in the area of capacity building and institutional strengthening, specifically in the area of sustainable products and possibly under a wider umbrella of standards for sustainable development. Rotherham (2004), on the basis of numerous developing country studies on standards institutions, has pointed out the importance of collaborative work between the institutions:

*'No single organisation or forum is suited or able to address the full range of issues on the table. Because success will ultimately rely on coalition building, it would be appropriate to begin with informal discussions to assess common interests and then, over time, to define short-term work plans and select an appropriate forum for more formal collaboration. A range of organisations should be involved in the initial discussions, including the Global Ecolabelling Network (GEN), the International Social and Environmental Accreditation and Labelling (ISEAL) Alliance, UNCTAD, the OECD, UNEP, UNIDO, ISO, and trade ministries, environment ministries and national standards bodies from key developed and developing countries. Given the important role played in this area by many NGOs, any long-term discussions on the subject should also be open to broader participation.'* (pp.53).

Bilateral aid has been critical in assuring the financing of UNCTAD and UNEP's CBTF initiative. It will also be critical for supporting the institutional strengthening of the quality assurance institutions so that these can participate effectively in international discussions, in processes of harmonisation and in standard setting on sustainable products.

Information schemes have been extremely poor so far. The few information schemes that have been successful in this area, such as the Centre for the Promotion of Imports from Developing Countries (CBI),<sup>58</sup> will need support. Given that the market for most products is still small, synergies need to be created and the few existing schemes should be strengthened

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<sup>57</sup> Although ISO is not a multilateral organisation like the other ones, it has a potential role in creating space for dialogue.

<sup>58</sup> See [www.cbi.nl](http://www.cbi.nl).

rather than new schemes created. The existing schemes can then provide all the necessary information. Specific information schemes are also necessary for specific sectors. An example of a well functioning scheme is the Costa Rican based Centre for Sustainable Market Intelligence (CIMS).<sup>59</sup> Information is directly related to the issue of certification in that certification provides a basis for differentiation of the customs code and thus facilitates the gathering of statistics. This depends directly on the success of discussions regarding mutual recognition and harmonisation, a topic, as illustrated above, that is relevant in each sector (such as the ITF) but also in general (through the ISEAL standards). This leads us to the important role of the international certification schemes.

## 9.2 International certification schemes

The main role for them lies in the efforts with regard to harmonisation, equivalency and mutual recognition. The GEN and the ISEAL have made important contributions in this area. The ISEAL Code of Practice that was launched last year, will need to be disseminated adequately, not only by ISEAL itself but also by its members and possibly the international organisations mentioned above and the research organisations mentioned below. Recognition of this work is essential to move on; differences will have to be put aside and cooperation and promoted. An international framework for technical equivalency can be developed on the basis of the ISEAL Code. Basic elements for this framework would be a standards code of criteria/processes for the development of international sustainable management standards, a procedural framework that establishes some common rules (for the design of a process for engaging in a technical equivalence agreement, for dispute settlement mechanisms in case of contested decisions on equivalence, for ongoing consultations, with a view to negotiating amendments under appropriate circumstances) and a code of good practice for the implementation of certification schemes, including guidelines for the relationships between standards bodies, certifiers and accreditation agencies, and a fund to provide developing countries with the resources and human and institutional capacity to engage in technical equivalence agreements.<sup>60</sup>

When examining the membership of the two dominant international associations, the GEN and the ISEAL, it appears that there is very little direct business representation. Members of the GEN are primarily from industrialised countries, and the ISEAL - even though more directly involved with developing countries, particularly Latin America - is run also primarily by industrialised country actors. A strengthening of developing country participation in these alliances would probably be beneficial. Collaboration with, or participation of, other certification schemes, eg, national schemes, might be beneficial in including more of the developing countries' specific issues. For example, in 2004, IFOAM, together with the Latin American Agroecological Movement (MAELA), organised a seminar along these lines.<sup>61</sup>

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<sup>59</sup> Centro de Inteligencia sobre Mercados Sostenibles - <http://www.cims-la.com/ES>.

<sup>60</sup> Personal communication with Tom Rotherham (2005).

<sup>61</sup> Lernoud, A. and Fonseca, M.F. (eds.) (2004) Proceedings of the Workshop on Alternatives on Certification for Organic Production, April, 13-17 2004, Torres-RS-Brazil.



### **9.3 The scientific and NGO community**

The scientific and NGO community has an important role in providing information for developing country actors. For example, it can carry out the following tasks:

- generate and disseminate information on markets for sustainable products.
- carry out studies on the social, economic and environmental impacts of the sustainable products. This important point was emphasised in Section 3 of this paper. The lack of information in this area has contributed to the scepticism of many actors, particularly in developing countries.
- carry out studies on the costs and benefits of trade liberalisation in sustainable products from the perspective of developing countries.
- put forward proposals on how to advance the discussions, and provide space for dialogue.

The international research community is recognised and appreciated by developing country actors as a neutral player and a valuable source of information on new issues on which developing country actors have to form their opinions and positions.

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