

## Sustainable Products and the PPMs Dilemma: How the international community can help in resolving developing countries' concerns

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Sustainable Products have been identified as having significant potential for win-win-win outcomes from trade for developing countries. However, several barriers are preventing developing countries from exploiting these opportunities. While the international community could play a key role in resolving some constraints, national governments need also to take a more proactive and coherent approach to promote sustainable products if they want to keep abreast with a highly dynamic and rapidly evolving market.

### 1. Uncertainties regarding the 'Win-Win-Win' benefits of Sustainable Products

Sustainable Products (SP) could potentially make an important contribution to developing countries' sustainable development. Most developing countries have a comparative advantage in the production of SP; the market for SP is very dynamic reaching annual rates of growth over 30% in some cases while consumers in certain SP markets are prepared to pay premiums. However, conventional producers fear that these products might drive out their goods and / or exert a substantial upward pressure on environmental and social requirements. Evidence regarding the environmental and social impacts of SP is still scarce, and even though there might be a consensus on the overall positive effects, concerns prevail for example regarding the distribution of benefits along the supply chain.

### 2. Sustainable Products, PPMs and Eco-labelling – increasing market trends

The way the market identifies SP is through certification and eco-labelling schemes, which make claims about the product's 'life cycle', differentiating on the basis of Product and Process Methods (PPMs). For those producers willing and able to meet their requirements, eco-labelling could represent an opportunity to add value to existing products, extend

their reach in existing markets, and maintain market share in a competitive environment. However, certification and eco-labelling are also increasingly being seen as market access requirements or an 'entry ticket' rather than a tool for differentiation and value-added. In addition several Multilateral Environmental Agreements such as the Convention on Biodiversity and RAMSAR also make reference and encourage the use of eco-labelling.

### 3. Problems that need to be addressed to realise the 'Win-Win-Win' opportunities

The conflicting claims about the benefits of SP on the one hand, and the patchy information about increasing market shares, dynamisms as well as the limit of these products' markets abound, on the other hand, have made it difficult for politicians and civil servants to formulate positions and strategies based on the market potential as well as on the risks and barriers that have to be confronted. What is certain is that in general developing countries' domestic markets for SP do not exist or are very small, and thus access to exporting markets is crucial for production to expand. External markets very often ask for the aforementioned 'entry ticket' and have set up, in many cases, such as in organic agriculture, official regulations concerning the procedures for certification.

Several concerns arise from the impacts of certification and eco-labelling systems, since they often constitute unintentional but very costly barriers to trade. Among the most relevant concerns are the complex procedures and high costs involved, some studies on Sustainable Forest Management suggesting additional costs of 10-20% of the average international price of trade timber. 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

#### KEY CHALLENGES:

- Developing countries need to formulate a proactive strategy regarding SP – a strategy for which they need a deeper understanding of the sustainable development benefits of SP; the existing markets opportunities and regulations and the costs and benefits related to the different arenas in which SP trade liberalisation might/is taking place
- The international community needs to generate and disseminate more information on the environmental, economic and social impacts of SP - especially the impacts of different labelling programmes as well as on the required policy measures and capacity building that developing countries need to reap the potential benefits.
- The international community needs to show that a debate at the international level on SP does not undermine developing countries' attitude towards PPMs



environmental/social priorities, thus often discriminating against developing countries. On the other hand, the proliferation of non-harmonised eco-labelling programmes and the lack of progress regarding mutual recognition have contributed to reduced transparency and credibility and increased confusion of the consumer especially of schemes elaborated by developing countries. In summary, the market alone cannot 'do the trick'.

To this needs to be added that very often developing countries SP exports must compete with heavily subsidised production from industrialised countries –which in the case of organic production in the European Union can equate up to 40% of the production costs.

Finally, the WTO's lack of clarity regarding eco-labelling regulation is problematic. Only a minority of eco-labelling schemes (mandatory and government-run) are unambiguously regulated by the TBT rules whilst for the majority of such schemes (voluntary and private) uncertainty prevails on whether the TBT applies, and again another category, the international standards schemes, falls under the TBT's annex Code of Good Conduct.

#### 4. What are the main difficulties in developing a Sustainable Products strategy on behalf of developing countries' governments?

So far developing countries' governments have made very little effort to elaborate a strategy towards SP. Most typical reasons for this include:

- Developing countries' reactive approach to sustainable development. In general, governments have tended towards reactive environmental management, through the establishment of environmental regulations, with few preventive mechanisms and even fewer instruments directed at the identification and promotion of opportunities.
- Governments have very little knowledge about the economic, environmental and social impacts associated with the production and trade of SP.
- There is insufficient knowledge about international market opportunities and regulations. Premiums might exist, but the range of prices is not clear. Given that SP are not classified according to the Harmonised Coding System (HS), there is a lack of general market statistics on these products. Market outlets are also rather different from the conventional outlets and contacts are needed.
- Certification procedures are often complex and expensive, keeping non-experts away from these markets.
- At the international level, there is a fear of getting into the PPMs debate as well as into the debate on 'like products'. Developing countries are understandably anxious to avoid any further discussion on PPMs as these could potentially be used as a kind of non-tariff barrier undermining their market access or the competitiveness. Permitting a debate on PPMs to take place has thus been equated with 'socialising' PPMs in international trade and trade rules. A further complication regards the issue of 'like products'. Under the GATT all 'like products' must be treated alike, which would award conventional products the same treatment as the sustainable counterparts, even though they are different in terms of production methods. Although at the WTO's latest discussions on Environmental Goods (EG) some suggestions on how to include PPMs into these negotiations came to the fore, it was also acknowledged that PPMs were still a contentious issue.

#### 5. How could the international community help in resolving these problems?

The international community might have an important role in solving some of these problems. Particularly the scientific and NGO communities can play a crucial role in shedding light on:

- Identifying the environmental, economic and social impacts of SP, in particular, analysing and disseminating information regarding both the environmental and social impacts associated to different labelling programmes and analysing the required policy measures and capacity building needs to realise the potential *benefits*. Beyond clarifying the usefulness (or not) to develop government strategies towards the promotion of SP, this information might be meaningful for those stakeholders involved in standard-setting processes, especially for the design and principles of different labelling systems so as to prevent small developing country farmers from being marginalised.
- Analysing and showing that a debate at the international level on SP does not undermine developing countries' attitude towards PPMs. This argumentation has to give consideration to other intergovernmental and non-governmental fora. Academics can help to show how SP are already integrated explicitly in bilateral and other trade negotiations, and how they have been part of Generalised Systems of Preference (GSP) of different industrialised countries.
- Furthermore, the international community can also help generating and disseminating information about market opportunities and requirements. Some examples in this sense include the work on environmentally preferable products carried out by UNCTAD and OECD.

#### 6. Conclusion

Only once governments have clarity regarding the benefits of SP and the question whether and why they need to have a more proactive attitude in the promotion of SP, will they be able to formulate a coherent strategy to promote the products. Such a strategy needs to be coherent at both national and international level, looking at the different market opportunities and providing the suitable policies and tools to reap the associated potential benefits. The strategy also has to take account of the different initiatives and programmes carried out at the international level.

In the context of WTO's Doha round and negotiations of tariff and non-tariff reductions on EGS, governments have to answer today questions such as: Should the debate on SP be carried out in the context of the current WTO's EGS discussions, or should it be carried out in a different arena?; If so, which one?; What would be the benefits of debating SP in the context of current WTO's EGS negotiations?; What real tariff and non-tariff reductions on these products would the inclusion in the WTO's EGS debate bring along -comparing it with the status quo including existing GSP and other preferential tariff schemes?; Would an inclusion of SP in the EGS debate really have to change the TBT?; If so, in what sense?; What would be alternative arenas for debating SP and what might the benefits be?

If developing countries want to move from the status quo they will have to take up the responsibility for answering these and other questions and confront the challenge of formulating the long awaited strategy regarding SP.

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