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New Instruments for Environmental Policy in the EU

Ecolabels in EU Environmental Policy

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ROBERT SCHUMAN CENTRE

**New Instruments for Environmental Policy in the EU
Ecolabels in EU Environmental Policy**

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Consumers and their strength as market actors have become an increasingly interesting alternative to command and control measures when dealing with environmental problems. As a consequence of the withdrawal of legislation as a steering mechanism, other market based instruments like voluntary agreements, standardisation, tradable permits and ecolabelling have become the politically correct method to employ. When these instruments are applied properly, under the correct conditions, they will deliver environmental returns at a much higher pace than traditional tools, but as of yet there are still problems with the way they have been developed and used.²

This paper begins by describing what ecolabelling is from a theoretical point of view. The second section then discusses the EU label, "the Flower", in more detail. This is followed by three case studies of how a private ecolabel scheme has been used in Sweden. In light of these cases, the final section concentrates on some of the prerequisites which are necessary in order to operate a successful scheme.

The paper draws upon seven years of experience with a Swedish private ecolabelling scheme called "The Good Green Buy".³ The author has also participated as a representative of environmental organisations in the Ecolabel Forum, the interest groups consultative forum within the EU ecolabelling scheme.⁴

The current increasing interest in market-based steering instruments like ecolabelling can only be seen in light of the failure of legislators or politicians to combine deregulation and environmental improvements. In Sweden, for example, the so called ecocycle legislation was introduced in 1992. It included "extended producer responsibility" which built on voluntary agreements as a

² The Club de Bruxelles provides a good account of the growing interest in measures aimed at encouraging rather than enforcing good environmental behaviour (Club de Bruxelles 1995).

³ Private ecolabelling schemes are not operated in conjunction with a national government but operated by private organisations such as The Swedish Society for Nature Conservation. In contrast, "official schemes" have a relation to a government, either financially, by being operated jointly, or by being installed through legislation.

⁴ Regulation 880/92 states that the Commission needs to consult interest groups on the proposals for criteria developed within the EU scheme. Therefore a forum has been assembled consisting of three representatives each of industry, consumers, environment and trade. Trade unions were inexplicably excluded, and participate on an unclear mandate. The forum has no real power but is allowed to register its opinion once for each criteria document.

new policy tool, compared to prescriptive legally defined enforcement of legislative goals.⁵ The political focus on free trade and fewer obstacles to trade necessitates solutions where consensus models are utilised. This is the rationale behind the “new approach,”⁶ in which framework legislation and standardisation are combined to reach harmonisation goals.⁷

Official ecolabelling schemes are usually modelled on standardisation, which results in meagre successes during the first few years. Unclear objectives and unclear environmental priorities have also added to the low cost-efficiency of most official schemes, due in part to the novelty of the instrument and the uncertain prospects of a market based instrument. It is also understandable that if an instrument is modelled on standardisation and its handling is left to standardisation institutions, the knowledge of how markets work is something which will have to be developed over the course of several years.

What is ecolabelling?

According to current International Standardisation Organisation (ISO) definitions, ecolabelling measures can be grouped in three categories.⁸

⁵ Extended producer responsibility is inspired by the German Verpackungsverordnung. The Swedish model builds on discussions, sector by sector, by government and industry, in which targets and dates are established for waste reduction/recycling. The sector in question then accepts responsibility to reach the targets and to develop the means to do so without strict prescriptive legislation stating how they shall implement it (for discussion of negotiated agreements, see chs 4 and 8).

⁶ On the basis of the “new approach” established by Directive (83/189/EEC), the legislative authorities (European Parliament and Council of Ministers) have recourse to private standardisation through the European Committee for Standardisation (CEN).

⁷ Standardisation has become an intrinsic part of modern society. As one study notes:

Almost all industrially manufactured things around us have been standardised in some way or another. In day-to-day practice, it is not so much the stipulations of law rather than these very technical standards that determine how a product is made and in what manner polluting facilities are operated...But the process of standardisation has until now maintained a very low profile, not to say a secretiveness--it has at all events eluded any broad public participation. The actors in this process keep to themselves. Only the lobbyists with a vested interest in a specific project have a say (Führ et al 1995).

⁸ Within the ISO 14000-series there are a number of standards currently being developed that deal with ecolabelling and Life Cycle Assessment (LCA).

Type 1 is described as “third party practitioner schemes”. Establishment of criteria as well as their subsequent evaluation is undertaken by a third party not directly commercially dependent upon the outcome of an applicant’s evaluation. The process leading up to establishment of criteria has to be transparent and principles for this are elaborated within the ISO system. This type of ecolabelling is the one most commonly discussed and is consequently also the kind of labelling concentrated upon in this paper.

Type 2 labelling is described as “self-declaration”, meaning a situation where a producer uses a phrase combined with some logotype to describe some environmental quality in their product without having this evaluated by a third party. Standardisation aims to minimise the number of statements and symbols used by devising a reduced number of globally defined symbols. Examples of statements currently flourishing are “biodegradable”, “recyclable” etc.

Type 3 labelling is also a third party evaluation scheme--but without reference to established criteria based on relative environmental performance among products in a sector. This type of labelling was developed in California by Scientific Certification Systems. The system relies on making a life cycle assessment (LCA) study of the applicants product. A reduced number of the resulting parameters are then depicted graphically on the product in a standardised manner. It is comparable to giving an environmental fingerprint of the product.

For clarification, it should be stressed that the current proliferation of “green claims” in the shape of pictograms or environmentally formulated phrases on products has nothing to do with the above mentioned types of ecolabelling. Most green claims are not based on harmonised or standardised parameters but highlight what the producers consider the important environmental quality of their product. Each of the three types of ecolabels listed above aims at reducing the proliferation of green claims in order to give consumers a more objective basis for decisionmaking in terms of environmental quality.

Type 1 labelling - how are most schemes organised?

The most well known ecolabelling programmes belong to the group of “official schemes,” coupled to national governments in terms of financing, control or ministerial governance. Mostly the actual practitioners are the national standardisation bodies which have specific groups within their organisation that deal with the establishment of criteria, the evaluation of applications and the granting of licenses for the label. Other varieties include ministerial officials designated to function as ecolabelling officials, or independent boards operating

secretariats. Most official schemes depend heavily on governmental funding. Although most schemes are designated to be self-financing, the granting of licenses and income in terms of licensing fees remains very meagre at least during the initial years. Even in the case of the relatively successful Nordic ecolabelling scheme, The White Swan, after six years of operation the license fees account for only two-thirds of the annual budget. From practice one can conclude that ecolabelling will never become an instrument whose cost is totally recouped by the license fees on labelled products.

The ecolabelling scheme which my organisation (The Swedish Society for Nature Conservation (SSNC)) operates is of the private third party practitioner type, but has no connection to the government in terms of financing or governance. In our case the scheme is financed by SSNC and three retailers operating in the Swedish market. The SSNC has a mandate to establish criteria independently but up to the final decision relies on the same kind of open and transparent process found in any official scheme. We evaluate applications and grant licenses to use the logotype--a peregrine falcon and the phrase "Good Green Buy - this product is in accordance with criteria established by the Swedish Society for Nature Conservation."

What is the normal procedure for operating a general ecolabelling scheme?

Operating an ecolabelling scheme involves defining criteria for the label and then licensing it. The basis of labelling products in the market is evaluating them on a number of environmental parameters for a specific product group. These parameters measure the environmental impact caused by a functional unit of the product in question. How this functional unit is defined varies between schemes but normally the production stages are largely ignored and emphasis is placed on the product's inherent environmental effects--e.g. the amount of recycled paper content in a brand of toilet paper, the amount of solvent in a solvent based paint etc.⁹ Usually the aim of the label is to diminish the impacts caused by the products during their use and disposal, more seldom to reduce the

⁹ One example is detergents, where surfactants constitute one of the basic concerns. In our Good Green Buy scheme we have defined demands on degradability and toxicity for surfactants based on numerical hurdle values. In the criteria we have included a list of the surfactants which according to publicised data fulfil these values. The list contains six groups of surfactants where group 1 contains those with the best overall environmental performance. The criteria goes on to define groups 1-3 acceptable in an ecolabelled product. Any producer can find out how his product performs in this respect. This principle is then carried out for other functional groups or substances in the product. For a complete description of how the Good Green Buy scheme operates see Eiderström (1997).

impacts caused by their production. This is a consequence of the political difficulties of promoting specific production techniques across borders. The question of technical barriers to trade and protectionism disguised as environmental demands has received considerable attention within international organisations such as OECD, UNEP and UNCTAD (UNCTAD 1995, OECD 1995, EC 1996c, WTO 1995, see chs 1 and 11, Golub 1997, Vogel 1997).

Mostly criteria have a tendency to be based on a matrix thinking, whereby environmental demands are calculated for groups of weighted parameters, the sum of these scores then constitutes the actual environmental cost of the product. Sometimes this matrix is coupled with hurdles, minimum standards which diminish the possibility of fully compensating for high environmental impacts in one area by concentrating on reducing the impact of another parameter.

Most schemes endeavour to take into consideration all environmental impacts caused during the entire life-cycle of a product.¹⁰ In the early days of most schemes this was also based on hopes that LCA would provide an objective basis for criteria definition. All LCA models have the difficult task of balancing between incompatible entities, which is usually solved by attaching weights to the parameters measured, resulting in indices or points. These weights differ substantially according to who performed the LCA, who ordered it and in what country it was made.¹¹ However, there is still no consensus as to what should be taken into account in the LCA-models currently in use.¹² The pragmatic solution to this has become the use of Life Cycle Inventory (LCI) as a tool to find parameters relevant for each product group.

The definition of criteria has to be an open and transparent process to which all stakeholders have access. Access means the right to get material and the right to register one's opinion. Access does not guarantee influence on the final

¹⁰ The formulation in Council Regulation 880/92 on a Community ecolabel award scheme is: "The specific ecological criteria for each product group shall be established using a 'cradle to grave' approach" (article 5:4).

¹¹ For a summary of discussions held at the WTO Committee on Trade and Environment meeting of 26-27 October 1995 on the "widely different LCA methodologies" forming the basis for ecolabelling criteria, see WTO (1995).

¹² Discussion has just begun on how to incorporate accurate assumptions into the models, for example, in the shape of Life Cycle Stressor Effects Assessment (LCSEA). As an example of the difficulties with, for example, electricity, see Groupe des Sages (1995).

outcome, however, since most ecolabelling schemes are modelled on standardisation where consensus decision making is the norm. In reality this means that whoever has the resources to devote time and effort to the criteria process can do so. The system itself does not make provisions to ensure a balance amongst parties controlling different levels of resources.¹³ Most schemes therefore are very heavy on industry input and very light on input coming from environmentalists or consumers.

Criteria are usually defined in several steps. The first is when a draft is presented stating the main impacts that can be dealt with and also suggesting hurdles and values for parameters. This draft is then circulated and debated in expert groups and among interested stakeholders. Suggestions and proposals are collected and a final version is prepared. In practice this can be a process that takes years to accomplish. Usually there is more than one round of hearings and perhaps several hierarchical levels which exercise influence. There is usually a high degree of industry intervention in the form of meetings and seminars where industry views are presented to the group working with the criteria or the board in charge of making the final decision.

In a second stage, producers, retailers, importers and others can apply for a license to use the label. Foreign producers apply to the country devising the label. The applications are usually based on performance tests on the specified environmental parameters and product performance tests. Evaluations are made by the practitioner organisation, and there is usually quite a detailed procedure for assessment to ensure that no product is granted a label incorrectly.¹⁴ This

¹³ One study describes the situation as follows:

Experience has shown that particularly at the European level lobbyists use the standards process to exert political influence upon EC legislation...That this process permits lobbying at all is partly because standardisation has long been defined and accepted as being part of self-regulation of industry (Führ et al. 1995).

Council Regulation 880/92 stipulates that the Commission shall "consult the principal interest groups who shall meet for this purpose within a consultation forum" (article 6:1). It does not define what status is accorded to the outcome of the consultations.

¹⁴ Within ISO there is work underway on a compliance assessment procedure which guarantees that ecolabel programmes adhering to the coming ISO standard utilise reproducible methods to set their criteria. It is not known to the author whether any of the current ecolabel schemes contain a formal appeals process. Currently there is a conflict between the Swedish board for the Nordic White Swan and one of the detergent manufacturers concerning the decision to deny a product the Nordic label following a change of the criterion for detergents. The granting of labels is not a transparent process in any scheme. All data concerning an

also means that the evaluation can take considerable time to perform, and usually implies that producers have to incur a high cost in order to be able to submit a complete application, a factor which might significantly deter use of this instrument. It is hard to find documentation on how long the average application takes since the evaluation of products is not an open process. There are many reasons for this. In some instances applying for a label represents a change in marketing strategy which the applicant wants to conceal from competitors. For most, though, the uncertainty over how the application will be rated poses the main reason for being secretive.

If evaluated and accepted, the product gets a license to use the label of the ecolabelling scheme. The producer will enjoy improved marketing through the positive image associated with the logotype itself, as well as from a sign that states that the product, in comparison to other similar but unlabeled products, represents an environmentally preferable choice. The label does not guarantee superior performance or quality in a more traditional sense. Nor does it give any indication on the pricing of the product.¹⁵

The EU Flower

The EU ecolabel scheme operates under Regulation 880/92, which contains procedural guidelines for establishing criteria. The Commission itself has a high degree of influence over criteria formulation since it can devise them independently of the competent bodies of the member states (which are themselves called for by the Regulation) and independently of the Council unless the latter, within three months, acts by qualified majority vote. The competent bodies are mandated by the Commission to be responsible for the handling of the scheme in the member states. Usually the competent bodies are also responsible for the national labels in the countries where they exist.

applicant's product is kept secret for commercial competition reasons and the only party able to dispute the decision for a specific product is the applicant.

¹⁵ Initially ecolabelled products are priced higher than conventional products. In the long run, as has been seen for example in Sweden with detergents, the price of the ecolabelled product does not vary from that of its conventional competitors. The reason for this is probably that during the first stages of labelling the customers are few and place a high priority on choosing the environmental quality at any cost. As the market share grows, the targeted customer group still views environmental quality as important but "incorporates" it into an overall expectation about the supplied product's quality, so that price once again becomes the basis of competition.

Prior to 1996, the Commission mandated a member state to be the lead country in developing draft criteria for a certain group of products. The competent body of the country then appointed a working group in which representatives from stakeholder groups as well as experts from other member states could participate. The expert group developed a draft which was then presented to the Commission. On the basis of this draft and discussions in competent body meetings (preceded by a meeting of the Ecolabel Forum where interest groups formulate their opinion on the draft),¹⁶ the Commission made a proposal for a criterion. This final version was then voted on by the member states in a Regulatory Committee. If a majority of the members in the committee voted for the Commission proposal, the Council, on proposal from the Commission, adopted the criterion. In case of a blocking minority the Commission had two options, to reformulate and succeed in getting majority support or take the proposal straight to the Council.

Since 1996, however, this procedure has been slightly modified.¹⁷ The Commission itself has taken a much more active role in formulating the draft criteria by delegating the work directly to consultancy firms. Any interested party can participate in the working groups attached to the product groups and there is no longer a formal lead country. None of the "new" product groups have yet produced a draft so it is too early to say whether this change of procedure will yield criteria more quickly than the earlier model.

Regulation 880/92 states that a review shall take place within five years of its entry into force, and currently a revision is under way, involving the Commission and a working party of government experts. There are indications that the Commission will withdraw from the very active position it previously took, while still retaining the final say over criteria. The drafts so far have shown very clearly that the Commission's ambition is to facilitate the establishment of a private organisation, the European Ecolabel Organisation.

¹⁶ Regulation 880/92 states that the principal interest groups (represented at community level) shall be consulted and allowed to deliver their opinion on criteria proposals prior to the Commission presenting the final proposal to the regulatory committee.

¹⁷ There is no formal explanation to why this change of approach was chosen by the Commission. There is a note dated 13 December 1995 stating that the chosen approach is well in accordance with the existing procedural guidelines, which the Commission describes as "informal". But the note makes clear that the Commission "wants to exert a closer control over compliance with methodological requirements, completeness, transparency and neutrality of the study" (EC 1995).

(EEO). This organisation would mainly act as the co-ordinating body between the national competent bodies which will actually run the EU scheme in the future (EC 1996a, 1996b).

The original idea behind the regulation was that a harmonised market needs to have harmonised market instruments in order to avert trade distortion. As with most official national schemes, however, the EU Flower was not originally designed with sufficient understanding of how to harness market forces successfully. The scheme was voluntary, and its objective was only to provide consumers with information, a rather weak ambition from either a market or an environmental protection point of view.

Besides procedural problems and intra-Commission conflicts over details in criteria approach, the EU scheme has never had any supporters in the market. Efforts to define criteria for textiles, for example, lead to difficulties between DG VI and DGXI concerning how the use of pesticides and fungicides should be dealt with (it was pointed out that the draft textile criterion would have excluded from ecolabelled products certain pesticides allowed in agricultural production). Another example concerns that of paper where the whole scheme itself was threatened when foreign producers pushing Third World governments in front of them claimed that the scheme conflicted with international trade rules (Vogel 1997).¹⁸

The EU scheme also has difficulties in attracting supporters in the European market. Producers are not in favour of a label which is not visible and largely unknown. Producers are generally very reluctant to succumb to environmental demands on their products and production via market mechanisms until they are forced by overwhelming demand.¹⁹ The existence of national labels, whether successful or not, reflects the existence of heterogeneous markets. For example, detergents are not identical in northern and southern European markets. Consumers have varying preferences and behaviours which makes uniform labelling and uniform environmental criteria difficult. It is hard to envisage a

¹⁸ In mid-1996 there were lengthy debates on the criterion for fine paper where representatives of the American Forestry and Paper Association, and representatives from Brazilian paper producers, expressed their opinions on the proposed criteria.

¹⁹ This statement is supported by the findings of Ann -Charlotte Plogner, who has studied what happened in Sweden when ecolabelling was introduced for detergents. She concludes that the existence of what she calls "industry-logic" prevents industry from recognising the development of new markets, and delays their adaptation to, for example, ecolabelling (Plogner 1996).

future where only very large producers market a few homogenous products to the entire European market with any success.

For their part, consumers do not know what to demand since there are no ecolabelled products on the shop shelves (and how do you express demand when there is no choice?). In fact, studies of consumer attitudes often find a great willingness to pay a price premium for greener products. However, producers can respond to this preference in several ways. Most common is for a producer to attach some green claim to their product, thereby capitalising on consumer preference without actually undertaking environmental changes. Another is by continuing to conduct "business as usual," not reacting at all and leaving consumers without any guidance. A third response is to apply for and adopt an ecolabel.

Demand for ecolabelled products therefore does not become a reality until consumers have proven by their actual purchases that the labelled product was preferred, but demand for a new quality aspect cannot be expressed until the appropriate products are supplied--a real Catch 22 situation. Suppliers have to risk supplying an ecolabelled product, market it so it becomes known to customers, and then hope for a substantial market share. Not until a market share is captured will it be evident to the producers that consumers demanded the product (Plogner 1996).

Moreover, retailers have not been very active on behalf of consumers in terms of promoting ecolabelling from their suppliers. The Swedish example, where retailers take a very active part in promoting the Good Green Buy programme, has not been copied in other European states. There are, however, examples of retailers developing their own generic brands based on environmental performance criteria, but the criteria are specific for each retail chain and consequently the environmental priorities differ from chain to chain.

And because national competent bodies have invested considerable prestige and financial resources in their own definition of ecolabelling, they have a conflict of interest when it comes to promoting an EU label.²⁰ National schemes

²⁰ As one proposal argues:

There is no reason for Sweden and the Nordic countries to quietly await the common co-ordinating work in Europe aimed at developing a functional ecolabelling. Rather, for environmental reasons, the work and experiences accrued from working with the Nordic White Swan should be aggressively exported to other countries...It could well be that the Nordic White Swan develops into a 'premium brand', the golden logo, the best in show-logo, with the highest environmental demands, coupled to, for example, the EU Flower

are usually funded with the ambition of becoming self-financed via license fees. Out of these budgets the competent bodies also allocate the resources necessary for work involving the EU flower. If a national scheme has developed a criterion and attracted licensees to the national label, an EU criterion for the same product group might constitute an economic threat. On the other hand, there are financial incentives for member states to propagate the EU Flower: application for the EU label can be made in any country within the Union, but the competent body granting the label receives all the fees based on the applicant's sales throughout the entire European market. There is no mechanism within the EU scheme ensuring that these fees are distributed among the competent bodies.

Environmentalists, consumer representatives and trade unions have not been allowed to influence ecolabel criteria, and have not been given resources enough to examine their quality or assess the idea of promoting ecolabelled products.²¹ Therefore these groups are very sceptical of ecolabelling in general

or another national logo representing 'acceptable according to least common environmental denominator (least environmental demand in order to be accepted on shop shelves).' The White Swan has all the prerequisites to develop into the party carrying the yellow leader shirt (Lighthouse 1995).

A more sanguine view of the EU ecolabel was expressed by the working group representing the French Ecolabelling Board in the context of proposals for a revision of Council Regulation 880/92:

Concerning relationships with national ecolabels, proposed lines are welcomed by the group because:

- they show that the Commission recognises existence of national ecolabels, and the fact that national and European ecolabels may introduce a synergy on the market, the one pushing the other.
- they may be a solution to the need for flexibility expressed through the "graduation" proposal.
- lastly, they [reflect] the fact that European criteria expresses a compromise between 15 countries. In complement, national ecolabels may address national criteria (French Ecolabelling Board 1996).

²¹ Article 6 of Regulation 880/92 describes how the consultation of interest groups should procede:

The Forum should involve at least the Community-level representatives of the following interest groups:

- industry (including trade unions as appropriate)
- commerce (including trade unions as appropriate)

and the EU label in particular since this tool appears to provide a new green legitimacy for consumption, totally ignoring the responsibility stated in Agenda 21 (agreed at Rio) to reduce consumption levels, particularly in OECD countries. Certainly greening consumption is a necessary element in a more sustainable consumption and production pattern. But if commercially unbiased interests are too weak in the process of defining the goals, "greening" becomes "green-washing", giving a perceived green tone to products or production which in reality undermine a sustainable future. Reluctance to support ecolabelling thus should be seen as a mirror of how unevenly power over the decisionmaking process is distributed among the stakeholders.

Finally, the EU Flower has had difficulty because the Commission has been heavily lobbied by producer interests with the aim of watering down criteria, obstructing the process, and playing directorates off against each other (knowing that in intra-Commission politics the environment directorate, DGXI, does not hold the strongest position). In the early months of 1996, for example, American paper producers, in conjunction with Third World representatives, criticised the label as a whole, and also attacked it from a WTO-angle by claiming it to be in conflict with GATT rules (Vogel 1997).²² Of course lobbying is not a new phenomena, but when incorporated as a normal part of

-
- consumer organisations
 - environmental organisations.

Each of them may be represented by having a maximum of three seats. The participating groups should ensure appropriate representation according to the product groups concerned and having regard to the need to ensure continuity in the work of the consultation forum.

The Regulation provides for access but does not state that the forum has any formal mandate to intervene or exert any influence over criteria formulation, nor does the Regulation ensure that financial resources are made available in order to provide interest groups with equal opportunities.

²² The USA generally expresses very strong feelings when it comes to environmental demands across borders. The EU Committee of the American Chamber of Commerce in Belgium has stated that:

"The EU Committee opposes governments making judgements on imported products on the basis of the PPM's (production methods) used to manufacture them...Trade measures should not be a tool of first resort to address global and regional problems" (Amcham 1996). The EU Committee also noted that the EU ecolabelling scheme had been placed on the US trade barrier "watch list," and argued that "if ecolabels are allowed, their criteria should be harmonised internationally and they should be information-oriented (e.g. nutrition labels) so that any producer could supply them" (Amcham 1996).

events it is a threat to democracy. The closed, secretive discussions taking place between lobbyists and decisionmakers without other interests being able to express their views can never reflect what happens in a democratic and open process. Influence defined solely by financial strength is a recipe for societal disaster.²³

Improving the design of Ecolabels²⁴

A market-based instrument like ecolabelling builds on a number of basic assumptions. Firstly, that consumers have a choice in the market. Secondly, that there are consumers with strong preferences for high environmental quality. Thirdly, that there are producers willing to supply a higher environmental quality given this consumer demand.

In theory, the market is where supply and demand meet at a price and a quality which buyer and seller are content with. But this theory builds on still another important assumption, that both sides are equally strong and that there is knowledge of all existing alternatives supplied to the market--in short that the market is not distorted in any sense. In reality, all markets are distorted, competition is never perfect among suppliers or buyers, and consumers are very rarely in a strong position.

Most official schemes have never gone beyond declaring that they serve as a tool for providing information to consumers and have never set environmental targets which market forces should help to accomplish (the need to view market forces merely as instrumental is discussed in ch 1). All official schemes are voluntary, meaning that they can never force producers to apply them or consumers to utilise them. In light of this vagueness, perhaps one should not be surprised that most schemes have resulted in labelled products which never really alter existing market balances. Ecolabelled products have captured substantial market shares only in the Swedish market where, for instance, ecolabelled detergents now constitute 90% of the supplied products. Other claims, whether environmental or health oriented, have alerted consumers everywhere to act on single issues like dolphin-safe tuna, paper with a high

²³ As a Swedish newspaper noted about lobbying within the EU: "Interest organisations for everything from candy and toys to weapons and cigarettes mingle in the corridors of Brussels" (DH 1996). See also Dawkins (1995).

²⁴ This section is adapted from Eiderström (1997).

content of recycled fibre or energy efficient light bulbs. It is important to remember, however, that these examples are not the product of official ecolabelling schemes. Rather they prove the failure of most ecolabelling schemes to achieve the same impact as organisation driven, consumer oriented consumption campaigns.

Ecolabelling can become an extremely effective tool for changing a market in favour of new production techniques, new product formulations and improved functions. But in order to achieve this a good portion of market "muscle" has to be developed by empowering consumers with information on why and how ecolabelling works. Empowerment can be achieved by environmental NGOs in conjunction with untraditional partners who have substantial market influence, such as retailers, or by boycotting individual producers.

The following three cases taken from the work of The Swedish Society for Nature Conservation (SSNC) prior to the establishment of the Good Green Buy ecolabel scheme,²⁵ and from subsequent experience with the scheme, highlight these issues of proper and improper instrument design, revealing in more detail how ecolabels can deliver substantial environmental improvement, often alongside economic benefits for the firms involved.

Case study 1: Paper

For the last century the paper industry has constituted one of the backbones of the Swedish economy. A major part of the production, around 60%, is exported to European and overseas markets.

SSNC has tried to influence forestry, pulp and paper production in order to save endangered species from extinction. One step of the production process has been especially detrimental to the environment, namely to the coastal waters

²⁵ The Good Green Buy scheme was developed by The Swedish Society for Nature Conservation in collaboration with three Swedish retailing chains. In many respects it differs in approach from official schemes described in this chapter. One of the main differences is that an environmental organisation has the ultimate say when criteria are defined.

The process leading up to criteria establishment is open to all interested parties and usually involves open hearings in order to minimise ambitions from individual producers to exercise undue influence. All information upon which decisionmaking is based has to be published and consequently evaluated within the scientific community in order to be considered, a requirement which also helps disseminate available alternative product ingredients and technology. The criteria are usually based on a hurdle system, incorporating the principle of substitution (discussed at the end of this chapter). See also Eiderström (1997).

and marine life. The traditional method of bleaching pulp with chlorine has long been criticised by environmentalists. Environmental pressure through public opinion, distribution of information, and debates in the media achieved little success. Demand to change production processes was always countered by the industry with arguments like: "We only produce what the consumers want" (see Plogner 1996). This is of course true, but assumes that the market at the end of the seventies truly reflected what consumers demanded. In fact, the market was homogeneous--there were no "alternative" products available to consumers and consumers were not aware of the effects that chlorine bleaching had on marine life.

From the late 1970s onwards knowledge of the negative environmental impact of the traditional bleaching method slowly spread to larger groups in society, the breakthrough coming in 1986-1988, when seals on Sweden's west coast died on a massive scale. The waters were poisoned by blooming algae and life in the sea was threatened. This led to a massive debate on how we took care of the environment and also became the largest political issue of that year's election. A general feeling spread that immediate action must be taken, disrupting the traditional Swedish attitude that authority was doing what was needed.

In 1988, SSNC published the second edition of a tiny booklet entitled "Paper and the environment," in which environmental criteria for paper were established (they centred on the discharges of AOX per ton of pulp produced; any method of bleaching was acceptable as long as the discharge of AOX complied with the limit values of the criteria).²⁶ Also included were lists of products which adhered to the criteria.²⁷

This action led the organisation of Swedish municipalities to recommend that their members buy their office paper from one particular paper mill in Sweden, whose product adhered to this criterion.²⁸ The paper mill is small and

²⁶ When the Swedish environmental movement published the first edition in 1987 with the title "Unbleached for the Sake of the Environment," it represented a major shift in strategy since all previous action had been directed specifically towards industry and legislators, without much success.

²⁷ It is important to note that this example shows what the SSNC did prior to the establishment of the Good Green Buy scheme. It was, however, how the society came to understand the power of mobilised consumers.

²⁸ The paper mill is Munkedal, a tiny mill on Sweden's west coast.

did not at that time have a market share of any significance. The recommendation clearly threatened the current balance of power on the market.

The combination of straightforward product recommendations to individual consumers as well as information to large consumers re-configured the Swedish paper market in just a year. When "true" demand was revealed, paper mills were forced to change production processes. On the consumer side, the demand for unbleached paper was manifested most clearly in the market for disposable diapers. The market war became fierce and violent and "forced" one of the Swedish pulp mills to become the best in the world when it comes to low discharges of chlorine compounds. A side effect of this was that in a few years this particular mill had more orders than it could meet from the rest of the world, which of course led to a unique position in terms of pricing their product--not a bad side effect from being "forced" to become market oriented.²⁹

In just two years anything but unbleached or environmentally friendly bleached fibre became impossible to sell on the Swedish market. The result for the environment is that discharges of chlorinated organic compounds from the pulp and paper mills have been reduced from 175,000 metric tonnes/yr to less than 1,500 tonnes/yr today.

When the Good Green Buy scheme was established late 1989, the first generation of criteria for paper and pulp were identical to the demands published in the earlier mentioned booklet. Establishing criteria like the AOX limit was very successful and dealt with what we felt at that time was the top priority problem when it came to the paper and pulp industry. In order to get the process started we decided to leave other aspects of the production process for the future. Having reduced the problem of chlorine compounds, other problems have arisen as important. Our current criteria (generation 4) focuses on issues like sustainable forestry management and energy consumption in production, apart from chemical issues.

Case 2 - Batteries

In 1989 SSNC produced the first Good Green Buy criteria for AA batteries. The criteria stated that in order to receive the label a battery could have a maximum

²⁹ One indication of the impact from environmental demands put forward by ecolabelling is that environmental investments as a share of total investments during the period 1988-1992 rose from 13% to 29%. According to Göran Phorse of Pappersgruppen, ecolabelling was the major reason behind this (Kronblad and Lagerstedt 1995).

content of 25 ppm of heavy metal (Cd and Hg). It was already known that heavy metal free rechargeable batteries existed and one could suspect that new technology dramatically reducing heavy metal content also existed for disposable batteries.³⁰ Sweden had also adopted legislation in 1989 that prohibited sales of batteries with a heavy metal content of more than 250 ppm (ten times the hurdle in our criteria).³¹

When launching the criteria, the SSNC bought a range of batteries and analysed their heavy metal content. By chance an illegal batch of batteries containing 4,000 ppm was found. The producer happened to be the market leader in Sweden at the time. As a consequence of the publication of the test results in the SSNC magazine, the producer lost a contract with one of the retailing chains as well as enormous amounts of good-will (SSNC 1990). But they were also given an enormous incentive to gain back some of the lost good-will. Within six months they introduced the first heavy metal free single use (not rechargeable) AA battery on the Swedish market. The rest of the producers followed suit within the following six months. New heavy metal free batteries were introduced and the old ones were withdrawn from the Swedish market. Since the Swedish market for batteries could probably best be described as an oligopoly it was not really disturbed. After the initial turbulence the same companies dominated supply, but the product was completely new.

This change would have occurred eventually but it would have taken a much longer time without SSNC action. For example, in 1992, two years later, heavy metal free batteries were still nowhere to be seen in Finland. The Finnish competent body, giving its views on proposed criteria for batteries within the Nordic labelling scheme, commented that they had heard of heavy metal free batteries, so perhaps the criterion could go as far as demanding zero heavy metal content.

³⁰ Already in 1988, when the author was researching the battery industry for new environmentally benign alternatives, material from VARTA described the new rechargeable batteries based on NiH-technology. They were not introduced in any market, however, which seemed to be a case of "cash-cow" mentality--when a product has reached maturity and is paying back maximally to the investor, thereby discouraging the introduction of newer products which generate lower profit per unit.

³¹ The SSNC criteria was not legal or binding since it was defined within a voluntary ecolabelling scheme.

Case 3: Detergents

In 1990, when the SSNC established a collaboration with Swedish retailers, one of the first criteria developed was for detergents. Detergents constitute a major chemical product among those consumed by households. In Sweden, yearly consumption is in the magnitude of 50,000 metric tonnes. In order to reduce the environmental burden from detergents criteria were defined which allowed 1-2% of the products on the market to be labelled.³²

Needless to say nothing much really happened. The retailing chains did not have any products to label, the consumers could not find any labelled products in their ordinary shops and the retailers claimed that demand was non-existent. One could see that there was a need to convince one of the major detergent brands on the market to introduce an ecolabelled product. Since retailing is highly centralised in Sweden, the selection of products is largely the same across the country. Any producer selling to the major retailers has to be able to supply products, sales support and marketing on a national scale. It was decided that it was necessary to target the largest producer, as small producers, no matter how environmentally friendly their products, face these almost insurmountable barriers to market access. The SSNC therefore sent Lever a letter asking them to fulfil their responsibility as the single largest polluter in the detergent market, and pointed out to them that by introducing an ecolabelled product they could reduce the environmental impact of certain substances by up to 30%. They replied that there was no customer demand for other types of detergents than the ones they already supplied, and that they were extremely hard to manufacture without sacrificing product performance.

One month later the SSNC asked Swedish consumers to boycott the number one brand, VIA, manufactured and owned by Lever.³³ Although the society normally keeps a rather low profile, the boycott was highly publicised.

³² The hurdles in the criterion were defined according to environmental properties of substances used in the products, but since this was an initial stage of defining criteria for the product group, knowledge of the actual market composition was rudimentary in terms of how products supplied were composed. Aiming at any degree of market share therefore involved a measure of guessing.

³³ The SSNC and the Shop and Act Green Campaign campaign every year on green consumption issues during an Environment Friendly Week. Two weeks before this campaign in 1991, a brochure was distributed to the active members of the society, giving them the rationale behind the boycott and also instructing them on what to argue when talking to the public. Our local societies then incorporated the boycott in their Environment Friendly Week campaign strategy, which gave it wide notoriety.

Furthermore it alerted consumers that washing your clothes has an effect on the environment. It also gave Lever something to think about since they started losing sales. It took them about six months to react to the boycott, at which point they introduced the first multinational ecolabelled detergent on the Swedish market. The previously labelled products were both domestically and foreign produced but none came from a large company. The multinational product quickly became a number one seller, as we predicted it would. When our criteria were first published in 1990, the market share for ecolabelled products was hardly measurable. Three years later it was approaching 50%. Currently the market share of ecolabelled detergents is around 90%.³⁴

These examples point out the necessity of combining potential consumer strength with ambitious but feasible criteria. The other very important issue is to raise opinion for purchasing ecolabelled products once they are on the shelves. Unless producers feel that the label adds to their market edge they will not continue to support it, market it, and supply it. Eventually the labelling becomes self-enhancing in a sense. Once established, producers strenuously support this quality and consumers demand it to a higher extent and in a broadening range of products.

The existence of a private Swedish scheme like that of the SSNC helped promote the establishment of the official Nordic White Swan programme in Sweden. Also, since the Good Green Buy scheme has been operated in parallel to an ongoing campaign called "Shop and Act Green," the society has the ability to mobilise active members in consumer campaigns and in campaigns directed towards local retailers. The detergent boycott forced the producer to introduce an ecolabelled product (and incidentally Lever chose to label their product with the Nordic Swan and not the SSNC label). Once the ice was broken the other multinationals, Colgate-Palmolive and Proctor and Gamble, soon followed suit. The Nordic Swan has had breakthroughs in those segments where parallel criteria within the Good Green Buy scheme existed first.

Retailers play an important part in promoting labelled products through their suppliers. Retailers are the real consumers in the market: what they choose is

³⁴ Since 1992, when multinational resistance to ecolabelling was broken, the composition and strength of the producers on the market has changed, not so much as a consequence of ecolabelling as such, but rather in conjunction with the trend where generic brands capture larger segments of the market since the retailers promote these in favour of brands from outside suppliers. As a consequence the market share of the multinational products has probably diminished compared to that of the generic products (which are all based on environmental strategies).

what their customers can choose from. At the same time, retailers have the best contacts with consumers and know first-hand what their preferences are. When they chose to forward these environmental demands to their suppliers it resulted in labelled products on the shop shelves.

In the other Nordic countries the White Swan is not as common as in Sweden, and there exist no parallel private ecolabelling schemes. It is naturally hard to speculate what the situation in Sweden would have been like without the Good Green Buy scheme but it is likely that Sweden would not have seen market shares of 90% for ecolabelled detergents.

Essential elements of any successful ecolabelling scheme

Based on the evidence of the EU Flower and the three Swedish cases, the final part of this paper identifies essential elements of any successful ecolabelling scheme. These elements are grouped under eight headings.

1. Clear ambitions

In order to attract public participation, any scheme should be based on a policy clearly defining its scope, objective and strategy. Ecolabelling must be considered one of the tools for developing sustainable society, not a universally applicable measure which diminishes the importance of fiscal or legal instruments. A functioning market with ample competition and high consumer participation provides a potential for rapid transition. Markets characterised by monopoly, or oligopoly, demand different strategies where market pressure has to be utilised in other forms. The strategy of the scheme should also include long-term objectives in order to avoid short-term gains which prove to be long term mistakes.

In order to fulfil the long-term objective of reaching a sustainable society, any ecolabelling scheme must be able to advocate changes in behaviour as well as changes in products. Buying ecolabelled products is only half of the solution, the other half being proper usage and reductions in overall consumption levels. Since a tiny label cannot communicate this, the scheme must be supported by consumer or environmental organisations with the objective of educating consumers.

Clear ambitions also apply to the environmental priorities and working principles. In Sweden, legislation concerning chemical substances contains what is called "The principle of substitution". In short, the spirit of this principle

is that substitution of a substance should occur, regardless of concentration, if there are alternatives available with reduced environmental and health effects. This principle should be incorporated into the criteria of all ecolabel schemes, so that no harmful substances can be accepted, even in very low concentrations, if there are altogether better substances available.

2. Independence

In order to gain credibility, which is a prerequisite for consumer acceptance, ecolabel schemes must be independent with respect to the source of finance and the input of knowledge or information. Any system relying on the financial cooperation of the producers will find it difficult to balance between its own ambitions and the ambitions of the producers. Most producers oppose any system that disqualifies a majority of the existing products on the market.

Unless the establishment of criteria can be based on reliable, accurate and up to date information, the process can become strenuous and erratic. A lot of competence is naturally found among producers, and their participation during the drafting stages omits obvious mistakes. The best mode is to find a scheme which affects the producer more seriously if the criteria are ill-formulated and erratic than if they are based on accurate information.

Independence does not mean that criteria are neutral. Criteria are formulated to promote excellence and are based on the assumption that visibility is a necessary prerequisite for success. Naturally this favours currently marketed products which already deliver excellence. Financial independence means that the establishment of criteria should not be held hostage by those whose commercial interests depend on the outcome. In the case of the SSNC, financial support from retailers was structured so that resources come out of overall sales profits, not only from sales of labelled products. In order to guarantee that the retailers cannot exercise undue influence over criteria formulation, SSNC has the sole right to the final decision on all criteria. Since it is not in SSNC's interest to perform criteria formulation based on erratic or biased information, the process leading up to a criterion involves several hearing stages in which as many stakeholders as possible are invited and contacted. The SSNC risks its entire credibility every time a criterion is published. Credibility is what draws in society members, who in turn provide the mandate to act for the environment, not only in ecolabelling issues but also in all other aspects of our work.

3. Non-discrimination

The system must be accessible to all producers, regardless of their size. Most small producers are more motivated to adhere to new criteria than large ones. This can be attributed partly to the difficulty of gaining access to the market unless helped by a unique quality. An ideal scheme should be designed in such a way that it does not discriminate amongst producers on the basis of size or financial strength. Most official schemes are financed by taxing participating products through licensing fees or turnover related fees. This constitutes a cost burden on desirable products. Instead, products not complying with environmental criteria should face an environmental tax in order to offset their negative environmental effects.

4. Maximum market impact

In reaching ambitious environmental objectives, ecolabelling schemes must formulate criteria which take into account the actual market situation. Maximum impact is a consequence of the speed at which new improved products can be introduced, as well as how easy it is to reformulate existing products according to the demands put forward in the criteria. The same effect can be reached by placing extremely strict demands on a few items or from small reductions on large numbers of items. But effective schemes never attempt to place labels on all products in the market at the same time. Equally important, there is little scope for improving an environmental situation if the criteria established depicts some "best" product still on a drawing board.

5. Consumer participation

Especially in the initial stages consumer demand has to be organised and catalysed. Participation of consumers in this context involves any party acting as a consumer, the larger the better. One such example is government or state owned enterprises, who can specify the products desired through large-scale procurement policies. Producers then have to consider either being able to supply, and therefore having to meet the demands, or forfeiting this large market segment.

Individual consumers are traditionally very weak, especially if the market consists of monopolies or oligopolies. This was certainly the situation in Sweden when SSNC started its own scheme. Consumers were environmentally concerned but the highly standardised assortment of available products offered little scope for manifesting this demand. Unless consumer voices had been organised and heard, very little would have happened.

It now appears that the strategy among the large producers has changed. Instead of neglecting the demands, they now all strive to adhere to the criteria in order to avoid a competitive disadvantage. If this situation is prolonged, the products are environmentally improved but the development process is halted. To move beyond this plateau, consumers have to be informed and re-mobilised. To do this, both environmental and consumer organisations with high credibility and good channels to consumers are needed.

This also implies that, as a prerequisite for their success, consumer and environmental organisations should be well represented and have strong influence in the boards or steering committees of ecolabelling schemes. Unfortunately, in the official systems currently operating the opposite is often the case.³⁵ This is a consequence of many factors, mainly that their lack of funds undermines the ability of these organisations to devote personnel to time-consuming work in sub-committees and expert working groups.

Judging from experience, any system influenced by producer interests has a hard time installing schemes or criteria that will actually have an effect on the market. It is impossible for producer organisations to combine protecting the financial interests of their members with participation in a scheme where 80 or 90 percent of their members may be disqualified. Thus the high aspirations of consensus models are in vain.

6. Transparency

In order to avoid criticism, ecolabelling schemes must be transparent. The reports or investigations constituting the basis for the criteria document should be public. Openness is a prerequisite for long term credibility by making external reviews of the work possible. Another important aspect of this approach is that unpublished data from producers cannot be accepted as a basis for criteria. Only by publishing their findings and expanding the available knowledge can producers legitimately influence the process. The mode by which to construct transparency can vary. In the system designed by SSNC, a transparent and strict mode has been applied. Actual criteria formulation consists of a number of "hurdles" which must be jumped by the producer interested in attaching the ecolabel to their product. SSNC has also been

³⁵ The drafts presented at the second meeting of the working group of government experts on the review and revision of Regulation 880/92 show that even the EU scheme will completely marginalise interest groups by eliminating the Consultation Forum when the EEO is established (EC 1996d). When formal consultation is not stipulated, informal consultation and lobbying takes place, and, as discussed earlier, is dominated by commercial strength.

working with two-level criteria that give advance notice of what the next step will be in the revision of the criteria. This gives producers a goal when considering reformulating or redesigning their products.

The other type of criteria commonly used, discussed previously as a matrix, is preferred by producers because it introduces greater flexibility by allowing trade-offs between parameters. However, this system sacrifices transparency, as it is almost impossible to gain access to the specific environmental merits of a certain labelled product unless one is actually on the evaluation board.

7. Cost efficiency

If a scheme has high costs and low output, dynamics of the system are lost to the detriment of the environment. This disqualifies strict Life Cycle Assessment methodology as a basis for criteria formulation. As discussed earlier, designing and evaluating LCA is a process beset by disagreements. Waiting for this process to reach a consensus might involve lengthy delays or create permanent policymaking paralysis, leaving consumers with no guidance whatsoever.³⁶

Cost-efficiency, needless to say, implies that large bureaucracy should be avoided. Our system has been able to do so, producing criteria at approximately 25% of the cost incurred by the Nordic scheme for corresponding criteria.

8. National rather than international action

Developing an optimal national system which aims to diminish environmental impact from consumer products is rather hard to combine with the ever increasing internationalisation of trade. In the long run, it is reasonable to assume that the technical structure will converge. In the meantime it is better to regard ecolabelling as a rather local activity, and at best strive for some international consensus concerning the basic goals. One way could be to

³⁶ In December 1993 the European Commission set up the Groupe des Sages (GdS) to advise on the role of LCA in the EU ecolabelling programme. The GdS met four times and produced a first report in September 1994. The GdS concluded that LCA can make a significant contribution in providing a scientific, unifying and transparent basis for the EU ecolabelling programme. At the same time it was concluded that LCA is still a developing methodology, requiring additional research and systematic data collection to improve its application. In the long run, the results of this research should also be brought in line with ISO standardisation (Groupe des Sages 1995).

incorporate international agreements, for example those on CO₂ and CFC reduction.

Any market based instrument needs to be developed with a thorough understanding of how the market in which it exists functions. If, for example, all EU consumers have the same preferences concerning product performance and how products are used, uniform ecolabelling criteria are logical. If, on the other hand, consumers have differing preferences and use products differently, ecolabelling must adapt to its target consumer group, be it local, national or international. Since ecolabelling is voluntary from both a consumption as well as a production point of view, it needs to attract consumer acceptance by being perceived as logical and to the point.³⁷ Thus a basic set of common EU parameters can be the basis for national labels where additional national criteria are accepted. In the long run this will permit a convergence of criteria when preferences and environmental priorities converge, but in the short run it is "think global, act local" that should guide the design of ecolabel programmes.

Conclusion

Because it is a market steering mechanism, in order to be successful an ecolabel has to be situated in a functioning market. New alternative products must be able to gain access to the market, and all agents in the market, producers as well as consumers, must be able to get information.

Good ecolabelling concentrates on factors that are logical to the consumer. Any consumer would like to understand why their purchase improves the situation and why the previous choice was detrimental. The long term objective of ecolabelling is to educate consumers in order to give them knowledge of environmental effects of consumption and to give them strength enough to be able to make informed purchase decisions, thereby maximising market efficiency. If criteria are set at a level which leaves a sufficient percentage of the market above the limit, then demand can shift consumption patterns as traditional products lose market share.

³⁷ Within the EU scheme the question of water use has been raised by Spain, where shortage of water is a pressing issue. Consequently the Spanish would like to promote water reduction in any criterion where this is possible, whereas other member states attribute much less importance to this issue. Spanish consumers might view the omission of water efficiency as particularly illogical, and could prefer products which highlight this concern over EU-labelled ones which do not.

Ecolabelling and market tools in general depend upon the willingness and ability of consumers to accept the role of agents responsible for a part of countering environmental impacts. Still, consumers need to be empowered to be able to do this at the same time that governments are abandoning traditional protective legislative or fiscal measures.

In the case of the EU these issues are readily apparent. Completing the single market and expanding trade is the objective, which leads to increased environmental degradation. The current withdrawal from corrective measures like legislation or fiscal instruments (for example the CO₂ tax) and the increased reliance upon market instruments and voluntary agreements is a dubious means of achieving the environmental goals previously agreed upon. But whether ecolabelling represents a panacea or a Pandora's box cannot really be answered yet, as it all depends how the Commission drives the revision of the regulation.

For instance, the Commission could utilise its own buying power and only buy products that adhere to the criteria developed within the EU Flower scheme. Current producer resistance to apply for the label would only result in the loss of a huge customer. Unless the Commission tries to adopt a much more dynamic mode of operation, the EU scheme will never become more than a tiny niche; national official schemes will struggle on at a slightly higher impact level and private schemes like the one my organisation operates will be the exception to the rule--that ecolabels are not tools for change.

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