FUND FOR RESEARCH INTO INDUSTRIAL DEVELOPMENT, GROWTH & EQUITY

Global Review of Eco-Labels: Implications for South Africa

EXECUTIVE SUMMARY

January 2003

Authors

Jonathon Hanks, Eckart Naumann, Bas Kothuis, Jenny Hall

Common Ground

BECO Institute for Sustainable Business

Environmental Counsel CC

commonground

BECO
Institute for Sustainable Business

environmental counsel cc

Background to this study

This study was commissioned by the Fund for Research into Industrial Development, Growth & Equity (FRIDGE), a sub-committee of the Trade & Industry Chamber of the National Economic Development and Labour Council (NEDLAC). The study was initiated by the Environmental Section of the EIDD division of the Department of Trade and Industry, who serve as the project leader for this study. The main objective of the study is to inform decision making – as part of the Integrated Manufacturing Strategy – regarding the feasibility and appropriateness of developing a national eco-labelling scheme in South Africa and/or facilitating access to existing labelling initiatives of key trade partners. This is based on an assessment of the state of eco-labelling abroad as well as market access issues, and on an evaluation of relevant market conditions in South Africa.

Core assumptions

The following core assumptions were made in undertaking this research:

- The focus of this report is on multi-issue, voluntary labels that are designed to apply to a small proportion of products in a product category, and that are subject to independent third-party verification ("ISO Type I" eco-labels).
- Following from the above assumption, the reference throughout this text to "eco-label" (unless otherwise specified) is to ISO Type I labels.
- The study specifically excludes an examination of:
  - The potential for tourism-related labels within South Africa;
  - The use of eco-labels in foodstuffs;
  - The role of voluntary labelling initiatives administered by NGOs (such as that administered for example by the Forest Stewardship Council);
  - The development and use of "social labels".

Methodology

The research for this project was undertaken primarily through desktop research and analysis utilising a variety of primary and secondary information sources. This research was complemented by interviewing a number of key players, locally and internationally. The literature review made extensive use of the work undertaken by organisations such as the Organisation for Economic Co-operation and Development (OECD), the US Environmental Protection Agency (EPA), the World Trade Organisation (WTO), the Nordic Council, and the International Organisation for Standardisation (ISO), as well as drawing on information available from the various national and regional labelling bodies. A list of research sources is provided in the References sections of the two reports. Undertaking a detailed separate market analysis of South African producers and consumers was beyond the study's scope.

Authors of the Report

The study was undertaken by a consortium of consultants comprising Common Ground, BECO, and Environmental Counsel. The authors of the report were Jonathon Hanks (Common Ground), Eckart Nauman and Bas Kothuis (BECO) and Jenny Hall (Environmental Counsel). Jonathon Hanks managed the project and served as the lead author.

Note on this document:

This document constitutes the overall Executive Summary for the eco-labelling study. The document comprises a brief summary of the study as a whole, as well as including more detailed individual summaries for each of the Phase One and Phase Two Reports.

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Executive Summary

This report summarises the outcome of a two-phase process aimed at providing clear strategic direction regarding the appropriateness and feasibility of implementing a national (ISO Type-1) eco-labelling scheme in South Africa.

- Phase One of the study reviewed the experience with implementing eco-labelling programmes in a number of developed and developing countries/regions, and identified the broad implications of this experience for the possible establishment of an eco-labelling programme in South Africa.
- Phase Two of the study built on the findings of Phase One, and focussed on assessing the general implications of the EU labelling scheme for South African exporters and policy-makers.

Summary of Key Findings

Following is a brief outline of some of the key findings of the eco-labelling study. This summary is not a substitute for reading the detailed reports that provide a more nuanced assessment of the issues.

- The global review undertaken in the Phase One Report is instructive in identifying the process and administrative structures that would be required in implementing an eco-labelling initiative in South Africa, as well as highlighting key conditions conducive to an effective labelling initiative. On the basis of the global review and an assessment of the South African context, it is recommended that if government's principal objective in examining eco-labelling is to promote access to foreign markets, then efforts should focus on facilitating compliance with foreign schemes rather than developing a local labelling initiative.
- With the aim of identifying the measures that government could adopt to facilitate compliance with the EU Eco-label, the Phase Two Report analyses trade flows between South Africa and its five most important EU trade partners, quantifying export performance for each of the product categories covered by the EU Eco-label. (The Report focuses exclusively on the EU Eco-label as the EU constitutes South Africa's principal trading partner by region, as well as being the trade partner where eco-labelling has the greatest level of adoption). The Report also reviews the labelling criteria for each of the product categories covered by the EU Eco-label and assesses the implications at a general level for local producers/manufacturers seeking to comply with the criteria.
- On the basis of the trade analysis, it is suggested that – with the exception of textiles – South Africa does not enjoy major export market penetration in any of the product categories for which EU eco-labels exist. Furthermore, recent international studies suggest that there is little evidence of eco-labels hindering foreign exports from developing countries in general. In current circumstances, eco-labelling is thus not seen to constitute a meaningful trade barrier to local exports. This observation is further supported by the fact that in the instance of the sector potentially most affected by labelling (textiles) there is no evidence of labels currently constituting a significant marketing benefit.
- Notwithstanding this observation, it is appreciated that there is the potential that in future eco-labelling may be used as a non-tariff technical barrier to trade. With the aim of assisting relevant companies to qualify for the label in the most cost-effective manner, government has a potentially important catalytic role to play. These activities – some which may be undertaken as part of the Department of Trade and Industry's existing export incentive initiatives – include for example: monitoring and informing producers of ongoing developments in eco-labelling, supporting additional research in key areas, providing incentives to companies to acquire labels, building capacity on the environmental aspects of products, and examining the potential for innovative policy instruments.
- In terms of promoting sustainable consumption and production in South Africa, it is recommended that consideration be given to various innovative policy options that may be introduced as a possible substitute for a national eco-labelling initiative. Should the government nevertheless choose to promote the development of a local eco-labelling initiative, it is recommended that this be pursued by building on the activities of the Proudly South African campaign.

1 Phase One Report – Global Review of Eco-Labels

The Phase One Report provides a review of the implementation of ISO "Type I" eco-labelling initiatives around the world, and undertakes an initial general assessment of the implications of these initiatives for South Africa. In doing so, the report:

- ***Introduces the concept of eco-labelling, noting the different recognised types of eco-labels, and providing a brief history of the development of ISO Type-1 labels;***
- ***Reviews the eco-labelling schemes in a number of specifically chosen developed and developing countries, outlining the key administrative structures and processes that are used in implementing the initiative;***
- ***Assesses the general impact of the various labelling programmes, noting in particular (and as far as possible) the market impact, environmental effectiveness, trade effects and general economic efficiency of each programme;***
- ***Undertakes a specific analysis of the European Union experience with eco-labelling;***
- ***Provides an initial assessment of the implications for South Africa of introducing an eco-labelling programme.***

1.1 Introduction to Eco-Labelling

An eco-label is a market-driven environmental policy instrument aimed at promoting the development of environmentally preferable goods and services through the power of consumer choice. There are a number of different recognised types of environmental labels that may be distinguished in terms of the following criteria: the nature of the verification process; whether the label is "positive", "negative" or "neutral"; whether it is mandatory or voluntary; and whether it is of a "report-card", "seal-of-approval" or "single-attribute format."

The focus of this study is on multi-issue, voluntary labels that are designed to apply to a small proportion of environmental best-in-class products in a product category, and that are subject to third-party verification. The aim of these "ISO Type I" eco-labelling initiatives is to communicate verifiable and accurate information on the environmental attributes of goods and services, based on a set of defined environmental criteria, with the goal of changing consumer behaviour and thereby increasing the demand for, and supply of, environmentally preferable products and services. Consumers include individual retail consumers, as well as the procurement officers of governments and large corporations. Increasingly, the methodologies used to evaluate products' environmental attributes examine the impact of a product through its entire life-cycle, from raw material extraction, through production, to use and final disposal.

Following the introduction of the first national eco-labelling initiative in Germany in 1977, labelling schemes have now been introduced in almost every OECD country, as well as a number of developing countries. Most of these eco-labelling programmes share a broad set of similarities in the process and administrative structure that they adopt. The process of developing and administering an environmental logo to relevant products typically entails:

- Defining the product category – this is often undertaken by a central decision-making board comprising relevant stakeholder representatives and experts

- Developing award criteria for the product category – usually on a life cycle basis, involving expert and stakeholder input
- Undertaking a process of public review and adopting the final criteria
- Evaluating the product against the agreed criteria, issuing a licence to successful applicants
- Reviewing the criteria and renewing applications on a regular scheduled basis

The implementation of this process is typically ensured through the use of an administrative structure that shares the following characteristics:

- There is usually some level of government involvement (typically the national environmental agency) in administering the system and/or providing advice and funding.
- Most of the responsibility generally rests with a central decision-making board, usually comprising representatives from: government, business, consumer groups, academia, and environmental groups
- The development of the award criteria typically requires the inputs of technical experts; this may be provided by standards-setting organisations, consultants, research bodies, academics, and/or ad hoc working groups for specific product categories.

1.2 Impacts of labelling initiatives

Studies into the impact of labelling initiatives generally support the following observations:

- The success of an eco-labelling initiative is dependent on a number of factors including in particular the level of environmental awareness and purchasing power of consumers, the credibility of the label amongst consumers, and the nature of the market for the eco-labelled products.
- The impact has been greater when labels have been a requirement imposed by retailers and/or used within government procurement and institutional purchasing programmes.
- Most programmes have required significant budget allocations to marketing the initiative both amongst producers and retailers, as well as consumers.
- Most initiatives have required some level of government financial support, often on an ongoing basis.
- The environmental effectiveness of the programmes has been difficult to evaluate, owing to the inherent difficulty in identifying and quantifying environmental impacts related to specific product and user groups.
- Although concerns have been voiced by a number of parties on the potential restrictive nature of labels on trade flows and market access, there is currently limited hard evidence to verify and support this.

The EU Flower

The European Union is South Africa's most important trade partner, and is one of the most active regions in terms of implementing eco-labelling. For this reason, this report focuses in particular on the EU labelling initiative. While there are a relatively large number of well-

established national eco-labelling schemes among EU Member States, economic, social and legislative integration of the EU market has lead to the establishment of an EU-wide eco-labelling program based on harmonised technical standards. For this reason, the predominant focus of this report is on the EU eco-label.

This European Union eco-label scheme – also known as the EU Flower – was established on 23 March 1992, and recently revised in July 2000. The aim of this revision was to streamline the scheme, widen the scope to include services, introduce decreased fee structures, increase the transparency of the scheme and improve stakeholder involvement. The Commission will review the scheme again before the end of September 2005.

The main aims of the scheme are to promote the design, production, marketing and use of products that have a reduced environmental impact throughout their entire life cycle, and to provide consumers with better information on the environmental impact of products. It is a voluntary scheme, with product criteria having been developed for 18 product groups to date. Criteria for a number of further product groups are currently being developed. Products covered by the scheme are typically everyday consumer goods bought in supermarkets and shops. Although the scheme has had a slow start, the rate of companies applying for an EU eco-label has increased significantly in the year 2000.

The underlying idea behind the creation of the EU eco-label was to ensure consistency in the application of environmental criteria across Member States. The EU eco-label, being the result of a common EU policy, is thus intended to become *the* environmental reference with regard to consumer products. This does not mean that national eco-labels and the EU eco-label cannot co-exist; however the regulation requests Member States and the European Commission to ensure co-ordination between the EU eco-label and other national schemes, particularly in the selection of product groups and the development and revision of the criteria.

To assess the potential impact that the EU eco-label may have on South Africa, trade data between South Africa and the EU has been analysed, focussing in particular on those product categories for which an EU eco-label exists. The assessment highlights that, with the exception of tissue products, every eco-label equivalent (broad) product category manufactured in South Africa is exported to the EU. The category with the highest volume of South African exports, namely textile products, is exported to over half of the EU Member States, including the UK, Italy, France, Germany and The Netherlands. The potential implications for South African exporters of complying with the EU Flower are assessed in more detail in Phase II of this study.

1.3 Policy Options for South Africa

A key question underlying this study is whether to develop and implement a domestic eco-labelling initiative, or whether to assist relevant South African exporters in complying with existing labelling schemes, thus improving actual and potential access to the EU market. This choice is dependent on government's principal underlying objective for considering eco-labelling issues, namely: as a means of facilitating access to international markets, or with the goal of improving environmental production and consumption within South Africa. (This report is guided by the stated preference by the FRIDGE Counterpart Group that the focus be on ensuring that local exporters maximise any potential trade advantages associated with labelling schemes).

Introducing a South African Eco-Labelling Scheme

Developing a locally established system is most appropriate where the principal goal is to foster environmentally improved production and consumption within South Africa. A principal reason for this is that the scheme could be specifically tailored to provide for the local environmental, consumer and business conditions. Based on the international review of labelling initiatives, it is clear that there would be some significant resource implications associated with developing such a scheme in South Africa. These include for example

- Establishing the required institutional and procedural mechanisms for identifying appropriate product categories and for developing relevant environmental criteria, ensuring sufficient participation of relevant stakeholders;
- Assessing whether there would be sufficient market advantages associated with having an eco-label, and whether there may be scope to integrate labelling initiatives within government and/or retailer procurement initiatives;
- Investing in effective marketing activities aimed at increasing consumer awareness and motivation;
- Implementing a system for administering producer applications and certifying conformance with the agreed standards.

Some of these issues are currently being addressed as part of the Proudly South African initiative. In terms of the goal of using product labels as a means of stimulating improved environmental performance within the domestic South African market, it is recommended that efforts should focus on further developing the environmental component within the Proudly South African campaign, rather than developing a completely separate initiative. Not only would a separate initiative have significant resource implications associated for example with the establishment of a separate administrative structure and marketing programme, but there is also the potential for added consumer confusion in having a plethora of labelling initiatives.

Facilitating Compliance with Foreign Schemes

If government's principal objective in examining eco-labelling is to identify means for promoting access to foreign markets, then it is suggested that developing a separate domestic labelling initiative is the not the most effective approach. Instead the focus should be on facilitating compliance with foreign schemes. Some of the key advantages in such an approach (over establishing an independent domestic eco-labelling initiative) include:

- The existing foreign scheme is likely to be already widely recognised, accepted and respected, without having to invest heavily in developing a local scheme and actively marketing this scheme to stakeholders abroad;
- Compliance with the existing eco-label is possible in the short-term, as the procedures for obtaining the label are already well established and in most cases relatively easy to undertake;
- Government does not have to take direct or short-term responsibility, thereby minimising financial costs and internal administrative implications.

In terms of facilitating compliance with an established eco-label, the following issues need to be considered:

- Identifying the most appropriate industry sectors and/or products that would benefit in acquiring an external label, particularly with respect to current and potential export market penetration;
- Evaluating whether there is sufficient market demand for the particular label and whether the market benefits of qualifying for the label will offset any associated costs;
- Identifying the most appropriate labelling scheme within the respective export market;
- Assessing the implications for exporters of complying with the foreign scheme.

Government has a potentially important catalytic role to play in assisting relevant companies to qualify for the label. These activities, which may be undertaken as part of the Department of Trade and Industry's existing export incentive initiatives, include for example:

- Identifying and prioritising the most appropriate industry sectors and labelling initiatives for which there is seen to be meaningful export benefits;
- Informing and advising relevant stakeholders on the potential benefits of acquiring the label;
- Providing assistance and/or incentives to companies to acquire the relevant label.

The nature of these implications is examined further in Phase Two of the Study.

2 Phase Two Report – Implications for South Africa

The Phase Two Report assesses the implications for South African exporters of foreign eco-labelling schemes, with a specific focus on meeting the criteria of the EU Flower. Building on the findings of the Phase One Report, this Report aims to provide clear strategic directions for consideration by the Department of Trade and Industry and the FRIDGE Counterpart Group. [1]

In achieving its objectives, the Phase Two Report:

- ***Provides a brief general review of key issues relating to international trade and eco-labelling;***
- ***Describes the make-up of South Africa's trade by beneficiation over the past five years;***
- ***Analyses trade flows between South Africa and its five most important EU trade partners*** [2] ***(thereby covering in excess of 80% of South Africa's trade with the EU) using trade data based on the internationally accepted Harmonised System (HS) nomenclature. The report examines each of the product categories covered by the EU flower, and quantifies South Africa's export performance for these categories in the country's five most important EU trade partners: Germany, the United Kingdom, Italy, the Netherlands and France. On the basis of the trade analysis, the report identifies those manufacturing sectors where eco-labelling could be of greatest potential relevance in South Africa in terms of increasing market competitiveness and current export market penetration;***
- ***Undertakes a comprehensive review of the labelling criteria for each product category covered by the EU Flower, and assesses the implications at a general level for local producers / manufacturers seeking to comply with the criteria, focussing in particular on the data that companies may need to collect to ensure compliance.***
- ***On the basis of this review, the report assesses the general implications for government in fostering an enabling environment for South African companies wishing to comply with the eco-label criteria. In doing so, the report provides a very brief overview of product-based policy options aimed at reducing the environmental impact of production and consumption patterns, including in particular assessing the potential and implications of further developing the environmental component within the existing Proudly South African campaign***
- ***Identifies areas for future research.***

2.1 Eco-labelling and international trade: A brief review

Until recently, the issue of eco-labelling was generally considered by international organisations predominantly in the context of changing consumption patterns, and not as a major trade issue. Recently, however, there has been a growing focus within various

[1] Note: The second phase of the study is based on the assumption that the overriding objective of any eco-labelling initiative in South Africa would be to facilitate access to foreign markets. On this basis, and building on the findings of the Phase One Report, the principal focus of the Phase Two Report is on identifying the implications of facilitating certification in terms of foreign schemes (focusing on the EU Flower), rather than on developing a uniquely South African labelling initiative. A key issue here is that of market access. With regard to using product labels as a means of stimulating improved environmental performance in the domestic market, the study will briefly examine the potential and implications of further developing the environmental component within the Proudly South African campaign.

[2] As the EU constitutes South Africa's principal trading partner by region, as well as being the trade partner where eco-labelling has the greatest level of adoption, the report focuses exclusively on the implications of the EU Flower. This is also in accordance with the specific project terms of reference.

international fora on the relationship between eco-labelling and international trade. This is epitomised for example by the fact that the Committee on Trade and Environment (CTE) of the World Trade Organisation (WTO) has been examining the trade effects of eco-labelling, particularly as regards non-product-related process and production methods (PPM).

Concerns have been raised by various international institutions, as well as by many developing countries, that stricter product standards relating to environmental criteria (for example through the use of eco-labels) are being used – or may potentially be used – as a non tariff technical barrier to trade for protecting developed-country industries. Although it is difficult to estimate the precise impact on international trade of the requirements of complying with foreign eco-labelling criteria, it is clear that complying with such criteria may involve significant costs for producers and exporters in developing countries. These include costs associated for example with gathering the information on the foreign labelling programmes, adjusting products and/or processes to comply with the labelling requirements, and/or implementing appropriate verification measures to demonstrate compliance.

Despite these understandable concerns – particularly as regards pulp and paper, footwear, and textiles products in developing countries – the most recently available international studies on this issue (by UNCTAD, OECD and the EU) have indicated that, in general, eco-labelling *has not resulted in any significant trade effects*. However, over the longer term it is anticipated that as eco-labelling programs increase their product coverage to include more and more products of export importance to developing countries, then the trade impact of eco-labelling may become more significant.

Eco-labelling and the WTO Rules

In terms of the WTO rules, the issue of eco-labels is generally seen in the context that they may be used as a non-tariff technical barrier to trade (TBTs), and that they are thus potentially governed by the WTO's Agreement on Technical Barriers to Trade. There are differing views on the implications of the TBT Agreement for eco-labelling initiatives. Some have questioned whether in fact eco-labels are covered by the TBT Agreement. Others maintain that eco-labels are covered by the TBT to the extent that they convey information about the characteristics of a product itself, but that they fall foul of the Agreement in those instances when they seek to convey information about those processes and production methods (PPM) not embodied in the final product. Another view is that labels may be used to differentiate between products on the basis not just of the final product's characteristics, but also in the way in which they are produced.

The WTO issued a draft ministerial declaration ahead of the Fourth Ministerial Conference that was held in Doha, Qatar, re-emphasising the fact that eco-labelling efforts should not become disguised trade restrictions and calling on the *Committee on Technical Barriers to Trade* to expedite its work on labelling. The reality of the situation however is that as other barriers to trade are removed, eco-labels may potentially be used as a guise for protectionism.

Discussions in various international fora have generally concluded that eco-labelling is a valid environmental policy instrument and that it should be developed and implemented in a manner consistent with fundamental WTO disciplines of non-discrimination and national treatment. A

number of possible solutions to promote the compatibility of trade and environmental interests have been proposed. These include for example: increasing transparency in the process of developing and awarding eco-labels; establishing mutual recognition between eco-labelling schemes and promoting equivalencies between eco-criteria; dealing properly with PPM-related criteria and compliance with local environmental regulations; establishing international principles (such as the ISO eco-labelling principles); and dealing with special need of developing countries and technical assistance.

Whilst the potential impact of eco-labelling on trade and the discussions to address the position, in particular, of developing countries has not been finalised, it will be important for the DTI to keep abreast on the discussions and decisions with a view to assessing the implications for South African trade.

2.2 Socio-Economic Assessment of South Africa vis -à-vis Foreign Eco-Labels

The socio-economic assessment of South Africa vis-à-vis foreign eco-labels concentrates on a undertaking a thorough analysis of the structure of South Africa's trade. Since the agreed emphasis of the Phase Two report is on the European Union's eco-label, trade flows (specifically exports) between South Africa and its main EU trade partners form the core area of emphasis in this regard.

Structure of South African trade by beneficiation

A combined quantitative and qualitative approach was used in determining the likely impact of foreign eco-labels (specifically the EU eco-label) on the South African economy, especially with regard to market access issues. In order to obtain a thorough understanding and reliable indication of this, it was first demonstrated that the South African economy has moved away from its excessive reliance on *raw materials* (e.g. mining) exports towards a situation where *manufactured* products now form the most important broad export category. The benefits of this are manifold: not only does this indicate a lower dependence of and susceptibility to cyclical fluctuations of raw material prices, but the benefits accruing to an economy from such higher value-added production are far more significant. The analysis also shows that, indeed, exports and market access issues have become much greater issues for the current South African economy. As is demonstrated by the more detailed analysis of trade later, though, the theoretical extension that market access necessarily includes issues around eco-labelling does not necessarily apply to the current South African trade regime.

South Africa has engaged in significantly greater value of international trade over the past decade. This is clearly demonstrated in the Phase Two Report, which shows that in the five-year period under review (1997-2001), total trade has increased by 80%. Exports of South African products have recently overtaken imports, and now result in a significant trade surplus. This latter observation demonstrates that South African producers are making inroads into foreign markets at a faster rate than foreign producers are penetrating the South African market.

Analysis of South African Exports in EU Eco-label Product Categories

A broad analysis was undertaken of South Africa's worldwide trade (revealing the dominance of the EU as South Africa's largest trade partner), followed by a detailed analysis of South Africa's exports to its main EU trade partners. An overview of current developments with regard to trade agreements, most notably the SA-EU Trade and Development Corporation Agreement, is provided in order to underline the EU's likely continued importance as a trade partner to South Africa.

This detailed analysis was undertaken in order to quantify current exports to the EU in those categories that are potentially affected by the EU eco-label. For this purpose, it was found that over 80% of all of South Africa's trade with the EU currently occurs with only five countries, namely Germany, the United Kingdom, Italy, Netherlands and France. This concentration of trade therefore allows a quantification of South Africa's exports in the "affected" product categories to these countries to form a reliable indicator of the potential impact that the EU flower may have on South Africa's exports to the EU as a whole.

The quantification of South Africa's exports in the categories where an EU eco-label exists, reveals that South Africa's exports in these product categories are fairly insignificant. With the exception of clothing and textiles, where South African producers enjoy significant export market penetration in the EU, the data for most product categories indicates a negligible impact on South Africa's exports in terms of market access. In other words, South African manufacturers (with the exception of the clothing and textile industries) on the whole do not currently export any significant quantities or value of exports to the EU in the categories for which EU eco-label criteria have been established.

2.3 Implications for Producers / Manufactures of Meeting the EU Flower Criteria

Due to the large variety in the size, market structure and environmental management practices amongst the individual manufacturers within each product category, it is not possible to provide an accurate or meaningful quantification of the cost implications for companies to comply with these criteria. Furthermore there is not seen to be any merit in undertaking such quantification at this stage. There are a number of reasons for this:

- South Africa does not currently enjoy major export market penetration in any of the EU product categories, other than textiles and clothing.
- For those product categories where there is a particular potential for eco-labels to have a meaningful impact (in the longer term), it is apparent from various international studies that at present such labels currently have a negligible impact on export markets.
- When (and if) eco-labels will in fact become a meaningful consideration on local exports, it is highly likely that the criteria will have become more stringent. In this regard it is pertinent to bear in mind that Type I eco-labels, by design, are regularly updated with the aim of ensuring that only the "environmental best-in-class" products are labelled.

Notwithstanding these caveats, it is suggested that there is nevertheless merit in assessing some of the potential implications albeit at a very general level. Such an assessment will be useful in identifying whether compliance with the EU criteria could constitute a potential "show-stopper" for certain sectors in terms of accessing EU markets, or whether in fact most local

companies would be able to comply with reasonable expense. Secondly, it is useful in identifying key activities that government can take to assist local manufacturers in preparing for possible compliance with the EU (and other) eco-labels in the short and longer terms.

On the basis of the detailed review of the labelling criteria that is undertaken for each of the nineteen product categories covered by the EU Eco-label (see Section 4.1 and Appendix 5 of the Phase Two Report) it is apparent that compliance with the EU criteria may have important implications for local producers. While the specific cost implications, and the associated socio-economic impacts (including for example the potential for job losses), will vary significantly on a case-by-case basis between product groups and individual manufacturers, it is nevertheless possible to identify the generic implications associated with meeting the EU criteria. Depending on the nature of the product and the manufacturing sector, local producers and manufacturers wishing to achieve compliance may be required for example to:

- Collate information and technical data on the performance of their products at different stages in the product chain.
- Implement changes either to their production processes and/or to the nature of the raw materials and components that they are using.
- Include specific information on the product packaging that provides information to the consumer on measures to be adopted for minimising the product's environmental impact.
- Implement a take-back policy in terms of which producers will have to offer to take the product back free of charge for recycling or refurbishment, either themselves or through an specially commissioned group.

As noted earlier, due to the large variety in the size, market structure and environmental management practices amongst the individual manufacturers within each product category, it is *not possible* to provide an accurate or meaningful quantification of the cost implications for companies to comply with these criteria. Despite this caveat it is suggested that at a general level – particularly as regards most of the larger companies in South Africa – it is not foreseen that compliance with the eco-label criteria will necessarily constitute a substantial barrier. This initial general conclusion is supported by the experiences from the DANCED (now DANIDA) supported project on Cleaner Production in the South African textile industry, during which a number of companies undertook the procedure of applying for the European textiles eco-label. Initial results of this study indicate that the process of securing certification against the criteria of the EU flower was not too onerous for the South African producers. While it is clear that this experience cannot be seen as necessarily representative for the full range of South African industry sectors, it is nevertheless instructive at a general level.

2.4 General Implications for Government

On the basis of the analysis undertaken in Chapter 4, it is suggested that – with the exception of textiles and clothing – South Africa does not enjoy major export market penetration in any of the product categories for which EU eco-labels exist and appropriate ecological criteria have been drawn up. In current circumstances, eco-labelling is not seen to constitute a meaningful trade barrier to local exports, with there being very little evidence – both in terms of South African exports, as well as from developing countries more generally – of labels hindering foreign exports. Even in the instance of the local business sector that could potentially be most

affected by labelling requirements – textiles – there is no evidence of eco-labelling being identified as constituting a marketing benefit.

Facilitating Compliance with Foreign Eco-labelling Schemes

With the aim of assisting relevant companies to qualify for the label in the most cost-effective manner, government has a potentially important catalytic role to play. These activities, which may be undertaken as part of the Department of Trade and Industry's existing export incentive initiatives, include in particular:

- Monitoring and informing relevant manufacturing sectors of the ongoing developments in eco-labelling, with a particular focus on;
  - Developments in the earlier identified priority sectors in the EU
  - The development of Integrated Product Policy (IPP) in the EU
  - Trends in eco-labelling harmonisation initiatives
  - Developments in relevant international forums (such as WTO, UNCTAD and OECD) relating to eco-labelling and international trade
- Supporting additional specific research initiatives on eco-labelling issues in South Africa (specific possible research area are listed further below)
- Advising relevant stakeholders on the potential benefits of acquiring the label
- Providing assistance and/or incentives to companies to acquire the relevant label
- Exploring the option of providing special assistance to SMMEs through the different schemes housed in the DTI family of institutions.
- Facilitating capacity building in certain areas including product and service life cycle assessments, as well as on the environmental aspects of products and services in general.
- Examining the potential for innovative policy instruments as part of an integrated policy aimed at shifting the focus from process issues towards product-based concerns.

Introducing a Possible South African Eco-Labelling Scheme

For the reasons outlined earlier – and building on the findings in the Phase One Report – it is argued that the development of a South African specific eco-labelling initiative should not be pursued if the principal objective is to improve access to foreign markets in which there are existing labelling schemes. As regards the goal of promoting sustainable consumption and production in South Africa, it is recommended that careful consideration be given to the findings and general implications outlined in the Phase One Report, before pursuing the development of a national eco-labelling initiative. Furthermore, it is recommended that due attention be given to the various possible alternative policy options that may be introduced as a possible substitute for a potentially expensive national eco-labelling initiative.

Should the government nevertheless choose to promote the development of a local eco-labelling initiative, then it is recommended that this be pursued by building on the activities of the Proudly South African campaign. In this regard it is advised that the relevant government departments – namely DEAT and DTI – engage with NEDLAC (through which the PSA initiative is being administered) with the aim of designing and implementing the required

additional measures within PSA relating to the development and administration of an ISO Type-1 eco-label. These include for example reaching agreement on the processes for:

- Defining the relevant product categories to be covered by the initiative, with provision being made for the participation of relevant stakeholder representatives and experts;
- Developing appropriate environmental award criteria for the product category, with sufficient consideration being given to product life-cycle issues;
- Undertaking public review prior to adopting the final criteria;
- Evaluating the product against the agreed criteria and issuing and administering an adapted PSA logo to successful applicants;
- Reviewing the product criteria and renewing applications on a regular scheduled basis

Promoting Environmentally Preferred Production and Consumption in South Africa– Additional Policy Options

In addition to implementing a domestic environmental labelling scheme – which, as has been shown, may not necessarily be the most effective policy option within current South African conditions – there is a range of alternative policy measures that may be taken to promote improved environmental production and consumption patterns. Following are a number of such policy measures that may be taken as an alternative to, or complementary with, the introduction of a domestic labelling scheme. This is intended as a brief listing only and should be read in conjunction with the DTI's Sustainable Production Strategy (2000) as well as related policy initiatives being taken for example by the DEAT.

- Introducing appropriate fiscal incentives for stimulating the market for "greener products"
- Using public procurement to stimulate demand for more sustainable products
- Implementing product take-back legislation in specific industry sectors and product groups
- Adopting a Green Claims code (based on ISO 14021) aimed at enhancing the credibility of self-declared environmental claims
- Facilitating the adoption of separate sectoral labelling initiatives
- Engaging with consumer organisations and/or existing brands within the retail sector on initiatives for improving environmental performance through the product supply chain
- Requiring compulsory labels on specific issues, based, for example, on the EU energy rating system or relating for example to the declaration on product use and disposal
- Introducing specific product-based regulatory measures relating for example to extended producer responsibility, substance prohibition and quotas for recycling or recycled content
- Adopting sectoral environmental management co-operation agreements (EMCAs) – in appropriate circumstances – to improve aspects of the overall performance of a product range beyond existing regulatory requirements

2.5 Areas for Further Research

On the basis of the initial conclusions of this study – and subject to further discussions with FRIDGE – it is possible to identify a number of areas for further research relating to the implementation of labelling initiatives in South Africa. These include for example:

- Undertaking a more detailed assessment of the potential financial and socio-economic implications for specific sectors and individual producers, should existing labels becoming a significant market requirement.
- Assessing the merit of introducing alternative non Type-I eco-labels as a means for improving local environmental practices, including for example examining the potential for introducing Type-III labels covering climate change and energy efficiency issues.
- Assessing the value of using labels in the context of tourism-related activities, as well as for addressing the potential environmental implications associated with food.
- Assessing the benefits of promoting adoption of international voluntary labelling initiatives (non Type-I) administered by NGOs with the aim of improving consumption patterns.
- Examining the potential for innovative policy instruments as part of an integrated policy aimed at shifting the focus from process issues towards product-based concerns.

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