

Environmental Responsibility in World Trade

Conference Publication

 The
British
Council

in collaboration with


WORLD CONSERVATION
MONITORING CENTRE


International
Institute for
Environment and
Development

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Environmental Responsibility in World Trade

Conference Publication

Edited by Jake Reynolds

The British Council

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**World Conservation Monitoring Centre
International Institute for Environment and Development**

1999

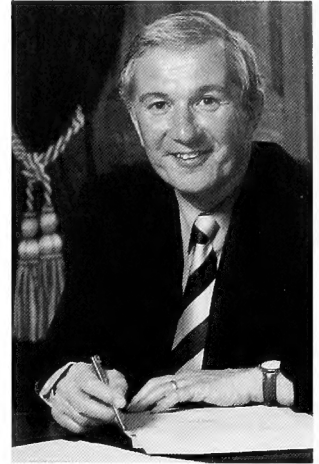
☪ A crisis is also an opportunity. In environmental terms we will probably be faced with many crises but equally they offer opportunities to rebalance the system, to strike the right balance between trade and the environment – and in general just to do things better. ☪

Duncan Brack, Royal Institute of International Affairs

☪ The ethical trade debate isn't one big problem, it's millions and millions of little problems which can be solved with the right talent and the right expertise. All you need is the desire to do it. ☪

Alan Knight, B&Q plc

The Rt Hon Derek Fatchett MP UK Minister of State for Foreign and Commonwealth Affairs



Making the world trade system work for sustainable development is one of the most pressing international issues we face as we move into the new millennium. We know that free trade alone will not deliver the environmental – or indeed economic – improvements that the world needs without an effective policy framework that reflects environmental costs. Trade and environmental policies should not be designed in isolation from one another. As we approach the third WTO Ministerial in November 1999 and the launch of a new round of negotiations, there is an urgent need to identify shared priorities and build much-needed confidence, particularly between the industrialised and developing worlds.

This was the purpose of the British Council's *Environmental Responsibility in World Trade* conference, held in September 1998 in cooperation with the World Conservation Monitoring Centre and the International Institute for Environment and Development. Over a hundred participants from more than 40 countries attended the conference, and this report captures the wealth of practical policy and commercial issues which were raised. It shows that the imperative of bringing trade and the environment together is not just an issue for governments: it is also becoming an everyday reality for businesses the world over. The conference profiled a number of companies in Britain which are making a progressive approach to their sourcing policies from developing countries, integrating social and environmental criteria into contractual relations. It also heard from a growing number of pioneering producers from Venezuela to the Solomon Islands, who are using rising demand for sustainable products in their export markets to increase sales, preserve their way of life and improve the environment.

Exchange is the basis of trade and we will only ensure that trade contributes to environmental improvement by accepting the need for give and take between countries on these matters. Closer cooperation is required to put in place the right policy frameworks at the global level. Practical partnerships are needed along the supply chain to promote best practice in the business world. As we look ahead, this new, broader-based type of environmental diplomacy is essential if we are to create a world trading system in which growth is sustainable.

A handwritten signature in dark ink, which appears to read 'Derek Fatchett'. The signature is written in a cursive style and is positioned above a second, less legible signature.

Derek Fatchett died suddenly on 9 May 1999 at the age of 53. In his capacity as Minister of State for Foreign and Commonwealth Affairs, Derek Fatchett worked tirelessly to promote British values of global democracy, human rights and environmental protection, as well as helping to promote British exports and trade. Mr Fatchett was a huge supporter of the British Council's work and will be missed greatly.

About this Publication



*The conference facilitator,
Michael Rodd*



The audience and stage



A typical panel

We are entering a new and critical phase of the trade and environment debate. World trade now totals more than US\$5 trillion each year and further expansion is seen as an essential motor for economic progress, particularly within developing countries. But as the world is brought ever more tightly together through flows of trade and investment, so tensions over the environmental and social dimensions of commerce have mounted.

The WTO is under intense pressure to address environmental and social issues within its negotiations. Hopes are pinned on the WTO Ministerial Conference to be held in Seattle in late 1999 which will establish an agenda for the forthcoming 'millennium round' of trade negotiations beginning in the year 2000. Yet, as we go to press, environmental protection and core labour standards appear as 'new issues' for discussion, rather than integral concerns, and there is a risk that they will be treated in a narrow, technical way rather than with the depth that sustainable development deserves. This concern illustrates the gulf between trade and environmental perspectives, and underscores the need to find a new, more equitable balance.

Beyond the negotiations, which are remote and intangible to many, public expectations of environmental responsibility continue to rise. Consumers now exercise unprecedented choice over the goods and services that they buy, and are searching increasingly for products which cause least damage to the environments and welfare of producers, or even improve them. But markets for so-called 'sustainable' goods and services are currently small and concerted effort will be required to expand them into the mainstream.

Trade and investment policies now form a key part of the UK Government's approach to development. Its White Paper of 1997 commits Britain to working with producers and importers to increase trade in sustainably generated products and to ensuring that the interests of the environment are fairly reflected in the global trading system. Links between trade, environment and development continue to be strengthened as part of the UK's overall approach to development strategy.

In that context the British Council hosted a major conference on *Environmental Responsibility in World Trade* in London, September 6-9, 1998, drawing together participants from 44 countries across the globe in the unique setting of London Zoo. The aim was to provide senior figures in government, business and civil society with an update on the issues surrounding environmentally responsible trade – principally from developing countries to European markets – and to explore strategies for promoting such trade in future.

Focusing on opportunities rather than obstacles, the presentations and discussions ranged widely from the fundamental underpinnings of a sustainable global economy to the practical concerns of small-scale producers. With such diverse attendance, the three days were full of stimulating, thoughtful discussion and generated valuable exchanges of practical information.

Although wide ranging, a number of common issues ran through the conference agenda:

- *Sustainable development not just environmental protection.* The starting point for the conference was 'environmental responsibility', but this was set within the context of sustainable development: eliminating poverty, improving economic efficiency and regenerating the ecological base.
- *Green trade/fair trade.* So far, the social and environmental agendas for world trade have been moving in parallel. But there are signs that a convergence may be about to take place as linkages between environmentally responsible and fair trade continue to be discovered.
- *Opportunities and obstacles.* Much of the difficulty with the traditional debate is its focus on problems. This conference encouraged a more positive view, highlighting the opportunities created by changing consumer preferences and industry – NGO partnerships.
- *Goods and services.* The conference focused mainly on trade in physical goods, but many of the principles and ideas apply equally to trade in services – such as tourism and finance – which have indirect, but profound impacts on the environment.
- *Openness or protectionism.* Part of the excitement about 'sustainable trade' is that it is being driven by the open market – by changes in consumer behaviour and industry practice which are materially affecting markets and trading relations. Nevertheless, environmental requirements are still viewed by many as trade barriers. Where this perception is justified the conference explored how it could be changed.

In complex and evolving areas like environment and trade no one has a monopoly of expertise. All of us are eager to learn and to place our knowledge and experience at the disposal of others. This conference illustrates perfectly how the British Council is able to draw on British experience, place it in an international context, and create linkages, networks and exchanges to achieve this goal.

The conference brought together a fascinating selection of speakers and delegates to discuss a topic of the utmost global importance. This publication attempts to weave together the highlights of an intense and rewarding three days.



Drinks in the reptile house



Dinner in the aquarium



*After dinner address by
John Gummer MP*

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Acknowledgements

Conference

The British Council is indebted to all those who contributed to the planning, organisation and delivery of its conference on *Environmental Responsibility in World Trade*, London, September 6–9 1998. Particular thanks are due to our collaborative partners, the World Conservation Monitoring Centre and the International Institute for Environment and Development, as well as to all those who devoted time to speak or facilitate sessions at the conference.

The professional assistance of Lipfriend Rodd International in the areas of stage production and facilitation is acknowledged gratefully, in particular Michael Rodd, Robert Lipfriend and Liz Fullerton.

Special thanks are also due to the conference delegates who created lively and fruitful discussions, and to the rapporteurs – Tom Fox, Jo Abbot, Hannah Bartram and Rob Lake – whose efforts have proved invaluable in forming this publication.

Publication

This publication draws primarily on two sources: the conference presentations, and the conference discussions in both plenary and working group sessions. Although abridged in part, the text remains faithful to the original material as transcribed from tape recordings.

The publication also draws on text created by Nick Robins and Sarah Roberts of IIED for the pre-conference workbook, and benefits from further original contributions by the same authors.

The publication was edited by Jake Reynolds with expert assistance from Anne Dunbar-Nobes and with support and guidance from the British Council.

Message from Michael Rodd

Through my work in broadcasting and writing over the years I have found myself at many conferences. Everyone who commits to attending a conference also – perhaps not always consciously – makes a commitment to contribute to that event or to take something away from it. So all conferences – even the least memorable – take on a character of their own. But for me the three days that a small group of us spent at London Zoo in September 1998 were a unique experience. Despite the wide variety of interests, national, commercial and personal, represented within the comparatively small group of delegates, we quickly came to realise that we do not have to start with the same motives to end up united in our recognition of the need for environmental responsibility.

Many in the room may have had different detailed agendas from one another, but our individual commitments to environmental responsibility were a strength on which we could all draw – regardless of the commercial, administrative or environmental background from which we came. In my mind this realisation was greatly helped by the make up of the conference delegates, many of whom are involved directly in running businesses which depend on a sustainable supply of natural raw materials. Those of us who consume goods and services as well as those of us whose business it is to produce them have a mutual interest in environmental responsibility. I would like to think that new alliances were forged at the conference, sometimes between parties who not so long ago might have seen themselves as on opposite sides of the fence.

For me this was a conference that was a pleasure to attend. Whilst the real achievements remain to be made I hope that the task will be a little easier as a result of the hard work we put in together.

Visions and Perspectives

1

Chapter 1 Visions and Perspectives



Ricardo Meléndez-Ortiz

6 ... there is a real fear among developing economies that access to international markets will be reduced through various instruments. Although the North will hotly dispute this, we in the South have already seen it and continue to see it happening. 9

Ricardo Meléndez-Ortiz

6 Developing countries need the WTO. Global markets are by nature aggressive and sometimes predatory. The WTO is the only instrument able to bring order, rules, discipline and dispute mechanisms to bear on them. But it is an organisation still in the making and so is full of imperfections. 9

Ricardo Meléndez-Ortiz



Following the 1992 Earth Summit and the establishment of the World Trade Organisation (WTO) in 1994, the global politics of trade, environment and development moved into a new gear. World leaders have now committed themselves to act decisively to achieve sustainable development – raising economic prosperity, reducing poverty and improving environmental quality – and, at the same time, to work to remove barriers to international trade. But to date, there has been little meeting of minds among policy-makers, businesses and citizen groups on how trade can work positively towards this end.

At a global policy level, trade and environmental rules are still formed in parallel, with little coordination or convergence. There is an increasing likelihood of conflict between these two systems, and left to itself the WTO's Committee on Trade and Environment (CTE) is unlikely to be able to resolve these conflicts. As the world gears up for a further round of trade negotiations – the Millennium Round – it is clear that a broader approach is needed, bringing together a package of trade, environment and development measures that can deliver positive benefits for developing countries in particular.

The juxtaposition of two perspectives on trade and environment issues – one from the South and one from the North – provides a valuable insight into the complexities of the debate. Ricardo Meléndez-Ortiz, speaking from the standpoint of the South, examines the pursuit of sustainable development and the implications for North-South trading relationships. There are obvious areas for concern, not least the development of unequal international trade structures, the imposition of 'green' trade barriers, inadequate domestic environmental policies in many developing countries, and the need to review the workings of the WTO.

6 We want more trade, we want more growth, we want rapid growth, but at the same time we have to deal with environmental issues at home. Responsibility for these environmental issues lies in domestic policy. It is evident that developing countries still have a long way to go in setting up sound environmental policies, institutions and enforcement mechanisms. 9 *Ricardo Meléndez-Ortiz*

The perspective from the North is one of cautious optimism, tempered by the frustration that the WTO, as currently constructed, still regards the environment as an awkward complication to its main agenda. Within Europe, the political will exists to develop policies promoting sustainable trade; how far the EU will be successful in translating this into action depends in large part on the creation of more open and democratically accountable institutions for managing world trade.

Ricardo Meléndez-Ortiz is Executive Director of the International Centre for Trade and Sustainable Development in Geneva, a position he has held since 1996. His links with the British Council extend back to his early years when he attended the Anglo-Colombian School in Bogota. His academic career blossomed there and he went on to complete undergraduate studies at Los Andes in Bogota and Harvard in the United States, and graduate studies in administration and management at Harvard in 1987. He has been Principal Advisor to the Colombian Ministry of Economic Development, Counsellor and First Secretary in the Colombian mission at the United Nations, and General Director of the Fundación Futuro Latinoamericano.

Martin O'Neill is currently Member of Parliament for Ochil in the United Kingdom, and Chair of the UK Government's Select Committee on Trade and Industry, a position he has held since November 1995. He has responsibility for the initiation and smooth running of all enquiries into industrial affairs. Past investigations include the privatisation of the nuclear industry; the BMARC affair concerning DTI export licensing of naval guns to Singapore; and the future of the coal industry. Recently the Committee has looked into such issues as the Post Office, vehicle pricing and ethical trade.

☛ The WTO is the most active tribunal we've ever had in the history of international law. Most countries within the WTO are actually quite nervous about the volume of cases going through and are finding it difficult to handle. It is already dealing with cases relating to trade and the environment and so a jurisprudence is being gradually built up. ☛ *James Cameron*

☛ Sustainable development should be the bread and exports should be the butter of any economy. ☛ *Heinrich Wohlmeyer*

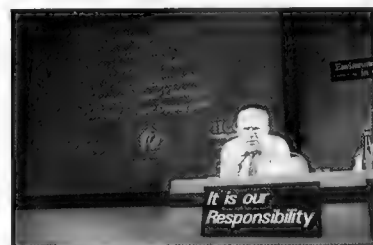


Martin O'Neill MP

☛ ... the WTO has failed to adjust its procedures and thinking to address the new agenda. In particular, the pursuit of legalistic solutions is fundamentally flawed in that the legal framework embodied in the original treaty does not take environmental matters – or moral and ethical concerns – into account. ☛

Martin O'Neill

☛ Our international agencies must be capable of being shaped and changed. GATT (and the relative newcomer WTO) are working within agendas established nearly fifty years ago. This is not the agenda for today and it certainly will not be the agenda twenty years from now. In the North we have the words, now we need the action. ☛ *Martin O'Neill*



Southern hemisphere visions of sustainable trade in the twenty-first century

Ricardo Meléndez-Ortiz, Executive Director, International Centre for Trade and Sustainable Development

For well over ten years I have been involved in the international debate on trade and sustainable development. In presenting an unashamedly Southern hemisphere perspective, I draw on my personal observations and experiences of this debate, and my views are not necessarily those of the International Centre for Trade and Sustainable Development (ICTSD).

Broken promises?

Over the past ten years, the pursuit of sustainable trade has been characterised by promises, concerns and tensions. Its history, as we shall see, has not been a cheerful one. Sustainable trade is a notion based on the objective of sustainable development embraced by all countries present in Rio in 1992. At its heart is a promise that, through collective action, we can have it all – economic growth, social welfare and a sound environment. In addition to the creation of wealth and the generation of economic growth, sustainable trade promises social equity between trading partners and within nations, and protection of development opportunities for future generations.

Today, more than ten years after the Brundtland Report, all this sounds elementary, incontestable, almost obvious and easy. But, in practice and in policy, its achievement is still far beyond our grasp. International trade in goods and services has grown at a very rapid pace, particularly since the completion of the last round of trade negotiations in 1994 which gave birth to the World Trade Organisation (WTO). This organisation now encompasses more than 130 countries, 80% of which are developing economies. Many of these fall into the category of *least developed countries*, whose share of world trade revenue is diminishing whilst their environments continue to degrade.

Looking at the statistics closely and listening to people around the globe, what seems obvious is that the connection between increasing trade flows and the generation of long-term sustained growth, the type supportive of sustainable development, is not yet established. I will submit to you that this is a fact in both domestic and international policy realms. Why haven't the promised benefits of sustainable development – and of the international trade that supports it – yet become

apparent? I find the following among some of the most obvious factors:

- the perpetuation of market failures;
- the perpetuation of policy failures;
- the perpetuation of imperfect international market structures (for instance, structures that have shown over the past fifty years an incapacity to tackle the pricing vicissitudes of commodity trade);
- inequities in the distribution of wealth and poverty;
- uncoordinated international regimes and institutions to deal with trade, environment and development issues at an international level; and
- inefficient and unfinished governance architectures and mechanisms.

Some of the concerns

Unsustainable use of natural resources. Meaningful changes in development models, particularly in the past decade, have led developing countries by and large to embrace market enhancing policies and international trade as their main engines of growth. In the past few years we have seen a tremendous impetus in the implementation of trade liberalisation agendas all over Asia, Latin America and Africa. Trade openness is a policy priority in most countries. Developing countries want more trade, not less, and the question is whether advancing along this path will lead us to the desirable and more stable pattern of development in the future.

Looking to the future, a key concern is the potential for increased trade to exacerbate the use of natural resources in an unsustainable manner. Many developing economies depend heavily on their natural resources for the generation of capital and growth. Indeed, studies by the UN economic commissions, UNCTAD and non-governmental organisations point to the fact that increases in trade are happening and will keep happening in the export of unprocessed resources, but not of value-added goods. This is greatly promoted by a phenomenon known as tariff escalation in the jargon of international trade. Tariffs for goods that are unprocessed have been kept lower than tariffs for goods that bring with them

aggregated value. And the capacity to aggregate value has not increased as predicted. The economies of developing countries are therefore becoming more, not less, dependent on the export of primary resources, and more vulnerable in the world economy as they see their natural endowments consumed, depleted and destroyed. Many developing countries, among them some of the media stars on economic growth performance, are rapidly selling out their capital with no back-up guarantees or plans even for their near-term future.

Protectionism and market access. Many developing countries view the pursuit of sustainable development in the trade arena as a Northern issue. Urged on by Northern public opinion and by environmental groups, they see that it has great potential to be used as a fashionable form of protectionism, this time parading in green clothing. Protectionist interests in the North have become very skilled at utilising any opportunity to attach their arguments to more respectable causes. Many Southern countries also fear infringements on their national sovereignty and their rights to exploit their own natural resources in ways which they see fit. In addition, there is a real fear among developing economies that access to international markets will be reduced through various instruments. Although the North will hotly dispute this, we in the South have already seen it and continue to see it happening.

The international regimes behind world trade. Shortcomings in international governance in the spheres of trade and environment have to do with a failure to keep pace with the world today. On the one hand we have the commitment of nations to the objectives of sustainable development, and on the other we have the factors that facilitate and underscore globalisation, in particular the transboundary movement of capital, goods and services. All of this takes place under what can only be described as incoherent, uncoordinated and unequal world regimes for both trade and sustainable development. The inconsistencies manifest themselves in differences of structure, lack of clarity in the operation of hierarchies, conflict in the application of instruments of implementation and enforcement, and a high degree of dynamism in the formation of agreements that set forth both regimes. This is what Thomas Spencer recently described in Geneva as 'the uncoordinated institution building' that we witness today.

Moreover, the notion of development embedded in the international trade system, including the multilateral regime of the WTO and the regional integration schemes which are increasingly subjected to GATT principles and rules, is anachronistic and has proven to be delusive and ineffective. That old notion singles out time as the main factor for development, allowing developing

countries 'extra' years for implementation of policies and measures not clearly supportive of their development dynamics and needs. It also allows for the granting of preferential access as if the structural issues of development could be easily compensated by a few percentage points of tariff advantage in global markets. That old notion, the stuff of which the 'special and differential' treatment of developing countries is made within the trade system, needs to be overhauled urgently. It must do so in order to meaningfully address the underlying 'unsustainability' of the rapid insertion of developing economies into the global markets of the nineties and the next century. A notion of development based on time should take into account the hard linkages between the trade and investment policies and the causes of poverty, the patterns of use of natural resources and the broader factors of social welfare.

The tensions

The environment in which we operate is also defined by tensions, for example between regulation and deregulation. Regulations may need to be strengthened in order to protect the environment, yet reduced in order to liberate market forces and enhance markets. Further tensions are obvious between the notion of subsidiarity and that of universality in policy-making, and between the options of sovereignty and supranationality. Furthermore, a vital element shapes the situation today: the emergence of a culture of 'transgovernmentalism'. This is a transition from unipolar dialogues among governments and nations to multipolar international relations based on direct interaction among a community of governmental and non-governmental bodies at national and sub-national levels.

WTO and the environment

As David Runnalls has put it, rather than an unwanted add-on to the trade debate, the environment is central to it because the use of resources is central to the concept of sustainable development, the desired path for developing and developed countries alike. The environment and the world economy are so closely interlinked that policies in one sphere are bound to fail unless integrated with the other.

The Rio process forced environment and sustainable development to be admitted as an issue for the WTO, right from its outset in the Marrakech Agreement, and thus the Committee on Trade and Environment (CTE) was formed. But although the CTE laboured long and hard – longer than any other WTO committee or council in the two years leading up to Singapore – in the end it produced a lengthy report that contained no conclusions

but which, by merely reiterating the views of any member who cared to speak on a topic, emphasised the political deadlock of the debate. It further aggravated the artificial dichotomy so present in the *quid pro quo* world of the WTO according to which OECD countries are the demanders of a sound environment while developing countries are neglectful and untroubled by this prospect.

As many analysts have observed, perhaps the Committee's failures boil down to the fact that there simply is not enough on the CTE's table for a bargain to be struck. It must have been obvious from the beginning that Southern countries would not agree to much of the CTE agenda without demonstrable progress towards increased market access. Yet the constrained nature of the CTE agenda, as contrasted to what would be available in a more general round of negotiations, made this rather difficult. Given the lack of enthusiasm for the issue from the OECD countries, there was little inclination to bargain. A wider round provides hope for some solutions.

That said, I agree with those like Professors Konrad Von Moltke and Yash Tandon who feel that the whole process has been fundamentally flawed from the beginning. In short, the CTE has been following the wrong agenda: the WTO has treated the environment as a narrow technical issue – and an unwanted one at that – rather than being focused on ensuring that trade contributes to sustainable development, a far broader concept than environmental protection.

Into the next millennium

Today's economy is characterised by aggressive and highly competitive markets fuelled by progressive liberalisation of trade in goods, services and capital, as well as by highly dynamic technological change, mainly

in the fields of transportation, communications and information. Sound management of the economic integration and trade liberalisation processes of domestic economies is necessary for sustained long-term growth that leads to higher levels of income, the elimination of poverty, improved distribution of wealth, greater gender equality, employment for all, universal access to social services, environmental protection and the rational use of natural endowments. Achieving these goals also requires multi-stakeholder involvement in decision-making and policy management.

If we are to move towards sustainability, we have to address these concerns, resolve the tensions and fulfil the promises. It is vital to promote trade policy and trade rules that support the objective of sustainable development, and to correct those rules and policies that inhibit or otherwise obstruct the attainment of that goal. It is equally vital to keep in mind that the promise of sustainable development, as it was delivered in Rio seven years ago, involved more than environmental protection. Eradicating poverty, increasing financial assistance to developing countries and redressing some of the inadequacies and imperfections in international markets and governance structures that I have described here were key components of that promise, and they have not been addressed.

The issues of competitiveness, market access and exploitation of natural resources in developing countries have to be supported by an international framework that allows them to advance along a path of sustainable policy at a domestic level. The tensions between environment, trade and development must be erased. If we do not achieve this we will not be taking that path towards sustainability, in trade or in any other sphere.

Perspectives from the North on trade and environment

Martin O'Neill, Chairman of the UK House of Commons Select Committee on Trade and Industry

Awareness is growing that a sizeable environmental price must be paid for current rates of economic expansion and global trade. There is no doubt that trade between the North and the South will continue to grow; paradoxically perhaps, it is only by so doing that many developing countries will be in a position to confront their domestic environmental issues. The World Bank

has estimated that it is only when national per capita income exceeds \$2,000 that government attention turns to providing clean water and sanitation for its citizens. Similarly, a study at Princeton University in 1991 suggested that per capita income must exceed \$5,000 before a country will consider environmental protection as an important part of its economic and social agenda.

Can we escape the 'bad old ways'?

In May 1998, UK Prime Minister Tony Blair gave a speech to the WTO which is an interesting summation of the kind of received wisdom of Western governments. He said:

As we look to expand world trade we must ensure that this is not done at any cost. Protecting the world's environment is perhaps the greatest challenge we face as we head towards the next century. Governments need to consider the environmental impact of everything they do, including in the trade sphere. Trade rules should not be used to impose unfair standards on developing countries nor to discriminate against their exports ... I believe that by building new partnerships, increased economic prosperity and trade can go hand in hand with environmental protection.

In addition, he went on to stress the need to ensure worldwide observance of core labour standards for all workers. All this is a fairly clear expression by a leader from the North of what the ideal approach should be. There is a sense of concern in the North; but will this ever be translated into action?

The European Parliament and the trade and environment debate

The European Parliament plays a very important role in establishing the agenda for the European Union. It is fashionable to dismiss the European Parliament as a talking shop, but it makes a significant input on environmental matters within Europe. In the Parliament's view, the WTO has failed to adjust its procedures and thinking to address the new agenda. In particular, the pursuit of legalistic solutions is fundamentally flawed in that the legal framework embodied in the original treaty does not take environmental matters – or moral and ethical concerns – into account. Commissioner Sir Leon Brittan has already identified the problems created by the overlap of WTO rules and the trade provisions in multilateral environmental agreements. Like the Parliamentary Committee, Sir Leon noted that when Article 20 was agreed upon no reference was made to environmental factors. So how can environmental factors be given due weight? The problem is essentially political in character – it requires the pragmatism and compromise which characterised some aspects of the Kyoto conference. But matters of this complexity do not really lend themselves to the drama and high risk strategies of the deadline-driven international conference. The search for an answer probably lies with the consensus-building approach – perhaps a group of prominent persons working within an informal framework where recognition of

the need for speed would enable agreement to be reached fairly quickly.

Trade, environment and the WTO

As consumers we are entitled to know what we are buying. In the dolphin-friendly tuna case, GATT ruled (somewhat vaguely) that voluntary labelling was 'not incompatible' with its rules. But it is evident that voluntarist principles have significant shortcomings that must be addressed. The WTO approach to compulsory labelling is not much better. There is a clear need to create a sense of legal certainty which would not be vulnerable to protectionist ambush.

Related to the labelling issue is the vexed question of process and production methods (PPMs). The only instance under GATT where PPMs must be identified on a product is where goods have been made in prison. Anything else is deemed to be unfair to the exporters. The Rio summit made it clear that unilateral action to deal with environmental problems outside the jurisdiction of the importer should be avoided. But we do need clear and explicit labelling of how goods are produced in Third World countries; this would be in the interests of good standards and would provide the consumer with a reasonable defence.

Multilateral environmental agreements could set consensus measures or benchmarks which would assist direct action (beyond mere labelling) and still be acceptable to the WTO. Indeed, many European countries have signed up, at least in part, to some of the consensus measures. But although such measures have been accepted as a general principle of international environmental law, the WTO's jurisdiction is limited to animal and plant health. The European Union is committed to pushing for WTO's role to be widened within world trade, but we have to guard against asking for too much and guard against using the possibility of failure as an excuse for inaction. All elements within the WTO must put their pious words regarding the use of resources, development and environmental protection into action. Greater urgency needs to be given to preparations for the 1999 WTO Ministerial Meeting; perhaps such preparations could be placed in the hands of an international committee who could be relied upon to push these issues much further up the agenda.

The role of NGOs

High-powered government-led assemblies, such as the summit at Kyoto, serve to expose the tensions and successes of the search for a worldwide order for trade and the environment. The role of the NGOs, working in the half-light rather than the full glare of world attention,

remains vital to this process. NGOs will probably always be a pain in the neck for politicians – but that is surely the *raison d'être* of such pressure groups. If politicians are not pushed and prodded, there will certainly be a slipping back into the old ways.

The northern perspective

As far as a 'northern' perspective is concerned, we can only speak for Europe – the United States remains outside our ken. The European Trade Commission and the European Parliament both favour greater political effort in pushing for sustainable trade agreements; the United States, however, is riddled with tensions between protectionists and free traders, and protection of American jobs generally wins the day.

Equally, the onus is on inward investors to ensure that their plants meet the environmental standards set in the West. Pressure groups and NGOs have been quick to infiltrate shareholders' meetings to expose those companies which operate one set of environmental standards for their operations in the South and another (more stringent) set for the North. Certainly, many governments in the South are no longer prepared to allow foreign companies to establish second-rate facilities in their countries. There are also many instances of companies failing to ensure that their overseas suppliers operate under the same environmental/health and safety standards as they do themselves. Marks and Spencer, for example, suffered considerable embar-

rassment when some of its overseas suppliers were shown to be working to health and safety standards well below those of its suppliers in the United Kingdom. Such instances do little to build up trust between the North and South.

Clearly, companies operating abroad must be forced to meet their environmental responsibilities in their host country, whether this involves upgrading equipment, changing work practices or directly helping the local community. This kind of awareness has got to be translated worldwide, right across business; the penalty for failing to do so might well be a program of harsh sanctions imposed through international regulation.

Conclusions

There is an air of cautious optimism and, more importantly, a degree of commitment to change. There is also growing awareness that if we are going to live in one world then we must agree on environmental rules which will enable us all to live sustainably. We must recognise that we are living with a common set of problems for which there has to be a common set of solutions. Our international agencies must be capable of being shaped and changed. GATT (and the relative newcomer WTO) are working within agendas established nearly fifty years ago. This is not the agenda for today and it certainly will not be the agenda twenty years from now. In the North we have the words, now we need the action.

Feedback

Comments, questions and responses to Ricardo Meléndez-Ortiz (RM-O) and Martin O'Neill (MO'N).

- How can the fields of trade and the environment be united and introduced fully into the WTO agenda? (L. Roberts)

The institutions and instruments to achieve this are only now being developed. The promotion of measures such as eco-labels and investigations into ways of internalising environmental costs into product prices are underway. But the question of how to deal with processing and production methods (PPMs), which is crucial for sustainability, has not yet been addressed within WTO agreements. (RM-O)

- There is concern that mere lip service is paid to the need to integrate discussion on trade and the en-

vironment, and when this does occur, environmental concerns are often ignored in favour of the interests of trade. Where will the leadership to drive the process of integration between the two debates come from? (C. Fisher)

The character of US politics tends to lead to erratic attention to the debate, so impetus is unlikely to come from there. Within the EU there is a lack of consensus but there is potential for those who do champion the environment to lead the way. It is crucial, however, that the debate fully involves the developing world. (RM-O)

- Why is there still little or no pressure on financial markets to invest ethically? Conventional investment acts against sustainable development principles, particularly investment in extractive industries. (R. Nelson)

For this to occur environmental matters must first be integrated into PPMs and this depends on ethical concerns being accepted into the mainstream. (RM-O)

- There is growing concern that trade liberalisation could increase the level of sub-standard or environmentally unsound products and technologies imported into developing countries. (S. Juma)

This illustrates the need for international efforts to protect the environment to be complemented by strong domestic policies. (RM-O)

- Not enough disputes are being brought forward to the WTO for resolution, resulting in a lack of case law on which to base further clarification. (C. Clover)

The WTO promotes settlement rather than dispute, so many cases are solved at the early stages and are not brought before the dispute settlement panel. (RM-O)

The WTO is the most active international tribunal ever, and there is a considerable jurisprudence being built up. What is lacking and requires reform is the level of transparency and openness, hence the impression that few cases are dealt with by the WTO. (J. Cameron)

- Developing countries are surely unable to promote or even discuss measures tackling environmental problems without a cancellation of international debt repayments. (E. Millard)

It is clear that debt problems must be tackled in order to free up the resources to deal with other issues. This is a very important and related issue, but needs to be dealt with separately. (RM-O)

- There is widespread scepticism that the target of 0.7% of GDP allocated to development assistance will be reached. (E. Boon)

This target had been abandoned by the previous UK government but we are now working towards it; but we recognise that it will not be reached quickly. (MO'N)

- There is a perception that care for the environment reduces competitiveness and creates unemployment which can lead to a 'race to the bottom' as far as environmental standards are concerned; surely there is a need for an international development fund to compensate for this? (H. Wohlmeier)

In the UK we are looking to write off large amounts of debt which would perhaps be of as much assistance as increasing aid to 0.7%. If countries have raw materials which they cannot consume and which do have a place in the world market, then it makes sense for them to trade. But we must not be over zealous in the North in trying to evangelise the rest of the world with new-found economic wisdoms. (MO'N)

- Governments should listen more to NGOs on the subject of sustainable trade. They need to learn and become empowered. (N. Weissmann)

Any government that ignores NGOs is making a great mistake. In the UK, NGOs are afforded every opportunity to put their views to government. Although they can't write a party manifesto, NGOs know that their views can influence what is written. Governments are learning that environmental issues are long term and that short-sighted political goals are not appropriate. (MO'N)

Background to the Issues

2

Chapter 2 Background to the Issues



6 ...left to their own devices, markets tend to increase inequality, to disregard those aspects of the environment which are present as externalities, and to concentrate economic power. 9 Paul Ekins

6 ...if trade is not sustainable in a global economy then there is no way that the development it produces can be sustainable. 9 Paul Ekins

6 When one of the directors of the WTO came to the Kyoto negotiations he could not believe that you could make international policy this way. It was chaos – all those people, all those cameras, no control, and the text was just emerging by negotiation ... The WTO is going to have to change – there's a big gap in negotiating culture at the moment. 9

James Cameron



James Cameron

Trade has a critical impact on environmental quality by influencing the rates and regional variations in growth across the global economy and the location of natural resource use. It is clear that trade can help boost incomes, encourage more efficient use of resources and spread higher environmental standards and cleaner technologies. But, since much activity in modern economies is environmentally *unsustainable*, trade can also act to magnify these problems unless action is taken to internalise environmental costs into market prices. These costs accrue during production, transport and consumption; at every stage they need to be addressed, understood and minimised through sustainable practices.

Paul Ekins takes a broad look at the prospects for sustainable trade within the framework of globalisation and asks whether economic globalisation can ever be supportive of sustainable development. The verdict is not promising.

But, in identifying the elements essential for sustainable trade, he also opens up the prospect of identifying the directions from which change must come. He identifies the following elements as being essential for the creation of sustainable trade:

- businesses that are environmentally and ethically aware;
- consumers who will buy according to conscience not price;
- governments that will put long-term sustainable development first;
- international institutions that will put into practice the ethic of sustainable trade; and
- citizens who will hold governments and international institutions to account.

Progress, albeit gradual, is occurring on each of these fronts; only when these elements move *en bloc* from the margin to the mainstream will trade become truly sustainable.

Taking up the issue of economic globalisation, Graham Wynne sees global trade as one of the key drivers of the loss of biodiversity and the threat to habitats around the world. Unless environmental considerations can be integrated into trade policies at international and national levels, the global decline of biodiversity will continue unabated – and, as a consequence, opportunities for sustainable development will be lost. Consumer pressure, institutional change, and economic instruments are all vital in this concerted effort to push environmental concerns into the mainstream.

The gulf that needs to be bridged in the trade and environment debate is explored by James Cameron. He looks at the two conflicting cultures – the trade policy community on one side and the environmentalists on the other – and examines the tensions that arise when their worlds collide. With economic globalisation, such collisions are becoming more frequent, and he uses two case studies to illustrate the complexity of the linkages that now exist between trade policy and environmental concerns. Both case studies centre on unilateral decisions made on sound environmental grounds but which have had far-reaching consequences on the trade freedoms of other countries.

Paul Ekins is an ecological economist with interests in economic growth, human welfare and environmental sustainability. He is currently Reader in Environmental Social Sciences at Keele University and senior consultant at Cambridge Econometrics. He is also Programme Director of the sustainable development charity Forum for the Future and a member of the National Consumer Council. In 1994 Paul was awarded the Global 500 Award for 'outstanding environmental achievement' by the United Nations Environment Programme.

Graham Wynne is Chief Executive of the Royal Society for the Protection of Birds (RSPB). He is also a member of the UK Government's Biodiversity Steering Group and the Green Globe Taskforce, and chairs the Biodiversity Challenge and BirdLife International's Global Policy Group. The RSPB is currently the largest environmental charity in the UK with a membership of over one million.

James Cameron is a practising barrister who specialises in international environmental law and the law of the World Trade Organisation. He is Professor of Law at the College of Europe, Bruges and Lecturer at the University of London. James is a Founder Director of the Foundation of International Environmental Law and Development, Director of the Global Environment and Trade Study and specialist adviser to the House of Commons Select Committee on the Environment. He is currently an adviser to UK Foreign Secretary Robin Cook on global environment policy.

⦿ Those who want to push forward the trade and environment debate and integrate environment policy into the trade arena are going to have to come up with new proposals that directly involve developing countries in debate and negotiation. ⦿

James Cameron

⦿ There is too much evidence that green protectionism will be used wherever it can, as soon as the door is left open a chink. ⦿ *Paul Ekins*



Michael Rodd

⦿ Environmental regulation and subsidies to protect environmentally sensitive land-use practices ... all impose costs. It seems unrealistic on the part of the developed world to expect developing countries to bear these costs without offering any help through aid or development programmes. Without such support, price-driven markets will drive down environmental standards. ⦿ *Graham Wynne*

⦿ Environmental responsibility should include the long-term sustainability of ecosystems upon which our survival on this planet depends. *Michael Trash* ⦿

⦿ Lose biodiversity and we lose our prospect of sustainability. ⦿ *John Elkington*



Sustainable development and globalisation

Paul Ekins, Department of Environmental Social Sciences, University of Keele; Programme Director, Forum for the Future

'Sustainable development' and 'globalisation' – words that have come to acquire a wide variety of meanings. My own definition of sustainable development focuses on three main elements: it is about quality of life, it has a special emphasis on poor people and it is about protection and enhancement of the environment.

- *Quality of life.* This is *not* the same as gross domestic product, and improvements in quality of life are *not* the same as growth in GDP – important and obvious distinctions that are still all too often overlooked in policy-making. In many countries, including the United Kingdom and other European countries, it is growth that drives the policy agenda despite a growing rhetorical emphasis on sustainable development and quality of life.
- *Poverty.* The most common interpretation of 'development' is that it is a process whereby poor people become richer. Development, let alone sustainable development, is not compatible with poor people getting poorer in absolute terms; on this basis, many countries around the world cannot be said to be even developing let alone developing sustainably. Whether sustainable development is compatible with increases in inequality, with the rich getting richer faster than the poor, is open to question.
- *Environmental enhancement.* It is quite clear that the global environment is not being used sustainably. The trends around the world are fairly uniformly depressing although there are local and regional improvements in some countries, including the United Kingdom.

It is perhaps ever more difficult to arrive at a common understanding of the term 'globalisation'. It is used increasingly among my environmental colleagues almost as a synonym for Satanism or Satanic processes of one kind or another. Globalisation seems to me to have two aspects: cultural and economic.

- *Cultural globalisation.* Nearly all countries are now cultural melting pots. There is increasing cultural diversity within, and less between, countries. Western consumer culture is becoming more influential in nearly all countries and, under its influence, some cultural diversity is disappearing.
- *Economic globalisation.* Increasingly people are consuming goods and services that were produced in distant places, reflected in the inexorable growth

of world trade. The driving force behind economic globalisation is basically market logic. The globalisation process delivers economies of scale, larger markets, the production of cheaper goods and yields larger profits for successful firms. To some extent this is consistent with, and is driven by, traditional consumer aspirations and expectations to have cheaper goods and services. However, it is increasingly apparent that consumers have other interests, not least environmental sustainability, which may not be well served by the globalisation process.

The enabling factors behind globalisation are trade liberalisation and technical progress (especially communications and information technology). There is no doubt that economic globalisation leads to cultural homogenisation. Markets are competitive and winners drive out losers. The same businesses, the same technological processes and, to some extent, the same products are appearing around the world.

Globalisation and sustainable development

The key question is whether the processes of globalisation are supportive of or problematic for sustainable development as defined above. It is clearly problematic if Western consumer culture becomes dominant and undermines environmental responsibility. Certainly there is plenty about Western consumerism that is environmentally disastrous. But there are also aspects of the cultural globalisation process that can reinforce and support sustainable development objectives – we can see this, for example, in the global march organised by the South Asian Coalition on Child Servitude, which converged on the ILO in Geneva in 1997, and in the work of organisations such as Amnesty International.

But can *economic* globalisation be supportive of sustainable development? If left to their own devices, markets tend to increase inequality, to disregard those aspects of the environment which are present as externalities, and to concentrate economic power. In order to counteract these tendencies we need government action – but bad government can be as bad for sustainable development as free trade. We need *good* government action and good government action is not something that can be taken for granted. Given the

forces of economic concentration, it is also important to remember that market players can be as big as, or more powerful than, the governments that seek to regulate them. This is a problem with which the world has not yet even begun to grapple let alone tried to find appropriate solutions for.

If economic globalisation leads to faster economic growth (and it would be unlikely to take place if it did not) and if economic growth is bad for the environment (as it currently most certainly is), then sustainable economic growth in an environmental sense remains a chimaera, a fantasy. Economic globalisation is going to be bad for the environment because it will intensify the growth processes that are destroying it. This does not need to be the case, but making economic growth in a globalising world less environmentally destructive requires a determination and consistency of public policy, at both the domestic and international levels, that has so far conspicuously failed to materialise.

The challenge then appears to be this: sustainable development requires sustainable economic globalisation which itself requires sustainable trade. Put another way, if trade is not sustainable in a global economy then there is no way that the development it produces can be sustainable. The elements of a sustainable trade model can be listed as follows:

- **businesses** which regard both the social and environmental aspects of sustainable development as

being in their own long-term interests and are prepared to act accordingly;

- **consumers** who are sufficiently committed to sustainable development to find out about its requirements and modify their lifestyles to be consistent with them;
- **governments** which are prepared to put sustainable development first in world trade in the knowledge that this is the only way that long-term national interests can be pursued, even if this may sometimes require the sacrifice of short-term national interests;
- **international institutions** which are prepared to give practical effect to an ethic of sustainable trade (to date it appears that the WTO does not fall into this category of international institution and it is very necessary that it should be made to do so); and
- **citizens** who are prepared and able to hold their governments and, through them, international institutions to account.

The good news is that much of this is already happening or starting to happen; the bad news is that most of it is still marginal to the global economy. The challenge then is to turn the marginal into the mainstream. The cost of not doing so will be a future that makes the present seem like a golden age. That, of course, is what the word 'unsustainable' means in this context.

Trade as a key conservation issue

Graham Wynne, Chief Executive, The Royal Society for the Protection of Birds

Land-use change is one of the major conservation issues facing the world today. All key global habitats are affected: forest, savannah, grassland, wetland, farmland and marine. One of the most important forces driving these changes is undoubtedly the pattern of trade.

Trade liberalisation and the environment

A question frequently asked is whether trade liberalisation will help the environment. Speaking as an environmentalist, the answer (not surprisingly) is a resounding 'maybe', on the one hand, and 'no', on the other. This is a hugely complicated question of balance.

The following are some of the benefits that trade liberalisation ought to bring according to the theory of comparative advantage:

- *More rational use of resources, including land.* If economies worked in step with their climate, geology, geography and skills base, the result would be more efficient methods of production within a framework of environmentally sensitive land use.
- *Poverty alleviation.* Although poverty alleviation is not synonymous with conservation of the environment it is a prerequisite. Once the problems of poverty are tackled, care and protection of the environment can follow.

- *Sharing of improved technology.* Trade liberalisation should allow new, more efficient environmental technologies to be shared more freely.

So why are these theoretical benefits not being realised?

- *Failure to incorporate environmental costs.* Because some of the benefits are so long term – with few short-term rewards – it is very difficult to convince governments and politicians of the need to take the internalisation of environmental costs seriously. Moreover, some of the measures that countries could take to internalise environmental costs are deemed not to be compatible with GATT and other international trade agreements. This is a fundamental problem that needs to be addressed in the Millennium Round of negotiations.
- *Reliance on price-driven markets.* Environmental regulation and subsidies to protect environmentally sensitive land-use practices (where those are deemed not to discriminate against an imported product) all impose costs. It seems unrealistic on the part of the developed world to expect developing countries to bear these costs without offering any help through aid or development programmes. Without such support, price-driven markets will drive down environmental standards.
- *Mixed effects of economic growth.* Economic growth may be a prerequisite for environmental protection but there are many examples, such as South Korea, where it has not followed. In marginal economies, economic growth may be achieved through depletion of natural resources and degrading the environment.
- *Lack of ownership of common resources.* The problems of internalising environmental costs and of devising systems of rational economic and environmental management are magnified for common resources, like fisheries, where ownership is not clearly defined.

The wild bird trade

With over 2,600 wild bird species recorded in international trade, this is a huge 'industry'. We don't know the actual numbers of birds involved globally but recent calculations suggest a figure of at least five million (with data from South-east Asia still to come).

The Hyacinth Macaw is a classic example of a bird whose population has been decimated not by habitat destruction (though that is a contributory factor) but by trade. Its population in the wild has been reduced to less than 3,000; ironically, the numbers in captivity now exceed this figure.

CITES is one of those wonderful multilateral environmental agreements that does do good in spite of its numerous flaws. Compliance and implementation have always been very problematic (owing largely to the lack of resources made available by the countries of the developed world). But it is an international legal mechanism that has successfully kept some bird populations from the clutches of the wild bird trade. To that extent we should work with it and encourage more such agreements. But there is no simple legal solution to the problem of the trade in wild birds; what is needed is a very substantial cultural change in terms of people's attitudes to captive birds and captive breeding.

Agriculture, trade, land use and the environment

In Europe there are 514 bird species; of these, 277 are defined as being of conservation concern and 116 of these are dependent on farmland habitats. The RSPB and other conservation bodies have now done sufficient work to know that the problems facing the survival of farmland birds are indicative of what is happening to biodiversity on farmland generally. The entire range of wildlife – insects, plants, birds and animals – is being affected by farming practices in Europe and we know that a similar picture will emerge in many other places across the globe. In some locations there are already sufficient data to show that this is true.

Agriculture was one of the most controversial issues during the Uruguay Round of GATT, and there is no reason to suppose it will be any less controversial during the WTO round of discussions. The issues to come under the spotlight are likely to be reduced production subsidies, increased market access, trade in the genetic basis of biodiversity itself, and the setting of internationally agreed standards.

Production subsidies. Trade distortions due to subsidies can undoubtedly result in serious damage to the environment. An obvious example is the European Common Agricultural Policy (CAP), arguably one of the world's worst offenders. Across Europe, the CAP has promoted forms of over-intensive farming which have led to water pollution, soil erosion, loss of fertility and a massive loss of biodiversity. This is a classic example of protectionism producing an environmental disaster; it is, in other words, a very good example of bad government intervention. The solution, however, is not simply to remove all subsidies from European farmers since this in itself would be environmentally and socially damaging. Instead, while there is indeed scope for a large-scale reduction in the level of public subsidies paid to European agriculture, it is more important to

change the form of government intervention so that land managers and farmers are encouraged, through subsidies and other incentives, to farm their lands in an environmentally sensitive manner.

Market access. The export subsidies and import tariffs of the CAP have had huge downstream effects on developing countries and their own environments. Although a great deal has been written about the social and economic impacts of trade restrictions on developing countries, relatively little has been said about the impacts on land use and the environment. However, research carried out by the RSPB indicates that subsidised intensive beef farming in Europe (BSE notwithstanding) has had the effect of making extensive beef farming on marginal grasslands in Argentina less profitable. As a result, much of the land has been given over to eucalyptus plantations or to very intensive arable methods, with the loss of the grassland habitat and its dependent species. Conversely, beef production in core areas in Argentina is probably intensifying, with all the attendant environmental problems that brings.

Back in Europe, the intensive nature of our subsidised cattle production has meant that insufficient domestic supplies of cattle feed must be supplemented by soya imports, which in turn has encouraged many countries to enter the soya trade with environmentally damaging results. In Brazil, for example, forests and other valuable habitats have been destroyed in the rush to grow soya for export to support an unsustainable system of intensive cattle production in Europe.

It is important to point out that further liberalisation of agricultural trade will not automatically provide a solution to the problems described above. Liberalisation of trade *without* environmental safeguards is very likely to transfer the problems caused by the over-intensive exploitation of the farm landscape to somewhere else in the world. Indeed it will inevitably do so. We therefore need environmental conditions and safeguards to be put in place simultaneously and in parallel with trade liberalisation to ensure that we don't simply spread the problems across the globe.

Trade in the genetic basis of biodiversity. The problem here is simple. Most of the world's genetic wealth is located in the South whereas the means to exploit it commercially are located in the North. Without the willingness and measures to share the benefits equitably it is obvious who will win and who will lose.

The setting of internationally agreed standards. Setting internationally agreed standards is fine in prin-

ciple but enormously difficult in practice. Given that GATT does not currently differentiate between agricultural production methods, it is most unlikely that useful standards can be set domestically and internationally within the existing legal framework. Until this is addressed, our most fruitful avenue is to convince international institutions to permit more mechanisms that are sensitive to the environmental impacts of trade.

Conclusions

There are many cases where sensible restrictions on trade are justifiable on environmental grounds. However, there is always the danger that pure economic protectionism can be dressed up in 'environmental' clothes, which is just as harmful. To begin to address this problem and get the balance right, we need to do the following:

- *Harness consumer pressure to promote ethical trading.* Businesses respond to consumer pressures, and environmentalists can harness those consumer pressures to a much greater extent than at present. For example, the issue of environmental labelling (eco-labelling) would be most constructively addressed by the business and the NGO communities. It would then *have* to be taken on board by WTO and particularly the CTE.
- *Press for institutional changes.* We need to demand much greater transparency in the workings of WTO and to push for the integration of environmental considerations into trade policy – a process which might ultimately result in the creation of a World Trade and Environment Organisation (WTEO).
- *Use economic instruments to ensure that market prices reflect environmental costs.* GATT should be amended to allow the continuation of subsidies and trade restrictions that are truly designed to protect the environment. Moreover, if environmental costs are to be internalised worldwide, developed countries cannot place unreasonable demands on the developing world and then simply sit back. Some form of financial assistance, perhaps with appropriate domestic subsidies or systems of regulation, is essential.

With trade as with all the major global environmental issues such as climate change there is no single or simple solution. What we will need is a whole raft of interconnected, complex solutions requiring all of us to work together to illuminate ways forward.

World trade and environmental policy

James Cameron, Director, Foundation for International Environmental Law and Development

The context for the trade and environment debate should be one of shared experience in a truly global economy. Yet there are two separate cultures at work here: the trade policy community and the environmental community. The people who live and work in them see the world in completely different ways. They have different concepts and values, they use a different language to describe the world they see, and their perspectives are framed within a different history of ideas.

The trade community is still, to a large degree, influenced by a generation of academics, practitioners and negotiators who are fired by a 'never-again' zeal with respect to protectionism. This attitude may stem perhaps from their education or from their direct experience of the protectionism that gave rise (in their view) to two world wars – and they fight barriers to trade with that kind of conviction. They make no distinction between an environmental regulation that acts as a barrier to trade and any other technical barrier to trade. Within the area of trade policy they manage to achieve quite remarkable things. Quietly removed from public scrutiny, and perhaps, in their view, from public interference, they have done deals behind closed doors which have led to the progressive reduction in tariffs and to a much greater freedom to trade in goods and services. Of course, the original nineteenth-century notion of liberalised trade carried with it other sorts of values that are not simply economic. The ability to trade freely enables people to exchange ideas, values, beliefs and indeed whole systems of technology. In so doing, a culture perceives itself to be progressive and successful – in fact it feels very much as if it has saved the world from itself, and therefore sees no reason to change.

The environment culture is entirely different. It is open and creative, it embraces the media and publicises its work widely and informatively. The non-governmental organisations, working alongside governments, have played a vital role in influencing environmental policy and multilateral environmental agreements over the past decade or so. The connection with the trade community comes through the reality of globalisation. The movement of ideas, money, people, politics and

culture, and the tendency to share those ideas through global communications and broadcasting systems, mean that these two worlds – the trade community and the environmentalists – collide. Each is grappling with such tremendous complexity in this new global economy that we now need to invent new ways of responding to these global-scale problems.

Two examples (presented overleaf) illustrate the complexity of the linkages between trade and environment. Both concern unilateral decisions made on sound environmental grounds but which have had far-reaching consequences on the trade freedoms of other countries.

The way forward

Those who want to push forward the trade and environment debate and integrate environment policy into the trade arena are going to have to come up with new proposals that directly involve developing countries in debate and negotiation. We in the UK and the European Community must establish what we can offer to developing countries in terms of market access, transfer of technology, and new investment rules.

All the recent multilateral agreements – and those that are still in the pipeline – use trade in some way to achieve their objectives. As Tony Blair has said, the most important challenge facing governments in the next century is the proper implementation of those agreements designed to safeguard the global environment. All those measures at some level touch the economic decision-making that is captured in the decision-making of the global economy. Most important of all, the WTO is the institution that sets rules and applies them to those that are trading in the global economy. Unless we deal with that interrelationship we will not only undermine multilateral agreements but people will gradually lose faith in the WTO as the major institution for governing the global economy. There is still a tremendous amount of work to do to bridge the gap between the two worlds of trade policy and environmental protection.

CASE 1

Problem: Waste disposal landfill sites in Europe are choked by the wooden containers used in the highly profitable cut-flower industry.

Environmental solution: All cut flowers are to be transported in reusable/recyclable containers.

Economic consequences: All producers, both European and foreign, have to acquire new sources of containers. The cut-flower industry in developing countries (Colombia and Kenya, particularly) collapses because producers cannot find containers that meet the technical requirements at a price they can afford. Dutch (and other) cut-flower producers fill the gap in the market and a trade barrier has effectively been instituted.

Social/development consequences: In Colombia, the loss of a highly profitable trade tempts many plant producers to switch to another crop and re-enter the European market selling cocaine on the black market. The Colombian producers suffer the costs of dislocation; the European authorities must deal with the effects of drug abuse among its citizens.

Lesson: Trade and environment are interlinked. Change one component and the effects spread like a ripple through the system. If the implications are carefully thought out before action is taken, all parties likely to be affected can be involved in the decision-making process. Participation by the Colombian producers might have encouraged the EC regulators to rethink the time scale, help with the costs, or compensate them in some other way.

CASE 2

Environmental problem: Mortality of male green turtles at a crucial time in the breeding-cycle of the species.

Environmental solution (in the United States): Following lobbying by environmental groups, all US shrimp fisheries are required to fit 'turtle excluder devices' (TEDs) to their shrimp trawling gear to allow turtles to escape.

Economic consequences (in the US): US shrimp producers believed that, in bearing the costs of this environmental directive, they were placed at an economic disadvantage relative to foreign fisheries who exported billions of dollars' worth of shrimps to the US. They lobbied the US government so that the same regulations were imposed on Caribbean shrimp exporters to the US and, later, on all shrimp exporters worldwide to the US.

Economic consequences (worldwide): World exporters of shrimps to the US, such as producers in India, Thailand, Pakistan and Malaysia, lost their access to US markets unless they had been certified by a US inspector as being turtle friendly.

Political consequences: The US had unilaterally imposed a barrier to trade. Under WTO rules, governments are barred from specifying environmental standards for the production methods used to make imported products. The US government has no authority under any multilateral environmental agreements to take such unilateral action, despite the fact that the turtles are placed on Appendix I of CITES (the most endangered category). The US is not party to the Convention on Biological Diversity nor to the Law of the Sea Convention. The case has been before the WTO Appellate Body and has been decided (United States – Import Prohibition of Certain Shrimp or Shrimp Products).

Lesson: This trade and environment clash again stems from a lack of rules, particularly within the WTO, to deal with situations such as this. Developing countries must be included in decision-making within the global economy. A whole new system of participation and negotiation is necessary if environment policy is to be fairly integrated into the trade arena.

Feedback

Comments, questions and responses to Paul Ekins (PE), Graham Wynne (GW) and James Cameron (JC).

- Consumers may not be concerned with the sustainability of the products they buy, preferring instead to choose on the basis of price. (H. Onya)

There is a willingness among some to pay extra for green products; admittedly this is still quite limited but there is good potential in the future. (GW)

Governments should ensure that at least some environmental costs are internalised on behalf of consumers. Concerned consumers may still have to pay more in the short term, but also continue to put pressure on governments to promote sustainable production. (PE)

- Private sector partnerships with NGOs are a crucial step towards creating the longer-term perspectives necessary for sustainable trade. (C-C. Schmidt)
- Are there opportunities for the transfer of know-how from the climate change negotiations to assist the WTO debate? (S. Huq)

The difference in style between these debates is considerable; the climate negotiations were chaotic and dynamic and success was due to the awareness of how important the debate was. The WTO realises that change is necessary and some of the

lessons of the climate convention experience could be applied. (JC)

- Only the larger companies in many developing countries have the resources and flexibility to conform to high environmental standards. There needs to be systematic support to enable smaller firms to change at the same time. (M. Hurtado)
- Is it possible to have strict environmental agreements without compromising 'most favoured nation' (MFN) status? (J. Glazewski)

Reform to allow this is crucial, with clarification of the territorial reach of national law and of the conflicts between national and international environmental law. (JC)

There is concern that some environmental legislation is being used as green protectionism, and that commercial voices are too strong in the debate on trade regulation. (PE)

- As well as the points noted by Paul Ekins as necessary for sustainable development, we need to add mechanisms and opportunities to hold companies to account, e.g. legal obligations to provide social and environmental reports and statements of ethical policy to investors. (R. Lake)

Responding to Change

3

Chapter 3 Responding to Change



☛ To refuse the challenge implied by the triple bottom line is to risk extinction. To accept the challenge is to embark on a process which is likely to be both intensely taxing and potentially highly rewarding. ☛

John Elkington

☛ If we carry on with 'business as usual' the total level of consumption in real terms will have quadrupled between 1995 and 2050. ☛

Maria-Elena Hurtado

☛ Consumers mobilise themselves when they see that something critical is going to happen.

We saw this with climate change, we saw it with ozone. I think biodiversity has the same potential too. ☛ *Maria-Elena Hurtado*



We are living in a world where, as Ricardo Meléndez-Ortiz said earlier, 'we want it all – economic prosperity, environmental quality and social justice'. The growing tensions between trade liberalisation and environmental protection are a reflection of the wider conflicts between the sustainability agenda and traditional ways of doing business. As John Elkington suggests, large corporations are increasingly being forced by market and stakeholder pressures to pass the 'triple bottom line' challenges (economic growth, environmental quality and social justice) down their supply chains to smaller contractors and suppliers.

But if business is going to need to revolutionise its operations to meet the sustainability challenge, then consumer aspirations and lifestyles will also have to change. Globalisation has a strongly unsustainable dimension to it – people around the world are now bombarded by a consumer culture in which status is often linked to the amount that they consume. Increasing volumes of consumption cancel out the resource efficiency and pollution reduction gains made through technological innovation. Can (or should) limits therefore be set on consumption? Can this be done in such a way as to lead to a more equitable sharing of the world's resources?

Potentially, consumers have significant market power and the ability to drive change.

However, as Maria-Elena Hurtado shows, the majority of consumers remain outside the sustainability debate largely through lack of information. Governments must therefore be proactive in encouraging a shift towards sustainable consumption through regulations and incentives that stimulate the production of goods that are energy and resource efficient, non-toxic and safe, and able to be repaired, reused and recycled.

But what are the impacts of such a transformation in business practice and consumer preferences on production in the South? The main route will be through international product chains, where the costs and benefits of efforts to address the environmental impacts of trade will be distributed according to the market power held by the various actors along the supply chain. The weakest actors in this chain are usually small-scale producers (often in developing countries) who, under pressure from consumers, have to bear the costs of converting their production systems to environmentally and socially friendly ones without receiving the price premiums that may be attached at the point of sale. Without specific attempts to share benefits more equitably, most benefits will be captured by large retail corporations.

For Tariq Banuri, the key issue is not the harmonisation of trade liberalisation with natural resource conservation, but rather the harmonisation of both with the over-riding compulsion to eradicate poverty and other social injustices in the shortest possible time. If changes in consumer preferences are to have a positive impact on trade flows from developing countries, investment and new initiatives in corporate governance along the supply chain will be required. As Banuri says, 'the choice of intervention must acknowledge the process of globalisation and the entire range of relationships between North and South'.

John Elkington is Chairman of SustainAbility Ltd and Chairman of the Environment Foundation. He sits on the advisory boards of Anglian Water, Scottish Power and Storebrand, and he is also a member of the EU consultative forum on environment and sustainable development.

Maria-Elena Hurtado was Director of the Global Policy and Campaigns Unit of Consumers International, an international federation of consumer organisations, at the time of the conference. She has a long career in journalism, with a strong interest in Third World issues and consumer campaigning, and a close association with many environmental NGOs. Maria-Elena is currently on the Council of the World Development Movement, the Overseas Development Institute and the Latin American Bureau.

Tariq Banuri is currently Senior Research Director at the Stockholm Environment Institute in Boston, USA. Prior to this he was Research Advisor at the Sustainable Development Policy Institute – Pakistan's leading think-tank on environment and development – having been its Founding Executive Director from 1992 to 1997. Tariq is also Chairman of the IUCN's Commission on Environmental, Economic and Social Policy as well as a lead author on the Intergovernmental Panel on Climate Change. He holds a PhD in economics from Harvard University and his current research interests include environment policy, governance and sustainable development.

6 Consultations in Latin America have shown that the southern producers, the small-scale artisanal fishermen, are among the most interested in the eco-labelling scheme because they think it will give them a competitive edge in the market place. They think they'll be more eligible for certification and labelling than their industrial, commercial counterparts offshore. They're more interested than the northern producers. 9 *Mike Sutton*



6... environmental considerations are creeping into the consciousness of consumers and, importantly, of retailers in the developed economies. Consumers that 'have it all' want, among other things, to 'feel good' about their purchases. 9 *Maria-Elena Hurtado*

6 Sitting in the South we certainly do not trust the North. Partnerships are needed to help knowledge flow, to build understanding and trust. True partnerships are the only ways in which greater trust can be generated and morality is of fundamental importance. 9 *Tariq Banuri*

6 When people in the South die of hunger how can they be concerned about environmental protection? Bill Gates recently lost 4.7 billion dollars in one day. That kind of money can keep several countries in Africa going for years. Why don't we say *morality* is the real bottom line? 9 *Alexander Efthyvoulos*



The triple bottom line: people, planet and profit

John Elkington, Chairman, SustainAbility Ltd

Ten years ago, regulatory pressure would have been at the top of any list of forces required to bring about a more sustainable world. Today, however, it seems that such changes are more likely to be driven by market forces and the reality of competitive advantage. This is a fundamental shift. A whole set of new values is beginning to come to the fore. The sustainability agenda, long understood as an attempt to harmonise the traditional financial bottom line with emerging thinking about the environmental bottom line, is turning out to be much more complicated than some business enthusiasts imagined. Increasingly, we think in terms of a 'triple bottom line', focusing on economic prosperity, environmental quality and – the element which business had tended to overlook – social justice.

To refuse the challenge implied by the triple bottom line is to risk extinction. To accept the challenge is to embark on a process which is likely to be both intensely taxing and potentially highly rewarding. As we move into the third millennium, we are embarking on a global

cultural revolution. Business, much more than governments or non-governmental organisations, will be in the driving seat. Paradoxically, this will not make the sustainable capitalism transition any easier for business people. For many, it will prove gruelling, if not impossible.

There are deep currents underlying much of the surface turbulence we see in today's world. Instead of dealing with the environmental revolution in terms of separate issues such as overpopulation, global warming, loss of biodiversity, the collapse of fisheries or land contamination, we must step back a little and focus on the much broader, interdependent dimensions that form the framework of a sustainable future. If sustainability is to be achieved, each dimension will have to undergo revolutionary change (Figure 1). Although they are dealt with separately here, in reality the transformations are occurring simultaneously, some faster (or more visible) than others, with the outcomes of one change interacting with the course of others.

FIG. 1 The seven sustainability revolutions

	Old paradigm	→	New paradigm
1. <i>Markets</i>	Compliance	→	Competition
2. <i>Values</i>	Hard	→	Soft
3. <i>Transparency</i>	Closed	→	Open
4. <i>Life-cycle technology</i>	Product	→	Function
5. <i>Partnerships</i>	Subversion	→	Symbiosis
6. <i>Time</i>	Wider	→	Longer
7. <i>Corporate governance</i>	Exclusive	→	Inclusive

1. Markets

Revolution 1 will be driven by competition, largely through markets. For the foreseeable future, business will operate in markets that are more open to competition, both domestic and international, than at any

other time in living memory. The resulting economic earthquakes will transform our world. In this extraordinarily challenging environment, growing numbers of companies are already finding themselves challenged by their customers and the financial markets about aspects of their 'triple bottom line' commitments and performance. This pressure can only grow over the long term. As a result, business will shift from using cost as an excuse not to address the triple bottom line agenda to using sustainability as part of the business case for action and investment.

Old paradigm	→	New paradigm
Externalisation of costs	→	Internalisation of costs
Compliance	→	Competitive advantage
Country-by-country standards	→	Global consistency
Adding volume	→	Adding value
Production growth	→	Sustainable consumption
Disruptive NGO campaigns	→	Disruption as commercial strategy

2. Values

Revolution 2 is being driven by the worldwide shift in human and societal values. Most people take values as a given. When they change, as they seem to do with every succeeding generation, entire societies can turn to jelly. Companies that have felt themselves standing on solid ground for decades suddenly find that the world as they knew it is being turned upside down, inside out. We can see this in the extraordinary changes in Eastern Europe in 1989, in the experiences of the Shell oil company during the Brent Spar and Nigerian controversies (when it announced that it would in future consult non-governmental organisations on such issues as environment and human rights before deciding on development options), and in Texaco's \$176 million out-of-court settlement to try to bury the controversy surrounding its poor record in integrating ethnic minorities. Such value shifts are among the most powerful influences faced by politicians and business leaders alike. Companies misreading the direction of flow risk running aground or being swept aside into the commercial doldrums.

Old paradigm		New paradigm
Careless, uncaring	→	Careful, caring
Control	→	Stewardship
Me	→	We
Monocultures	→	Diversity
Growth	→	Sustainability

3. Transparency

Companies that have previously sought to justify no disclosure or low-disclosure policies will find that they and their entire supply chains are increasingly operating in a global 'goldfish bowl'. Stakeholders are demanding to know what business is doing and planning to do, and increasingly they are using that information to compare and rank the performance of competing companies. Sooner or later, most things a company thinks or does will be public knowledge. Companies that fail to plan with this fact in mind must be prepared to pay the price.

Old paradigm		New paradigm
Closed, except financial reports	→	Open, 'triple bottom line' reports
Need to know	→	Right to know
Facts and science	→	Emotions and perceptions
One-way, passive communication	→	Multi-way, active dialogue
Promises	→	Targets

4. Life-cycle technology

Here we see a shift from companies focusing on the acceptability of their products at the point of sale to their performance from cradle to cradle – i.e. from the extraction of raw materials right through to recycling, reuse or disposal. Managing the life-cycles of technologies and products as different as plastic bags, cars, batteries, jumbo jets and offshore oil-rigs will become increasingly challenging. Many products will have ease of recycling built into them at design stage.

Old paradigm		New paradigm
Responsibility to factory gate	→	Stewardship throughout life cycle
Sales	→	Lifetime customer value
Product and waste	→	Co-products
Environmental LCAs	→	Triple bottom line LCAs
Product	→	Function
Trial and error	→	Biomimetics

5. Partners

Revolution 5 will dramatically accelerate the rate at which new forms of partnership spring up between companies, and between companies and other organisations, including some leading campaigning groups. None of this means that we will see an end to friction or outright conflict. Instead, campaigning groups will need to work out ways of simultaneously challenging and working with the same industry – or even the same company. This trend has already triggered schizophrenic responses in some of the leading environmental organisations and in some of the companies that have formed innovative partnerships. Such tensions are likely to grow when the focus of the partnerships inevitably expands to embrace an integrated triple bottom line approach.

Old paradigm		New paradigm
De-regulation	→	Re-regulation
Enemies	→	Complementors
Subversion	→	Symbiosis
Unconditional loyalty	→	Conditional loyalty
Rights	→	Responsibilities
Green business networks	→	Sustainability keiretsu

6. Time

Time is short, we are told; time is money. But, driven by the sustainability agenda, Revolution 6 will promote a profound shift in the way we understand and manage time. As the latest news stories erupt through TV/internet

channels within seconds of the relevant events happening on the other side of the world, and as more than a trillion dollars sluices around the world every working day, so business finds that current time is becoming ever 'wider'. By contrast, the sustainability agenda is pushing us in the other direction – towards 'long' time. It requires thinking across decades, generations and, in some instances, centuries.

Old paradigm		New paradigm
Wider	→	Longer
Extraction	→	Restoration
Tactics	→	Strategy
Plans	→	Scenarios
Time bandits	→	Time guardians

7. Corporate governance

Ultimately, whatever the drivers, the triple bottom line agenda is the responsibility of the corporate board. Revolution 7 is being driven by each of the other revolutions and is also resulting in a totally new spin being put on the already energetic corporate governance debate. Now, instead of just focusing on issues like the pay packets of 'fat cat' directors, new questions are being

asked. For example, what is business for? Who should have a say in how companies are run? What is the appropriate balance between shareholders and other stakeholders? And what balance should be struck at the level of the triple bottom line?

The better the system of corporate governance, the greater the chance that we can build towards genuinely sustainable capitalism. To date, however, most triple bottom line campaigners have not focused their activities at boards; nor, in most cases, do they have a detailed understanding of how boards and corporate governance systems work. This, nonetheless, constitutes the jousting-ground of tomorrow.

Old paradigm		New paradigm
Financial bottom line	→	Triple bottom line
Physical and financial capital	→	Economic, human, social, natural
Tangible, owned assets	→	Intangible, borrowed assets
Downsizing	→	Innovation
Exclusive governance	→	Inclusive governance
Shareholders	→	Stakeholders

Changing consumer expectations and choices

Maria-Elena Hurtado, Director of Global Policy and Campaigns Unit, Consumers International¹

According to consumer surveys, the average consumer is still purchasing the product that most successfully combines low price with quality. But the environmental considerations are creeping into the consciousness of consumers and, importantly, of retailers in the developed economies. Consumers that 'have it all' want among other things to 'feel good' when they are purchasing.

In *Unlocking Trade Opportunities* (IIED 1997) it is estimated that only 1% of consumption in the developed countries is environmentally sustainable. Although a very small figure, it can be significant in specific sectors

and for individual producers aiming to capture niche markets. For example, the market for environmentally sensitive tourism is already estimated at \$160 billion, and consumers in developed countries are paying \$500 million annually for organic produce.

Who are the 'green' consumers?

Based on data from a survey by the UK National Consumer Council, about one-fifth of the population of the developed countries can now be classified as 'green consumers'. Of these, the biggest consumers of green

¹ Until January 1999.

products are middle-aged, affluent people (19%), followed closely by the young greens (17%) who, although they say they will buy green, do not have much purchasing power and hence have little influence on the market. A survey on organic products in the United States by the Hartman Group found that 23% of the population were eager to buy green and that 5% were 'true naturals' – people who are very green and go to any lengths to buy an environmentally sustainable product.

In Germany, the figures are similar with 5–15% for the green category and another 50% making up the group who would buy environmentally friendly products if they could find them. Sweden, of course, is a very special case because environmental awareness is already very high – 47% of all Swedes say they buy eco-labelled products (i.e. they actively seek out environmentally sustainable products).

Consumer organisations and their environmental impact

Consumers International, an international federation of consumer organisations, has 245 members in 110 countries. They influence the market through the advice and product information they offer in magazines, newspapers and on TV. Their reach is vast and the potential for influencing consumers is enormous.

A number of consumer organisations are already including environmental factors in their product ratings. Most of these focus on energy and water efficiency (traditionally because of the costs to the user) but there is a long list of other factors that are now being included in some tests: packaging and information, noise, durability, odour, disposal issues, assembly, recycling, harmful substances in household products, and so on. Consumers International is now trying to come up with a shortlist of all the tests required for specific products so that tests in different countries can be compared. Consumer organisations can only do this, however, if the manufacturers provide all the relevant information regarding the manufacture, transport, use and disposal of their products.

Disparities in the saying and the doing

Environmental awareness does not necessarily lead to consumers buying environmentally preferable products. Surveys indicate that increasing numbers of people are declaring that they are environmentally aware, but their actual purchasing decisions suggest otherwise. In some cases the discrepancies are enormous; in the United States, for example, 23% of people said that they wanted to buy organic food but those that actually bought organic food made up only 2%.

There are several reasons for the disparity between what people would like to do and what they actually do.

- *The products do not meet consumer criteria.* Many of the environmentally preferable products do not meet consumer criteria in terms of price, performance, quality and accessibility. A survey by the UK National Consumer Council found that people would only buy a greener product if it also met the criteria for brand name, price and performance (particularly price). Environmentally friendly purchases are only a tiny proportion of total purchases and are restricted mainly to a few products such as unleaded petrol, recycled paper products, and energy-saving light bulbs.
- *Inadequate product information.* Even in Sweden, 70% of all the people surveyed said they did not have enough information to make a green purchase.
- *Low credibility.* Consumers are very wary of marketing ploys. There are too many retailers and manufacturers making unsubstantiated environmental claims in a bid to sell their goods.
- *Insufficient environmentally friendly alternatives.* In Sweden, one in two consumers said they were not greener because there were not enough green products on the market.
- *Lack of environmental education.* Consumers need to know about the environmental impact of products. When people know, for example, about pesticide residues in their food, they tend to purchase accordingly.
- *Lack of time.* In busy lives, the time needed to search out products that are kinder to the environment simply isn't available – other activities take priority.
- *The powerlessness of the individual.* The perception that one individual cannot make a difference is widespread. In Sweden, 50% of people interviewed said that environmental responsibility lay with companies and that it made little sense for individuals to be green if companies did not clean up their act first. However, surveys show that women are much more environmentally aware and positive about the difference they can make than men. In Sweden, six out of ten environmental activists are women.
- *Green goods cost more.* The percentage of consumers who are prepared to pay a premium for green goods is only about 10%. Cost is therefore a limiting factor for the majority of consumers who want to buy green.

- *Level of education.* The most environmentally active people are generally those with above average levels of education.

Given the above, how do we capitalise on growing environmental awareness and move to sustainable consumption?

- *Increase the range of environmentally friendly products.* Manufacturers should be challenged to increase the number of environmentally friendly products which meet the criteria of good quality and competitive price.
- *Education.* The UK National Consumer Council's report on British attitudes to the environment concluded that the most important factor behind environmental action is the belief that 'I can make a difference'. Tackling this general feeling of powerlessness might be a useful place to begin.
- *Improve credibility.* The environmental claims made by manufacturers must be accurate, understandable and trustworthy. Consumers need an independent verification of whether the products are really green – official eco-labels like the highly successful Nordic Swan are the way forward.
- *Lobby governments.* Regulation, which takes into account environmental impacts, is needed on issues such as waste disposal, recycling, transport, housing, setting mandatory greenhouse limits, promoting green taxation or running consumer education campaigns on sustainable living.

Consumption in developing countries

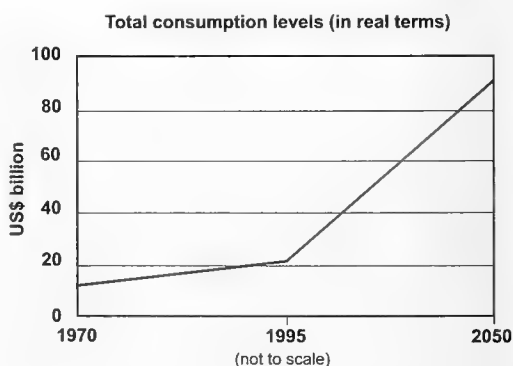
The *Human Development Report* (UNDP 1998) shows that, in developing countries with rapidly growing GNP, the sale of consumer goods is increasing by 10–20% a year. The upper and middle classes of these countries follow patterns of consumption not dissimilar to those in developed countries. In the 1980s, Malaysia, Brazil, Chile, Mexico and South Africa had double or triple the number of cars that Germany, France and Austria had at the same level of income thirty years earlier. That globalisation is really stimulating consumption can be seen in the 60% increase in the purchase of washing machines, refrigerators and TV sets in China in just five

years. The consumer society is also reaching the countryside; in India the *Human Development Report* found that 70% of households owned a portable radio, a bicycle and a wristwatch and that more than 20% had a refrigerator. A further finding was that globalisation is tending to increase disparities between North and South, between those who consume a lot and those who consume very little.

The consumer spiral

If we carry on with 'business as usual' the total level of consumption in real terms will have quadrupled between 1995 and 2050. In 1995, private and public consumption worldwide stood at \$22 billion, twice the level of 1970.

Such statistics present a challenge for producers, consumers, governments, environmental organisations and others to do more to deliver and use goods and services in an environmentally sustainable way. And while it is the developed countries that have certainly to take a lead, the effort, I think, must also extend to the developing countries if they are to be spared a fate of ever increasing air and water pollution and land degradation. The power of change lies in the hands (and mouths) of consumers. As one South African exporter said, 'If you break a law you can always pay a fine, but if your customers are complaining, there is nothing you can do. You can survive anything else but you can't survive without customers.' Informed and motivated consumers can become the driving force for change.



Sustainable trade: barriers and opportunities

Tariq Banuri, Senior Research Director, Stockholm Environment Institute (SEI-B), Boston

My perspective on the subject of the conference – the impact of trade policies on the environment – is that of a citizen of a southern country. From this perspective, the key question is not the harmonisation of the consequences of trade liberalisation with the imperatives of natural resource conservation, but rather the harmonisation of both with the over-riding compulsion to eradicate poverty and other social injustices in the shortest possible time. I will illustrate my arguments by looking at the case of cotton and cotton products. Although the examples I present are almost entirely from Pakistan, the insights might have wider relevance.

Trade and the cotton industry

Cotton and cotton products occupy a pre-eminent position in Pakistan's economy and polity. Cotton production covers three million hectares out of Pakistan's arable land endowment of roughly 20 million hectares. It is grown by more than a quarter of the five million farm households. The cotton products sector is Pakistan's largest industrial sector; it contributes about 10% of the country's GDP, earns more than 50% of its foreign exchange, and employs roughly half of the industrial labour force. Not surprisingly, a decline in cotton production translates not only into an economic recession and a decline in exports, but also to fiscal and balance of payments crises as well as heightened political conflicts and political tensions.

Trade is a vital component of the cotton sector: roughly 70% of the cotton grown in the country is exported in the form of cotton, cotton yarn, textiles or finished garments. This is consistent with (albeit a somewhat magnified form of) international trends. Globally, cotton production covers 2.5% of all cultivable land, mainly (77%) in Southern countries. One-third of the cotton crop (and a significant fraction of cotton products) is exported, with southern countries contributing 58% of world cotton exports.

The cotton sector is also characterised by a number of international trade barriers imposed by northern countries against southern industrial products. These barriers go back at least to 1935 (when a voluntary export restraint on textile exports to the US was announced). In 1973, the barriers were consolidated in the form of an elaborate system of quotas, the Multi-Fibre Arrange-

ment (MFA). This system is now being dismantled gradually through the Agreement on Textiles and Clothing (ATC) negotiated in the GATT Marrakech agreement. However, this agreement is slow to take effect and will be integrated into the mainstream of the WTO discipline over a period of 10 years, i.e. by 2005.

The other important issue in the cotton industry is the concern raised in recent years about the environmental impact of cotton production and processing. The bona fides of these environmental concerns continue to be questioned by southern countries. This is widely seen by southern governments as well as academics as an attempt to restrict southern imports and protect uncompetitive northern textile producers. These critics note that environmental concerns surfaced only when the ATC began to dismantle the protection provided by the MFA. Therefore, they see it as a new form of protectionism (disguised as environmental concern) to replace the one that had disappeared. Critics also argue that cotton is environmentally more benign than synthetic alternatives – which have severe environmental costs associated with the petroleum products – yet similar concerns are not being raised against the latter.

Cotton – weighing the environmental costs

So how can we reduce the environmental costs associated with this, or any other activity, and how can we do so in a manner that is not biased or unfair? The environmental costs imposed by existing systems for the production of cotton and cotton products include the effect of pesticide sprays on the health of workers, particularly women cotton-pickers, on ecosystems and on biological diversity; and the impact of chemical run-off from fields and factories on groundwater, river systems, and people's health.

Change can be introduced either through international or through domestic intervention. Among the latter are trade-related incentives, by governments as well as consumers, and the imposition of environmental conditionalities on borrowing and technical assistance. In the South there is much concern over the partiality of such initiatives towards northern interests and concerns. While they are presented as neutral economic or financial instruments, in practice they tend to favour the

modern, large-scale sector (in the South as well as the North) which has preferential access to credit, technology and government resources.

Besides technical assistance programmes to provide preferential access to technology or credit, programmes to support the transition to clean production often involve consumer-led or government-ordained restrictions on imports of materials that do not meet product or process standards. The latter are claimed to be non-discriminatory, in that they convey consumer preferences to all producers. Besides the obvious edge that such policies provide to domestic producers, they also favour those who have greater flexibility, who can alter their technological and managerial systems, and enter niche markets in order to take advantage of the technology or incentives.

The majority of producers in a country like Pakistan will automatically be excluded from the opportunities that such actions might throw up. Take the 650,000 Pakistani cotton farmers (out of a total of 1.3 million) who own less than one hectare of land each, or the estimated 250,000 small-scale, informal sector, cottage industry textile weaving units. The problem is to organise a sustainable program that will include these farmers and producers, not one that will benefit the large, industrial farms, or the large-scale industrial units. The problem is to protect the competitive edge of smaller producers, especially when new global technologies and the processes of international trade are threatening to squeeze them out of the market.

Commodity chains: cotton

An alternative framework that helps illuminate precisely such issues is commodity chain analysis. This framework looks at production conditions along the length of the production chain – in this case extending from cotton growing through to ginning, spinning, weaving and processing to garment manufacture and export – in order to assess the potential of small producers to respond to changes in market or policy conditions. Each link in the cotton chain is characterised by different market conditions and different production arrangements, which determine whether a specific group of producers would be able to adapt to and survive the transition to sustainability. The questions to be asked at each step include: Who is likely to benefit the most? Who is likely to be hurt the most? And, if there is surplus revenue, how can it be used to bring about the desired industrial transition?

In Pakistan, the average yield per hectare of cotton in 1996–97 was 581 kilograms of lint (and 1,162 kilograms of cottonseed). This amount of lint produces 500 kilograms of cotton yarn, which in turn produces 5,801

square metres of cloth. (In other words, a hectare of land produces enough cotton to cover 58% of its area). Looking at cost figures, the average input costs per hectare of cotton production were Rs 18,914, while the revenue from the sale of cottonseed and lint was Rs 35,200, leaving a farm income of Rs 16,286 per hectare. (The exchange rate in that period was Rs 40 per US\$.)

By the time it reaches the finished cloth stage, the same hectare generates revenue of Rs 174,030 – roughly 10 times the cost of farm inputs. However, the real earnings accrue at a subsequent stage when the cloth is converted into garments and sold for export. Our estimates suggest that a metre of cloth costs roughly US\$1; a T-shirt made from it may sell for anything between \$10 and \$100. That extra \$9–99 does not accrue to the farmer. It goes into the revenues of corporations, or into their advertisement budgets, for example, to pay big stars like Michael Jordan their \$20 million for endorsing the product. In other words, if you buy a T-shirt for \$10, the price of the cloth is only \$1, the price of the cotton that made that cloth is 20 cents, and the cost of farm inputs only 10 cents.

The transition to sustainable production will be impossible without ready access to clean production technologies. Alternative technologies exist in some areas (e.g. in textile processing) and are at an experimental stage in other areas (e.g. 'green' cotton). Much more investment and technical assistance are needed.

Now, suppose that this transition imposes additional costs on cotton farmers. To make a very generous (and unrealistic) assumption, let us say that production costs of sustainable cotton are twice those of ordinary cotton. This means that the 10 cents will be doubled to 20 cents, and (assuming, unrealistically, that everything else remains the same) the cost of the cloth will rise from \$1 to \$1.10, and that of the T-shirt from \$10 to \$10.10. The point is that the impact of this transition on the price (and therefore the saleability) of the T-shirt will be quite insignificant (about 1%).

Suppose now that the public is willing to pay a sufficient (but unspecified) premium on clothing produced from organically grown cotton. The problem is that while the transition cost will fall disproportionately on the producers and manufacturers, the benefits of changing consumer preferences cannot accrue to them in such a way as to facilitate the transition. Indeed, the bulk of the premium will accrue to firms that have a comparative advantage in certification, labelling, packaging, advertising and marketing. The question then is what determines whether any of the benefits can accrue to the farmer or the small producer, and how will such accruals affect the incentive structure facing them.

Commodity chains and the profit/cost pyramid

The responsiveness of individual actors in a production chain to changing incentive structures is linked closely to the nature of governance systems in the chain. In the absence of an effective system of governance in some of the segments of the chain, the transition costs are likely to be very high and also to be inequitably distributed.

There are three main characteristics of a commodity chain. These are territoriality (where the production takes place, where it is sold); the input/output relationship (the technology of production); and the governing structure (the authority and power relations that determine how financial, material and human resources are allocated and flow within a chain).

Gary Gereffi and his associates have provided a helpful distinction between two kinds of commodity chains: buyer-driven and producer-driven. A typical example of the latter is the automobile industry. Companies such as General Motors, Toyota or Mercedes not only determine the design and production requirements of cars; but they also 'govern' the automobile production system. These large corporations dictate to companies that produce, for example, tyres or other equipment, on the production processes and materials that can be used.

In contrast, the garments industry is an example of a buyer-driven commodity chain. In this, it is not the producer who determines the conditions in the market, but large retailers (such as WallMart, Marks & Spencer, Tesco). In the case of some goods (those produced under brand names), the production system is controlled by brand-name companies, which neither produce nor sell the product. Nike, for example, neither produces shoes nor sells shoes; all it does is provide the brand name. The footwear is manufactured by poorly paid workers in Vietnam, Thailand, Indonesia and the Philippines, while the sales outlets are often in large stores or speciality shops. However, Nike does determine the conditions under which it is produced and sold.

To give you a slight flavour of what is meant by the control of production systems, let me describe a common practice in the garments industry in Pakistan. If garment manufacturers wish to qualify as suppliers to a large international retailer, they must apply for inspection and certification to ensure, for example, that they do not use child labour, and do not violate occupational health and safety regulations or minimum wage requirements. The company directs an independent inspector (who usually works out of Singapore) to visit and inspect the facilities and send a report. If the garment manufacturers pass the inspection, they become eligible for

sales orders. If they fail, even for transient reasons, they cannot apply again. (In practice, some of them try to re-register under a different name.) Companies that receive certification will often receive information and assistance from the buyers in order to enable them to comply with consumer-driven or legal requirements.

What is happening in cotton production?

In thinking about the transition to sustainable production, we have to consider two key issues. First, how to use the governing structure within each segment of the chain, and in particular how to ensure that the policy initiatives enable those who take such decisions to respond and implement them. Second, how to ensure that the result will be equitable and efficient; in other words, how to strengthen and transform governance structures towards this objective.

The main idea is very simple. Investment of resources in technological change requires an actor who feels responsible for the entire production system. In the case of the garments segment, the large retailers, who capture the bulk of the rents in the market, provide some elements of this role. This means that if consumer preferences change the retail companies will often provide finances, technology, inspection systems and so on to ensure that the garments meet the needs of the consumers.

Conditions are different, however, in the rest of the chain. In the first segment of the chain, namely cotton farming, there is a system of governance, albeit one in a state of crisis. Elaborating on Gereffi's categories, this system could be called a 'government-driven' segment of the commodity chain. In this system, the authority and power relations that determine the input/output structure, the financial flow and technology is in the hands of the research and policy establishment of the government.

This infrastructure had originally been set up to solve Pakistan's food crisis through the 'green revolution'. This involved integration of agriculture research, agriculture policy, agricultural extension, agricultural supplies and agricultural machinery in order to bring about a transition to higher output. While it succeeded in its original objectives, the system has long been starved of resources and attention, and is in a state of crisis. Yet, it is precisely this system that can bring about the transition to sustainable cotton production and, through it, sustainable industrial development. The restoration of sustainability to cotton production can most easily be handled by investing in the research and policy system.

Governance structures in textile production

The governance structures in the rest of the chain are even more complicated. The spinning sector is dominated by medium-sized firms, organised through the All Pakistan Textile Manufacturers Association (APTMA). This association operates mainly as a lobby to influence policies in its favour and not as a collective institution to improve production or technological systems. The bulk of the weaving industry is in the small-scale or informal sector, and is almost anarchic in structure. The textile-processing sector comprises a smaller number of medium-scale processing units. They are organised collectively through the All Pakistan Textile Processing Manufacturers Association (APTPMA) which has a broader collective role, lacking the political clout of the larger APTMA.

The transition to sustainability involves strengthening the collective governance institutions and inducing them to address such collective concerns as sustainable production. This is precisely the direction that we, as environmental NGOs, have tried to take in Pakistan. A consortium of NGOs, led by the Sustainable Development Policy Institute (SDPI), has been engaged in a policy dialogue with APTMA, the Federation of Pakistani Chambers of Commerce and Industry (FPCCI), the Environment Ministry, and labour unions in order to develop policy guidelines for sustainable industrial development. This has led to the proposal to impose pollution charges on industry generally. In the case of textiles, this will amount to half a Rupee per square metre of cotton cloth – approximately 1% of the total sales value of the processed cloth. The consensus policy proposals also include the creation of a sustainable development fund and a system of soft credits, and a transparent system of monitoring and inspection. The entire plan has been approved by the FPCCI, i.e. by

the leaders of the business community. However, the government has not responded with sufficient alacrity to take advantage of this public-spirited move by business.

Conclusion

In conclusion, I have tried to sketch out two kinds of responses to the problem of unsustainable production. One relies on supposedly neutral but, in practice, biased policy instruments, namely environmental regulation or labelling schemes. The other alternative focuses on governance systems in the production process in order to determine how to introduce change in an equitable and socially efficient manner.

The choice of intervention must acknowledge the process of globalisation and the entire range of relationships between North and South. In an interdependent world we have to find ways of making decisions that are acceptable to people with different capacities and different strengths. The purpose of such international agreements as Marrakech or the multilateral environment conventions is not merely to produce pieces of paper that people can sign so that they can look as if they're doing something. Nor is it to further widen the divide between the rich and the poor. Rather, their purpose is to establish a basis of *trust* between parties who do not normally trust each other.

If all agreements end up benefiting those who are powerful within a country or at a global level, then even the modicum of trust that exists will be undermined and further decisions will no longer be possible. Instead of cooperation, we will get resistance. This places an ethical and political burden on all countries and all peoples, but especially on those who are in a relative position of power. The environmental economist Herman Daly summed it up best when he declared: 'Sustainable development is development that places the least demand upon our natural resources and the greatest demand upon our moral resources.'

Feedback

Comments, questions and responses to John Elkington (JE), Maria-Elena Hurtado (MH) and Tariq Banuri (TB).

- There is a disparity between people's intentions and actions with regard to sustainability. It could be that producers are able to influence consumption patterns most by providing a wider selection of environmentally sound goods. (M. Sutton)

This depends on the circumstances; sometimes change is led by consumers, sometimes by producers. (MH)

Consumer action remains important in creating pressure to change production processes; this pressure cannot be sustained indefinitely but it can produce shock waves for short periods of time. (JE)

- Certification and eco-labelling can lead to disenfranchisement of southern producers who find it difficult to adapt their PPMs.

But certification also provides an opportunity to gain competitive advantage, no matter where you are based. (M. Sutton)

Southern producers do need to be involved in the establishment of eco-labels and other industry standards from the very start. (TB)

- How can heads of industry be persuaded to promote environmental awareness? (K. P. Nyati)

Up until now, cost has driven the sustainability agendas of businesses, but some traditionally safe markets are now considered as higher risk or even unsustainable, and the agenda is shifting from technical experts to the boardroom. (JE)

- We've heard a lot about Kyoto and climate change issues, but very little about biological diversity. What role can biodiversity play in influencing consumer decision-making? (M. Trash)

Biodiversity is an appealing concept and an important conduit for consumer education. (MH)

Biodiversity exists in the public mindset already but consumers need to be more aware of its importance; it is essential to the agenda of the next century. (JE)

The concept of biodiversity is a philosophical notion within the environmental community, of which the public do not need to be totally aware. (TB)

- If morality is the real bottom line, perhaps causing harm to the environment should be a criminal offence? (A. Efthymou)

We cannot ignore morality, but whether we should use criminal law to enforce it depends on the circumstances. (MH)

We need mechanisms to protect the weak from environmental degradation, but also the effects of reactions to it – and international agreements to limit it. (TB)



Policies and Incentives

4

Chapter 4 Policies and Incentives



6 Until recently, environmental management was seen as requiring the generation of command and control types of instruments; today, we need more sophisticated approaches and it is in this context that we start, amongst other things, to consider the role of the consumer. 9 *Nicholas Hanley*

6 ... it is significant that some of the impetus for sustainable trade is coming from the very top of the current British government. It certainly sends a clear message to people like myself about the kinds of lines we are supposed to be pursuing. 9 *Charles Bridge*



Governments across Europe are in the process of developing a range of instruments to stimulate more sustainable consumption and trade. Foremost among these are eco-labelling, trade preferences, negotiated environmental agreements, economic instruments, and procurement policies. These government-led measures are now being matched by new initiatives in the marketplace involving the private sector and citizen organisations. The Forest Stewardship Council and the Marine Stewardship Council, for example, were set up to establish principles and criteria for sustainable management of forests and fish stocks. In addition, industry is in the process of setting up environmental management systems as a means of achieving lasting improvements in environmental management, including the 'greening of supply chains'.

In Europe two schemes predominate: the EU's Eco-Management and Audit Scheme (EMAS) and the International Standard Organisation's ISO 14001. By the end of 1997, over 4,000 certificates had been awarded worldwide and companies are now starting to use ISO 14001 as part of their supply chain management. However, developing countries have been poorly represented in the design of ISO 14001 and are currently expressing concern about the extra costs it could bring. What is more, they fear that lack of an approved certificate could act as a *de facto* trade barrier.

The three presentations in this chapter each look critically at the policy frameworks and the range of initiatives available in the pursuit of sustainable trade. Nicholas Hanley examines the role of the EC as environmental legislator in Europe and assesses the success to date of its various initiatives, both voluntary and regulatory. Charles Bridge takes a similar approach but from the perspective of UK government policy. Charlie Arden-Clarke presents a third perspective – that of the NGOs and business, which both have increasingly important roles to play in driving the trade and environment debate.

6 WTO is still organised for sellers and not for buyers. What can consumers really do? They don't even have clear labelling in a mandatory scheme that helps them to choose between products. And governments cannot introduce policy measures that distinguish between products on the basis of how they are produced. Until WTO embraces this core issue, market mechanisms cannot seriously begin to benefit the environment. The fundamental challenge facing WTO is to say 'Yes, it is okay to distinguish between products for non-trade, non-economic motives.' 9 *Chris Fisher*

Nicholas Hanley is Head of Unit for Policy Coordination, Direction-General of the Environment for the European Commission. His professional career has always had strong links with the environment, with posts with the Norfolk Broads Authority, the Countryside Commission, as well as within the European Parliament.

Charles Bridge joined the Department of Trade and Industry in the 1970s initially as an economist and has specialised in trade policy and competition policy. He currently has responsibility for a range of international trade policy issues including trade and the environment, trade and development, trade in services, and international investment policy.

Charlie Arden-Clarke is Head of the Trade and Investment Unit at WWF International. He joined WWF International in 1990 and has worked mainly on trade, environment and sustainable development issues. His work on GATT/WTO rules led to the introduction by WWF of the Expert Panel on Trade and Sustainable Development, which has focused on the Uruguay Round negotiations, the Committee on Trade and Environment, and formal GATT/WTO disputes with environmental aspects. Since 1995, Charlie has worked extensively on eco-labelling and environmental management in the context of the ISO. His work includes lobbying, campaigning and press work, as well as policy analysis and formulation.

● Nothing exists at the intergovernmental level to deliver the right package of trade and environmental policies, technology transfer and foreign investment ... WWF went to governments and said that they were putting together a panel of eighteen international experts to design integrated policy packages to direct trade and support sustainable development. The panel is funded by eight European governments, the European Commission and Japan, and having run now for two years is beginning to deliver results. ●

Charlie Arden-Clarke



● It is clear to us, and others, that the Committee on Trade and Environment in the WTO has not succeeded – it failed in Singapore and has done little since. This log-jam must be broken. There is only one way to do it and that is in the classical GATT fashion of offering a chip, a bargaining chip. ●
Charlie Arden-Clarke

● If you go to WTO and talk about PPMs, you are more or less shown the door and told that you are unrealistic, and yet that does seem to be the fundamental issue. ● *Chris Fisher*



New policies for sustainable consumption in Europe

Nicholas Hanley, Head of Unit for Policy Coordination, Direction-General of the Environment, European Commission

When the European Community was established forty years ago, everybody called it the Common Market because its main purpose was seen to promote trade liberalisation among European countries. The Common Market has now been replaced by the European Union, which has a far broader range of objectives as outlined in the Community Treaty. Among these, the environment has risen to prominence as one of the mainstream policy areas currently being developed. Perhaps those who today look askance at the functioning of the WTO will see parallels in the slow but sure evolution of environmental policy in Europe. Over the next decade or so, the WTO will almost certainly be called upon to become more flexible and sophisticated in its operations.

The European Community, for all of its prominence in arguing for the Uruguay Round and the promotion of world trade liberalisation, is on record as wanting the WTO Committee on Trade and the Environment (CTE) to act on issues such as transparency and dispute settlement mechanisms which build into the WTO a greater sensitivity to environmental and social objectives. We went to the Singapore meeting with high hopes – and left upset by the total lack of progress. One area where progress must be made is in encouraging the United States on one side and the G77 countries on the other to come together to find some commonality of interest.

Within Europe, the EC has become the central environmental legislator. Many environmental problems are critically linked to market issues, whether product or process issues, and as a single market we have the advantage of looking at environmental issues without being hampered by boundaries.

Until recently, environmental management was seen as requiring the generation of command and control types of instruments; today, we need more sophisticated approaches and it is in this context that we start, amongst other things, to consider the role of the consumer. In our main policy document, the 5th Environment Action Programme, one of the key themes is a broadening of the range of instruments – voluntary, economic, and information-based – in a bid to trigger changes in behaviour and choices in our society.

Eco-labels

Eco-labelling is one of the consumer-oriented approaches taken by the EU in recent years. It has not been

popular with some manufacturers on the grounds that such labelling is not WTO-compatible. In the EU we have taken a firm line that eco-labels should not be controlled by the WTO – they are a voluntary approach and should not be seen as technical barriers to trade.

Having said that it has not to date been a resounding success. Consumers have been confused by the range of labels created across Europe, only some of which have the necessary environmental credentials behind them. With supermarkets and individual producers now generating their own logos, we consider that there is a need of some order to prevent consumer confusion: should unverified claims continue to be permitted?

There is an allied debate raging on genetically modified organisms where the EU is very keen that consumers should know which foods on supermarket shelves do or do not contain GMOs. This is a very sensitive debate, with the United States exerting enormous pressure for unrestricted marketing of its GMO products in the EC, and some member states are putting up considerable resistance.

Eco-management and auditing scheme (EMAS)

The EU has its own system of environmental management and auditing which, although related to ISO 14001, is much more sophisticated. The quality of environmental reporting by companies varies from unverified self-accreditation systems through ISO 14001 to EMAS, which has very strong requirements for independent assessment.

EMAS started with industrial plants and is now being expanded to encompass a whole range of economic sectors – hotels and tourism, banking and service industries, even local authorities, many of whom are keen to demonstrate that they are providing an environmentally sound service. Because there are a number of different accreditation systems for environmental management, it is important that there should be some interface between them so that companies are not deterred from entering the schemes at all.

Voluntary environmental agreements

Some of the environmental problems in Europe have long traditions of government action 'from the sidelines',

mainly through agreements with industry which take the form:

We will not legislate on this problem if you voluntarily agree to a programme of [say] reduced pollution over x years.

At the moment the EC is working very closely on an agreement with the car industry on voluntary reductions in energy use in cars, with a target of 20–40% reduction in car energy use over the next decade or so. This kind of deal may pose problems for WTO. How, for example, will Japanese and Korean car producers fit into this scheme? Will we be able to negotiate similar agreements with these major importers as for European producers? Failure to reach the agreements currently being negotiated may require a legislative and potentially less flexible approach in future.

Product life cycles

The EC is looking closely at the car industry in a bid to close the circle between vehicle manufacture and vehicle recycling. New car production must reuse old car materials. If manufacturers are forced to take on the responsibility of recycling old cars it is hoped that recycling efficiencies will be built into new cars at the design stage.

Sustainable consumption

The disparity between what consumers say they will do and what they actually do makes it difficult to predict how the consumer–environment interface will evolve. The agenda is there at world level in the form of SCP – sustainable consumption and production. Regulation has

achieved a lot on the production side in terms of controlling emissions, resource use and dangerous chemicals. But there is much to learn on the consumption side, particularly with regard to consumer backlash over issues affecting the environment.

The Brent Spa incident (when Shell announced its intention to dump one of its North Sea platforms on the sea floor) triggered an angry response in many people and brought home to businesses and administrations the real power of the consumer to move when motivated. Consumers thought:

If I can't throw my cigarette in the street why can Shell throw Brent Spa in the North Sea?

But how can consumers be motivated in the long term to change their behaviour? We in the EC do not pretend to have all the answers. Much of what is now being attempted is experimental. Some of the consumer-oriented programs will require a greater sophistication, a greater transparency in the WTO. In the evolution of the EU from a single market to an organisation dealing with a much broader range of issues, the environmental dimension has gradually come to the fore. With issues such as public procurement, for example, which is directly related to the single market, people are demanding that environmental provisions must be built into any legislation. What we can be sure of is that the debates will continue – the environment and resource problems alongside the wider sustainability issue of poverty and equity have not disappeared. Our existing solutions to these problems are clearly insufficient and it is not the time to impose limits via an over-restricted WTO regime on the flexibility which will be needed to find innovative answers in the future.

UK and EU policies for promoting sustainable trade

Charles Bridge, Director of New Issues, UK Department of Trade and Industry

Within the current British government there is a sincere commitment to find ways of ensuring that international trade rules do not obstruct the promotion of sustainable trade. Prime Minister Tony Blair told the WTO in May 1998 that governments should consider the environmental impact of everything they do, including in the trade sphere, and that trade rules should not be used to impose unfair standards on developing countries. By

building new partnerships, increased prosperity and trade can go hand in hand with environmental protection.

But sustainable trade is not developing as fast as many people, particularly environmentally minded people, would like to see. Some will be more sceptical than others about politicians' statements, but it is significant that some of the impetus for sustainable trade is coming from the very top of the British government. It

certainly sends a clear message to people like myself about the kinds of lines we are supposed to be pursuing in our jobs.

There are three tasks that need to be addressed:

- ensuring that international trade rules do not hinder progress on environmental protection;
- ensuring that the trading process contributes to spreading environmental progress across the world; and
- assessing whether traditional trade policy instruments can be used positively to encourage stronger environmental protection policies around the world.

The first, essentially a negative task, is the one that is the most familiar; it concerns WTO rules and their compatibility with multilateral environmental agreements (as, for example, with shrimp fisheries and turtle protection, tuna fishing and dolphins).

What is really striking about the sustainable trade debate is that there is very little agreement across the world about what the problem is, how big it is, and how to go about dealing with it. One way of looking at it is to see the WTO and international trade rules as being about non-discrimination whereas the policies for promoting sustainable trade are by definition all about discrimination – discrimination in favour of the sustainable.

One of the main points of contention is of course the point highlighted in Mr Blair's statement when he said that we must avoid imposing unfair environmental standards on developing countries. But this is not just a polarised North–South issue; there is a case for saying that trade rules should not be used to impose unfair environmental standards on any country. The United States, one of the most developed countries in the world, might be in danger of having unfair standards imposed on it in relation to the trapping of fur-bearing animals. So all countries are potentially under the threat of 'unfair standards' being imposed.

Another important point is that every one of the 132 countries around the world has certain international legal rights and the means to see them enforced. If there is a proposal to diminish a country's legal rights by imposing trade measures which could be prevented under WTO rules, no amount of talk is going to be successful unless the country concerned voluntarily agrees to it.

Trade and sustainable development

Moving on to the other, more positive, tasks I mentioned earlier. The growth of trade in so-called environmental goods and services is currently estimated (by WTO) to be worth over \$350 billion. A lot of environmental protection activity is probably being done more cheaply and more efficiently thanks to world trade and, what is

more, there is certainly scope for removing barriers to trade in just those products, goods or services.

Environmental certification

The Department of Trade and Industry certainly encourages and supports the two certification schemes, ISO 14001 and EMAS, in the UK. Being market based, they operate by increasing market pressure on companies who feel they need to demonstrate their sustainability credentials to the world. As with eco-labelling, however, there is some risk of imposing unfair standards on developing countries. It is therefore essential that all interested parties have a say in the standard-setting process and that all have a fair opportunity to meet the standards set.

Generalised system of preferences (GSPs)

Trade policy instruments can actually be used to promote better environmental policy-making around the world. The European Union's trade instrument called the GSP, the Generalised System of Preferences, encourages trade in sustainable goods and services by charging lower tariffs on entry into the EU. The scheme was enhanced in 1998, under the UK presidency, so that preferences would be given to countries that met core labour standards as discussed and defined in the International Labour Organisation. So far, on the environment side, progress has been slow with only tropical timber goods from exporters and exporting countries that implement ITTO standards receiving enhanced preferences. The main problem with establishing environmental GSPs is the difficulty in setting specific environmental standards that are rigorous enough to provide a basis for a legal decision to distinguish between those who qualify and those who do not.

Countries wishing to take advantage of a lower GSP tariff must apply to the EU and bring evidence to show that they meet the environmental criteria. Significantly perhaps, no country has yet applied. The most likely reason is the fact that tariffs into the EU are quite low anyway. A 10% tariff on industrial goods (the highest level) could be reduced to 5% with a preference of 50%, and the enhanced preference for sustainable production could bring the tariff down to 3%. For a reduction of 7% there is a lot of work that an exporter must do to convince the EC that all conditions have been met. For many, it may simply not be worth it. Nevertheless, it is a concrete policy designed positively to discriminate in favour of sustainable development criteria. Progress may not yet be great, but it affirms the strong political commitment in the UK and the EU to make sustainable trade an economic reality.

Business and NGO strategies for sustainable consumption and trade

Charlie Arden-Clarke, Head of Trade and Investment Unit, WWF-International

The ultimate cross-sectoral issue is sustainable development; the key to unlock it lies in policy integration. It must go beyond trade, beyond environment, beyond development; instead, the policy focus should be on issues such as technology transfer, foreign direct investment, and debt relief.

Integration is not just about policies, it is also about the stakeholders. To construct those policies all the stakeholders have to be involved in their design and increasingly this takes us outside the realms of government. NGOs exist because people in the world are not happy with the job that governments are doing. NGOs complement the work of government, sometimes by providing new approaches and sometimes – as in my case with the WTO – by holding their feet to the fire on very important policy reform issues. We also need to see much more integration of the activities of intergovernmental organisations, and NGOs can go a long way in fostering this. When I started my work on GATT (as it was then), I had a very hostile relationship with many trade officials in Geneva. I am now part of the Geneva ‘trade community’ because of working on these issues, and one of the extraordinary things about the WTO is that ultimately it all pivots on human relations, on personal relations across the table. This realisation has given me the conviction that this is the only way we can find solutions to seemingly intractable problems.

NGOs are also fostering closer relationships with key companies. Unilever is now WWF’s partner on the Marine Stewardship Council and B&Q (a large Do-It-Yourself retailer) is one of a group of UK companies which has agreed to source all its timber from Forest Stewardship Council certified forests by the year 2000. These are both partnerships focusing on a commodity – fish in one case, timber in the other. With the help of an NGO (in this case WWF), each industry is seeking to find sustainable production and processing methods. This type of NGO–business partnership is beginning to spread globally.

Corporate governance still remains an area of interest to NGOs, and the WWF believes that a mix of instruments is required which includes regulation at the international level with policies on competition. There is competition policy at national level but it is becoming increasingly irrelevant in a globalised world dominated by transnational corporations. One-third of international trade takes place between subsidiaries of the same com-

pany, and another third of trade is between transnational corporations. Thus two-thirds of the world’s trade is conducted in a framework which cannot be regulated by competition. Because of globalisation, more and more decisions are taken at the international level within intergovernmental organisations, such as the WTO. Globalisation is also concentrating power in the corporate sector, which is why it is so important to talk to all parties. But, like most NGOs, talking to governments is what we at WWF understand best, and we have been doing it now at an intergovernmental level for over ten years. So, although we believe that working with business, supporting eco-labelling, and so on all has its place, it still has to be conducted against the right policy framework, at national and international level. One of our tasks is to be present at these levels in order to influence the development of the all-important frameworks.

In the context of GATT, WWF has been involved for over eight years. It is clear to us, and others, that the Committee on Trade and Environment in the WTO has not succeeded – it failed in Singapore and has done little since. This log-jam must be broken. There is only one way to do it and that is in the classical GATT fashion of offering a chip, a bargaining chip. In the WTO, the trade in chips has always been market access for market access. It is a myth that trade ministries actually believe in free trade; when they go to the GATT/WTO, their job is to gain market access but give away as little market access as possible in return. It becomes a haggles, just like the market place, which is why personal relationships are so important. You have to be on friendly terms with the person across the other side of the table so that you can go out for a drink with them after you have been shouting at them until three o’clock in the morning.

An increasing number of NGOs believe that the developed countries are going to have to offer a very large chip in return for environmental reform of the WTO. The package of measures on which sustainable development so clearly depends – technology transfer, finance, debt relief – go beyond trade and are clearly outside the remit of the WTO. The pressing issue of processing and production methods is a WTO problem and the settlement of disputes must begin there. WWF believes that developed countries will have to offer market access in return for reform of the WTO in the next round of negotiations. This is going to be difficult to achieve

because, in doing their job, trade ministers are obliged to get maximum market access in return for offering minimum market access. It goes against the grain to offer market access for something that isn't market access. This is where the interaction between other ministries, in this case the environment ministry, becomes important. NGO strategies are going to be gearing up through 1999 to push this issue as hard as is humanly possible. If we are serious about getting environmental reform in the WTO, it looks as if this is the only trade-off that is going to achieve it. As Charles Bridge states, countries will only agree to environmental reform of the WTO if everybody agrees to it voluntarily. But the only way they will agree to it is if there is something concrete to be gained in return and that means more market access.

The slow progress reported on GSPs in the EU underlines the fact that this has all been fiddling around the edges; it is not reaching the core issues. The core issues must be included in the next Millennium Round of negotiations – market access for environmental reform must be on the agenda. In addition, intergovernmental

organisations must be compelled to cooperate to provide a methodical framework for undertaking social and environmental assessments of trade agreements.

It is quite clear that trade has enormous social and environmental implications, but these are not yet understood in any coherent way. Back in 1994, the Commission on Sustainable Development asked for assessments to be made but nothing has happened. The WTO, in its agreement on agriculture, committed itself to a review in 1999, including its social and environmental effects. But that is a post-facto assessment; it really should have started at the beginning. This requires people from the relevant ministries – in Britain's case the Department for International Development, the Department of Environment, Transport and Regions and the DTI – to be in at the beginning of the negotiations. The negotiations in the WTO began on 24/25 September 1998 with a special session to discuss the procedures for the Millennium Round, if and when it occurs. From my perspective, if environment and development issues are not central to this debate we have a serious problem.

Feedback

Comments, questions and responses to Nicholas Hanley (NH), Charles Bridge (CB), Charlie Arden-Clarke (CA-C).

- Environmentalists often accuse the West of over consumption. Does this exist or is it imagined? If it exists, what is there within the European policy framework to correct this? (A. Jayeola)

Unfair access to the world's resources is a political issue. Clearly, if one country with 4% of the world's population is using 25% of the world's energy there is something of an imbalance... (NH)

- What can be done to help developing countries dispose of products when they come to the end of their lives?

In the case of the car industry, we're expecting car manufacturers to build in recycling/reuse features to make this task easier. As we work out ways to deal with old car batteries, car tyres, and so on, we would hope to see these techniques adapted and transferred to developing countries. (NH)

- A related problem is the export of second-hand, dirty products to the South. While it remains cheaper to sell them even for US\$5 and ship them to another country, rather than face the costs of disposal, companies in the North will follow this

path. This 'trade' isn't only in old vehicles which don't meet emission standards; in Pakistan recently, a second-hand mercury plant was sold off for only \$5,000 by its Danish owners because this was cheaper than disposing of it properly. Neither the Basel Convention nor Danish or Pakistani laws could prevent this from happening. (T. Banuri)

There are classic problems historically in the introduction of waste stream management in Western Europe where people got very keen on recycling paper and then the market collapsed because nobody was using it. We need to ensure the viability of recycling by generating markets for recycled products. (NH)

- How can producers obtain support for identifying and making use of environmentally-friendly technologies? (T. Banuri)

There is a whole range of mechanisms in the EC such as support for research and development, pilot programmes on green technologies, and so on. Given the scale of the work that needs to be done, one can argue whether there are sufficient resources for this, but it is a start and will be a more significant element of the research programme. (NH)

Getting the policy framework right

Presented by Duncan Brack, Head, Environment and Energy Programme, Royal Institute for International Affairs

Discussion in this working group ranged widely and enthusiastically across the policy spectrum, from eco-labelling at one end to an overhaul of WTO at the other. Our focus was on the policy initiatives that are needed to redress the following perceived imbalances:

- the imbalance between environmental needs, environmental imperatives and economic activity;
- the imbalance between the relative political weight of trade policy and environmental policy in governments and international institutions; and

- the unequal process of globalisation which has given some players in the global market much more power than others.

One underlying theme was that there needs to be more awareness that environmental improvements (such as reductions in waste and energy use, or substitution of new technologies) can actually reduce costs. Higher environmental standards do not necessarily mean higher costs, although this is a common perception.

Box 1 The environmental costs of world trade

Three types of environmental cost are apparent in world trade:

Environmental costs of consumption: Many trade products cause environmental problems during use and also generate waste at the end of their life span. Governments have the right to regulate these impacts as long as they do not discriminate against imported products. Measures include fuel efficiency standards for cars, mandatory energy labelling for domestic appliances and take-back requirements for packaging. Nevertheless, these measures can still be problematic for foreign producers, particularly if there is inadequate information or transition times for adjustment.

Environmental costs of freight transport: Trade liberalisation encourages a distancing between production and consumption, unless measures are taken to tackle the environmental costs of freight. International trade is responsible for about one-eighth of world oil consumption, generating a range of environmental problems, notably emissions of greenhouse gases. The Uruguay Round could lead to a 70% increase in transport by 2004, 15 times the growth expected from trade liberalisation. As governments begin to get serious about climate change, so increased attention will be placed on the environmental costs of freight.

Environmental costs of production: The life-cycle impacts of products are also an increasing concern, with growing consumer demand for goods and services that minimise environmental impacts at the production stage as well as during use. Under WTO rules, governments are barred from specifying environmental standards for the production and process methods (PPMs) used to make imported products. Recent WTO cases have confirmed this legal principle against extra-territorial environmental regulation, ruling, for example, that a US ban on shrimps caught in countries which had not installed turtle-excluding devices to their fishing boats was illegal. In the marketplace, however, corporations and consumers are free to integrate social and environmental standards into their purchasing decisions, and this is starting to have profound implications for trade, particularly in the environmentally sensitive sectors of agriculture, forestry and textiles.

PPMs and eco-labelling

Trade policy can cope to a certain extent with the environmental impact of products, but it is very poor at coping with the environmental impact of *process and production methods* – the way in which the products are manufactured. Eco-labelling is perhaps the most widely used instrument to try to counteract this, but it needs re-evaluating in the light of overall poor performance.

☛ If the only tool you have is a hammer, everything begins to look like a nail. There is a danger that eco-labelling is becoming the hammer. ☛ *Tariq Banuri*

☛ One of the reasons why we end up discussing eco-labels is that the rest of the toolbox appears to have been taken away by the WTO. In the context of the international policy, we are left with a very crude, perhaps ineffective set of tools. ... As NGOs a large part of our job is to restock the toolbox ... ☛ *Charlie Arden-Clarke*

☛ Big business is interested in profits, consumers are interested in cheap goods, and they're on the same side as far as the environment goes – they forget about it. This is where solutions are needed. ☛ *Duncan Brack*

☛ With all the talk about eco-labels, we ought to bear in mind that the vast majority of products out there don't carry them at all. The onus falls on buyers to make up their own minds on the basis of limited information. ☛ *Bernard Ross*

Key points:

1. Eco-labelling initiatives spurred on by predominantly Northern consumers are not necessarily beneficial to developing country producers; it is better to create local or regional standards with international recognition.
2. A significant number of product categories and processes have no environmental guidelines at present; these must be developed.
3. Eco-labels are most successful when developed by inclusive groups, i.e. through the involvement of *all* relevant stakeholders.
4. Producers need help in tracking environmental regulations and legislation in importing countries so that their eco-labels are commercially useful.
5. Only a limited awareness and understanding of eco-labels exists among consumers.
6. Harmonisation of the criteria used in eco-labelling is proving difficult, but ISO is making some welcome moves in this direction, as are private schemes like FSC.

Box 2 Eco-labelling – the experiences of two initiatives

The German Blue Angel: Launched in 1977, the German Blue Angel Environment Label (Umweltzeichen) scheme was the world's first eco-label initiative. Its coverage has grown from 45 labelled products in 1979 to 3,250 in 1989, and to 4,500 products in 79 product categories in 1997. The scheme covers a wide array of products from recycled paper, low-pollutant paints, computers, copiers, printers to low emission chain saws; it only excludes food and pharmaceuticals. The Blue Angel is generally regarded as highly successful, although there appears to be a downward trend in the proportion of consumers paying attention to the eco-label when doing their shopping (from 79% in 1988, to 62% in 1993, to 51% in 1996), partly due to confusion caused by a proliferation of competing corporate labels. The Blue Angel is, however, playing a growing role in corporate purchasing and public procurement, and studies show that the Blue Angel is more important for professionals than private individuals. About 17% of Blue Angel licensees are foreign, more than in any other labelling scheme. But some complaints have been received from Brazil, Canada, Chile and the USA over the trade effects of recycled content criteria for paper products.

The EU Eco-Label: The scheme was launched in 1992 and criteria for 12 product categories have been established, with criteria under development for a further 15 product categories. To date, only 195 products have been awarded the label, mostly for indoor paints and varnishes and the label has a low consumer profile, with only 11–13% of UK consumers recognising the logo. Although the take-up is still low, its influence on manufacturers has been much greater and the criteria are seen as benchmarks and stimulate changes even if companies don't apply for the label. As with the German Blue Angel label, trading partners are concerned about potential discrimination, notably US and Brazilian producers opposed to the recycled content requirements of the criteria for paper products. To date, only one eco-label has been awarded to a non-European producer. The labels for textile products could have significant implications for developing country producers.

Box 3 Green procurement in the UK

In Britain, the Department for the Environment, Transport and the Regions has issued a *Green Guide for Buyers* to encourage government agencies to purchase environmentally preferable products at competitive prices, providing checklists for a range of goods and services. The *Guide* recommends the use of products from the EU eco-labelling scheme, certified timber products and using a supplier's adherence to an environmental management system as a useful indication of performance. However, government authorities are not allowed to make compliance with ISO 14001 a general requirement.

At the local level in the UK, Sutton Council in London is setting an example and by the end of 1999, all their suppliers will have to have an environment management system. At the European level, the European Commission is currently working on an interpretative document aiming at clarifying the possibilities for integrating environmental considerations into public procurement procedures.

Public procurement policies

Almost 15% of world GDP is accounted for by local and central government spending. Public procurement policies are needed to encourage the integration of environmental criteria into purchasing decisions.

6 Public procurement has to be open and accountable. But a problem occurs when decisions to buy one product over another have to be justified. This is extremely difficult when you are buying, for example, an office table, and you have to choose between a former piece of Brazilian rainforest and a sustainably forested Scandinavian pine table treated with lindane which has been washed into local rivers. There you have a decision between two evils. 9 *Bernard Ross*

Key points:

1. The purchasing power of public procurement can be a strong influence on sustainable sourcing (example: the US 'Energy Star' label for computers).
2. Public procurement policies need to be drawn up in a non-discriminatory way to avoid challenge under the WTO.

Price-based instruments

Progress in implementing price-based instruments such as energy or carbon taxes has been slow, thanks to consumer and industrial resistance. Nevertheless, more and more countries are introducing environmental taxes, and their interaction with the multilateral trading system needs to be examined.

Key points:

1. Environmental taxes may compromise competitiveness where other importing businesses do not have to pay them; or there may at least be a perception that they do. The WTO-compatibility of border tax adjustments applied on the basis of PPMs may need to be reviewed.

2. The possibility of applying preferential tariff rates to exports and imports of environmentally sensitive technologies should also be examined.

Voluntary agreements

A number of governments and NGOs are negotiating voluntary agreements with key industry sectors. The aim is to achieve environmental improvements faster and more cheaply than through traditional regulation.

6 Two years ago I was of the opinion that voluntary instruments would find it hard to make much impact. My experience in the ISO process and watching the development of the Forest Stewardship Council changed my mind about that. 9 *Charlie Arden-Clarke*

6 When the Montreal protocol was agreed it contained no specific regulations, but in fact even before it came into force Du Pont – who had a 25% market share in CFCs – went ozone friendly and this influenced the rest of the market. Regulation wasn't necessary; once a market leader made the decision to act the rest just followed. 9 *Charlie Arden-Clarke*

6 I believe it was Al Capone who said 'You can get far with a smile but you can get further with a smile and a shot gun.' I think that is relevant in terms of voluntary measures versus regulation. 9 *David Katz*

Key points:

1. Positive policy instruments (e.g. industry incentives) are in general preferable to negative instruments (e.g. trade barriers or sanctions) when encouraging the use of environmentally sustainable technologies and products.
2. Positive non-regulatory measures require significant effort in terms of guidance, advice, consumer education and provision of incentives.
3. Voluntary measures are valuable but must be backed up by a strong regulatory framework.

Trade policy formulation and implementation

The forthcoming Millennium Round of trade negotiations will focus attention on the treatment of environmentally-justified restrictions in trade under the WTO. But this is only one part of the debate: positive incentives for sustainable policies are frequently more important than negative trade measures.

Key points:

1. There needs to be more communication between the different stakeholders (e.g. governments, industry, NGOs and consumers groups). This dialogue should be on an equitable basis – developing country institutions are often at a disadvantage.
2. There is an onus of responsibility on northern institutions to spell out the implications of potential policy changes to developing countries.
3. There is substantial room for the WTO to become more socially and environmentally sensitive, without evolving into global government – though in the long run there may well be a need for some superior institution able to strike the appropriate balance between trade and sustainable development.

Box 4 The Forest Stewardship Council

Established in the early 1990s by citizens groups concerned about the failure of government policy to regulate poor forest practice, the FSC sets principles and criteria for sustainable forest management which are used to certify the performance of forest operators. Successful companies can use the FSC logo on their products, provided that the chain of custody is certified. Right from the start, the FSC has worked to develop markets for certified timber. In the UK, the World Wide Fund for Nature (WWF) established a buyers' group for FSC certified products, which now has 85 members including leading DIY stores, supermarkets, and magazine and paper products manufacturers and retailers, which together account for 14% of the UK's consumption of forest products. The area of certified forest now runs into tens of millions of hectares in over 20 countries, and is expected to grow rapidly.

Source: Nick Robins and Sarah Roberts, *Unlocking Trade Opportunities*, IIED, London, 1997

The challenge for producers

Presented by Emmanuel Boon, Free University of Brussels

Case study by Silas Teu, Head Forester, Solomon Western Islands Fair Trade

Discussions in this working group focused on the experiences of the Solomon Western Islands Fair Trade (SWIFT) initiative described by Silas Teu. Many wider lessons were drawn from this valuable case study.

Background

SWIFT, established in 1994, is a grass-roots, community-based forest management initiative that provides forestry support and distribution and marketing services to 300 producer groups covering 50,000 hectares of forest. At its heart is the belief that if local people are aware of the value of their forest resources, take care of their forest environment, and make a good living from it, they will be able to resist pressures to sell their logging rights to foreign companies. Timber is an important export for the Solomon Islands, accounting for 42% of total exports. At current estimates the forest resource may be logged out in 15 years.

Objectives

SWIFT's specific objectives were:

- to stop illegal logging;
- to help the land owners manage their resources sustainably using good forest management and milling techniques;
- to make it possible for local people to sell their timber at the highest prices possible under fair trade principles; and
- to ensure an equitable market in Europe.

Price and certification

To sell its sustainable timber at premium prices SWIFT needed good access to a stable and receptive market. This would in turn depend on good relationships between the producers and the buyers. SWIFT's approach was to move away from traditional marketing practices and to use a certification scheme to ensure product quality and visibility. SWIFT applied for certification of its timber in 1995 using Forest Stewardship Council criteria, but some producers found it difficult to apply given their different, but equally effective, approach to forest management. In order to suit conditions in the Solomon Islands, SWIFT pioneered a group certification scheme for its 250 small-scale producers. In this way changes in the forest management system could be readily under-

stood by the local timber producers but at the same time were rigorous enough to be acceptable to international consumers.

Box 5 The Body Shop – sourcing from local communities

Cocoa butter from Kuapa Kokoo Limited

Cocoa butter is one of The Body Shop's most important ingredients; in 1996/7 the company sourced 84 tonnes of cocoa beans through their Community Trade Programme from Kuapa Kokoo Limited (KKL) in Ghana. Cocoa is an important export crop for Ghana, grown by over two million small-scale farmers, most of whom produce between one and ten sacks of cocoa per year. 18,000 of these farmers sell their beans to KKL, a farmer-owned fairtrade company. The farmers benefit both from the fair trade which allows them to gain a premium for their beans and from the business efficiency of KKL. The premiums from fair trade are paid into a trust fund, which is used to benefit all KKL farmers, and into a society fund, which is used to pay for general community improvements and can be drawn on by individual farmers in times of financial hardship. In 1996/7 The Body Shop paid an average premium of US\$ 222 per tonne of beans above the market price to KKL, generating a total premium of \$18,468.

Fibres from the Ya Petheti Producers Association (YPPA), Mexico

The Body Shop has been purchasing sisal body scrubs since 1993 and agave fibres (for use in shampoo) since 1996, from the YPPA. The women still use traditional techniques to extract the fibre and it is they who have also been the main organisers of trade with The Body Shop. Although men have become more involved as income generation has grown, the business overall seems to have improved the position of women in the community. The Body Shop has also been helping the Association explore new markets and design new products.

Source: The Body Shop, Community Trade Programme. Littlehampton, UK.

Forest management

The project commenced with the introduction of a forest inventory system based on hectare blocks. Each block was analysed in terms of tree density, optimum cutting period, and allowable cutting volumes, and a 'five-year allowable cut' table was compiled for each of them. SWIFT's forest management system is the best compromise between forest production capacity and people's demands. If the allowable cut is too low producers lose interest; if it is too high the forest is damaged. Overfelling is the crucial indicator of poor management. Interestingly, after the first round of felling, producers themselves began reducing their cuts and started to collect data on the rates of regrowth.

Timber from certified producers receives a producer number, hectare block number and tree number (the 'chain of custody'); the timber is also stamped with the FSC and SWIFT brand mark. In this way, every piece of timber carries its own number so that its origin can be traced back to an actual stump in the forest. Internal auditing systems also prevent the certified timber becoming contaminated with non-certified timber in transit.

Networking and technical support

An important lesson is that for producers to achieve bargaining power in the market place they need to network with each other closely – something that SWIFT does very well and which is enhanced through its group certification scheme. But networking is not enough by itself, and if seed finance and technical support are not available it can be difficult for community-based initiatives such as SWIFT to get started.

In the case of SWIFT, support came not from government, nor industry, but from the United Church in the Netherlands. This enabled SWIFT to expand its network of producers and develop a market for its products in the Netherlands based around a consortium of timber merchants buying directly from SWIFT. This arrangement was very successful: 1,800 cubic metres of timber were exported in 1997, just short of their 2,000 cubic metres target.

Production deadlines and quality assurance

Small-scale producers often have difficulty keeping to deadlines, particularly when they are unused to receiving orders for large volumes. Extensive paperwork and the multiplicity of reading materials can make forest management difficult for some Solomon Islanders. They are also affected by disputes over land

and boundaries; and the vastness and remoteness of the area means that communicating with professional foresters is not always easy. In addition, many producers have trouble introducing effective monitoring, evaluation and control procedures into their operations. This can result in quality assurance problems and a failure to respond to market needs.

All of this can be problematic when trading in global markets such as timber – if production deadlines are missed, buyers may turn to other suppliers. Such constraints can be dealt with through effective collaboration among small producers and by maintaining good communications with buyers.

The role of the individual

The role of the individual cannot be overstated in creating success in sustainable trade enterprises. Personal drive and a willingness to 'rock the boat' or 'rock the community' from time to time may be needed to push forward sustainable trade.

Can SWIFT's lessons be transferred?

SWIFT's success has stimulated public sector forest managers in the Solomon Islands to copy its example. However, in transferring the SWIFT model further afield, it is important to remember that each location has its own environment, its own conditions and values, and its own culture. Furthermore, markets vary considerably, and producers need to identify and appreciate these differences if they are to sell successfully. SWIFT's strategy was based around team cohesion which allowed it to respond as necessary to market signals. SWIFT remains unique and care is needed when applying its lessons elsewhere.

Key points:

1. Certification schemes pioneered by communities and smaller operations may be practical, motivating and well suited to local conditions, but may lack credibility in global markets. International mechanisms for harmonisation and mutual recognition of certification schemes are a priority.
2. Accreditation to multiple certification schemes can be costly and is especially challenging for small-scale producers. Yet this may be required to take full advantage of global markets. Mutual recognition systems once more offer a way forward.
3. There is a risk of over-reliance on certification schemes. Simply having the 'right' product label may not be sufficient to gain access to competitive markets; price and excellent communication with buyers are other factors.

4. Adherence to national regulations can and should be promoted through the policies of international buyers. Good governance is also essential both within governmental systems and the power structures that prevail within industry.
5. Partnerships between small-scale producers and NGOs can provide the motivation and technical assistance needed to establish sustainable trade initiatives.

Box 6 Patagonia – greening the textile supply chain

Patagonia, a US-based outdoor clothing company, started introducing organic cotton to its product lines in 1991. Although there was little consumer interest at the time, the company decided that the negative environmental impacts associated with conventional cotton production were so great that in August 1994 the Board of Directors took the strategic decision to use only organic cotton – beginning with the Spring 1996 line. This left only 18 months to convert around 80 product lines made by suppliers in the USA, Europe and Asia.

One of Patagonia's suppliers was a Thai company who produced knit products such as polo shirts. They had never used organic cotton before but were willing to try. The transition required a great deal of trial and error but eventually paid dividends as Patagonia's Michael Brown explains: 'We've benefited from their sophistication and willingness to engage in development with us; they've developed expertise in organic cotton and other aspects of green textile production that may be marketable elsewhere.' As Patagonia's founder, Yvon Chouinard, says, the company has demonstrated that 'it is possible to apply our environmental principles and succeed', but he stresses that environmental issues cannot be separated from providing high quality products: 'Our customers wanted the value in our products that they had always sought from us: durability, performance, fit, styling.'

The shift to organic cotton meant that Patagonia had to invest considerable effort in understanding its supply chain and determining where it could adapt to organic cotton and where it had to find alternative suppliers. In this respect, Patagonia can sympathise with larger clothing retailers who face enormous difficulties in trying to transform their much more complex supply chains. Some of these companies have started purchasing organic cotton but are not producing completely organic lines and are instead blending it with conventional cotton.

*Source: Nick Robins and Sarah Roberts, *Unlocking Trade Opportunities*, IIED, London, 1997*

Extending consumer responsibility

Presented by Sarah Roberts, Sustainable Consumption and Trade Initiative, International Institute for Environment and Development

This working group concentrated on two key issues: consumers' purchasing power and responsibility, and the impact of changing consumer preferences on developing countries. The discussions drew on experiences and perspectives from all over the world.

Consumer purchasing power and responsibilities

Consumers have considerable influence over retailers and producers, both as individual shoppers and as government or corporate buyers. Responsibility for the social and environmental impacts of world trade is therefore shared between industry, government and consumers. Consumer influence varies across the world, and is demonstrated by the relative strength of consumers organisations in different countries.

Box 7 Consumers International – realising consumer power

Consumers International is a federation of 245 consumer organisations from 110 countries. Its two main aims are to support the development of consumer organisations worldwide and to raise interest in regional and international issues which affect consumers.

Consumers International believes in consumer responsibilities as well as consumer rights. One of those responsibilities is to ensure that consumption has a positive influence on the environment. Through magazines and the media generally, its member organisations encourage consumers to take a greater interest in environmental issues. Consumers have the power to encourage producers and retailers to have greater regard for environmental, social and animal welfare issues through their purchasing behaviour. But they can't exercise their power if there are no appropriate goods in the market place or if there are no labels to tell them which products are environmentally friendly.

Source: Maria-Elena Hurtado, then Director, Global Policy and Campaigns Unit, Consumers International

Likewise, the role of governments and industry in promoting the sale of sustainably produced goods also varies.

☛ Labels have played a vital role in focusing consumer interest on the products that reach their supermarket shelves. But it is impossible to certify every product. For example, if the demand was for 'fair trade tinned beans' we would have to set up criteria for the sauce, the beans, the can and its label. The whole thing would become extremely complicated. It is better to lower the standards slightly and encourage business to be more ethical in the way it treats every product. ☛ *Graham Young*

☛ There comes a moment when consumers have to be protected from themselves, and they know it. ... Even the most enlightened consumer won't always make the right decisions when they shop. If the government decides to prevent you from making the wrong decision (e.g. buying products containing CFCs) then most people are quite happy with that. ☛ *Maria-Elena Hurtado*

☛ What we should be doing is making sure that businesses sell *only* environmentally safe goods, so consumers don't have to express a preference. The people who are decision-makers or opinion-formers – the people out at the front – are the ones we need to convince that this must happen. ☛ *Graham Young*

☛ If a company has sorted out its environmental and social side, the chances are that it's a pretty sharp business anyway. ☛ *Julie Shrimpton*

Key points:

1. Consumers are confused by the myriad of unverified manufacturers' or retailers' claims on labels; it is much more effective to use a limited number of internationally recognised and independently verified labels.
2. The 10–15% of consumers who express a preference for green products and are prepared to pay a higher price for them can exert considerable influence over retailers.

3. Consumers who want to buy sustainable goods and services also want them to be competitive in terms of price and quality.
4. Informed consumers should lobby governments for changes in policy in favour of sustainable trade. For example, governments could use taxation policy or regulation to limit the range of products on sale, so that consumers are unable to purchase (or can only purchase at higher cost) environmentally damaging products. In the long-term consumers should not have to make the choice between sustainable and unsustainable products: everything on the shelves should be sustainable.
5. Retailers should be encouraged to do more to foster sustainable trade. They could be much more active in applying ethical criteria within their stocking policies and advertising campaigns could be directed more towards the environmental benefits of products.
6. Although most Fairtrade goods sell to niche markets, some are now being sold in mainstream retail outlets and are attracting a larger market share.
7. To carry the Fairtrade mark, products have to meet a very specific set of criteria. This makes it difficult to expand the range of products that carry the mark. Nevertheless, the Fairtrade mark has been influential in encouraging retailers to look at ethical sourcing issues.

The impact of changing consumer preferences

Large-scale changes in the purchasing behaviour of northern consumers would require producers in developing countries to rethink their production and marketing strategies. Those that did not adapt to the new requirements could suffer increasing isolation from global markets. In practice, consumer preferences are changing only very slowly, and the markets for sustainable goods and services, although growing, are still small. Nevertheless there is a need for producers to monitor consumer behaviour and buyer requirements closely in order to respond successfully to new demands.

☛ In the North we are becoming much more aware that business is the major driver of life. It is essential to make sure that business reflects the fact that life possesses ethical as well as economic aspects to it. ☛ *Graham Young*

Box 8 Sainsbury's – acting along the supply chain

Sainsbury's is one of the UK's largest supermarket chains. Its environmental policy covers its direct responsibilities for energy, transport, resource use, etc., and also its indirect responsibilities through its suppliers and the goods that they provide. The company has taken steps to improve the environmental and social performance of its supply chains as follows:

Food: Integrated crop management (ICM) was initiated in the early 1990s to encourage the responsible use of pesticides and the use of alternatives where possible. The initiative covers most of Sainsbury's UK farm suppliers and about a third to a half of its overseas suppliers. Independent monitoring has recently been introduced. Sainsbury's also supports UK growers while they undergo conversion to organic production (normally farmers in transition can only sell to conventional markets).

Timber: In 1997, the company transferred £8 million worth of business to suppliers meeting Forest Stewardship Council (FSC) standards. All products are to carry a label showing the consumer that they have been certified at source.

Sourcing from the wild: The company issued guidelines to its suppliers on the sourcing of wild plant and animal material for its products in order to meet legal requirements and consumer concerns. Examples include shells, mosses, crocodile meat, plant bulbs, sea food and forest products.

Labour standards: The company has a socially responsible trade and code of practice programme, which focuses on improving the working conditions of the people that produce goods for Sainsbury's (e.g. use of child labour, health & safety, fair trade). This is still in its infancy and the code has only recently been issued to 3,000 of Sainsbury's suppliers. Sainsbury's participates in the UK Government's Ethical Trading Initiative (ETI).

Sainsbury's receives a large number of comments from consumers about environmental issues. The main concern is genetically modified food, but there is also interest in fair trade and in recycling and packaging issues. Organic and fair trade products scored highly in a recent survey of consumer preferences.

Sources: Julie Shrimpton, Environment Management Department, J. Sainsbury plc; Interim Environmental Report, J Sainsbury plc, 1997.

Key points:

1. Wages paid to southern producers generally make up a small proportion of the market prices paid for products by consumers in the North, even for products which are considered to be more sustainable.
2. There is a concern that as more retailers implement ethical standards they will tend to work increasingly with large-scale producers. Retailers, NGOs and governments should provide assistance to small-scale producers to help them access international markets.
3. As northern consumers demand more sustainably produced goods, suppliers in developing countries will have to meet new process and product standards. This can result in much suspicion and fear of northern-driven initiatives that do not include southern input in their design or implementation. Southern stakeholders must be involved in discussions and planning of standards from the outset.
4. As consumer expectations increase in developed countries, there is a risk that the less marketable, less sustainable or dangerous products will be offered for sale in developing countries. Firms in the North should behave responsibly and not sell out-of-date technologies, products and services to the South. This may require legislation.
5. The export of genetically modified crops from the North to the South is fraught with potential environmental and economic problems.

Box 9 Traidcraft – pioneering fair trade

Traidcraft is basically two organisations:

1. A trading company that buys and sells products from what we term ‘disadvantaged communities’ in the Third World. It buys on the basis of paying a fair price for the products. The company sells largely in the UK and has an annual turnover of £8m.
2. A charity or a ‘not for profit’ organisation which has set up a network of organisations around the world in South Africa, Tanzania, Zambia, India, Bangladesh and the Philippines. These organisations offer assistance to small businesses who want to break into the European market. It helps directly in terms of assisting with marketing information, product design and market access, and indirectly through lobbying and advocacy with the UK government, business institutes of directors, and specific companies.

Since the mid-1980s, Traidcraft has worked towards integrating fair trade philosophies into commercial operations, rather than developing an alternative sourcing process from the Third World. Traidcraft helped establish the Fairtrade mark in the UK and the Ethical Trading Initiative – both codes of practice for retailers who are buying goods from developing countries. It has also set up an investment company that invests in small businesses overseas and is involved in a public education programme in the UK.

Source: Graham Young, General Director, Traidcraft Exchange.

Corporate Practice

5

Chapter 5 Corporate Practice



Lucy Neville-Rolfe

6 The consumer is the bottom line of the business; finding out what consumers want in terms of products and prices is the basis of any marketing strategy. 9

Lucy Neville-Rolfe

6 ... these kinds of [environmental] choices need to be informed by inclusive dialogue ... This implies putting some meaning behind the word *partnership* which can only work if the company addresses the concerns and interests of suppliers and dependent communities along the whole length of the supply chain. 9

Steve Robinson



Supply chains are complex. Most encompass not only producers, retailers and consumers but a whole host of intermediaries involved in the processing, trading, finishing, packing and distribution of goods. Many retailers still have little idea about where and by whom their goods are produced, nor the conditions under which they are made.

Rising concern about environmental and social impacts along the supply chain is now prompting change. Large retailers are responding to consumer pressure and taking steps to ensure that their suppliers are producing goods in an environmentally and socially responsible manner. As Lucy Neville-Rolfe of Tesco explains, most companies engaged in this process are still at the stage of deciding upon performance criteria, implementation mechanisms and monitoring procedures.

Steve Robinson looks at these developments from the perspective of the practical responses that businesses can make. As markets begin to accommodate environmental/ethical concerns, it becomes vital for businesses to identify how this shift towards sustainable trade will affect them. Steve Robinson demonstrates how they can identify weaknesses in their own corporate sustainability so that strategies for survival can be put in place and acted upon. The knock-on effects down the supply chain must also be considered since most environmental choices involve balancing benefits and disadvantages.

Certainly, there is a real risk that any ill-conceived schemes for promoting sustainable production will disadvantage the less powerful links in the supply chain. K.P. Nyati focuses on this in his examination of the greening of India's supply chain. For example, efforts to shift cotton production onto a more sustainable basis using organic and integrated pest management techniques, and the requirement for certification by major retailer groups to ensure integrity at each stage of the supply chain, have put many Indian producers/manufacturers under pressure. There are real barriers to greening; Nyati puts forward some key proposals to overcome them.

6 A plethora of standards can be confusing; in life people like simplicity ... 9 *Lucy Neville-Rolfe*

Lucy Neville-Rolfe is Director of Corporate Affairs at Tesco plc and Chair of Tesco's Environment and Ethical Group. Lucy is also a member of the CBI Economics and Europe Committees and chairs the British Retail Consortium's Europe Steering Group. Lucy joined Tesco from the Cabinet Office in 1997 where she was Director of the Deregulation Unit under Michael Heseltine (the unit became the Better Regulation Unit under the Labour Government). From 1992 to 1994 she was a member of the Prime Minister's Policy Unit; prior to this she had worked in a variety of posts in the Ministry of Agriculture, Fisheries and Food.

Steve Robinson joined the Environment Council in 1988 and has played a leading role in developing it as a major UK environment problem-solving forum. He has been actively involved in promoting the benefits of environment policy to business and is currently working on the role of sustainable business within sustainable development. Steve has acted as honest broker in a number of environmental conflict situations, including Brent Spar. He has lectured widely in the UK and abroad on environmental issues.

K. P. Nyati is Head of the Environment Management Division of the Confederation of Indian Industry. He provides consultancy and training services to Indian industry on matters relating to the environment, interacts with the Environment Ministry and regulatory bodies on policy matters affecting Indian industry, and facilitates the transfer of environmental technology and business linkages at an international level. His career spans some twenty-five years during which time he has carried out more than 60 consultancies and over 300 training assignments.



Steve Robinson

☉ ... every opportunity must be taken to demonstrate to businesses in developing countries that being green does make good business sense. Raising awareness is a long-term undertaking but it has to happen if change is to follow. ☉ *K.P. Nyati*

☉ In business-to-business relations it is quite acceptable for the buyer to set certain standards for the goods in question; but if the standards are imposed as a policy of the buyer's government we [countries of the South] would certainly go to the WTO. ☉ *K. P. Nyati*



K.P. Nyati

Building responsibility into the supply chain

Lucy Neville-Rolfe, Director of Corporate Affairs, Tesco

Tesco operates in seven countries with suppliers across the world. As a large retailer serving 10 million customers in the UK alone we are very aware that social responsibility – and environmental responsibility – come with commercial success. But there is a limit to what one company can do in a very competitive market place. In the world league table of supermarket companies, Tesco lies in seventeenth place. Nevertheless, every player in the field can push policy forward and develop innovative methods and strategies.

Consumers and marketing strategy

The consumer is the bottom line of the business; finding out what consumers want in terms of products and prices is the basis of any marketing strategy. At Tesco we rely on two sources of data: the forward-looking customer panels or focus groups which work week in, week out, and the loyalty card data which can tell us, retrospectively, what products have been purchased. Both are vital to the way Tesco conducts its business. Interestingly, the data appear to suggest that environmental concerns were higher on consumers' agenda in the 1980s than they are today. Today's consumers are concerned with direct environmental impacts – noise, health and safety – but not if this involves an environmental price (i.e. if it hits their pocket). Environmental concern also seems to be more local than it used to be, with a focus on recycling and local farming practices rather than global issues such as the oceans or the atmosphere. Research by Tesco on charitable donations also shows a preference for giving to children's causes rather than environmental causes.

Tesco's corporate approach takes all of this into account because the prime focus of our business is the customer. Tesco, like the other major supermarket chains, seeks to win lifelong loyalty from its customers and, in so doing, make a corporate contribution to society. In building close relationships with government bodies, academics and NGOs, we are aiming to bring ethics and the environment more clearly into the supply chain to the benefit of consumers. Examples of good corporate practice in this regard are the agreements we have with the Royal Society for the Protection of Birds (RSPB) and the Royal Society for the Prevention of Cruelty to Animals (RSPCA). The certification of Freedom Foods by the RSPCA is an example of Tesco setting the pace of change ahead of legislation. Another good example is the introduction of low sulphur diesel which we pioneered

at a competitive price ahead of tax changes which have subsequently encouraged use of that fuel.

The Tesco annual report has a full page on environmental issues and links with the community. Tesco also takes seriously the externally generated league tables which rank large companies according to their engagement in environmental issues. Two examples of our involvement are organic farming and ethical sourcing.

Organic farming

Organic farming is a relatively small market, but we aim to have a special range of products, right across the shopping basket, which are as competitively priced as possible. So sometimes organic potatoes may cost the same as ordinary potatoes and be of equivalent quality. This price parity has helped to bring in customers who might otherwise not have been interested in buying organic produce. Admittedly from a small base, the sales of organic produce have been doubling year on year. However, of particular concern for UK organic producers is the fact that 80% of Tesco's organic produce is imported from outside the United Kingdom, some of which is produce that could be grown under UK conditions. Work is currently under way with Aberdeen University to help fund a centre for organic agriculture and the encouragement of large-scale organic production. Localising production will have beneficial effects in terms of reducing transport miles and supporting the local economy, but it threatens to have a detrimental impact on trade with current overseas suppliers.

Ethical sourcing

Ethics is a complex area when it comes to overseas trade. Tesco is a strong supporter of the voluntary ethical trading initiatives set up in cooperation with the Department for International Development. This initiative sets down clear principles and standards for external operators like Tesco to follow. It covers the observance of local labour laws and is applied to all our suppliers and our 200,000 staff in operations in seven countries.

The audit of ethical standards and quality standards is a vital part of the whole sourcing procedure. Tesco appoints its own staff to set and oversee standards in health and safety and now also in ethics. The staff work independently of the people who are actually supplying the produce. Methods of verification are also being tested through the ethical trading initiative with the department.

Conclusions

- Sensitivity to customer demand is vital to business because it is vital to competitiveness worldwide and therefore to corporate survival.
- Environment and ethics *do* influence consumer choice, but they are not as important as price or personal safety.
- The ethical trading initiative is very worthwhile and needs continued support.
- An over-regulatory approach is costly and could conflict with other countries' standards. This might result in a plethora of conflicting standards which would actually make trading more difficult.

Trends in environmental supply chain management

Steve Robinson, Chief Executive, The Environment Council

Sustainable development drives many policies in the UK context – packaging directives, landfill directives, international protocols, and so on – all of which can trace their origins back in some way, shape or form to sustainable development.

When we begin to consider sustainable development in the context of business it soon emerges that we 'know' what sustainable development is in broad terms, but what does it actually mean for businesses? Part of the problem is that some businesses think that they should be *doing* sustainable development when in fact it is not something that any single operator can *do*. Sustainable development is something we hope will happen if all the actors in society – government, business, NGOs, communities – work together towards a common goal. The most a company can do is progress as far as it can up this ladder of sustainability, complying with environmental legislation, undertaking voluntary risk management and so on. The one step in this process that is often missed out is the very practical one of trying to become an *environmentally* sustainable business – i.e. a business that understands and can respond to the strategic challenges that the environment and social issues are going to pose for it.

Key survival issues

How does a business identify those challenges? If you talk to oil companies about their environmental performance, they talk about how they rarely spill oil, how speedily they clean things up, their good health and safety record, their computer policy, their tree-planting policies, and so on, but right at the heart of the oil business (or any other large industry) lie the real problems – the company's key survival issues in relation to the environment and development. These are the vital

issues on which a business's survival depends. Because there may be only two or three of them, and because they are woven into the day-to-day functioning of business life, it is likely that few managers ever realise that these issues need to be faced.

How can a company identify its key survival issues? The triple bottom line of sustainability is really a greater elaboration of the overall goal of sustainable development. It is a set of objectives but it still doesn't help in identifying the key issues and acting on them. Instead, we have come up with a model: the Resources, Innovation and Values (RIV) model. It incorporates the main influences on any business's corporate sustainability: its Resource base, Innovation from within and outside the organisation, and Values. Much more detail can be built into it, such as source materials, infrastructure and sink capacity (where all the waste ends up). The oil business, for example, may be successful in discovering new sources of oil but the international concern is whether the atmosphere (the sink) can cope with any more CO₂. In the case of the nuclear industry in the UK, there's no agreement at all as to what or where the sink should be. We simply do not know where to put the waste. This is one of that industry's key survival issues.

Much time is spent on nurturing innovation in the name of company competitiveness. Some inventions nibble away at another company's market share but tend to leave the market fundamentally unaffected; others threaten to terminate an entire business sector's activities. These are the ones to watch out for – but they usually come out of the blue. History provides lots of examples of these.

The third element of the RIV model is societal value systems. The formal systems include the legislative frameworks and economic/financial systems; the informal ones

constitute the mainly ethical and social concerns which often involve quality of life issues and emotive matters of principle, belief and ethos.

If the RIV model is applied to, say, the tobacco industry, we can see that the tobacco industry is threatened by some 'nibbler' type innovations, like stick-on nicotine patches and nicotine chewing gum. There are no major restrictions in the resource base for the industry; but the key survival issues are embedded in the value system – the implications for people's health, the costs to society of smoking related illness, and the implicit and uncomfortable fact that a company is profiting from an addictive habit.

Companies are generally good at dealing with resource matters and good at handling innovation (though perhaps less good at responding to innovative threats from outside); what they are not good at is dealing with value systems, particularly where business interests conflict with those of local communities or other special interest groups. Clashes of value systems can rarely be adequately reconciled. The clash between animal rights campaigners and subsistence hunters, for example, is not a clear-cut 'right and wrong' conflict. Environmental conflicts are often compounded by the tendency to downplay emotional and quality of life concerns.

Using the Resources, Innovation and Values (RIV) model

For any business (and its supply chain), an analysis of its strengths, weaknesses, opportunities and threats is made against its resources, innovation and values. This usually

produces long lists of issues that the organisation has to get to grips with, but somewhere buried in the list will be the two or three key survival issues.

Companies that have used this model are essentially seeking to establish a vision of their business as an environmentally stable organisation; having identified their key survival issues they are in a position to come up with management plans and build in management indicators to allow them to get to grips with the issue and measure and review progress.

What does this mean for the supply chain?

If a business begins to reposition because of concerns about its resource base, because of opportunities or threats from innovation, or because of wider societal change this will have profound implications for countries and companies dependent on the current supply chain. There can be no easy answers to this since most environmental choices involve balancing benefits and disadvantages. But these kinds of choices need to be informed by inclusive dialogue; they should not be taken behind closed doors by panels of experts. The stakeholders include companies and communities involved in the current and proposed supply chains; everyone who is touched by these changes should be involved as much and as extensively as possible. This implies putting some meaning behind the word *partnership* which can only work if the company addresses the concerns and interests of suppliers and dependent communities along the whole length of the supply chain.

Greening the supply chain – a developing country perspective

K.P. Nyati, Head of Environment Management Division, Confederation of Indian Industry

Eco sense and environmental politics

Environmental awareness in developing countries *is* increasing but, except in a few significant cases, it has not yet reached a level at which people feel compelled to take action. In India, for instance, environmental issues do not figure on any political party's agenda – elections are simply not fought and won on that basis. As a consequence, the political will is missing. In the corporate sector, environmental awareness is limited to

compliance with government environmental regulations (2,800 pages of them – although this is nothing compared to the 13,000 pages in the United States) and the environment remains far down the list of corporate priorities.

Since 1992 there has been a voluntary eco-labelling scheme in India, but no manufacturer has yet come forward to join. It is difficult for consumers to consciously buy green products and unreasonable to expect

companies to make an effort to 'green' their supply chains. However, changes are happening.

Production and processing methods

The introduction of sustainable production and processing methods (PPMs) will only work once an atmosphere of trust has been created between developed and developing countries. Without such trust, PPMs have the capacity to seriously undermine trading relationships. Cotton textiles and leather, for example, are both big export earners for India, and both industries are encountering problems due to a ban on the use of certain dyes and, for leather, on the use of PCBs. Such transitions must be encouraged sensitively, and the certification of industries meeting PPM standards should be handled separately from eco-labelling schemes operating overseas.

Process and production stipulations are being introduced in several ways. There is some uptake through voluntary initiatives like ISO 14000 and organic food certification, which help to distinguish high-performing companies. Others are incorporated in national regulations dealing with secondary industries, especially the non-ferrous metal sector. There is no doubt that multilateral environmental agreements like the Basel Convention also play an important role. The transport of raw material, the recycling of scrap and the removal of waste ash and dust are all being reassessed in terms of their environmental impacts, and new national regulations are being applied to the plastics recycling industry.

Green purchasing

Green purchasing has not entered the government vocabulary in India at all. The government is India's largest purchaser of goods and services but has not yet begun seeking out environmentally friendly alternatives to its usual purchases. As far as corporations are concerned, few (if any) are convinced that green buying makes good business sense.

Corporate responses to green trade

On the whole, businesses have responded hesitantly, often caught off guard by new environmental regulations promulgated by governments in importing countries. In the textile sector, many companies lobbied the Indian government to protest about the imposition of sustainable PPMs by the EU. Many of the smaller suppliers were unable to meet the deadlines for compliance and there were no institutional support systems in place to help them. It is vital that suppliers are consulted in the formulation of these regulations so that they

have a chance to comply before another supplier jumps in and takes their business away.

Environmental considerations are proving very important when it comes to buy-outs of Indian industrial plants by multinationals. Indeed, many Indian companies are now applying for ISO 14001 status so that they can sell at a higher price. When companies such as Marks & Spencer visit prospective textile suppliers, the entire process is essentially an environmental audit of the suppliers' PPMs. The greening of the supply chain even extends to transport companies. Some truck owners, for example, found themselves faced with losing their contract with a mining company unless they used trucks registered after 1992, had emission certificates and never exceeded legally permitted loads. The truckers went on strike in protest, but the company held out and forced them to comply. Today, the truck owners have lower fuel costs and lower maintenance costs – a win-win situation. The result of environmental pressure is that suppliers *do* clean up their operations when required by domestic and overseas companies and often they resort to initiatives like ISO 14001 to achieve specific objectives. In India, there are now almost one hundred companies certified to ISO 14001 – it does wonders for their corporate image and for gaining access to more markets, especially abroad.

Barriers to greening

- *Suddenness.* The corporate world seems to cope adequately with the imposition of bilateral (business to business) environmental conditions because a company can always bargain for time; what it does not cope well with are the sudden multilateral requirements of say the EU or the UK. The lack of forewarning and the lack of any institutional system to help in this regard are two huge problems.
- *Confusion over standards.* Many different eco-labelling and certification schemes are in operation; most of the certifying agencies are European but not all are conversant with ISO 14001, being familiar instead with ISO 9000. This causes considerable problems for the hundred or so certified companies in India, and also for those seeking certification.
- *Costs of certification.* An associated problem is the swamping of companies by too many certification schemes. Entering any one of them costs money and it is very galling for a company to find that such costly certification schemes keep appearing in rapid succession. With ISO 9000, ISO 14001, BS-8800 (occupational health and safety), and the

latest SA 8000 for social accountability, it is no wonder that many companies are beginning to look on the certifiers and consultants as parasites. The companies are forced to pass on their costs to their customers and so see little to be gained by taking part.

- *Over-emphasis on documentation.* The effort to green the supply chain is in danger of becoming a paper exercise. The spirit of the scheme – the commitment to pollution prevention, compliance, continual improvement – is being swamped by competing systems of certification and codes of practice. For example, there is an international green banking charter within the financial sector. But even when a bank does sign up for it, knowledge of the specific environmental obligations that must then be imposed on lending does not filter down to the bank's branches. It is all held on paper, in head offices. The financial institutions and banks are therefore not able to exercise the powerful lever of withholding or lending money.

The road ahead

In finding strategies to overcome the barriers and problems outlined above, it is useful to consider a model which Michael Porter calls 'the four quadrants of competitiveness'. The four quadrants are:

- resource factors – economic conditions, national strengths and weaknesses;
- demand pull factors – consumer awareness and consumer demand;
- the policy framework – government policies; and
- the institutional support system – research, training institutions, and so on.

Since the Indian government is the country's largest buyer of goods and services, it must put in place a framework of sustainable public procurement policies. Guidelines and manuals are needed to give directives to state and local governments, and policies have to be in place to deal with the continually expanding state enterprises and state organisations. Help in all of this is required from the international community, including UNCTAD and WTO.

Small- and medium-size enterprises need special mechanisms which are more sympathetic to their slower response rates to certification standards. The international community could also help trade associations and other institutions in providing training and technical assistance.

Above all, however, every opportunity must be taken to demonstrate to businesses in developing countries that being green does make good business sense. Raising awareness is a long-term undertaking but it has to happen if change is to follow.

Feedback

Comments and questions to Lucy Neville-Rolfe (LN-R), Steve Robinson (SR) and K.P. Nyati (KPN).

- What happens when a Colombian producer, complying with all relevant Colombian standards, finds that they are required to comply with higher standards in order to sell to Tesco? Does this become a technical barrier to trade by threatening the right of Colombians to set and apply their own standards? If there is a problem, could we bring a case to the WTO dispute settlement panel? (M. Goenaga)

At Tesco, standards and codes are developed for all 40,000 products stocked. These are set by technical managers and communicated clearly. Suppliers must certainly comply with standards set by their own governments, but if Tesco's consumers demand a higher standard, then they must meet them also if they wish to continue as one of our suppliers. (LN-R)

Standards imposed on a business-to-business basis are perfectly acceptable. If they were imposed by a government that would be quite different. (KPN)

- Given that it costs more to produce organically grown foodstuffs, if Tesco's non-organic and organic prices are kept on a par, are you raising the price of non-organic products or are you cutting into the profits of the organic crops? (D. Katz)

We take a lower margin on organic foods. As the volume expands, we hope that this will become a more profitable part of the business. (LN-R)

- Does Tesco see itself as having a role to play in educating its consumers? Private entrepreneurs and the private sector generally could do a great deal to increase environmental awareness. (N. Khadr)

Tesco runs a number of environmental education projects via schools in the UK. (LN-R)

Partnerships for Sustainable Trade

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Chapter 6 Partnerships for Sustainable Trade



6 We need to show business that social criteria are the new minima by which consumers, stakeholders and investors want to do business. 9 *Graham Young*

6 Projects have to be consultative but consultation (when it happens) is often somebody with a flip chart telling people what the project's aims and objectives are. The discussion is framed within the terms of that project, not whether the project should be happening at all. 9 *Craig Sams*



No single organisation can aspire to create a sustainable world on its own. One of the preconditions for seeking an environmentally responsible system of world trade is to encourage new partnerships between governments, businesses, citizens groups and consumers. The presentations in this chapter are therefore devoted to examining how and why some partnerships work better than others and the lessons that can be learned from them. The bottom line is that good partnerships create win-win situations: businesses achieve a higher and more secure return; consumers have products that meet their increasing standards; and the environment is preserved for the future.

At the heart of the partnerships established by the UK Department for International Development lie the goals of eradicating poverty and promoting sustainable livelihoods. As David Turner explains, the key to achieving these goals is to build partnerships based on trust and to ensure that policies in the trade and investment sphere are consistent with policies in the environment and agriculture sphere. Furthermore, stakeholders need to be fully engaged in all aspects of the trade and environment debate right from the start so that suspicions of exclusivity do not hinder progress.

Graham Young, in outlining the history and the future of Traidcraft, brings the needs of the most disadvantaged communities to the fore. The essence of Traidcraft's work is to promote fairly traded products on the global market so that the poorest producers have an opportunity to work their way out of poverty. To sustain this process, action is needed at the international and national levels to provide development funds and technical assistance to disadvantaged producers so that they can benefit from world markets. Above all, consumers need to be kept informed about ethically sourced products since their purchasing decisions drive the whole enterprise.

Craig Sams's account of his experiences in setting up a small-scale sustainable enterprise (Green & Black's Organic Chocolate) in Belize suggests that a combination of well-focused marketing and a close partnership with producers makes for a successful product. By bearing both the Soil Association's organic certification label and the Fair-trade mark, Maya Gold chocolate was assured of winning consumer support. However, the sustainable development that has followed this

6 I've been asked what was my motivation in becoming involved in the chocolate business in Belize. It was commercial. It's nice to do good but I have to do well. 9 *Craig Sams*

success is now being undermined by ill-informed government policies on logging, land rights and road construction.

In the final presentation of the chapter, Anne Weir, speaking on behalf of Unilever, explores the types of partnerships possible between multinational corporations and environmental/development NGOs. Unilever, for example, worked in cooperation with the World-wide Fund for Nature to set up the Marine Stewardship Council, and with German environmental NGOs to set up the Living Lakes initiative; in addition, Unilever was a founder member of the Tea Sourcing Partnership. All of these have had knock-on beneficial effects for stakeholders.

David Turner has been head of the Environment Policy Department within DFID since 1988. Prior to this he held posts involving programmes in the Caribbean, India and Sudan on science and technology.

Graham Young established Traidcraft in 1980 and has since acted as its honorary Chair of Trustees and, since 1986, has been General Director of Traidcraft Exchange. He has also managed the establishment of Shared Interest, a social investment company that grew out of Traidcraft. Graham has been a founding member of the International Federation of Alternative Trade, the European Fair Trade Association, the Fairtrade Foundation, and the International Policy Committee of the Catholic Institute for International Relations.

Craig Sams has been involved commercially in organic foods for a number of years. He founded Whole Earth Foods and then, in 1991, co-founded Green & Black's Organic Chocolate, an organic and fair-trade confectionery brand whose Maya Gold chocolate was the first product to carry the Fairtrade mark. Craig has been Honorary Treasurer of the Soil Association since 1990 and Chairman of the London Organic Food Forum since 1997. He grows most of his own vegetables and grains organically in a rooftop container garden in London and on his allotment in Hastings.

Anne Weir is Manager of Community and Non-governmental Affairs for Unilever NV. She joined Unilever in 1988 after a ten-year stint in the UK public sector. In 1995 Anne moved into Unilever's corporate relations team where she has been closely involved in the Marine Stewardship Council initiative, the Living Lakes partnership and in Unilever's sustainable agriculture programme. She is a member of the Unilever Environment Group and was responsible for Unilever's first and second environment reports. She is currently involved in establishing Unilever's approach to reporting on corporate responsibility and contributes to working groups on corporate social responsibility and sustainable consumption.



● We should use products such as Maya Gold and Café Direct which have Fairtrade marks to raise awareness among consumers and businesses. We must show them that there are many win-win situations to be had through an ethical approach to trading – that it is economically worth doing. ●

Graham Young

● Successful partnerships help to create a new momentum to find and generate innovative solutions that are owned by all stakeholders. They foster a sustained raising of social and environment standards on a win-win basis. ●

Anne Weir



Building the capacity of producers to benefit from changing consumer demands

David Turner, Head of Environment Policy Department, UK Department for International Development

In November 1997, the UK Labour Government published a White Paper on international development – the first for over twenty years. Right at the centre of that policy paper is the elimination of poverty, which is regarded as being crucial to achieving sustainable development. Mindful of its commitments to meet international development targets and to put in place national strategies attaining these targets, the government has embarked on a programme to help poor people in developing countries create sustainable livelihoods.

There are two key elements in fulfilling this agenda. The first is the development of genuine partnerships based on trust – partnerships with countries (particularly with poorer ones), with donors and development agencies, with NGOs and with the private sector. The second is ensuring better consistency in UK policies across the board in terms of trade and investment, and environment and agriculture. In building support for sustainable development, the government aims to increase public understanding of international development issues and to ensure that resources made available for development are used only for the purposes intended. In supporting development assistance, the government has undertaken to reverse the decline in overseas aid that saw it drop to 0.26% in 1997 under the previous government. The DFID budget is to rise by £1.6 billion which will bring development assistance up to 0.3% of GNP by 2001.

Within this overall strategy, the role of DFID is to help poorer countries raise their levels of exports within a framework of sustainable development. In order to achieve this, DFID is working in partnership with (i) producers in developing countries, (ii) retailers and investors in the UK, and (iii) international organisations such as ILO, WTO and ITTO.

Partnerships with producers in developing countries

The Mexico Forest Certification Project. A project is currently under way in Mexico that aims to develop and implement a Forest Stewardship Council (FSC) system of forest certification. Producers in developing countries have genuine concerns about certification – concerns about the cost, about the inappropriate imposition of international standardised conditions and about the

marginalisation of small- and medium-size producers. Under this scheme, standards of forest management will be agreed that are specifically appropriate to Mexican circumstances. Between 70% and 80% of Mexico's forest lands are owned by indigenous communities and DFID sees certification as not only helping the environment but also opening up new markets for the forest products which will then underpin the livelihoods of the rural communities and contribute to the elimination of poverty.

Three key aims are to:

- develop local capacity for carrying out certification evaluations;
- make the forest producers, timber traders and consumers aware of both the costs and the benefits of certification; and
- establish a market promotion fund to help with the preparation and distribution of product samples, representation at international fairs and the publication of product brochures.

The Woodmark Certification Scheme. This is part of the Soil Association's Responsible Forestry Programme and is all about establishing local capacity to conduct certification and developing locally appropriate standards of forest management and investment. So far this scheme has been introduced in countries such as Zambia, Belize and the Czech Republic.

Ethical codes. The use of ethical sourcing codes by supermarkets and other UK importers is focusing the attention of suppliers in developing countries on the advantages of such codes to boost their exports. DFID has been approached by the Kenya Flower Association to help set up independent validation of the ethical and environmental code that KFA members have adopted. In South-east Asia, India and Pakistan, DFID is involved with schemes to protect the rights of working children, as highlighted by the abuses within the football stitching industry.

Partnerships within the UK

Promoting socially responsible business. DFID has provided a grant of £500,000 to help the private sector, the NGOs and the trade unions in the UK to develop codes of practice aimed at promoting socially responsible

business within the supply chain. Much of this focuses on core labour standards and ILO agreements. Whether or not environmental concerns should be introduced in this area (which is already complicated enough) is debatable. There is certainly a clear separation between the environmental lobby groups and the social lobby groups, and the two do not necessarily come together.

Fair trade initiatives. DFID firmly supports fair trade initiatives such as the Fair Trade coffee. These schemes specifically target the smaller producers and cooperatives, and help to improve working conditions and raise incomes. But DFID is also interested in the role of larger firms in fair trade initiatives and discussions are currently under way with companies and the Confederation of British Industry.

Investment. The Commonwealth Development Corporation is currently looking at a new code of conduct covering social, environmental and ethical best practice in overseas investments. This will have a capacity-building effect similar to ethical trading initiatives by promoting these practices in developing countries. One aspect of this is a scheme whereby DFID provides funds to attract private sector resources to share the risks of developing countries embarking on sustainable production. These 'creative challenge funds' are still at the planning stage.

International activities

DFID supports poorer countries through the formulation of international agreements, such as the Multilateral Agreement on Investment (MIA), and supports multilateral organisations that address their concerns, such as WTO, ILO and ITTO. In the multilateral arenas of trade (WTO) and labour negotiations (ILO) it is clear that developing country interests and concerns are still not being adequately taken into account. It is hardly surprising that these countries remain suspicious of the motives of so-called developed countries. The OECD Secretariat is now addressing this problem and DFID is working to break down the barriers of exclusivity by conducting regional seminars on trade and environment. It is vital that developing countries are fully engaged in all aspects of the trade and environment debate right from the start.

Conclusion

DFID's support for international sustainable development targets underpins the government's commitment to eliminating poverty and encouraging economic growth that benefits the poor. Through partnerships of trust, it aims to develop sustainable livelihoods for poor people and thereby promote environmental care and protection.

Expanding the market for fair trade and sustainably produced goods

Graham Young, General Director, Traidcraft Exchange

Traidcraft: a brief history

In the 1970s and 1980s, the general view among NGOs in the United Kingdom was that many of the causes of Third World problems could be traced back to the activities of business in the First World. Business was a dirty word. In 1979 I was involved in setting up an organisation called Traidcraft to assess the potential for business to have a *positive* social impact on developing economies.

Traidcraft today is a public limited company with an annual turnover of £8 million. It sells craft products, food products and some handmade paper products in partnership with disadvantaged communities in different parts of the world who would otherwise find market access difficult. It also has a not-for-profit

charity, Traidcraft Exchange, committed to developing a network of international marketing service providers in the Third World. We work closely with these organisations to give them an in-depth knowledge of the European market so they can then work with local businesses to pass on that information.

For trade to be 'fair' the following criteria must be met:

- producers receive a fair price/wage;
- advance payments are given when needed;
- working conditions are better than average for the locality; and
- a long-term relationship based on partnership and cooperation is established.

Traidcraft customers in the early 1980s clearly liked what they saw in this new proactive, strongly ethical trading scheme, and business boomed. But the reality is that not *enough* people were drawn to it in Europe and the fair-trade market stagnated at about the \$250 million mark of sales of those products. Traidcraft embarked on a radical rethink of its operations. Until then, fairly traded products had been marketed as being from disadvantaged communities and Traidcraft had tried to find markets that would sell them on that basis. The new plan was to develop lobbying work to concentrate on making goods already being marketed *more* fairly traded and sustainable. In other words, we switched from our little niche market and decided to find out how to influence the way in which the mass of products are marketed and ensure that they are fairly traded.

The initial step was to set up a certification system – the Fairtrade Foundation. Members of the Foundation include most of the major development NGOs in the UK, such as Oxfam, Christian Aid and CAFOD. One of the most well-known products to bear the Foundation logo in the supermarkets today is Café Direct – an instant roast and ground coffee. It has about 2% of the market in instant coffee and about 4% of the market in roast and ground coffee, so making it commercially significant. However, it was only a step in the right direction. Extending sustainable production and fair marketing to all products would require setting and monitoring standards for each one of them – an immense task.

Yet another approach was then adopted to encourage businesses themselves to adopt codes of practice, and the Ethical Trading Initiative (ETI) was born. Basically it encourages mainstream businesses to look at regulating the employment terms and conditions of their suppliers. Thus in the UK, retailers have to ensure that their suppliers apply ILO minimum working conditions in the production of their goods. All this became a very important basis of consumer activity because it was through consumer demand that the commercial sector could be pressed into taking the fair trade issue seriously. Working with business also presented us with some real win-win situations. Not only could Third World workers get better working conditions but businesses could advertise the fact that they were operating within a fair trade scheme – always good for PR and winning greater market share. Resultant improvements in product quality have also helped businesses to see the commercial advantage from a total quality management point of view.

Because Traidcraft was asking and encouraging businesses to look at the social impact of their activities, we began to develop monitoring systems that would enable them to manage some of the intangibles. The whole

social accounting methodology, which has been developed to incorporate codes of practice for suppliers, is a very important development in this area. Traidcraft was the first public limited company to publish audited social accounts.

All of this potentially leads to increased ethical sourcing and trading within most businesses. It is no longer a niche market but has moved into mainstream trade through encouraging businesses to make sure that all products are ethically sourced. The ETI – basically a consortium of business, NGOs, unions and government – is now in a position to take this forward.

Have fair trade organisations had their day? Although it seems that businesses have taken up the baton and are running with it, fair trade organisations still have an important role to play. There are still many disadvantaged communities whose products will never be able to compete within the ethical trading initiative framework. Fair trade organisations can help such suppliers to gain access to the European market and possibly move on to ETI buyers.

The fair trade movement: where to now?

Traidcraft and the other instruments of fair trade not only expanded the market but redirected the eyes of business to look at how and where products are sourced. The steps along the way involved:

- raising public awareness about the plight of disadvantaged producers;
- development of the Fairtrade mark which enabled commercial sector organisations to get involved and make it happen;
- establishment of the Ethical Trading Initiative to encourage the adoption of codes of practice by the commercial sector; and
- continuing to work with producers unable to enter the mainstream.

To keep all this going and to promote *ethical trade*, action is needed at both the international and the national level. First of all, there must be international regulation to encourage codes of practice. WTO regulations must incorporate social criteria so that fair trade remains fair and sustainable. In addition, national regulation should encourage greater transparency of business operations through social reporting. We also need to encourage best practice, to praise business when it actually does do good things, and perhaps to give awards in recognition of best practice. We need to show business that social criteria are the new minima by which consumers, stakeholders and investors want to do business. The promo-

tion of *fair trade* requires development funds that can support service provision to the businesses of disadvantaged communities. Too much of the service provision that goes into business development never really hits the poorest communities. We need to ensure that we can build capacity within the organisations that provide services to those businesses. With regard to the European market, developing countries need much more knowledge and information in order to gain access for their products. Fair trade organisations should continue their work in this area and continue promoting the products of these communities. Finally, European

consumers need to be informed and educated about ethically sourced products and helped to realise that they play the key role in helping disadvantaged communities.

The basis of all our work, then, is the belief that people from The Jute Works in Bangladesh or tea pickers in Tanzania can actually work their way out of poverty to create a more just and sustainable world order, and that one of the ways in which they do that is through the buying patterns of people like you and me – and others who are influenced by the activities of the people who work with Traidcraft here in the UK.

Sustainable chocolate: a practical business example

Craig Sams, Founder, Whole Earth Foods; Co-founder Green & Black's Organic Chocolate

This is the story of the experiences of a very small company and the problems it encountered in making the transition from one culture of development to another. Not least among these problems were the difficulties of attempting to reconcile the interests of private enterprise initiatives with those of government agencies.

In 1991 we launched Green & Black's Organic Dark Chocolate made with organically grown cacao from an organic agriculture project in Togo, West Africa. This was the first 70% cocoa solids product to be sold in the United Kingdom and the brand managed to find a niche in some supermarkets and top food stores. However, the chocolate didn't qualify for a Fair Trade certificate because there was a government monopoly on cacao marketing (a direct relationship with the producers is one of the first principles of fair trading). Then, in 1993, I contacted some friends in Belize and found that there was an opportunity to build new relationships with cacao producers there and launch a new product that could be an ideal embodiment of organic and fair trade principles.

The cacao plantation that was to become the centre of this venture had been established by the ODA in 1983 and handed over to USAID in 1986. The farmers had received bank loans to buy hybrid seeds and agrochemicals, and they had been encouraged to clear the forest and plant the cacao trees very closely – only eight to ten feet apart. At this spacing there was little room for shade trees, and fertilisers and fungicides were essential. The economics of the programme had been carefully worked

out on the basis of a selling price of \$1.80 per pound. The programme terminated in 1992. In October 1993, I spoke by phone to the chairman of the Toledo Cacao Growers Association, the cooperative that represents the Maya Indian cacao growers of the Toledo district of southern Belize; it was clear that they were facing serious problems.

From 1991 to 1993 the Hershey trading agent had progressively reduced the price paid for cacao from \$1.80 per pound to \$1.70 to \$1.25 to 90c to 70c and then finally to 55c. The farmers defaulted on loans at the local bank under the USAID support loan scheme, and many became migrant workers, picking oranges or cutting sugar cane in the north, to earn enough money to service their debts and support their families in their home villages. The plantations were largely abandoned or overgrown. By 1993 total production had fallen to 20,000 pounds, generating a dismally low net income locally of \$11,000.

Green & Black's came up with a new deal for a new product which we called 'Maya Gold'. We offered the growers association a five-year rolling contract as our exclusive supplier of organically grown cacao for use in Maya Gold chocolate starting at \$1.25 per pound (the price they suggested would get people interested in growing cacao again). We assisted the TCGA in obtaining organic and fair trade certification, both valuable assets when selling products on the European market, and offered a \$20,000 cash advance so that the

farmers would receive immediate payment for their cacao rather than having to sell it to the cooperative on credit. In addition, as part of the conversion to organic cultivation, we offered a five cents per pound forest building premium which encouraged growers to thin out their trees and plant more shade trees. Every grower who planted one mahogany, one red cedar, one mamey fruit and one cohune nut tree per acre of cacao received the additional five cents per pound of cacao. The idea was to encourage a long-term view of their investment in cacao – after twenty years, one mahogany tree could easily be worth more than an entire year's cacao harvest. Two members of the TCGA set up tree nurseries to provide the mahogany and cedar saplings and we also talked to the Soil Association Woodmark Scheme about certifying the timber. Local biodiversity would be enhanced and the increase in game would supplement the Maya diet.

Overall our approach was bottom up rather than top down. We could not offer a comprehensive framework of assistance and the TCGA was basically left to rise to the challenge on its own. But it agreed to the deal and the Soil Association inspection took place. Because of the low cacao prices, the land had been neglected for many years and it passed the inspection. The project was thus granted provisional organic status subject to certain conditions and a further inspection.

In the first year progress was slow; however, by increasing the price and giving people time to adjust to a new agricultural calendar, the scheme got off to a good start and has kept going ever since.

In 1993 the total income in the district was about \$10,000; in 1998, the total income topped \$100,000, almost ten times what it was five years previously. We anticipate that the total income in 1999 will be close to \$120,000.

Securing the market

So how did we do it, how did Maya Gold succeed? It is a daunting fact that every year hundreds of new products are launched on the market but very few of them succeed. Perhaps our key move was to discuss the Maya Gold concept with Sainsbury's, a leading UK super-market chain, even before we began discussions with the TCGA. Sainsbury's liked the idea and agreed to stock the product for six months. This assurance gave us the confidence to make an offer to the TCGA. We also sought and gained the Fairtrade Foundation certification and the Foundation proved to be very supportive in this crucial early stage.

We launched Maya Gold on 7 March 1994 with a press conference at the Oxfam stand at the BBC Good

Food Show in London. The same day, BBC Newsround took some of our newly minted chocolate to Belize with a film crew and came back with footage of Maya villagers harvesting cacao and their children licking their lips over the very first bars of Maya Gold that had been made – and the first bars of chocolate that they had ever tasted. Press coverage was extensive and other supermarkets were soon showing an interest in the product. A tremendous boost to sales came when Oxfam listed Maya Gold in their mail order catalogue and began selling it through their stores.

Problems at the plantation

However, while the commercial side was going well, problems were looming back at the plantation. In short these were:

- *The ODA's masterplan for the region.* It comprised the selling of logging concessions to outside companies in order to gain foreign exchange for the Belize Government, and the introduction of mechanised rice cultivation as part of an import substitution scheme.
- *The bulldozing of 70 acres of organic cacao.* A citrus plantation, owned by the Commonwealth Development Corporation and controlled by the ODA, included productive cacao that was being harvested on a sharecropping basis by a local women's group. Despite protests, the cacao was bulldozed and replaced with grapefruit.
- *Plantation trade trees claimed as the property of the Belize government.* The ODA's forestry advisor notified the TCGA that any mature hardwood trees in the plantation would belong not to the growers but to the forestry department. This completely discouraged the growers from planting them and the tree nurseries closed down.
- *The WHO malaria control programme.* DDT spray teams would arrive unannounced and contaminate households, harvested cacao and livestock. In 1998, after years of negotiation, the villagers won the right to two weeks' notice of the intention to spray.

Sustainable cultivation and diversification

Growers are now switching back to the local variety of cacao, which has a superior taste to that from the hybrid Hershey bushes. Yields are lower but so are maintenance costs. The quality is superb and that is what matters most to Green & Black's.

The TCGA has begun producing beans as a first step in diversification – two tonnes each of black beans and red beans were successfully sold through a Dutch importer (better prices are obtained by selling in Holland than in traditional markets in Guatemala). Following this initial success, output is to be increased substantially in 1999. Other diversification crops are ginger and annatto which both have organic certification. Annatto produces a yellow colouring used in the manufacture of organic margarine or butter.

Social development

Women's status. The production of cacao has strengthened the position of women. Unlike rice cultivation, the important part of cacao production is in the post-harvest processing where women play a key role. Furthermore, their share in the income generated confers domestic and community power.

Secondary education. Although secondary education is free in Belize, the nearest high school is in a town twenty miles away. With no daily bus service, students at the high school have had to board with families at considerable expense. However, as a result of the increased income from cacao, more students are going to high school and a bus service has now become viable on a daily basis to take them to school and back. Secondary education has become accessible to almost every child in the Maya villages and there is even talk of building a local high school.

Community cohesion. The TCGA has become one of the main uniting forces in a community with two distinct cultural and language groups – the Ke'kchi Maya and their neighbours the Mopan Maya. Mistrust and suspicion between the communities has often flared up over perceived inequities in the distribution of external aid. Within the TCGA there is one shared goal: to sell as much good quality cacao as possible and to earn as much money as possible. The leaders of the TCGA are now respected figures in their local communities, consulting to ensure that the Maya speak with one voice on matters where their community has hitherto been weak and divided. This is proving very important as there are stiff challenges ahead.

The challenges ahead

Logging. The creation and maintenance of a stable local economy is being undermined by government policy.

Much of the land that the Maya regarded as reservation land is now subject to logging concessions by Malaysian and Chinese companies. Loggers damage watercourses, take out valuable trees and leave an impoverished landscape with greatly reduced biodiversity. As we have shown, this land could be reclaimed for organic cacao with the replanting of mahogany and other hardwoods as shade trees, but government policy discourages this.

Land rights. The government of Belize is reluctant to recognise the historic right of the Maya to occupy and harvest their homeland. The Toledo Maya Cultural Council has therefore joined with the Indian Law Resource Centre and the National Geographic Society to produce an atlas of Maya land as proof of occupation.

The Inter-American Development Bank's agreement to pave the southern highway into the south of Belize is also threatening Maya land rights. Originally the IDB funding was conditional on the recognition of Maya rights but the conditions have not been satisfied. The Toledo Maya Cultural Council has taken its appeal to the Belize Supreme Court of Justice and it may well end up in the Privy Council in London (the ultimate High Court in Belize) if the legally legitimate claims are not satisfied.

The involvement of DFID. According to the DFID document, *Forests Matter*, DFID's support for forestry in Belize is based on cooperation at all levels – from ministries and forest departments to community organisations, research institutions and the private sector. The TCGA's forest work is supported through parallel activities and other sectors such as trade policy and agriculture. DFID is therefore caught in the difficult position of trying to reconcile the Belize government's need for foreign exchange with the more sustainable policy of cooperating with community organisations, particularly in respect of land rights.

Our project with Maya Gold is a small venture and one should not draw sweeping generalisations from it, but it has brought many positive gains beyond its modest financial return. We as a business are grateful to be associated with it and do not underestimate the benefits that it has brought to us and to the consciousness of the UK marketplace for ethically traded products. We had always hoped that it would serve as a model for larger projects and I hope that ultimately it will be typical of the way that trade can be conducted sustainably on a global basis.

Meeting social and environmental objectives through partnerships

Anne Weir, Manager, Community and Non-Governmental Affairs, Unilever NV

Unilever is a leading international company, manufacturing branded consumer products in over ninety countries and selling them in nearly 150. Much of this manufacturing is locally based and involves both regional and international trade. Unilever's approach to issues of sustainable development is driven by the life-cycle management of its products. Life-cycle assessment has shown that most of the potential impacts of its activities lie outside the company's direct control – for example, in the production of raw materials and the behaviour of consumers when they use and dispose of the products. We therefore recognise that to reduce these impacts we have to work with others. A central part of our strategy for sustainable development is engagement and cooperation with people directly involved in our supply chains, whether they be producers, consumers, government agencies or NGOs.

Partnerships for sustainable consumption and production: three examples

The Marine Stewardship Council initiative

In the early 1990s international organisations were raising public awareness about the potential crisis in world fisheries. Events such as the closure of the Canadian Grand Banks in 1992 sent a clear signal that the marine environment – and thus the fishing industry – was in danger. At the same time, Unilever, one of the world's leading buyers of frozen fish, recognised that unless major world fisheries moved to a sustainable basis within the next few years the company would lose its basic raw materials.

The solution started to take shape in 1995 in discussions with the World Wide Fund for Nature (WWF). The two organisations had come together on the basis of different motives but a common purpose: the need to ensure the long-term sustainability of global fish stocks and the integrity of the marine ecosystem. The aim was to set up a Marine Stewardship Council (MSC) to run a fisheries certification scheme that could endorse sustainable fisheries management and operational practice. Fish products sourced from certified fisheries would carry a logo, so allowing consumers to select fish from well-managed fisheries. Consumer choice would then demonstrate to fishing companies that responsible fish-

ing pays. The Unilever/WWF partnership achieved its key milestone when the MSC became an independent self-financing body in July 1998. The partners each brought wide-ranging skills, knowledge and networks to support the formation of the MSC. Together they undertook an inclusive global consultation process with environmental and marine experts, scientists, the fishing industry and trade representatives, government officials and regulators and many others connected with the marine environment. The output of the consultation, which ran over eight workshops and two expert drafting sessions, was a set of broad principles and criteria which provide a framework for promoting environmentally and economically viable fishing. MSC is now accrediting professional assessment bodies to carry out assessment and certification of fisheries around the world.

Unilever has undertaken to source all its fish from certified fisheries by the year 2005. Although the MSC now operates independently of Unilever and WWF, they both retain a large stake in the successful introduction of the fisheries certification scheme. An important factor in this will be the scope to allow local and regional fisheries to determine their own priorities for achieving sustainable fisheries practice under local conditions.

But changing fishing practice is just one side of the solution. The other is to educate consumers about sustainable fishing practices and to build awareness of the MSC logo.

The MSC consultation process also achieved much more than simply setting the framework certification scheme. It provided a platform on which the complex issues influencing the development of a world fishery could be mapped out on behalf of the many different stakeholders in the industry. A future concern for the MSC will be to ensure that the certification scheme is accessible to fishers and fisheries in developing countries. MSC can play a key role in ensuring an equitable distribution of marine resources to all who have a stake in such fisheries and in providing continued access for them to world markets.

Unilever's partnership with WWF and the MSC ran to a clearly defined agenda – namely, to set up the MSC and launch a certification scheme. These goals have now been largely achieved and this initiative has matured. We are looking now at other areas where we might work together.

Living Lakes

Unilever has a long history of involvement in fresh water conservation. This started in Germany but it has been given an international perspective under the umbrella of 'Living Lakes'. The Living Lakes model is the result of an eight-year cooperation between Unilever and the Deutsche Umwelthilfe on the regeneration of Lake Constance which lies on the border of Switzerland, Germany and Austria. It is Europe's largest drinking water reservoir and the programme was established on the basis of Agenda 21 guidelines. It brought together local environmental NGOs, business and public authorities to eliminate pollution from the lake and build a thriving sustainable economy in the vicinity.

The involvement of Unilever arose from its concern about the possible impact some of its products might have on lakes and wetlands. Studies revealed that one of the most significant contributors to lake pollution was fertiliser run-off from adjacent farmland. The solution extended from wildlife conservation and regeneration to changes in agricultural practice. The region now has a thriving organic farming industry, and new businesses and employment opportunities have been developed. Tourism, which depends on the lake as a thriving natural resource, is the main source of local revenue.

The Living Lakes partnership between Unilever and the newly formed Global Nature Fund seeks to take this principle of common stewardship of lakes and wetlands and replicate it at key sites around the world. The aim is to create a network of living lakes that will become regional models for conservation and sustainable development. Projects in South Africa, Japan, North America and Spain have now been adopted and these are the focus for conservation, education and local development programmes.

For Unilever, Living Lakes is also a platform on which to work with organisations to understand how the company's products may impact on the local environment over their life cycle and how the company can better contribute to sustainable development.

The Tea Sourcing Partnership

Van den Bergh Foods, a subsidiary of Unilever, is one of the founder members of the Tea Sourcing Partnership. Formed in 1997 the TSP is currently open to tea packers of branded and private label tea in the United Kingdom. In its mission statement, the TSP embodies the understanding among tea packing companies that they have a shared responsibility for the social and ethical conditions under which the tea is produced.

The TSP is made up of fourteen tea-packing companies responsible for over thirty brands (including supermarket own brands), which constitutes approxi-

mately 60% of the packed tea sold in the UK. Tea imports to Britain are sourced from thirty countries but the scheme has initially targeted producers in Kenya, Indonesia, Sri Lanka, Malawi, Zimbabwe and Tanzania, who account for over 80% of tea imports.

TSP suppliers are given a questionnaire, tailored to each country's legislation and other formal agreements, covering terms and conditions of employment, health and safety, maternity provisions, education and housing. Responses are now being audited and validated by BVQI, an internationally recognised independent third party with experience of auditing in over seventy countries. This groundwork will establish the current social and ethical status of suppliers to the UK tea industry. Importantly, respect for cultural and legislative differences in tea-producing countries is built into the scheme.

Suppliers identified through this information-gathering exercise as not complying with relevant legal requirements will be given reasonable notice (and assistance) to raise standards. If they fail to comply, TSP members will cease to trade with the estate or factory.

Some ground rules for successful partnerships

- Find the right partners. They will have similar objectives and share the same working principles (transparency, commitment to finding practical solutions, etc.) even if their motives are different.
- Set boundaries, targets and time limits.
- Solutions should be inclusive and facilitating rather than prescriptive.
- Partners/stakeholders should be discouraged from seeking premature, short-term advantage outside a partnership, perhaps for PR purposes or to gain a marketing advantage.
- Partnerships do best in conditions of raised public awareness and recognition among the stakeholders of common goals and interests. Make every effort to foster these conditions.

Partnerships: a key role in change

Successful partnerships help to create a new momentum to find and generate innovative solutions that are owned by all stakeholders. They foster a sustained raising of social and environment standards on a win-win basis.

Retaining the commitment and confidence of all partners is not easy. But it is clear that sustainable development calls for lasting changes both in business operations and in consumer behaviour. By focusing on a long-term process of change and improvement, partnerships can play a vital role in developing responsible trade based on sustainable production and sustainable consumption.

Feedback

Comments, questions and responses to David Turner (DT), Graham Young (GY), Craig Sams (CS) and Anne Weir (AW).

- How can DFID meet its targets of benefiting local communities? In Nigeria, the environment is being degraded by multinational companies who say they are helping local people.

For DFID to achieve its international development targets, all countries, businesses, and NGOs will have to work together. The target of halving absolute poverty by 2015 is challenging but achievable. There has been substantial progress already on child health and infant mortality. But one in four people in the world still live on less than \$1 per day, and 70% of these people are women. Multinationals are influenced by the media, the public and their shareholders. These avenues for promoting a more sustainable future need to be pursued. (DT)

- Will DFID meet the UN target of 0.7% of GNP for development assistance, and will it work directly with credible southern NGOs?

Naturally DFID will work with southern NGOs and is doing so already. But it may not be able to meet the 0.7% target in the immediate future. (DT)

- Notwithstanding the obvious benefits of fair trade for producers, couldn't the fair trade approach amount to a price cartel that is not entirely in their interests?

Fair trade criteria, including guaranteed minimum prices, are set internationally by Fair Trade

labelling organisations. This price is set to ensure that trade is not uneconomic or exploitative of producers. If the world market price rises above the fair trade guaranteed minimum price, the fair trade price will not rise above that level. (CS)

- Does environmentally sustainable trade mean that consumer tastes will have to change? Some might see the air freighting of tropical flowers from Kenya and Colombia to Europe as a trivial and extravagant use of resources. (L. Roberts)
- Have consumers been sufficiently well mobilised to spread fair trade into the mainstream? (M. Thompson)

Consumers don't always purchase fairly traded goods even though they say they do in opinion surveys. But the Fairtrade mark raises both consumer and business awareness of the win-win opportunity of ethical trading. Supermarkets are now looking at ways of making the whole of their business more ethical, right down the supply chain. (GY)

- Fair trade standards seem to be too strict for mainstream companies to apply, so fair trade organisations are now promoting less demanding codes of conduct. Are these codes sufficient to continually improve standards?

The aim of the UK's Ethical Trading Initiative (ETI), which includes NGOs, unions, companies and government, is to work for continual improvement in ethical standards. But companies must be judged by what they actually do, not by what they say. (GY)

Future Priorities

7

Chapter 7 Future Priorities



Delegates try out seat-based voting system

6 North-South partnerships need to be attuned to imbalances in economic and political power and sensitive to differences in global perspective ... Environmental responsibility is a shared responsibility; the costs and benefits of imposing environmental standards must also be shared. 9

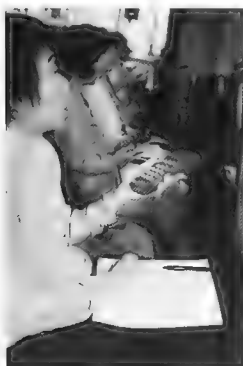
Mubariq Ahmad

6 The key to making progress is good cooperation *within* government brought about by increasing the understanding between departments with different interests. 9

Penny Brooke

6 It's not my job to save the world, it's my job to make sure the products which are on our shelves haven't damaged the world, which is very different. 9

Alan Knight



This final chapter brings together many of the issues raised in preceding discussions. Trust and basic morality are highlighted as the real 'bottom line' of global sustainable development.

Mubariq Ahmad addresses the need to build trust and respect into North-South trade negotiations and business dealings. Rather than working at the institutional level through the WTO, he sees a more productive and cooperative strategy being the creation of working partnerships between trading countries. Instead of being criticised for low production standards or weak control systems, southern countries should be helped to achieve standards that will then be recognised and respected internationally.

To this end he stresses the importance of transparency in North-driven trade initiatives, of fairness in the way benefits are distributed, and of a genuine mutual respect between North-South partners.

Penny Brooke's talk on the bewildering legalistic formulations of international policy is a timely reminder that multilateral negotiations and agreements are always going to be complex and alienating to many. The danger of oversimplifying issues, however, is very real; making the debate more accessible through user-friendly terminology may be one way to overcome the air of exclusivity.

It was therefore somewhat reassuring to hear Alan Knight speak in down-to-earth terms about his work as Environmental Controller with B&Q (Britain's largest DIY and Garden Centre business). In tracing the supply chains of two seemingly ordinary products – brass door handles and shell lampshades – he illustrates that with facts to hand, conditions in the workplace can be changed for the better. Going 'green' is not cheap, but the price is clearly worth paying in today's marketplace.

This approach also highlights the gulf that exists between the world of the business practitioner and the apparently rarefied atmosphere of intergovernmental policy-making.

The final word was left to Nick Robins who wrapped up the conference with a set of positive plans for action. Many of the world's environmental problems can be traced back to high levels of unsustainable production, consumption and trade within the OECD countries. The solutions must start here and be integrated with the initiatives for sustainable development now being generated in developing countries. If the answers lie outside of the trade policy arena, then we must look instead to investment policy and debt relief.

What is more, if we are really to achieve sustainable development, we must begin to draw together the two seemingly separate strands of ethical/fair trade and environmentally sound/green trade, looking on them as a joint area for innovation. Lastly, businesses and indeed other organisations must acknowledge the need for transparency in their environmental practice as a means of identifying the impacts and opportunities of trade.

Mubariq Ahmad is currently Executive Director of the Indonesian Ecolabelling Institute in Jakarta, with responsibilities for preparing a sustainable forest management certification system for Indonesia's natural forests. In his dual role as Resource and Environmental Economist, Mubariq is undertaking an assessment of the damage caused by the 1997 forest fires and developing policies to prevent and deal with fires in future. After graduating from Columbia University, New York, in 1990 with an MA in Economics, Mubariq undertook a number of wide-ranging economics research projects and has consulted for the World Bank. In 1997, he was awarded a PhD in Agricultural Economics from Michigan State University.

Penny Brooke works in the Environmental Protection International Unit for the UK Department of the Environment, Transport and the Regions. She is responsible for international work in trade and environment and for trade and investment. Before joining the Department of the Environment in 1991, Penny worked for the BBC World Service as a China expert.

Alan Knight was appointed as Environmental Controller of B&Q in 1990. Since then he has played a key role in developing and coordinating B&Q's environmental policy. In 1992 and 1993, B&Q won awards for its commitment to the environment, and in 1995 Alan won the Environmental Leader Award from *Tomorrow* magazine. Alan has been a board member of the Forest Stewardship Council, has served on several environmental committees and has spoken around the world on environmental issues affecting business. His contribution was publicly recognised in 1998 when he received an OBE 'for services to environment audit and business'.

Nick Robins joined the International Institute for Environment and Development in 1993 and now coordinates the new Sustainable Consumption and Trade Initiative. Prior to joining IIED, Nick worked in the Economist Intelligence Unit, and in the run-up to the Earth Summit he was special adviser to the International Unit of the EC's Environment Directorate.



Delegates give their verdict on the issues

International legal instruments are always going to be complex. The WTO has 22,000 pages of text encompassing the outcome of the Uruguay Round – how can anyone understand all of that? Officials are looking at legal texts and juggling them on a daily basis. It's a challenge and we've got to do it. ♣

Penny Brooke

Institutions like the WTO simply don't come into the sort of conversations I have. They just don't. ♣ *Alan Knight*

Trade ultimately is a business transaction and corporate responsibility is about making all the links in the supply chain transparent ... Lack of information about corporate practice is one of the critical constraints in establishing how sustainable supply chains actually are. ♣

Nick Robins



Building trust through partnership: a challenge from the South

Mubariq Ahmad, Executive Director, Indonesian Ecolabelling Institute

When we talk about environmental and social standards in trade, we are frequently faced with different and conflicting views from two sides of the globe. The northern perspective of the South is that it is corrupt and that standards are too low; the southern perspective of the North is that its concern for environmentally sustainable trade is often simply protectionism in disguise. Given these conflicting perspectives, how can we build up trust and understanding in environmental and trade issues?

A possible step is to work through WTO. However, given its chequered history and its current shortcomings, this seems an unlikely forum to engender trust at present. A more productive and cooperative way forward is the development of working partnerships between trading countries. Instead of being dictated to by the trading nations of the North on production and processing standards, trading partners can work together in an atmosphere of mutual respect to develop standards acceptable to both parties. If standards are deemed to be too low, then partners in the North should be prepared to help raise them rather than simply to deny their partners access to markets. In short, the challenge from the South is this: 'Don't just criticise and undermine our processing and production standards; come and help us to raise standards that you will then recognise and respect in the international market place.' This approach can be implemented at the business-to-business level as well as between standard-setting organisations.

The Indonesian Ecolabelling Institute (Lembaga Ekolabel Indonesia – LEI) is a standard-setting organisation and developer of environmental certification programmes. We see three elements as being vital to building trust in Indonesia's trading relationships, and those of similar developing countries: technical cooperation, mutual recognition of standards, and the provision of an arbitration mechanism.

Technical cooperation

A good example of this is the cooperation between LEI and the Forest Stewardship Council. Through this initiative we are challenging ourselves and Indonesian timber producers to set and meet internationally approved standards of forest management. LEI and FSC are conducting a series of joint activities to assess how

FSC principles and criteria may be adapted to Indonesian conditions. Through an open exchange of ideas, mutual understanding is acquired and areas for improvement are highlighted on both sides.

Another example is the cooperation of six international donor organisations (including DFID) with private logging companies in Indonesia. Here, technical assistance has resulted in the introduction of good practices which in turn have led to cost savings. Loggers have learnt how to work forests sustainably, how to maximise the amount of usable timber from each tree, and thus how to overcome the effects of reduced logging quotas. One report suggests that the cost savings are as high as 20%; some companies are now hiring their own consultants on a commercial basis to implement these 'good practices' throughout their operations.

Mutual recognition and respect

No country likes to be accredited by external organisations; the certification process can be humiliating to countries working to different value systems and within quite different economic and social frameworks. When environmental or fair trade organisations from the North arrive to assess government projects or commercial enterprises there needs to be some appreciation of local economic conditions and of compliance with existing national regulations. Under the FSC scheme, each country is encouraged to set national standards in accordance with common principles and criteria. This process should ideally involve all stakeholders and so allow an opportunity to set standards that are sensitive to prevailing social and economic conditions. The desired output is a viable 'national' system, supported by stakeholders and recognised by FSC.

Clearly, there is no point in recognising emergent standards in the South unless they are going to be respected by the global trading community. The most significant effect of mutual recognition is to confirm that national standards, wherever they arise, meet international quality requirements, albeit in their own individual ways.

Arbitration mechanisms

When arbitration mechanisms are built into agreements, trust is strengthened. That such mechanisms are needed is not in doubt. Take, for instance, the case of the EU's

eco-labelling programme on pulp and paper products as proposed by Denmark. One of the priorities of environment management in Europe is recycling and, under this programme, certificates are only given to materials manufactured from recycled products. However, Brazil's pulp and paper industry, which depends on access to EU markets, is not based on recycled paper but on timber from plantations. In Brazil, the priority is to plant and manage forests on otherwise wasted land; in the EU the priority is to use recycled paper products. The result is that this black-and-white ruling effectively closes the EU market to Brazilian paper products, despite the fact that Brazil is managing these forests sustainably. Discriminative eco-labelling rules, and the lack of commercial reward for countries like Brazil that are working towards sustainability, can undermine motivation. Brazil's attempts to raise this with the industrial council responsible for the recycling strategy have not succeeded. An arbitration mechanism is needed.

Another situation in which arbitration could help rebuild trust is when irresponsible campaigns disrupt the market. One example is an incident in Germany concerning imported furniture from Indonesia. An NGO began a campaign saying that the wood for this furniture came from a teak plantation in Borneo and that the establishment of this plantation had displaced 5,000 families and destroyed their livelihoods. These statements were simply not true. The plantation was in fact in Java and had been established 150 years ago. The result of these false claims was that a number of small-scale furniture manufacturers lost access to the German market. Further, the timber producers resorted to falsifying certificates of good management, deeming that the costs of independent certification were too high. An arbitration scheme in this case could have helped the losers – the furniture makers – to regain markets that were lost through no fault of their own.

The call for common sense

In summing up, North–South partnerships need to be attuned to imbalances in economic and political power and sensitive to differences in global perspective. The following concluding points can be made:

- Environmental responsibility is a shared responsibility; the costs and benefits of imposing environmental standards must also be shared.
- If trust is to grow, there must be greater transparency in the way that environmental accreditation is carried out and in the way that trade is regulated for environmental reasons. Without this transparency, there will always be the suspicion that pure protectionism lurks beneath the veneer of environmental do-gooding.
- Developing countries respond positively to rewards for good effort. Greater motivation always springs from such encouragement, and developed countries should take every opportunity to reinforce good practices by opening their markets to sustainably produced goods and services.
- Fairness requires that increases in the final price of a product – especially those obtained through improved environmental or social performance – should be passed down the supply chain or at least shared with the ultimate producers.
- Fairness also requires that partnerships between standard-setting organisations should lead to mutual recognition in order to demonstrate respect and acknowledge the efforts which are made.

Some countries are still resisting the call to fall into line with environmental policies. Like it or not, the greening of trade is here to stay; the South must either face this reality and work with it or lose its markets.

International policy reform priorities

Penny Brooke, Environment Protection International, UK Department of the Environment, Transport and the Regions

I should like to return to UK Prime Minister Tony Blair's speech to the WTO in May 1998. He said:

Governments need to consider the environmental impact of everything they do, including in the trade sphere.

His words make perfect sense but how can governments actually assess the environmental impacts of trade? And how can this be done in the early stages of negotiation so that potential impacts can be taken into account?

To try to grasp this nettle, it is helpful to look at the environmental provisions built into the North American Free Trade Agreement. This agreement, signed by the United States, Canada and Mexico in 1994, created the largest market in the world. Furthermore, it was the first trade agreement between three parties to include discussion on its possible environmental impacts. To this end, provisions were built into the agreement to protect the right to regulate and to ban the lowering of environmental standards. The other key element of NAFTA was the environmental 'side agreement' (the first of its kind) that saw the setting up of the North American Commission on Environmental Cooperation (CEC). The aims of the CEC were:

- to ensure economic growth consistent with goals of sustainable development;
- to encourage regional cooperation on environmental issues;
- to provide for collaborative action on environmental problems (including the provision of loans for very specific projects);
- to help improve enforcement of Mexican environmental laws (US and Mexican standards differed markedly); and
- to allow public submissions on the environment to be made directly to the Commission.

Another multilateral agreement with major implications for the environment is the Multilateral Agreement on Investment (MAI).¹ Undertaking an environmental review of the MAI is somewhat daunting – it is quite unlike the more familiar environmental impact assessments of specific projects. The questions raised by the MAI are complex and legalistic – for example, its potential to circumscribe a government's ability to act or to 'chill' a government's will to develop regulatory responses where new environmental problems arise, or to prevent the promulgation of global best practice. Fears have also been raised that the MAI might encourage the creation of 'pollution havens'. In order to grapple with issues of this nature, the MAI negotiators agreed to an environmental review aiming to:

- promote informed policy coordination in capitals prior to MAI signature by parties;

- assure NGOs and concerned citizens that the potential environmental impacts of the MAI are not being ignored during negotiations; and
- ensure that impact analysis is undertaken in time for adjustments to be made to the final text.

To this end, delegations are currently engaged in examining the MAI for its potential impact on their national capacity to make and implement environmental law. In addition, the OECD Secretariat is undertaking a survey of available literature to examine the relationship between foreign direct investment and the environment, and the relationship between the MAI and existing and proposed multilateral agreements on the environment (MEAs).

The negotiations for this agreement have been ongoing in Paris between OECD members and other interested countries since 1995. The original deadline of 1997 has passed, and since there is no signed agreement yet, this remains an unfinished story. However, a number of outcomes and lessons are already apparent:

- Fears of a general 'race to the bottom' (i.e. that some governments might stop regulating or push standards down, so creating 'pollution havens') appear to have been exaggerated. But there is some evidence that any 'race to the top' is slowed when countries do not implement new environmental policies out of a fear that domestic enterprises will lose competitiveness.
- The possibility that the MAI poses an inadvertent risk to domestic environmental law has been confirmed by Finland, France, Korea and the UK in their reports on national reviews. Textual remedies are under consideration.
- There is a need to consult as widely as possible with business and NGOs, to keep parliament informed and to ensure the free flow of information on the process and content of negotiations generally.
- The key to making progress is good cooperation *within* government brought about by increasing the understanding between departments with different interests.

¹ These negotiations have now ceased.

Integrating social and environmental concerns into the core business: lessons, surprises and priorities

Alan Knight OBE, Environmental Policy Controller, B&Q plc

B&Q is a large UK-based supermarket chain specialising in building materials, home products, and gardening equipment. With over three million customers a week, 20,000 staff in 285 stores (including two stores in Taiwan and more planned for China and Europe), and an annual turnover of \$2,000 million, B&Q's ambition to become the largest home improvement retailer in the world appears to be going from strength to strength. Products are imported from over sixty different countries and, at a rough estimate, perhaps as many as one million people are involved in making the products destined for its shelves. On this basis, B&Q's capacity to affect the environment and the lives of millions of people around the world is undeniably enormous.

Big business and environmental responsibility: a personal story

Consumers come to B&Q to buy products to improve their houses and their quality of life. In improving their own quality of life, we have to reduce the risk of our customers harming that of other people around the world. Concern about our real and potential environmental impact came to a head in 1990 (before I joined B&Q) when a journalist from a Sunday newspaper rang to ask how much tropical timber we stocked. After some research, the marketing director had to confess that he didn't know. The journalist's response was that if he didn't know, he didn't care. This led the marketing director to start checking on the provenance of many items held in stock – not only the various timbers but also garden chemicals, bags of peat, household fittings, and so on.

In these early days of our corporate environmental concern, we shone a spotlight mainly on our UK suppliers. We asked each of them to produce an environmental action plan and we sent a team out to vet them, fill in questionnaires and ask lots of questions. But when we began tracing the supply chains of our UK suppliers, we discovered chains that we never knew existed. We realised that there were women in Delhi and Jakarta who were working on products that would one day be on our shelves in B&Q – and we knew nothing about them.

A good example is the B&Q range of brassware. We sell \$5 million worth of brass handles each year and many come from India. Although we were under no pressure from customers or environmental groups to

'green' our brass doorknobs, we went to India to find out how these handles were made. We visited about ten to fifteen cottage units and observed people pouring molten brass out of buckets into moulds with no awareness of health and safety standards whatsoever. We then went into the polishing units (in cellars) where between 20 and 100 people were polishing brass door handles. The air was full of fine brass dust. They had no safety masks; there were no dust extraction facilities at all. All of this made us extremely uncomfortable. This seemed at variance with our corporate mission statement: 'We will be the best at giving people the inspiration, confidence and solutions to create homes to be proud of.' Could anyone really be proud of this? The whole essence of what our business was about suddenly seemed under threat. Staff morale and customer loyalty would both be affected if this situation continued. The easy 'solution' would have been to walk away and go back to buying brassware from suppliers with higher health and safety standards. But the result would have been to limit customer choice to expensive door handles and to take jobs away from Indian workers. Instead, we flew our health and safety consultants out to India, sat down with the manager and tried to find a common sense solution to the situation. The answer? The installation of dust extraction systems and improved work practices. Production continued, we were happy and the suppliers were happy. A win-win situation.

The lesson we learned from this was that true partnerships result in practical solutions and that there is a danger of over-intellectualising this process. You don't need a conference on globalisation to design a dust extractor suitable for brass doorknob polishing equipment; you simply need to decide to do it ... and then do it.

Another example centres on the manufacture of some of our 'capiz shell' lampshades. Again we were under no pressure to sell sustainably produced, ethical lampshades, but the mention of shells rang a few alarm bells. We traced the links in the supply chain and found that the shells came from certain islands in the Philippines. Here the shell collectors dive to depths of 20–30 metres using home-made diving equipment – basically a mask made out of an old car tyre, a sheet of glass, and a tube connected to an air compressor. They stay down at these depths for two or three hours at a time, collecting shells, sea cucumbers, star fish and anything else they can find.

None of the divers had had any training and the accident record is grim – five deaths already that year alone. The divers, however, accept the risks as part of earning their livelihood. The shells are sent to cottage units in Manila – small extensions added to the back of people's houses where families from the countryside come to work for nine or ten months of the year making lampshades for B&Q.

Having established all of this, we turned to the fair trade movement for help. We discovered that the cottage workers were earning barely one-third of the minimum wage set down by the Philippines government and that national health and safety regulations were also being breached. How could we set about ensuring that they received the wages and working conditions to which they were entitled? We could give them more money, or some of our products, but such action was unlikely to be helpful in any sustainable way. We turned again to the experts – local NGOs who managed to define what the problems were and who talked to everybody involved in the supply chain to find out what they wanted. We conveyed the message to these suppliers that what they were doing threatened our business and that if our business was threatened, so was theirs. The only way forward was to work together. We started a program of diver training, but we could not do much about the sustainable management of the natural marine resource – this was just too big a problem for us. Nevertheless, we felt we really could do something useful about the cottage units. We offered \$100 per unit for wiring improvements, concreting the floor and repairs to the roof; but to our surprise the workers refused this handout, preferring to borrow the money instead. For our part, it would have been much easier simply to give them the money, but we set up the grants and they carried out the improvements.

Again we learned a lot from this experience. We discovered that our behaviour as a business can hold back these projects, especially if our ordering cycle is all

wrong. We need to refine our relationship with the exporter who buys from these cottage units so that orders can be placed on a more regular basis. More fundamentally, we have to facilitate discussions and let the people themselves come up with the solutions.

There are many, many more examples of this type of working partnership. Over 3,000 people make coir doormats for B&Q and we have become involved in their working conditions on coconut plantations; in China, we are involved in improving the dormitories in factories with 2,000–3,000 workers, and in providing better casting facilities in the production of cast iron benches. We firmly believe that our model of grass-roots involvement is working.

A big surprise has been the realisation that all of this is really quite easy to achieve. If seemingly intractable problems are broken down into lots of little problems, the whole thing becomes manageable and comprehensible. Another surprise is the realisation that the simple act of taking buyers to various parts of the world and engaging them directly in the production process goes a long way towards solving the problems at source.

Perhaps the biggest surprise has been the fact that a small but significant proportion of B&Q's products come not from large, efficient factories but from small-scale, cottage-industry producers around the world.

Where to now?

B&Q is always looking to share some of this experience with its suppliers and store managers, with people from local authorities, indeed with anyone who will listen. At the end of 1998 B&Q organised a conference for 1,500 people to do just this. One of our overriding principles is ensuring complete *transparency* of supply chains – a seemingly impossible task for many businesses but a necessity for those promoting fair trade in a sustainable society.

- ❊ Why does B&Q bother with the environment? It's like saying, why do we spend so much on health & safety when we have never had an accident. I don't know what I've saved B&Q. If we could have a parallel universe and B&Q was openly buying mahogany toilet seats and saying to the Brazilians 'We don't care', where would we be? I don't know, but what I do know is that people like us. ❊ Alan Knight

Sustainable trade: how do we make it happen?

Nick Robins, Coordinator, Sustainable Consumption and Trade Initiative, International Institute for Environment and Development

Some conclusions from the conference

First, we need to get a sense of perspective about what we have been discussing – environmental responsibility in world trade. We have focused mostly on the North–South dimension. But if we look in terms of priorities for change, the cause of most global environmental problems can be traced back to production, consumption and trade within the OECD countries.

Second, we have also seen that the emerging demand from consumers, corporations and governments in the OECD countries for better, more sustainable goods and services is becoming a powerful driver for change. But there is also a growing number of pioneering enterprises in developing countries, producing sustainable timber and organic food. Often the inspiration to change production systems has come from a desire to regenerate communities and protect the local resource base: what trade does is provide a financial means to sustain these improvements.

Third, questions of trust lie at the heart of the trade and environment debate. It is clear that many actors do not trust each other at the moment and a priority is to put in place measures that enable confidence to be built. But we can't build trust by delivering speeches or by writing papers or by attending conferences. This will only happen when we all go back home and take concrete steps to involve others more closely in the decisions we make on trade and environment.

Fourth, we have been discussing a number of very positive, but relatively fragile initiatives. The current global economic crisis could mean that these could shrivel up under a renewed pressure to 'export or die'. There is also a risk that the financial crisis could lead to a resurgence of protectionism, and protectionism cannot support sustainable trade. An open and transparent trading system is critical for a balanced recovery of the global economy. The temptation to restrict imports or cut costs by reducing environmental or social performance is not the way forward.

Ways forward

So how do we achieve sustainable trade? I have five main suggestions:

1. Sustainable trade has to be a joint venture rather than a unilateral imposition. International action to promote sustainable trade must win local support to be viable and must reinforce national standards, national regulations and national mechanisms for governments. It is futile to try and impose standards developed elsewhere. The challenge, then, is to give added incentive for compliance with rules already in place and to translate the global principles into strategies that are relevant and useful to particular communities. So questions of mutual recognition must never be overlooked, but before mutual recognition comes mutual respect.
2. Ways must be found to drive the separate strands of ethical trade and environmental trade closer together. We hear a lot about fair trade/ethical trade; at the same time there is much work on the environment which is not always convergent. Craig Sams's Maya Gold chocolate is an exception in that it holds both organic and fair trade certification. If we are to hold true to what sustainable development means, we cannot continue putting fair trade, ethical trade, and green trade into separate boxes.
3. Measures for institutional reform should be explored. Much of our discussion has focused on criticism of institutional frameworks – with perhaps the pointing of a few too many fingers at Geneva – when in fact the problem may be that the international framework for ensuring that we have balanced and sustainable trade simply does not exist. Instead of tinkering with existing institutions, perhaps we should turn to thinking about reform measures. An obvious start would be to make the World Trade Organisation more open and responsive and less of a barrier to positive action. But, as Charlie Arden-Clarke mentioned, many of the keys to sustainable trade lie outside the trade arena, outside the policy arena. It has been estimated that perhaps only 1% of traded goods can be categorised as sustainable, so how do we go about drawing in the remaining 99%? The answer clearly lies with investment: public sector investments, the role of financial assistance and capacity building (particularly for small producers), private investments, and debt relief.

4. Corporate supply chains must be transparent. Trade ultimately is a business transaction and corporate responsibility is about making all the links in the supply chain transparent. This is clearly not happening at the moment. Lack of information about corporate practice is one of the critical constraints in establishing how sustainable supply chains actually are. Some form of common reporting standard is

required so that we can compare and contrast the progress of different companies.

5. Finally, we must guard against becoming content with current ideas and practices. We need to maintain the momentum that has got us this far and aim further and higher to achieve the goal of sustainable trade.

Feedback

Comments, questions and responses to Mubariq Ahmad (MA), Penny Brooke (PB), Alan Knight (AK) and Nick Robins (NR).

- A question remains over how we should balance regulation with voluntary measures. (A. Efthymou)

Regulation is vital to promote adherence to existing local standards. Voluntary measures are a start but we need to prepare for the time when producers reach the limit of their interest. A regulatory framework is then needed to eliminate opportunities for free-riders. (NR)

A combination of the two must be best. Voluntary measures are often more innovative, responsive and effective, and can lead the way. (C. Arden-Clarke)

- For producers to act responsibly there need to be incentives. Has B&Q achieved a competitive advantage through its work on sustainable and ethical sourcing? Otherwise, does it require individuals like Alan Knight to drive forward responsible policies? (R. Lake)

We rely on all employees, not just one. Ethical sourcing can help with PR and does provide some commercial advantage, but it is not profitable. B&Q is a large company with the resources to implement responsible policies and wants to limit any damage to the environment that it causes. (AK)

- Sustainable trade partnerships require long-term commitments on all sides. Suppliers will only risk changing their manufacturing methods if they are assured of support from their buyers. (E. Millard)

Companies such as B&Q cannot give a commitment to continue purchasing from particular suppliers, as this could compromise the profitability of our company. The important thing to assess is whether B&Q is enabling the supplier to operate better in the long-term, not whether it remains one of our suppliers. I look at the success of our projects by asking: will the improvements

we have encouraged continue if B&Q steps out of the picture? When we've got it right our suppliers will say 'Yes, we prefer working in cleaner cottage units', or 'We prefer having better health & safety in our factory.' So if we walked away they would carry on anyway because they're actually running a better business. (AK)

- Partnerships for sustainable trade are hard to establish because of the complex inter-relationships between nations and within regions. There is an opportunity for much more South-South partnership in this area. (J. Leal)

Agreed, but we still need to maintain our links with northern markets. Processes like certification and assessment may be complicated and protracted, but they are necessary to access global markets. Partnerships of all kinds can simplify this. (MA)

- Better communication is required between North and South. This is not encouraged by complicated reports which alienate people. (J. Pollock)

Some long texts and legalistic wording are inevitable. Officials need to be aware of the effect this has on individuals but avoid the danger of oversimplifying the issues. (PB)

- We need considerably more convergence on a number of fronts, not just between environmental and social initiatives. There are already different sectoral initiatives in forestry, agriculture and textiles, plus a huge proliferation of initiatives at the national level. This creates difficulties for producers in deciding which way to go and for consumers who become confused about different competing claims. Is the situation becoming any clearer? (R. Dewdney)

The market should provide some clarification – a sort of survival of the fittest. B&Q gets involved with whatever initiatives it finds most useful. What we are learning is that while these conferences and debates are happening, we're just quietly getting on with the job. (AK)

Acronyms

CTE	Committee on Trade and Environment
DETR	Department of the Environment, Transport and the Regions (UK)
DFID	Department for International Development (UK)
DTI	Department of Trade and Industry (UK)
EC	European Community/European Commission
EMAS	Eco-Management and Audit Scheme (EU)
EMS	Environmental Management System
ETI	Ethical Trading Initiative (UK)
EU	European Union
FSC	Forest Stewardship Council
GATT	General Agreement on Tariffs and Trade
GMO	Genitically Modified Organism
GSP	Generalised System of Preferences
ICM	Integrated Crop Management
IIED	International Institute for Environment and Development
IUCN	World Conservation Union
MFN	Most Favoured Nation status
MSC	Marine Stewardship Council
NAFTA	North American Free Trade Association
OECD	Organisation for Economic Cooperation and Development
PPMs	Processing and Production Methods
RSPB	Royal Society for the Protection of Birds
RSPCA	Royal Society for the Prevention of Cruelty to Animals
SCP	Sustainable Consumption and Production
SWIFT	Solomon Western Islands Fair Trade
TCGA	Toledo Cacao Growers Association
UNEP	United Nations Environment Program
USAID	United States Agency for International Development
WCMC	World Conservation Monitoring Centre
WTO	World Trade Organisation
WWF	World Wide Fund for Nature

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The British Council

The purpose of the British Council is to promote a wider knowledge of the United Kingdom as a forward-looking and dynamic democracy and to enhance its reputation in the world as a valued partner. We reinforce the UK's positive role in the international community through cultural, scientific, technological and educational cooperation, and work with partners in the UK and overseas to build long-term relations with people and institutions in other countries for mutual benefit.

In science, engineering and the environment our aim is to enhance the UK's global reputation as a dynamic, creative force and valuable partner. We do this by:

- developing showcasing events on topical themes with UK stakeholders;
- supporting bilateral links and exchanges of the young successor generation of scientists;
- organising seminar series, meetings and workshops; and
- providing information in the form of publications, web pages, exhibition materials, posters and newsletters.

World Conservation Monitoring Centre

WCMC is an independent not-for-profit organisation that strives to be the most compelling source of policy-relevant information on the natural environment worldwide. The Centre delivers a very wide range of information products and services. Our independent, objective reports and science-based services are made possible through partnerships and networks globally.

The Centre's users include governments, environmental organisations, the secretariats of international treaties and intergovernmental initiatives, United Nations agencies and the private sector. Extensive and freely available information services are also provided on the Internet and through publications.

As understanding of the importance of biodiversity to sustainable development spreads, WCMC works with institutions in the developing world to build capacity to deliver information services to policy-makers. Training programmes are available to all countries, and WCMC encourages other institutions to adopt and extend its training materials.

International Institute for Environment and Development

IIED is an independent not-for-profit organisation which exists to promote sustainable development. We are one of the largest independent groups engaged in research and policy analysis on environment and development issues. IIED seeks to promote patterns of sustainable development through:

- strengthening the capacity of stakeholders to identify, articulate and solve problems around sustainable development;
- conducting research on policy and policy-related issues, with specialists and institutions working for sustainable development throughout the world;
- providing advice to those who influence or make policy; and
- encouraging debate, through dissemination of environmental and development information/ education materials in printed publications and other media, in talks and presentations, and through networking.

We work with governments and international agencies, the academic community, foundations and non-governmental organisations, community groups and the people they represent. IIED focuses on countries of the South, but works increasingly on northern issues where they relate to the global agenda.

**It is our Responsibility
It could be our Liability
It should be our Opportunity**



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