

Unlocking Trade Opportunities

Case Studies of Export Success from Developing Countries

Report:

- A copy of this report can be requested free of charge from the Division for Sustainable Development.

EXECUTIVE SUMMARY

Unlocking Trade Opportunities shows how developing country producers can benefit from rising environmental expectations in their export markets, particularly in the industrialised world. The report was commissioned by the United Nations Department for Policy Coordination and Sustainable Development as part of its implementation of the Agenda 21 action plan agreed at the 1992 Earth Summit. In Agenda 21, the governments of the world agreed that action had to be taken both to promote more sustainable patterns of consumption and production, and to make global goals for the environment, development and trade mutually reinforcing.

The Challenge

Much has happened since 1992 to take forward the goal of sustainable consumption and production (Part 1 - Introduction). Governments in the industrialised world have tightened product regulations and introduced new producer responsibilities for waste. Economic instruments are being used more, along with product information (such as eco-labelling). Public procurement policies are starting to incorporate environmental criteria and trade policies are being adjusted to support exports of sustainably produced goods from developing countries. In the business world, a small number of committed corporations are developing more eco-efficient production methods, and new ways of meeting customer requirements. Among consumers in industrialised countries, there is continued unease about the environmental impacts of their lifestyles, and a sense of frustration with the limited possibilities for change. Although the long-term implications of this is uncertain, for developing country producers that can adapt to these requirements and start moving to anticipate trends, new trade opportunities are now emerging.

The Response

The report presents 10 case studies where developing country enterprises and economies across the manufacturing, tourism, forest and agricultural sectors have turned tightening environmental regulations, new corporate practices and changes in consumer values to their advantage (Part 2 - The Case Studies).

The Case Studies

- Century Textiles, which runs India's largest textile mill, has switched to environmentally-preferable dyes and earned a premium price and sales growth.
- Fridge Master in Swaziland became Africa's first fridge maker to phase-out ozone depleting CFCs, boosting sales in South Africa.
- Electrostar in Egypt is aiming to use its CFC phase-out programme to open up new export markets.
- Jamaica has pioneered a new approach from government, business and local communities to 'green' the mass tourism sector and promote alternative tourism.
- Campements Villageois in Senegal has enabled rural communities to gain from international tourism.
- Coocafe, a consortium of coffee cooperatives in Costa Rica, benefited from fair trade arrangements, which provide a foundation for organic production.
- Chile has expanded its production of organic fruit, driven by environmentally-conscious farmers and the prospects of export markets.
- The Lango Co-operatives Union in Uganda has worked with the Swedish International Development Agency to make the transition to organic cotton.
- SWIFT and ETT Enterprises in the Solomon Islands have encouraged local communities to adopt sustainable forest management and win new export markets.
- The Tagua Initiative in Ecuador has generated both jobs and new incentives for conserving the rainforest by opening up a trade in tagua buttons.

The Lessons

Unlocking Trade Opportunities demonstrates what can be done in spite of often unfavourable conditions (Part 3 - Lessons and Ways Forward). None of the case studies are perfect, or represent a finished end-state which is wholly sustainable. But they do present initiatives where real improvements have been gained and where efforts are being made to continuously improve performance.

The case studies show that the trade opportunity is now a reality in key sectors. Exports that serve sustainable consumption and production are moving out of small, niche markets into the mainstream in terms of volumes and consumer acceptance. The size of this emerging market is still uncertain, but could be substantial. Already developing countries earn an estimated US\$500 million premium from organic exports.

The case studies also show that the benefits of higher social and environmental performance of exports are many and diverse, including economic gains (such as premium prices and increased sales), social benefits (such as job creation) and environmental improvements, as well as enhanced security through longer-term trading relations.

The case studies also demonstrated that pioneering companies, non-governmental organisations, communities and co-operatives can make a difference, often ahead of regulation or customer demand. But they also showed that partnership along the product chain is central to success for all producers, whether big and small, and that new commercial relationships are emerging as a result. Importantly, the case studies highlight that basic product quality and environmental sustainability can be combined, and also that sustainable products need not be more expensive than conventional brands. Nevertheless, in the initial stages, insufficient supply can lead to higher prices.

The issue of capacity was central to the case studies. Smaller enterprises need support to make the transition to better performance. This can come in the form of financial assistance and technical support along the product chain (e.g. through environment and development organisations), as well as from government agencies. The case studies underline the importance of independent certification of environmental performance for winning consumer confidence, whether for organic cotton, CFC-free fridges or sustainably sourced timber. Reducing the costs of certification for smaller producers can be achieved through group certification schemes and training local inspectors.

Lasting environmental improvements have to be rooted in solid social development, such as enhancing the skills base and job creation. In addition, local involvement is a prerequisite for success, and the case studies are testimony to the initiative of developing country producers.

The policy framework is also a critical determinant of success, both positively and negatively. The case studies highlight where trade barriers in the industrialised world constrains environmental improvement, and where perverse regulations and subsidies provide unfair advantages to polluting and resource intensive production and consumption. By contrast, a supportive policy framework in North and South can help to bring partners together and ease the transition process.

Ways Forward

Unlocking Trade Opportunities shows that the door is now opening for developing country producers to benefit from changing consumption and production patterns. The challenge is now to broaden the number of developing country enterprises and economies that can turn this raw potential into practical financial, social and environmental gains. Key action points include:

- Collecting information and developing statistics to understand market trends in key sectors and services affected by sustainable consumption and production.
- Improving understanding of the crucial ingredients for successful partnerships between business, environment and development organisations and government agencies by drawing up good practice checklists.
- Targeting development assistance at developing country exporters who are trying to improve their performance, especially small and medium sized enterprises.

- Promoting independent verification of standards and codes of conduct. Retailers in industrialised countries have an important responsibility for providing accurate information to the final consumer.
- Stimulating greater convergence between the social and environmental dimensions of trade by sharing experience among leading businesses, environment, development and consumer organisations.
- Improving market access for developing country exports in industrialised country markets, particularly in the agricultural and textile sectors.
- Reviewing and removing regulations in industrialised countries that hinder access of sustainably produced exports from developing countries.
- Reforming subsidies in both developed and developing countries to create a level playing field for sustainable consumption and production.
- Developing guidelines in industrialised countries for transparency, consultation and the phasing in of proposed environmental regulations.

**Presentation by Erik H. Brandsma at the Brazil -
Norway Workshop
Sustainable Production and Consumption - Patterns
and Policies
Brasilia, Brazil 25 - 28 November 1996**

- More or Less Sustainable ? -

**Presentation by
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Your Excellencies, Mr. Chairman (Madam Chair), ladies and gentlemen,

Let me start by saying how pleased I am to be here, and to thank the Governments of Brazil and Norway for organizing and hosting this timely workshop. I am in particular pleased because it was here in Brazil where almost five years ago the issue of "Changing Consumption and Production Patterns" was born. Since then Chapter 4 of Agenda 21 has received increasing attention in the international policy making arena.

In this address I will give an overview of the events and activities that took place over the past four/five years, I will try to highlight some of the policy implications of current patterns in consumption and production, and I will identify some of the key elements that underlay the discussion of the issue.

During UNCED in 1992 the issue of changing consumption patterns was born out of the recognition that reducing the environmental impacts of consumption and production and reducing population growth were both necessary if sustainable development is to be achieved (Rio Principle 8).

A key element in this discussion is the acknowledgement that unsustainable consumption and production patterns, particularly in industrialized countries are the major cause of the deteriorating global environment. This element is clearly recognized in Chapter 4 of Agenda 21 and re-affirmed at all sessions of the Commission on Sustainable Development (CSD). Furthermore, it was emphasized at UNCED that all countries should strive to promote sustainable consumption patterns and that developed countries should take the lead in achieving sustainable consumption patterns.

A closer look at current patterns in consumption illustrates that the issue still, or maybe increasingly, deserves greater attention in sustainable development policy making.

For example:

- over the last 45 years the global economy has nearly quintupled. Consumption of grain, beef and water has tripled, while paper use has risen 6 times. The use of fossil fuels has grown fourfold, and CO₂ emissions likewise (Brown et al., 1996).
- the poorest one fifth of humankind have a cash income of less than 1 \$US per day, and the next fifth averages around 3\$ per day. This means that 40 % of the world population account for 6.5 % of the world's income. This gap between rich and poor is growing and has doubled over the last thirty years (Worldbank, 1996).
- also since 1950, and reflecting differences in per capita incomes, the richest fifth has doubled its per capita consumption of energy, meat, timber, steel and copper, and quadrupled its car ownership. The per capita consumption of the poorest fifth has hardly increased (Durning, 1996).
- the USA is the greatest source for carbon emissions, accounting for around 22 % of the global emissions. The carbon emissions of the industrialized countries, - the OECD - account for 44.7 % of global total emissions (WRI, 96-97). The emissions continue to increase and reflect the growth in industrialized societies. Increasing numbers of people in developing countries, in particular in several major developing economies, are beginning to approximate consumption patterns similar to the middle income classes in developed countries. These consumers in for example China, India, Venezuela, Brazil, Argentina, South Korea, Taiwan, Indonesia, Malaysia and Thailand roughly total 750 million (Myers, 1996), almost as many as the 880 million consumers in the industrialized countries.
- the global economy is expected to grow at an average rate of 3-4 % per year, and global GDP will grow from 20 to 200 trillion dollars by the middle of the next century (Worldbank, 1996). If we assume that the current global economy is nearing the world's environmental carrying capacity, at least for its capacity to absorb CO₂ emissions, a ten fold increase will seriously challenge human

creativity in designing an economy that will provide global prosperity and can be environmentally sustainable.

An important first step in re-evaluating existing development and economic growth was made at Rio, 5 years ago, by firmly establishing the issue of sustainable consumption and production on the international policy making agenda. It was, and to a certain extent is, a very new issue in policy making world. In fact, we know a lot more about how we can influence fertility and mortality, than about how we can effectively influence human consumption behavior.

The first Oslo Round table defined sustainable consumption as " the use of services and related products which respond to basic needs and bring a better quality of life while minimizing the use of natural resources and toxic materials as well as the emissions of waste and pollutants over the life-cycle of the service or product so as not to jeopardize the needs of future generations".

The UN Commission on Sustainable Development recognized in the early stages of the discussion on Chapter 4 that policy measures which are directed at changing consumption and production patterns can have major impacts on many of the economic, social and environmental objectives of sustainable development. The issue is increasingly seen as an integrating principle. A focus on changing consumption and production pattern is especially useful for integrating environmental and economic factors, for focusing on the demand side as well as the supply side of the economy, and for highlighting the need for policy measures which affect the behavior of a large number of economic agents.

Many, if not most, of the problems arising from unsustainable consumption and production patterns are due to the fact that environmental services are undervalued and, thus, tend to be used wastefully, whether as inputs into the production process or at the end-use stage in households or by public institutions. Most environmental services are undervalued due to several types of institutional failures. Market failure is widespread because too many environmental costs are externalized; pollution in all its forms is the best example; and here government intervention in markets is in order and is of critical importance to internalize such costs. Take for example gasoline, in the USA the price of gasoline is even below the price of bottled water. If all externalities, such as air pollution, and some non-fuel externalities, e.g. noise pollution, were to be included in the price, Americans could be paying at least 6 times more, and Europeans 2 times more per gallon of gasoline than at present.

Policy failure is also widespread, for example when governments intervene in markets in ways which actually encourage unsustainable practices, such as many subsidies in agriculture. These can be addressed by policies which internalize external environmental costs to the economic agents responsible, by removing subsidies which encourage unsustainable consumption and production practices, by creating institutional mechanisms to manage global commons, by helping the poor secure sustainable livelihoods and, generally, by raising environmental consciousness. -Altogether these 'perverse' subsidies for non-sustainable development total some \$600 billion per year, an

amount equal to the budget allocated for the implementation of Agenda 21 at UNCED 1992 (Myers, 1996).

In the Commission on Sustainable Development, changing consumption and production patterns is also one of several highly interlinked subjects including, as well, innovative financial mechanisms, the use of economic instruments, and trade and sustainable development; in the end the discussion in all four areas points to the need for an internationally harmonized approach towards the internalization of environmental externalities.

In the CSD, this reflects its commitment to the principle of common but differentiated responsibility which recognizes, on the one hand, the need for developed countries to lead by taking effective measures for change in their own countries and, on the other hand, the benefits that accrue to all countries from establishing and monitoring more sustainable consumption and production patterns. This principle is especially important when distinguishing between policy approaches appropriate for global commons issues and those appropriate for national or local environmental issues.

Measures which internalize environmental costs to the economic agents responsible for these costs, are necessary but not sufficient for changing behavior on a large scale. These need to be accompanied by measures which facilitate or magnify the responses of economic agents. Thus, a list of policy options might include: regulatory instruments, economic incentives and disincentives, social incentives and disincentives, facilities and infrastructure, information and education, and technology development and diffusion.

Another important strategy for policy making is eco-efficiency. Increased efficiency, can have significant economic and environmental benefits. The efficiency in resource use can be increased through fewer material inputs, longer product life-times, and less pollution. This can already be realized, in a large extent, through waste prevention, recycling and by using available technologies. There are many examples of experiences, e.g. in Sweden and Japan, that show that important savings can be generated while making industries more productive and competitive.

DOW Chemicals in Louisiana, USA, implemented energy saving and waste reduction measures that yielded a rate of return, on the relatively small investment made, averaging over 200 % per year (Lovins, 1996). These first measures may well be the low hanging fruits, but they can nevertheless amount to significant environmental and economic benefits. Another recent study shows that energy efficiency efforts in industrialized countries as a whole could reduce investments needed to increase energy supply capacity by 50 % over the next 30 years, an amount of around \$700 billion. Similar initiatives in developing countries could mean savings of 40 %, totaling some 1.5 trillion dollars (Roodman, 1996).

Governments need to stimulate these developments and innovations through careful policy making, e.g. with economic incentives and disincentives, collection and

dispersement of best practice, transfer of information and technology, and capacity development.

In addition Governments have a role to play in setting standards, showing leadership, and stimulating niche markets through procurement policies and improving their environmental performance. But this issue will be further explored by Jeremy Eppel of the OECD later during this workshop.

Important steps have been taken to implement policy approaches to changing consumption and production patterns, by a handful of national Governments, with Norway as a "lead country", the OECD Environment Directorate, and some members of the NGO and Business communities.

The government of Norway organized two Ministerial round tables, in 1994 and 1995, which were instrumental in stimulating and scoping the debate. The action programme as defined at the second round table in Oslo in 1995 still stands as the major overview of actions and initiatives to be taken to make consumption and production patterns more sustainable.

I would like to highlight a few of the key outcomes of the 1995 Oslo Round Table conference. The report of the Conference, entitled "Elements for an international work programme on sustainable production and consumption," proposed a range of specific actions to encourage greater efficiency and equity in the use of energy, land, water, and other resources, and to minimize and avoid pollution and waste. Many of these issues are also on the agenda of this workshop.

Particular emphasis was placed on:

1. Building partnerships for sustainable consumption between different sectors of society, and reinforcing the values that support sustainable consumption;
2. Establishing a suitable policy framework for sustainable consumption by moving towards environmentally sound pricing;
3. Extending producer responsibility for the environmental impacts of goods and services;
4. Setting a government example in sustainable consumption through environmentally sound public procurement and administration;
5. Empowering individuals and households to adopt more sustainable consumption patterns.

In this menu of recommendations, Governments have the responsibility to provide the framework of incentives, infrastructure, regulation and leadership that will enable other actors to take up their responsibilities for their part of the chain from production to consumption and final disposal.

Several other countries such as the Netherlands, Republic of Korea, Australia, Sweden and now also Brazil have contributed, and continue to contribute, to the debate through

organizing workshops, initiating studies, and through developing and implementing policy intended to make current patterns of consumption and production more sustainable.

The OECD Environment Directorate has set up an OECD wide Work Programme on Sustainable Consumption and Production Patterns, and will soon report its findings, after two years of implementation, to the OECD Ministerial. The Work Programme has been both a guidance for, and a facilitator of, initiatives undertaken by the OECD member countries. The OECD/Norway workshop held in Rosendal in 1995 examined the conceptual framework of the issue and concluded among other things that eco-efficiency is one of the most promising policy strategies in tackling the above outlined challenge, in particular in combination with time bound targets for performance. Other projects are on the way in the areas of transport, and the consumption of water and paper. OECD emphasizes the value-added that can be obtained from a new focus on the management of consumption - demand - as a complement to existing work on production - the supply side.

Many Non-Governmental Organizations and the Academic Community have combined efforts and have initiated regional and global networks, specifically with a focus on consumption and production patterns, and have developed concepts such as eco-space and ecological footprints.

The Business and Industry community have actively participated in the debate by operationalising the concept of cleaner production and eco-efficiency. The World Business Council for Sustainable Development has initiated a working group on sustainable consumption and production, where currently for example discussions are focussed on "consumer needs in relation to sustainable development" and "the role of the retail sector in influencing consumer choice".

At the third session (11-18 April 1995) of the Commission, a major work programme on changing production and consumption patterns was adopted. The work programme has five main elements:

1. identifying the policy implications of projected trends in consumption and production patterns;
2. assessing the impact on developing countries of changes in consumption and production in developed countries;
3. evaluating the effectiveness of policy measures intended to change consumption and production patterns, such as command-and-control, economic and social instruments, government procurement policies and guidelines;
4. eliciting time bound voluntary commitments from countries to make measurable progress on those sustainable development goals that have an especially high priority at the national level, and
5. revision of the U.N. guidelines for consumer protection to include guidelines for sustainable consumption patterns.

The CSD International Work Programme is in its first year of implementation, and activities and projects have been initiated under all elements of the work programme by national governments, UN agencies and other International Organizations, and several Major Groups as defined in Agenda 21.

Among the activities initiated by the CSD Secretariat, the UN Division for Sustainable Development, are projects on:

- the identification of a preliminary core set of indicators to measure changes in consumption and production patterns.
- the analysis of trade opportunities for developing countries due to changes in consumption and production patterns in developed countries
- the development of a database on new and innovative policy measures and instruments that are intended to make consumption and production more sustainable, and
- the facilitation of the process for the revision of the UN Consumer Protection Guidelines to include principles of sustainable consumption.

The interest and attention given to this issue is increasing, in particular in the context of the up-coming UN General Assembly Special Session and its preparatory process - CSD-5 and the meeting of the Inter Sessional Working Group. In addition to the high profile the issue is getting through Environmental NGO's and the Business community, organizations such as Consumers International, the Inter-Parliamentary Union, the International Confederation of Free Trade Unions, and the International Council on Local Environmental Initiatives have all expressed a special interest in the CSD discussions on this topic, and have often announced to make an own contribution to the debate.

There is also increasing interest and support for the debate on this issue from developing countries. In the first place, it is well recognized that policies developed and implemented in industrialized countries intended to make consumption and production more sustainable may have negative impacts on the trade opportunities for developing countries.

For example: the German Government introduced in 1989 a ban on PCP (Pentachlorophenol), a substance used extensively at that time in the leather industry in India. This industry came under ever mounting pressure after other countries e.g. the USA and in Scandinavia, adopted a similar ban. At that time India urgently needed information, testing facilities and alternatives for PCP.

Ecolabelling schemes and the implementation of ISO 14000 environmental management standards can also have similar adverse effects on the exports of developing countries, especially by small and medium enterprises.

It is clear that policies developed and implemented by industrialized countries need to be evaluated for their impacts on the developing countries. Pro's and con's need to be evaluated and losses minimized. It should never be the case that policies designed to

correct unsustainable consumption and production patterns in industrialized countries, are implemented at the cost of the development opportunities in developing countries.

Secondly, interest in developing countries is increasing because of the realization that economic development may entail negative environmental impacts at the local level, that can be addressed more cost-effectively by taking action sooner rather than later. Developments in some of the dynamic Asian developing countries are illustrative in this regard. There is much demand for the exchange of information on best practice policies. Increasingly developing countries need support to set up an adequate infrastructure to address the negative environmental effects of rapid changes in consumption and production patterns.

Another essential aspect in this debate is the growing consensus that eco-efficiency is a promising policy strategy. The last session of the CSD identified eco-efficiency as a guiding principle for policy making. This in itself is not surprising. In simple terms eco-efficiency means: producing with less energy and raw materials, and with less environmental impacts, thereby saving dollars and the environment. The strategy is based on a win-win situation, is currently largely targeted at the production side, and has an important technological component. We could say a typical no-regret strategy.

Much can be gained through the implementation of eco-efficiency practices. Respected academics have concluded that a factor four improvement in efficiency in material and energy intensity can be achieved with existing technologies. The drive for increased eco-efficiency will also stimulate and direct, much needed, technological development.

An important question in this is however, whether developing countries will be able to keep up with the developments in technological innovations which may be undertaken to increase efficiency in production and consumption in industrialized countries. This issue will also need additional attention in the CSD discussions on technology transfer and financing for sustainable development.

Mr. Chairman / Madam Chair,

I would like to conclude with a few remarks highlighting some key elements for policy discussions, in particular in the context of the preparations for the UN General Assembly Special Session and the session of CSD-5 - this being a prep-com for the Special Session.

An essential element in making further progress on this issue will be enhanced national and international cooperation. Not only among Governments at different levels, but also with and among Major Groups. The past five years have witnessed increasing attention to the issue of changing consumption and production patterns on the part of most stakeholders in society: business, labor, the academic community, environmental NGO's, churches, consumer groups, local authorities and many more.

An even more increasing role for Major Groups is apparent because after five years of discussions on the more conceptual dimensions of the issue, a more action oriented approach is currently being advocated. We are moving more towards implementation. This development plus a somewhat re-oriented view on the role of government in policy making, in particular in some developed countries, are resulting in more responsibilities and privileges, more empowerment, or more self-regulation for Major Groups in tackling issues of efficiency improvements and cleaner production.

My hope is that this workshop will provide the CSD with some useful inputs for the discussion on this issue at the UN GA Special Session, and beyond. The workshop is timely, and its format and framework promising for fruitful discussions. The chosen format to explore "sustainable consumption and production" within the sectors of Energy, Forests, Land and Water will provide some valuable experience on how conceptual analysis can be operationalised and implemented in practice at the sector level. This may well be one of the options for the CSD discussions beyond 1997.

Mr. Chairman, Ladies and Gentlemen, fellow participants, let me thank again the Governments of Brazil and Norway for hosting and organizing this event, and I look forward to our discussions and this type of continuing international co-operation in the pursuit of more sustainable consumption and production patterns.

Thank You.