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Trade Policy Implications of Carbon Labels on Food

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May 28, 2011

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Introduction

- Consumable goods and services (primarily food and drink) account for an average 20% of an individual's total carbon emissions
- Carbon labels provide end-users with information regarding a product's emissions throughout its entire lifecycle
 - Includes everything from production through distribution to waste disposal

- Carbon labels are designed to influence consumption towards food products with lower associated emissions

Low-carbon seal



Carbon score



Carbon rating



Two critical questions about carbon labels

- 1) *Will there be significant reductions in carbon emissions by consumers changing their behaviour?*
- 1) *Based on past experience, what sort of problems can we foresee occurring in the trading system?*

When are labels desirable?

Information as a policy tool:

- When information asymmetries exist
- When the desired policy goal is broad
- When interests of target citizens and information suppliers align
- When there is agreement on the desired outcomes
- When alternative policy tools are too difficult to implement

Carbon labels and CSR

- Corporate Social Responsibility (CSR) is quickly becoming a *de facto* trend as companies compete on the global market

- When businesses adopt the use of labelling:
 - 1) It is seen as socially responsible to investors, consumers and communities – translating into increased market share
 - 2) Results in good business practice in the future (e.g greater efficiency, increased productivity)

Consumer perception of labels

- The ability for a label to influence behaviour hinges on the assumption consumers care about the information a label is conveying - this can vary

| Demographic | Traits/Factors |
|--|---|
| <ul style="list-style-type: none">- Men/Women- Young/Old- Education level- Income level | <ul style="list-style-type: none">- Buying habits- Prior knowledge of the issue/label- Trust of the labels credibility- Time pressure/distraction- Perceived consumer effectiveness |

What we know about public opinion

Do people care about climate change?

- Approximately 58% of Americans and 80% of Canadians believe climate change is a serious problem

Do people think carbon labelling is a good idea?

- A consumer survey indicated 56.3% of US and 64.4% of UK respondents want info on their climate impact

What factors are most important in purchasing decisions?

- Environmental factors rank third among attributes that influence decisions behind quality and price, but before brand name

Who does the majority of household shopping?

- Almost 75% of American households identify a female member as the primary shopper


Carbon labelling schemes

| Component | Examples |
|---------------------------|---|
| Compliance | Mandatory or Voluntary |
| Operator/certifier | Government, Public organization, Private consultant, Manufacturer, Retailer, Private not-for-profit |
| Product types certified | From single products to all goods and services |
| Product Implementation | Product retailer, Product manufacturer |
| Methodological basis | PAS 2050, ISO 14067 |
| Partners/external funding | Government, environmental NGO's |

- As of 2009, 34 carbon footprinting schemes are in existence worldwide – including US(4), UK(2), France(2), Canada(2), Switzerland(1), Germany(1), Sweden(1) and New Zealand (1)
- Majority is from private companies and retailers

Carbon Reduction Label

- Operated by publically-funded company: Carbon Trust
- Is implemented by the product company (e.g. Tesco)
- Uses PAS 2050 methodology

| | |
|--|--|
| <p>working with the Carbon Trust</p>  <p>100g CO2 per xxxx</p> | <p>The carbon footprint of this product is xxxx per (functional unit). This is the total carbon dioxide (CO2) and other greenhouse gases emitted during its life, including production, use and disposal</p> |
| <p>We have committed to reduce this carbon footprint</p> | <p>This compares to the carbon footprint of xxxx which is xxxx per (functional unit)</p> <p>You can reduce this carbon footprint by xxxx</p> |

Stakeholder perspectives

| Stakeholder | Perspective |
|-------------|---|
| Producers | <ul style="list-style-type: none">• May increase profitability and identify production inefficiencies – can be provided on a competitive or collaborative level |
| Consumers | <ul style="list-style-type: none">• Want more information about the carbon content of products so they make more sustainable choices |
| Government | <ul style="list-style-type: none">• Attractive short-term solution for mitigation in difficult regulatory environment |
| Campaigners | <ul style="list-style-type: none">• One form of advancing society's environmental agenda and pressuring producers into sustainable practices |

Jurisdiction in the WTO

- Committee on Trade and the Environment (CTE)
 - In 2001 Doha declaration, formal mandate to address “labelling for environmental purposes”, but negotiations made no progress
 - In 2009-2010 the CTE held a series of meetings regarding carbon footprinting
- Technical Barriers to Trade Committee (TBT)
 - Labels can be a technical regulation or a standard
 - Does not cover private standards
- Sanitary and Phyto-sanitary Measures Committee (SPS)
 - Labels covered if related to food safety
 - Very concerned about voluntary standards

Private Standards

- No rules to ensure equality and transparency
- Consumers are confused about the credibility of these labels
- SPS committee has taken the first steps to facilitate dialogue on this issue
- The TBT committee continues to lag behind



Specific Trade Concerns

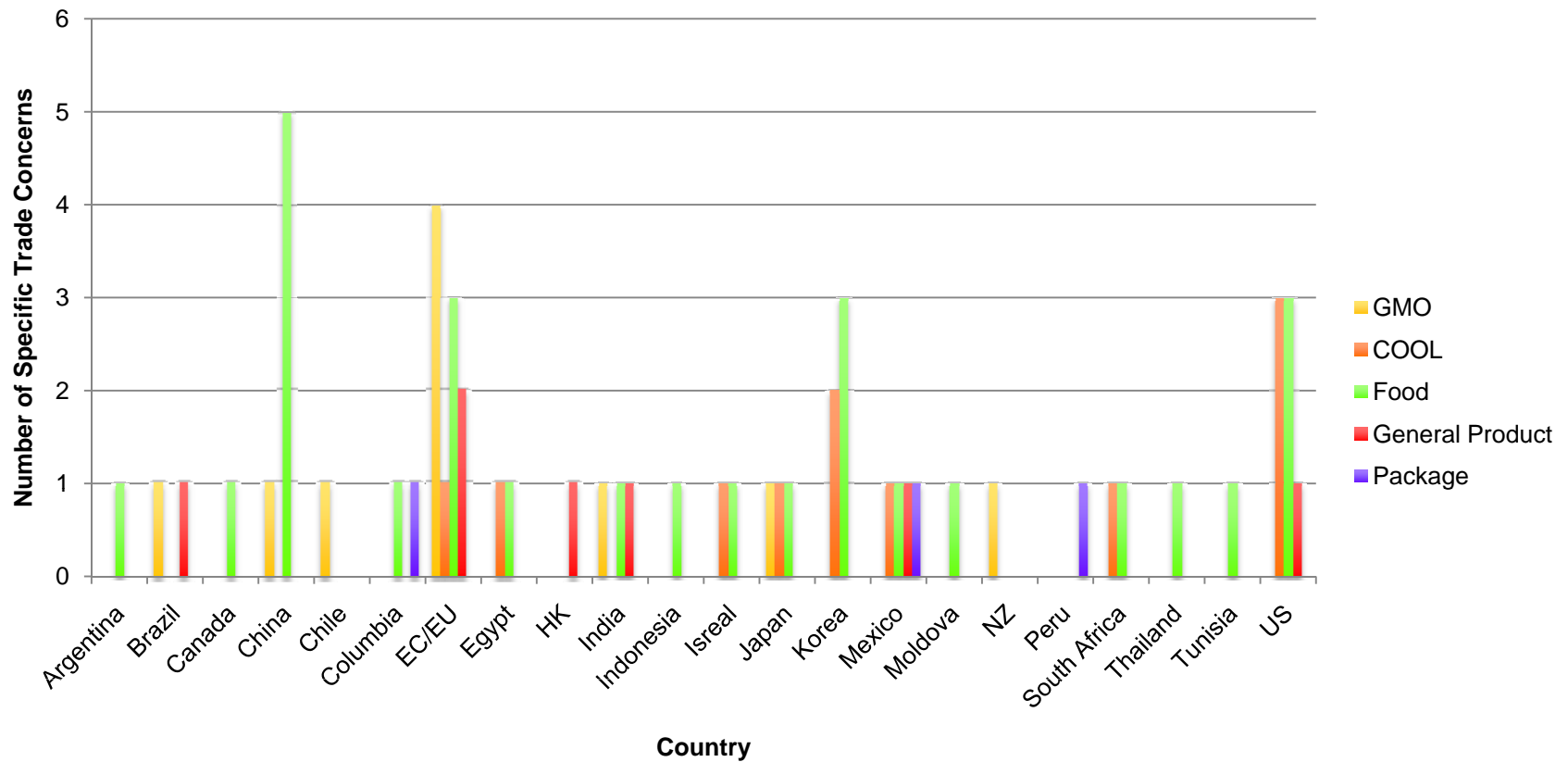
- SPS and TBT agreements require notifications of new and changed policies – many thousands so far
- When a notification worries other Members, a provision on both agreements allows them to raise a "Specific Trade Concern" in the committee
- The records of these concerns are a good source of information on how and where labels of all kinds are a source of conflict in the trading system

TBT and SPS experience

- Novel database of all issues involving labels since 1995 under TBT and SPS:

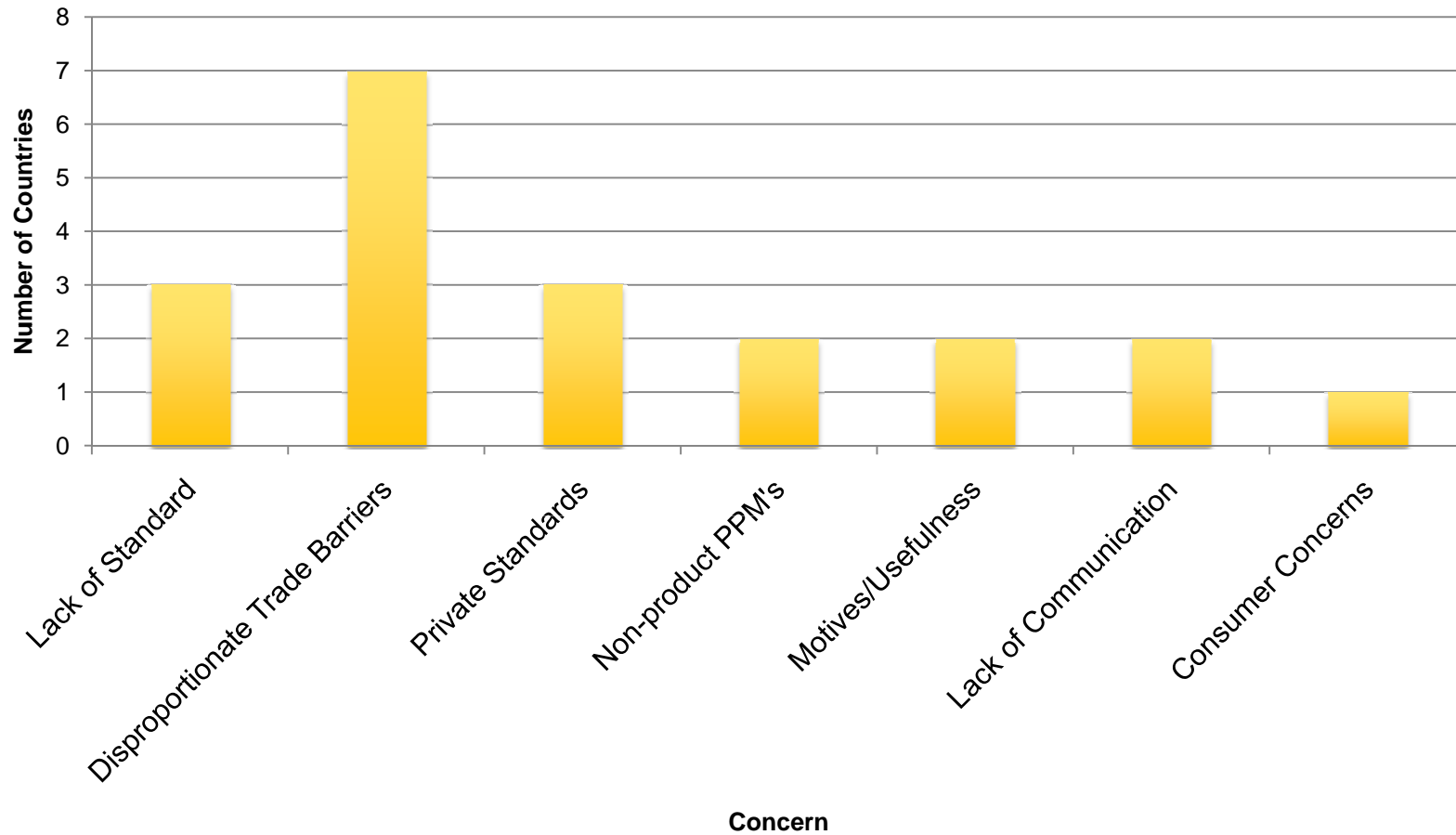
| Agreement | Total specific trade concerns | Those regarding labels | Proportion |
|-----------|-------------------------------|------------------------|------------|
| TBT | 258 | 53 | 21% |
| SPS | 277 | 5 | 2% |

| Title/Issue | Year | Complainant | Respondent |
|--------------|------|-------------|------------|
| US – Tuna II | 2008 | Mexico | US |
| US - COOL | 2008 | Canada | US |
| US - COOL | 2008 | Mexico | US |



| Region | Recipient of Concern | Proportion |
|------------|----------------------|------------|
| Developed | 30 | 52% |
| Developing | 28 | 48% |

Issues raised at informal discussions within the CTE:



Likely issues for carbon labels in the WTO

Lack of an international standard

- Cited multiple times as an issue with labels
- Producers dealing with multiple regulations, testing procedures and certification/accreditation requirements
- Codex experience with GMO labels is discouraging

Transparency and equality of labelling process

- Complicated accounting techniques lack transparency for smaller producers in developing countries
- Data sets insufficient in developing countries – assessments expensive (\$3,500 to \$8,500)

Production and Process Methods (PPMs)

- Definition of “likeness” – strictly final product-related or something broader?
- Should satisfy non-discrimination provisions by proving imports are not put at an unfair disadvantage vis-à-vis domestic products

Least trade restrictive measure

- Is this an effective tool choice for addressing climate change?
- Labels are viewed as one of the least trade-distorting instruments available compared to other measures – but are they even worth it?

Conclusion

- Carbon labels might actually work with certain types of consumers, but is the potential emissions reduction worth the bother?
- Major issues of transparency and nondiscrimination need to be addressed
- Governments may want to regulate to protect consumers from “greenwashing”
- Multilateral standardization might be necessary
- Labels should be part of the post-Doha Round WTO agenda

Thank you!

Special thanks to CATPRN for funding our research

