

1.2.1 Trade in Environmentally-Preferable Goods and Services

Project Summary

The project builds upon previous work in the areas of green goods and services, financing and the environment, and market-based mechanisms for carbon sequestration, energy efficiency, and renewable energy in North America. In addition, it explores the opportunities raised in the context of the CEC's Article 13 report on electricity and the environment, as well as the Johannesburg implementation program on renewable energy (chapter 19), and government procurement. The project continues to develop tools intended to facilitate increased trade in environmentally-preferable goods and services, including environmental labeling and certification (and related cooperative approaches such as equivalency and mutual recognition) and green procurement and purchasing initiatives as they relate to international trade (including ongoing support for the North American Green Procurement Initiative/Network and for the Sustainable Consumption Alliance). It continues the assessment of potential retail/consumer demand for environmentally-preferable goods and services (including measuring consumer willingness-to-pay for green goods and services); the identification of environmental opportunities related to renewable energy markets, advances in energy efficiency; and detailed work in sustainable coffee and sustainable agriculture, renewable energy, office products, *Chamaedorea* palm, and other selected product areas. With respect to renewable energy, the Commission has been conducting research on many aspects of renewable energy in North America including: the environmental benefits of renewable energy; the barriers and opportunities to its broader development; market based mechanisms which can and are being used to expand its use; as well as an in depth analysis into renewable portfolio standard criteria and a legal analysis of their potential trade implications under NAFTA.

Goals and Objectives

The key objective of this project is to make better use of market-based approaches to support environmental protection and the conservation and sustainable use of biodiversity. It does this by increasing awareness about the environmental benefits of environmentally-preferable goods, supporting cooperative efforts to increase these programs (e.g., renewable energy and energy efficiency), and facilitating trade expansion in these goods and services in North America. This objective is attained by strengthening North American cooperation in trade in environmentally-preferable goods and services. The project identified a number of barriers along the product commercialization chain that limit the market expansion of environmentally preferable goods and services, and is helping to remove them. It is working on a number of activities related to various stages along the product or service "chain," from enhancing the criteria related to the definition of "green" or sustainable products and services, to examining opportunities for sustainable consumption. Finding innovative market-based approaches to support these markets is an explicit part of the project.

The project will continue to address these distinct stages in the market chain of environmentally-preferable goods and services, including:

- Estimating, and where possible quantifying, the relative environmental benefits of selected "green" goods and services, including renewable energy markets;
- Estimating the economic value of environmental goods and services and trends in patterns of international trade;
- Supporting transparency and cooperative approaches to voluntary environmental labeling and certification schemes, including examining the relationship between criteria setting for different label/certification schemes and best practices of standard-setting bodies more generally;
- Contributing, in collaboration with relevant international organizations, to document the environmental and economic impacts of various environmentally-preferable goods and services, including renewable energy, through scenario analysis in a manner that is transparent and science-based;
- Continuing and expanding the CEC database on renewable energy and energy efficiency programs and product areas, with the goal of increasing transparency and comparability at the North American level;
- Supporting targeted public awareness and environmental education programs by identifying model projects and best practices in environmentally-preferable goods and services, including renewable energy and energy efficiency initiatives;

- Supporting a more transparent and efficient exchange of information among public and institutional procurement groups to avoid the duplication of effort and to increase efficiency in this important area;
- Continue to study the market potential for environmentally-preferable goods and services, including undertaking market analyses. Such analysis will build upon the project's previous work in the areas of coffee, *Chamaedorea* palm, sustainable tourism, renewable energy and more omnibus surveys of environmental issues;
- Identifying export opportunities for producers and manufacturers, and for small and medium-sized enterprises in particular, in environmentally-preferable goods and services;
- Examining opportunities for the development, diffusion, and transfer of renewable energy capital goods, including examining transmission and distribution issues;
- Identifying possible impediments to trade in environmentally preferable goods and services, in collaboration with relevant international organizations and the mechanisms to reduce or eliminate such impediments; and
- Improving analysis and policy options regarding the role of governments in supporting voluntary market-based mechanisms (e.g., the removal of barriers, increasing awareness, etc.), helping to identify the appropriate role of the private sector (e.g., corporate responsibilities) and NGOs (e.g., training and awareness), in developing markets for green goods and services.

In the case of renewable energy and energy efficiency, based on the recommendations of the Secretariat's Article 13 report, the June Council recommendations, and the work on market-based mechanisms for carbon sequestration, energy efficiency, and renewable energy in North America, the key objectives include strengthening the environmental case for renewables, through (for example):

- facilitating a cooperative approach to estimating the environmental benefits of renewable energy and energy efficiency;
- identifying potential market and other barriers to renewable energy markets, including barriers and opportunities to market-based approaches to renewable energy markets;
- exchanging information, as appropriate, with relevant groups and organizations, including the NAEWG on energy efficiency; and
- promoting continued dialogue on the definition of renewable energy; and identifying best practices regarding renewable energy and energy efficiency that can be replicated.

These goals will be further elaborated following the March symposium on trade and the environment that focuses on agriculture and energy.

Expected Results

- Increased coordination and cooperation in activities that promote environmentally-preferable goods and services in North America, which should lead to the expansion of production, consumption, and trade in these goods and services in North America, including renewable energy and energy efficiency.
- Enhancing the transparency and comparability of environmental labeling schemes.
- Achieving more environmental protection within the constraints of limited budgets by linking the various players, and avoid duplication of efforts.
- The minimization of trade conflicts over environmental goods and services, including labeling issues by strengthening the environmental case for these goods and services, the cooperation among users, producers, certification bodies, standard-setting bodies, and green procurement networks in North America, as well as through the use of innovative uses of market-based approaches;
- Strengthened North American cooperation for lowering the costs of renewable energy use and energy efficiency through a continued dialogue on the definition of renewable energy, and improved information about market-based mechanism opportunities.
- The results are improved environmental quality and the conservation and sustainable use of biodiversity in North America.

Rationale

For the past decade or more, there has been strong interest in "harnessing the power of the market" in support of environmental objectives and in demonstrating that trade can promote environmental protection. For several years, a number of organizations, including the CEC, OECD, the United Nations Conference on Trade and Development

(UNCTAD), and the United Nations Environment Programme (UNEP), among others, have examined specific segments of this broader goal. In late 2001, the World Trade Organization (WTO) Doha ministerial declaration highlighted the issues of trade liberalization of environmental goods and services and gave new impetus to supporting market-based approaches to environmental protection. Experience accumulated in this project to date underscores the importance of working at different stages of the product and/or services chain in order to identify specific barriers and opportunities within these alternative markets. Some of these barriers that continue to constrain the potential benefits of environmentally-preferable goods and services include: information failures between producers and consumers; difficulty in the classification of “green” goods and services; relatively high transaction costs for small and medium sized producers in meeting the costs of environmental labeling and certification; low levels of consumer information (awareness) about the environmental effects, or footprint, of their purchasing habits; and gaps in environmental education more generally (Lessons Learned From the Work of the CEC on Environmental Goods and Services, Background Note for JPAC Public Meeting Guadalajara, Jalisco, México, Thursday, 28 June 2001).

The inclusion of renewable energy and energy efficiency in this project brings into operation core elements contained in the Council communiqué of the ninth regular session of the CEC Council and other recommendations presented in the Article 13 report on electricity and the environment. As electricity generation and distribution and energy trading expand among the three NAFTA countries, protecting the North American environment is an increasingly complex challenge. After receiving a briefing on the activities of the North American Energy Working Group, the Council agreed that the CEC should pursue its efforts in a complimentary fashion to those of the North America Energy Working Group. To do so, the Council recommended the creation of the North American Air Working Group, to be housed in the Pollutants and Health program area and conducted in collaboration with the Environment, Economics and Trade program as is appropriate. A number of recommendations have been made that are relevant to this project: continuing the Secretariat’s work on renewable energy, including pursuing the dialogue on the transparency and scientific and technical basis of renewable energy definitions; supporting further analysis related to the environmental aspects of renewable energy market development; fostering public awareness and education; enhancing the consistency of databases; exploring the development and commercialization of emerging renewable low-impact energy technology; looking at the transmission and distribution of emerging renewable electricity; and promoting energy efficiency and combined heat and power. In addition, this initiative will collaborate with the Pollutant and Health program to identify, explore and address issues related to the barriers, challenges, opportunities, and principles under which emissions trading systems might evolve (following up on work initiated in 2002 on market-based mechanisms for carbon sequestration, energy efficiency, and renewable energy).

Progress to Date

Among the lessons learned from previous work on green goods and services and market-based mechanisms thus far is that translating broad objectives of “win-win” environment-economy relationships into concrete outcomes requires analysis, capacity building, information sharing, and much dialogue among different groups within specific market segments. Progress in translating sustainable use and conservation goals into a market reality requires the linking of micro-economic analysis with appropriate capacity building, networking, and other areas.

The project has benefitted from several CEC initiatives, including its ongoing work on shade-grown coffee, the *Chamaedorea* palm (transferred in 2001 from the Trade in Wildlife Species project to the Green Goods and Services project), and sustainable tourism. In understanding the environmental dimensions of these products, the project built upon lessons learned from work with the following initiatives: the Smithsonian Migratory Bird Center and its work on defining criteria for producers of “shade-grown coffee” (2000); the International Center for Research in Agroforestry (ICRAF) in assessing the environmental effects of shade-grown coffee, and shade agriculture generally, on flora, birds, mammals, reptiles, and biodiversity (2001); Mexico’s National Institute for Geography (INEGI), in clarifying the link between areas of rich biodiversity and small-scale farm production (2001); Resources for the Future (RFF), in understanding rates of forest conversion in Mexico due to coffee production (2001); and preliminary results from work on the *Chamaedorea* palm in Mexico (2002), and results from the sustainable whale watching project in the Baja to Bering priority ecological region.

The project consolidates lessons learned from previous market assessments of demand-side issues done under the green goods and services project and the market-based opportunities project. This includes the most extensive North American consumer analysis of potential demand for shade-grown coffee (1999); a market study of consumer interest in sustainable tourism (2001); a market assessment and experts’ meeting on the *Chamaedorea* palm, with an

emphasis on price and export volume fluctuations at the *Comisión Nacional para el Conocimiento y Uso de la Biodiversidad*, Conabio (2000) and CEC Montreal (2001); an assessment of industry attitudes to green goods and services, including institutional procurement issues (2001); an industry market survey of sustainable coffee; and (in conjunction with the *Comisión Nacional para el Ahorro de Energía*—CONAE) a survey of 100 of the largest commercial electricity consumers in Mexico, measuring interest in, and willingness to pay for, renewable electricity (2001) and a follow-up survey of constraints and opportunities in purchasing renewable energy in Mexico in conjunction with the *Comisión Nacional para el Ahorro de Energía*—Conae.

A main focus of the project continues to be the challenges facing small-scale producers and providers, communities, and intermediaries in supporting green markets. Experience suggests that a major cause of market failure in green markets is the separation of different market actors. Increasingly, the role of NGOs in filling this gap is being recognized. For instance, many meetings, workshops, and seminars have been convened with small-scale producers, including: coffee farmers and cooperatives (Oaxaca, March 2000, and San Cristóbal, 2001); sustainable tourism operators and other stakeholders—to develop market-based approaches to sustainable tourism (La Paz, March 2001); and electricity producers and consumers (November 2001).

An Exploratory Meeting was hosted by the CEC, in Montreal, September 18, on the need for collaboration on Green Purchasing at the North American level. Participants represented the CNAD, TCI, EPA, EC, Semarnat, Inform, Green Seal, Industry, purchaser groups, ICLEI, CCC, and the CEC. A presentation by each NAFTA government's environmental agency/ministry on their purchasing behavior was followed by the compilation of a list of constraints to fostering green purchasing facing these agencies in their governments. The goal was to move from problems, to the tasks, and then to a structure to accomplish those tasks that are better addressed at a trilateral level. It was decided to produce a scoping report documenting the trends in green procurement in North America at the municipal, state/provincial and federal level, as well as associated environmental impacts. The report was produced to demonstrate the potential of green procurement in developing both economic and environmental benefits. Three meetings were also hosted in the three NAFTA countries with the North American Sustainable Consumption Alliance to scope the potential to join forces to make consumption more sustainable in the three countries.

This work complements the CEC's work on community partnerships in support of green goods, including with various small-scale farmers and cooperatives (2001), leading to the newly created Mexican Council for Sustainable Coffee. It also builds on the valuable lessons and networks that have arisen from the North American Fund for Environmental Cooperation (NAFEC) project work. The project has also convened several meetings with producers and brokers of coffee and other products to provide information on market opportunities for shade-grown farm produce, including the *Chamaedorea* palm, and other goods. These include meetings with coffee buyers and brokers (New York, Miami, and Montreal, 2001) and with Banamex, the Consejo Mexicano del café and the World Bank to explore the best role of governments and international organizations (see "Project Status Update: The North American Sustainable Agriculture Fund"). Another major focus of this work has been to improve the transparency and comparability of market and consumer information related to green goods and services. Examples of its work thus far in this area include the overview report on environmental labeling, certification, and procurement schemes in place in North America (1999), the release of a Compendium of *In Situ* Sustainable Tourism in North America (2001), the release of an updated version of four searchable databases for green goods and services covering: (a) coffee labeling and certification schemes; (b) sustainable tourism certification schemes, codes of good practice, voluntary guidelines, and other initiatives; (c) office products, with an emphasis on energy efficiency-related products; and (d) "green" electricity, studying third-party certification schemes for "green" electricity and their criteria, environmental marketing guidelines for electricity, renewable electricity definitions and renewable portfolio standards (RPS) from electricity restructuring legislation, along with other information. The databases are available at: <http://www.cec.org/pubs_info_resources/databases/index.cfm?varlan=english>. In addition, in 2002 NAFEC supported the promotion of solar coffee dryers in rural Mexico, wind power in Canada, and energy efficiency in the United States. The palm commercialization report is being translated and will be published in the three languages. The CEC is pursuing the commercialization potential with church-based groups, one of the largest consumers of the palm in North America.

Actions 2003

Overview

In 2003, this project will continue to search for innovative ways to promote sustainable production, consumption, and conservation, with a specific examination of the relationship between green labeling/certification and

procurement, and the mutually supporting role they can play in expanding trade in environmentally-preferable goods and services. The project builds upon lessons learned in examining green markets, helping to identify options for policies that support private markets for green goods and services, including pricing, incentives, and procurement options.

2003	Estimated Resources Required (C\$)
Action 1: Enhance the transparency and comparability of environmental labeling and certification schemes	95,000
<ul style="list-style-type: none"> • Activity 1: Expand the CEC database for selected environmental labeling and certification schemes and guiding definitions by combining CEC, EPA, Environment Canada, Terra Choice, etc., data to provide a one-stop site for information in North America; provide an empirical analysis of the comparability of environmental and related criteria; and identify data-gaps and opportunities for increased cooperation in data gathering and sharing among the North American partners, including for renewable energy 	55,000
<ul style="list-style-type: none"> • Activity 2: Host two technical workshops with key stakeholders of different labeling and certification schemes and the Parties, to identify opportunities for cooperation in such areas as mutual recognition, conformity assessment, and equivalency of standards. The first technical workshop will use renewable energy as an example and be coordinated with the North American Air Working Group. The second will be determined at a later date 	40,000
Action 2: Support cooperation among public, institutional, and private procurement officials	65,000
<ul style="list-style-type: none"> • Activity 1: Support the North American Green Procurement Initiative/Network, through a technical workshop with key groups 	30,000
<ul style="list-style-type: none"> • Activity 2: With key stakeholders, develop guidelines, capacity building opportunities, best practices, business-to-business communication links, and other tools to strengthen cooperation in green procurement 	35,000
Action 3: Examine opportunities for cooperation in sustainable consumption	30,000
<ul style="list-style-type: none"> • Activity 1: Create an exhaustive survey of sustainable production and consumption activities and projects in collaboration with the North American Alliance. Help support a web directory of these providers of environmentally-preferable goods and services and their criteria 	30,000
Action 4: Examine environmental and market aspects of renewable energy and energy efficiency markets	90,000
<ul style="list-style-type: none"> • Activity 1: Host a technical meeting of experts on approaches to estimating environmental benefits of renewable energy and energy efficiency, including methods to calculate displaced emissions 	50,000
<ul style="list-style-type: none"> • Activity 2: In cooperation with relevant groups and organizations, follow up on 2002 work on market based approaches to carbon sequestration, renewable energy and energy efficiency, collecting additional information, including information on infrastructure needs, which can further our understanding of select market based approaches 	40,000

Action 5: Identify opportunities for increased trade in environmentally preferable goods and services	120,000
<ul style="list-style-type: none"> • Activity 1: Where appropriate, expand market analysis of green goods and services, targeted at market analysis of consumer interest in, and willingness to pay, for selected green goods and services. 	45,000
<ul style="list-style-type: none"> • Activity 2: Identify changes/trends in trade in green goods and services in the NAFTA region. 	20,000
<ul style="list-style-type: none"> • Activity 3: Identify potential impediments to trade of environmentally preferable goods and services and using scenario analysis, examine the environmental effects of increased trade through the elimination of such trade impediments. 	25,000
<ul style="list-style-type: none"> • Activity 4: Host a meeting of key labeling and certification groups, procurement groups (including governments), sustainable consumption networks, and others, to identify opportunities for increased trade in green goods and services. This meeting should be held prior to the Cancun WTO Ministerial meeting of September 2003 	30,000
Total Resources Required	400,000

Actions 2004–2005

2004
<p>Action: This area is of continuous, if not increasing importance as trade and the scale of production increases and regulations become more and more expensive. Thus, initiatives related to market-based mechanisms and improving environmentally-preferable markets are expected to continue to be part of the program plan and to be expanded in 2004.</p>

Public Participation

This initiative will help build effective trinational public and private sector partnerships to employ market-based mechanisms fostering greener production and trade in North America. It is anticipated that JPAC will continue to play a key role in shaping the means of involving, and interacting with, the public during and after the period of public comment on options identified by key stakeholders.

Capacity Building

A key element of this project is to build the capacity of labeling and certification groups, consumer groups, governments, institutional, and industry procurement officials, trade officials, and other groups to expand trade in green goods and services.

Expected Partners and/or Participants

Expected partners include labeling and certification groups, procurement officials and supporting networks, communities and groups working on sustainable consumption, and different entities within the chain of green goods and services production, especially small and medium enterprises. Key partners will also include trade facilitation groups, for example, the WTO/UNCTAD International Trade Center, export promotion authorities, standard setting bodies, trade officials, and others. In the energy sector, expected partners include providers, distributors, consumer groups, environmental and conservation groups, Conae, the North American Air Working Group, the North American Energy Working Group, international organizations concerned with renewable energy and energy efficiency, labeling and certification bodies, financial intermediaries, and other stakeholders involved in energy issues.

Linkages to other CEC Projects

This project builds on the Article 13 report, green goods and services, and financing, projects. It will continue to be conducted in collaboration with the Conservation of Biodiversity program area, including NABCI, and the Air Quality program area. The CEC has started adapting the methodology developed for green goods and services to collaborate with the Children and Health program's project on the removal of lead in artisanal pottery in Mexico. Other opportunities to apply the methodology will continue to be sought throughout the year.