

LESSONS LEARNED FROM THE WORK OF THE CEC ON ENVIRONMENTAL GOODS AND SERVICES

Background Note for JPAC Public Meeting
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Note by the Secretariat¹

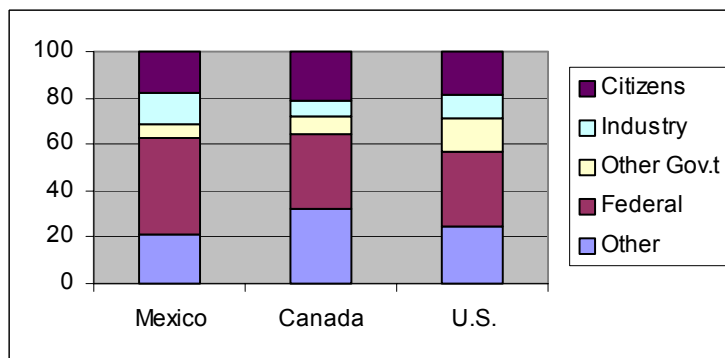
One constancy in the avalanche of surveys that measure changing public opinion is the consistently high priority citizens attach to the environment. For example, informal results from a recent North American survey reveal very high levels of public concern regarding environmental degradation. For example, 90 percent of people in Mexico surveyed, and 70 percent both in Canada and in the US regard the loss of rainforests and wilderness areas as a “very serious” issue. Other issues, from local pollution and hazardous waste disposal sites to global issues like climate change, elicit similarly high responses.

Debate about environmental protection policies rarely revolve around ambiguities in the importance the public places on environmental protection. Rather, questions continue to center on: (a) *who* ought to take the lead role in environmental protection; and (b) *how* much is government, industry and the public willing to pay for higher levels of environmental quality (and what are the costs of inaction).

IS THERE A BRIDGE BETWEEN PUBLIC CONCERN AND CONSUMER PURCHASING PATTERNS?

When identifying ways to support “green markets,” the two questions noted above—who is responsible and how much is society willing to spend—are closely connected. In North America, the public regards the government—both at federal levels followed by state/provincial levels—as assuming the primary, but not sole, responsibility for environmental protection (Figure 1).

Figure 1



¹ This note, which is prepared by the Environment, Economy and Trade division of the CEC Secretariat, is intended to provide some background information to JPAC in support of their June 2001 meeting.

A key challenge in thinking about green markets is how to tap the sentiment of nearly 20 percent of North American citizens—nearly 80 million people—who regard themselves as assuming primary responsibility for environmental protection, with their daily purchasing patterns as consumers. An over-arching lesson of the work of the CEC is that values of citizens and market patterns of consumers are often distinct, for many reasons. However, green goods and services represents one of a variety of tools that can help decouple rates of economic growth from rates of environmental stress.

Just how willing are consumers to purchase green goods and services? A recent survey suggests that 45 percent of US citizens, 44 percent of Canadians, and 42 percent of Mexicans are willing to pay a 10 percent price premium for “greener” products and services. If these figures seem high, that is because they probably are: experience in green marketing surveys generally suggests that for every ten people who say that they will buy “green,” one person will likely do so, and only if the environmentally preferable product or service is readily available, is price competitive, and meets the quality expectations that consumers demand in competitive markets.

Since 1998, the CEC has worked in the area of green goods and services, concentrating on specific goods and services through pilot projects. Concentrating on specific products like shade-grown agriculture or specific services like sustainable tourism has helped the Commission Secretariat extrapolate some preliminary lessons.

The purpose of this Note is to highlight some key lessons learned thus far from the on-going CEC’s work in green goods and services. In identifying some general lessons, it is worth emphasizing that basic differences exist within and between different markets. For example, when approaching sustainable tourism, it is important to note differences within the sector—from whale watching and mountain hiking to accommodation and transport which makes overall lessons about sustainable tourism opportunities difficult. Likewise, the international coffee market—which is replete with market distortions and failures – is characterized by important differences as to how speciality or gourmet coffee is produced and marketed. General lessons need to take account of these differences within and between market segments.

Understanding how a product or service performs in a market is in itself complex. Understanding how environmental products and services might perform in a market is doubly complex, and the lessons noted below highlight the key challenges that the CEC has identified thus far.

- (1) ENVIRONMENTAL ASSESSMENTS AND GREEN MARKETS: Efforts by public agencies like the CEC in supporting green markets is guided not by an interest in expanding the market share of a given category of products or services for its own sake. Rather, it is to help secure the environmental and biodiversity services that can be delivered with these goods and services. For that, a clear understanding is needed about the environmental effects, both of “mainstream” markets, as well as environmentally preferable markets. In each instance, market activity will have an environmental

impact: the challenge is how to understand the magnitude of relative differences between mainstream and “green” market activity.

The methodology for examining green goods and services generally follows a sequential analysis which begins with gaining a better understanding of the ecological traits or characteristics embodied in the product, process or service. As noted below, while this requires a comparative analysis of similar products, processes or services, the CEC approach requires a high degree of confidence that the "green good or service" appreciably advances conservation goals. In the case of shade coffee, the CEC collaborated with the Smithsonian Migratory Bird Center, Mexican coffee producers, certifiers and others to identify the essential characteristics of "shade-grown coffee". Most or all of these elements have been incorporated into the definitional criteria for third-party certification schemes.

One example of the CEC’s work in this area relates to deepening the understanding of the relationship between biodiversity of flora and fauna and shaded coffee systems. In 2001, the CEC has supported a number of assessment-related work, including working with the International Centre for Research in Agroforestry, which assessed the effects of shaded coffee systems on flora, birds, mammals, reptiles and amphibians, anthropods, other macrofauna and microbes. Related work includes working with Mexico’s National Institute of Geography to overlay high biodiversity areas with coffee producing areas and forest margins to measure how much natural cover and forested lands, in the main coffee growing regions of Mexico, continue to be lost to agricultural expansion. The current historically lowest-ever coffee price is expected to worsen the situation.

- (2) MEASURING CONSUMER INTEREST IN GREEN MARKETS: Perhaps the most important determinant of any market involves tracking consumer preferences. Although other factors obviously drive green markets—including the role of regulations—consumer demand ultimately drives the viability of green markets. To help understand consumer preferences, the CEC continues to undertake market analysis. This includes the largest-ever survey of consumer interest in, and willingness to pay for shade-grown coffee (1999), which found that approximately 20 percent of consumers in the three North American countries expressed “very strong” interest in purchasing shade-grown coffee. More recent examples of this work include:
- (a) a market assessment of current and potential participants in sustainable tourism activities within North America, which includes tourist profile, motivation drivers and economic value (CEC 2001);
 - (b) a market assessment of the *Chamaedorea* palm, showing trends in terms of volume and price fluctuation for Mexican palm exports;
 - (c) an assessment of the extent of interest in, and willingness to pay, for renewable electricity among large-scale electricity users in Mexico.

A key lesson of work thus far is that the extent of consumer interest in green markets is strongly linked to the awareness of consumers about the link between products or services they buy and their environmental “profile.” Often, people simply don’t see a

link between the coffee they drink each day and the fate of forests or birds or farm communities in which coffee is grown. Recent market analysis suggests that awareness of shade-grown coffee is roughly seven percent among Canadian consumers, and 11 percent among residents of Washington state (US).

- (3) **UNDERSTANDING PRODUCER CHALLENGES:** Often, green goods and services involve smaller-scale producers. This holds true for instance for shade agricultural producers in Mexico, in which typical land-holdings are two hectares. Like other market segments, small and medium-size enterprises face a number of obstacles in competing in international markets. These generic obstacles include information failures, higher market entry and transaction costs, difficulties in accessing capital markets, and difficulty in tracking changes in external markets. A recent (June 2001) study by the CEC on investment opportunities for small and medium-size companies in Mexico in pursuing market-based measures related to the climate agenda notes that the environmental agenda may create an additional hurdle for small-scale producers. To help identify producer and provider challenges, the CEC has convened a number of producer-stakeholder meetings, including with coffee farmers and cooperatives (Oaxaca, March 2000 and San Cristobal, April 2001); and with sustainable tourism operators and other stakeholders to develop a market-based approach to the conservation of shared species in the Baja-to-Bering conservation region (La Paz, March 2001). Among the problems identified in these and other meetings is the difficulty small-scale producers have in responding to industry and consumer demands or expectations.
- (4) **COMMUNITY PARTNERSHIPS:** A guiding objective of the Commission's work has been the recognition of the pivotal role of community involvement and participatory initiatives that are grassroots based, inclusive and take account of social, cultural and environmental values. For several years, NAFEC has made important and on-going contributions—through its grant-making initiatives as well as the networks that take shape from NAFEC work—to community-led initiatives in a range of green goods and services, from shade coffee and palm to small-scale tourism. NAFEC has also provided valuable support to communities in identifying capacity building needs, such as accounting skills or Internet access or transport needs. To help understand socioeconomic and other factors affecting changes in Mexico's coffee production, the CEC is working with Resources for the Future and Universidad del Mar (Oaxaca) in undertaking field surveys and workshops with farmers and communities (CEC 2001, forthcoming).
- (5) **INTERMEDIARIES:** Between producers and consumers are intermediaries: brokers, companies that provide value added in a commodity chain, retailers or other vendors that purchase from suppliers and sell to consumers. In the case of coffee, these intermediary actors include importers, roasters, wholesalers, and retailers (which include grocers as well as specialty coffee outlets). These intermediaries play an important economic and educational role in developing green goods and services markets. For instance, 85 percent of the \$85 billion coffee value-added in the U.S. and Canada goes to these intermediaries. Two meetings with coffee intermediaries, one in New York in February 2001 and in Montreal in June 2001, attempted to

understand ways of connecting consumer demand from green products with the availability of high quality, shade-grown coffee. Intermediaries are themselves important actors in responding to industry and government green procurement policies. The CEC is also working with coffee producer association in responding to intermediary concern about disparate certification schemes and the creation of the Mexican Council for Sustainable Coffee.

(6) **TRANSPARENCY AND MARKET INFORMATION TOOLS.** Among the market-based tools used to help consumers differentiate products and services in the marketplace are environmental labeling and certification schemes. Experience suggests that there is hardly an absence of such schemes. In fact, a CEC study (CEC 1999) found that there are over 70 environmental labeling schemes in North America, with each scheme providing different information covering thousands of products and services. While differences in labeling schemes reflect a dynamic market at work, the multiplicity of schemes can pose barriers for a number of market actors. These barriers can include high transaction costs to producers, having to comply with different labeling criteria for different markets; uncertainty among consumers, possibly leading to what has been termed “labeling fatigue”; uncertainty among financiers looking to expand investments into green markets as to what labeled product or service to partner with; and uncertainty with public procurement officials for the same reason. An important lesson of the CEC’s work in labeling and certification is to ensure both that schemes are transparent and accessible, as well as lend themselves to environmental criteria comparability. Another lesson is that by comparing different schemes and practices, lessons can be arranged into “best practices” that help all stakeholders. In July 2001, the CEC will release the final version of its “Compendia of Best Practices” for sustainable tourism. To help ensure the comparability and transparency of labeling and certification schemes, the CEC has established four online, searchable databases for green goods and services (found at www.cec.org/databases) covering:

- Coffee labeling schemes [covering over 1,000 criteria related to organic, fair trade and shade coffee criteria];
- Sustainable tourism, which includes over 50 sustainable tourism codes of conduct, guidelines, charters and certification schemes. This information covers 12 tourism-related activities (for example, whale or birdwatching), as well as global or region-specific codes and certification criteria;
- Environmental criteria related to office products, concentrating on energy-efficiency criteria covering 15 major product areas (for example, lighting, computers and fax machines); and full lifecycle product analysis;
- Renewable electricity, a database developed in support of the Article 13 work on Electricity and the Environment, which provides information on different definitions of renewable electricity in North America. It covers criteria in support of Renewable Portfolio Standards established or being proposed by different federal or sub-federal jurisdictions, as well as environmental marketing guidelines and private sector green certification schemes.

(6) **FINANCING OF GREEN GOODS AND SERVICES:** A more recent focus of the CEC’s work in this area relates to financing. As noted above, producers face a number of market and other barriers in competing in the environmental marketplace. This includes competing for working capital, needed to shift or expand production operations to meet the environmental expectations of consumers. The work of the CEC in financing

continues to concentrate on identifying the financial opportunities of Mexico's shade agriculture: that is, farm produce—including coffee as well as other farm-gate products like nuts, bananas, honey, palm and medicinal plants—grown at small farms under forest canopies. Among the initial lessons of the financing work is that while a great deal of work continues on sustainable coffee, information gaps remain about the financial aspects of shade coffee, how it compares with non-shade coffee and other farm produce, etc. The CEC is focusing on preparing financial analysis, providing information that an investor would need when deciding whether to put money into this area. This information includes calculating the total capital needs of shade agriculture in Mexico—between US\$20 to \$45 million per year, the return on equity and other information that debt, investment, venture capital and other financiers would need before putting money into this sector. In May 2001, the CEC had an informal meeting with 16 investors from North America, to review financial analysis thus far. That meeting confirmed the initial financing analysis of the CEC Secretariat that shade agriculture is a financially competitive product. The key lessons of this work relates to the legal mechanisms that need to be put in place to create a “Green Fund for Shade Farm Produce.” Among the issues that need to be addressed in relation to the fund include the extent to which governments and public agencies like the CEC can underwrite or provide a partial guarantee to investments in this area.

THE ROLE OF PUBLIC POLICY: For some time, the role of governments in supporting green markets has been recognized. These include:

- Using fiscal and other measures to correct environmental externalities and market failures. The OECD has recently noted that efforts can include setting differential tax rates, tax rebates, tax exemptions or other measures to provide incentives to green markets. An example of work underway in environment-related fiscal policies involves tax exemptions to promote renewable electricity.
- Correcting public policy interventions that accelerate environmental degradation. An important focus of work involves reducing subsidies that are environmentally damaging. An example of subsidies related to the CEC's work involves subsidies directed to large-scale, monoculture, technified coffee production in Mexico. One immediate result of this subsidy support is that it makes competition on price more difficult for small-scale and non-subsidized shade producers.
- A more active role of governments in supporting green markets, through green procurement policies. In May 2001, all OECD environment ministers—in *Environmental Strategy for the Next Decade*—reiterated their commitment to environmentally-sound procurement practices. A CEC study (1999) of procurement practices suggests that significant opportunities exist for expanding green procurement. For example, the Canadian government spends approximately C\$11.6 billion on products and services each year, and supports green procurement policies, including the R-2000 Program, the C-2000 Program and Governments Incorporating Procurement Policies to Eliminate Refuse, to name a but a few. The United States government is the single largest purchaser of goods and services in the US economy, spending roughly US\$200 billion per year. In addition to various laws and regulations, the EPA's Environmentally Preferable Purchasing (EPP) Program has

developed guidance for federal agencies on environmentally preferable purchasing, and complements the Comprehensive Procurement Guideline Program.

- Lastly, lessons from the CEC's work in environmentally financing suggest that there is an important role for government in supporting green financing, especially when directed towards small and medium-size enterprises.

Such roles depend on the nature of the investment itself, but can include underwriting or partially securing external finance, or supporting capacity building or infrastructure support, which have long been identified as important challenges to micro-finance.