Ecolabelling

Opportunities and Challenges
Questions from a government perspective

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Benefits of Ecolabelling

- Benefits are many, especially in theory
- Aligns incentives in favour of good management and governance – markets, stakeholders and regulators
- Through responsible consumption, responsible trade and commerce, market signals that reward responsibility, etc
- Certification (all kinds) *shifts the burden of proof*, forcing closing of implementation gaps and consolidating information, systems and measurement
- At same time, challenges and policy questions arise

Framing the discussion

- Analysis often consumer driven, product market oriented
- At least 3 interacting domains/markets
  - Synergies – intended spillovers
  - Unintended spillovers also possible
- Want maximum benefits of ecolabelling/certification
- Do we know the components or framework for a benchmark regime? What needed for a coherent system?

- **Initial explorations: more questions than answers**

Domains/Markets of interest

- **Seafood market**: Product market spanning the value chain from fishery to consumer
- **Certification and label market**: means to provide information about products through certification schemes, labels and campaigns
- **Government resources market**: Governments must allocate fixed resources (money, effort) among competing potential uses
  - Government interest is affected by more than just the latter

Well-functioning markets

- There are several reasons why markets may fail to efficiently allocate resources: e.g.,
  - Market power
  - Incomplete information
  - Externalities
  - Public goods
  - Others?

Well-functioning product markets

- Two examples in theory:
- Certification and ecolabelling: overcome **incomplete/ asymmetrical information** problem
  - Buyers and consumers have incomplete information about production methods and their ecosystem/environmental attributes
  - Ecolabelling confers information, allow buyers and consumers to adjust their purchasing according to preferences
- Reduced impacts on ecosystems and marine environment **reduces externalities,** improves allocation of resources

Well-functioning markets

- What about broader effects?
  - Can this solution to the incomplete information problem in the seafood market lead to other problems in that or other markets, causing or exacerbating other inefficiencies?
- Depends on whether ecolabelling and certification schemes (and campaigns) actually cause synergies? Or benefits offset by unintended effects? (e.g., by design or application)
- Governments are implicated if called upon to help fix symptoms of spillovers – tough policy questions can arise
- Components of a benchmark would help, if could devise

Examples of potential issues in seafood market

- Benefits, overstated? Asymmetries persist?
- Information content of labels of products sharing “shelf space”?
  - Different standards (by design or certification biases), across fisheries, or across time (“ratcheting up”: is it real?). Label proliferation confusing
- Campaigns can contradict, confuse buyers/consumers (who is credible?): real impact on markets, possibly on management priorities
- Who will bring transparency to this proliferation? (FAO? Others?)
- Governments: which labels to cooperate with?
- Guidelines help (complete the suite for capture fisheries, aquaculture);
- Certifiers may matter most: Need agreed “standards”? Accountability?
  - MSC revised decision framework helps, must have more accountability

Examples of potential issues in seafood market

- Uneven access to labels/exacerbation of **market power**?
  - If cheaper (relative to total revenue) for a larger firm/fishery to be certified, do smaller fisheries risk being shut out of the market, consolidating power for large players?
  - Similarly internationally: bigger players able to be certify fisheries more cheaply relative to size of fishery? Affects trade flows – political issue
- Role of increased market power of buyers as well?
- Competition among fleet segments in same fishery?
- Public/private role: Governments can be called upon to pay for access to ecolabelling for those facing high-risk markets – use of public funds for "fair" access versus best use in management?
- Some solutions in train: MSC and small scale/information poor-fisheries
  - Doesn't address the middle, especially in current economic environment

Issues in Certification and Label market

- **What is optimal market structure**?
- Not all markets demand same labels/certification, but too many lead to confusion
- Regulator attestation enough in some – need a framework to back it up
- Role for State certification schemes? Will they be credible?
- Too few, potential for **market power** in certification and labels?
  - Real costs to label development: Will one, or a few, certification schemes dominate?
  - Or because buyers demand one label to simplify landscape?
  - Vulnerability for stakeholders, including governments? Especially in definitions of sustainability overt time? Impacts of label funding sources for objectivity?
  - Aquaculture – uncertainty? Will labels drive guidelines or vice versa
- Certifier power: more important than market power of labels?
  - Bottlenecks for reliable efficient ones
  - Expect market entry (can governments help?)
  - Certifier accountability (must increase) -- MSC: standardization of decision trees will help

Issues in Certification and Label market

- Labels have some **public good** characteristics: difficulty in establishing exclusivity:
  - Trust- and reputation-building efforts of some labels can be exploited by others
- Public good problem could play out in several ways
  - Impostor certification schemes and labels
  - Uni-dimensional labels/campaigns claiming equality to comprehensive labels
  - Variability among certifiers in grading standards
- Guidelines, as comprehensive minimum standards, have helped in capture fisheries – needed in aquaculture – avoid cherry-picking
- Same issue as previous; who will bring transparency to the proliferation, protect the asset of those who have paid the price of real certification (governments and industry)

Potential effects in the Public Resource market

- Depending on role taken, governments can expend significant resources related to certification and labelling, (e.g. cooperating with certification processes, management improvements implied etc)
- Government fisheries managers have a fixed budget through appropriations: competing uses
- Public resources for public good – links to management regimes allowing cost recovery where appropriate
- Efficient allocation of resources needed; some of the requirements for well-functioning markets apply here also

Issues in the Public Resource market

- **Information asymmetries**
  - In deciding whether or not to invest resources in assisting certification and labelling of fisheries, governments may not have complete information to determine C/B. For example, there is:
    - uncertainty about future trends/certification needs, and the markets for those products – joint risk analysis helps
    - uncertainty about stability and ongoinjg legitimacy of standards; will re-certification be more onerous (ratcheting up?)
    - durability of the asset value of labelling or labels

Issues in the Public Resource market

- To maximize benefits, allocate fixed resources to the highest value use
- Sovereignty of government decision-making and resource allocations – an overriding preoccupation , especially if monopoly label, buyer power
  - Ecolabels like MSC represents a “standard” that most governments can buy into, although certification can be complex for some types of fisheries
  - Certification “conditions” can affect affordability of pace and timing of reforms
  - Can afford a large number of certifications at once?
  - Effect on governments is dependent on who pays and ability to delegate the costs of conditions to private beneficiaries (possible link to management system) even when is public management improvements
  - Industry wants clarity on who pays what before embarking
  - Certifier accountability and credibility – don’t want to lose policy sovereignty either
  - Aquaculture ecolabelling guidelines: aquaculture operations or government policy stance?

Issues in the Public Resource market

- **Externalities**
  - Less sustainable fisheries (e.g. not yet credible ecolabelling candidates; may be competing for scarce resources against
    - Fisheries seeking government assistance in gaining access to certification ($ or cooperation in kind)
    - Larger/more profitable/ relatively more sustainable fisheries facing ecocertification conditions to keep market access/ share
  - Public private role in meeting certification conditions, especially if co-management not the norm?
  - Diversion of resources to ecocertifiying fisheries? (“squeaky wheel syndrome”)
  - Public/private role: immunize by staying completely uninvolved? (NOAA model) vs. middle of road approach (Canada: private contract, government cooperation in data and analysis vs. government certification. Which is best ?

Potential effects on governance

- Role of governments in ecolabelling -- even issue of allocation of resources -- also perhaps a question of governance:
  - How are principles of good governance affected by certification and labelling?
- Does this approach provide a better avenue for describing policy issues for governments?

Potential effects on governance

- Five principles for good governance:
  - **Legitimacy and voice**: participation, consensus orientation
  - **Direction**: strategic vision
  - **Performance**: responsiveness, effectiveness and efficiency
  - **Accountability and transparency**
  - **Fairness**: equity, rule of law

Source: Institute on Governance Policy Brief No 15, 2003; Based on UNDP principles for good governance.

Potential effects on governance

- How are these principles affected in the certification and labelling case?
  - If governments lose sovereignty to allocate resources to best public use at a point in time, does this raise problems with respect to these principles?
- If governments have a minor or equal role to other stakeholders in certification process, does this affect these principles? Seek a greater role or lesser role?

Conclusion

Who defines sustainability? Public private role? Legitimacy?

- Focused on how might look at them in more rounded framework – is there a benchmarking approach available to ground our thinking on these and other issues
- Not a serious issue with **who defines sustainability** as long as totally consistent with multilaterally agreed standards, respect current state of practice, is risk based, focused on fishery. Standardized.. Comprehensive
- Adding in broader definitions of sustainability (economic and social sustainability) ---- risk interfering with policy choices and social economic values that defy standardization – aquaculture guidelines issue
- Variability in *access to, and application* of certification is the problem. One issue has been certifier accountability – did we make a mistake in ecolabelling guidelines in forcing a break with the label?
- **Public/private roles** – vary across states – we seek best practices that avoid perverse outcomes
- **Legitimacy** – "FAO seal of approval"
- Is implied by all of the above -- litmus test will be if respects our ability to defend good governance. And we are willing to invest resources. Affected by certifier legitimacy