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Proposed Carbon Footprint Labeling Could Step on Trade

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Report Highlights:

The French National Assembly will consider in early 2010 an “Environmental Labeling Law” already approved by the French Senate. The so called “Grenelle 2: the bill on the national commitment to the environment” is a five-year plan for nationwide sustainability with targets set to 2050. One element of this plan aims to increase consumers’ awareness of their carbon footprint (the amount of greenhouse gases emitted during a product’s manufacture, packaging, and transport, i.e., lifecycle). The proposed bill would make environmental labels mandatory on all consumer products sold in France beginning January 2011. It is estimated to cost as much as 5 percent of the final product price; a cost the French consumer will have to bear, unless both retailers and producers agree to share the burden. It is unclear how the European Commission and other EU Member States will view this law, believed to be the first

of its kind. While proposed regulations stemming from this bill are still evolving, if passed, it could pose significant barriers to exports of U.S. processed, intermediate, and bulk products to France.

General Information:

Initiated in 2007, France's Ministry of Ecology and Sustainability's "Grenelle 2: the bill on the national commitment to the environment" is a five-year plan for nationwide sustainability with targets set between 2008 and 2050. This plan aims to adopt sustainable methods of production and consumption and increase consumers' awareness of the environmental impact of products, which would include but not limited to the carbon footprint (the amount of greenhouse gases emitted during a product's manufacture, packaging, and transport, i.e., lifecycle). The proposed bill would make environmental labels mandatory on all products sold in France, including agricultural/food products, by January 2011. Grenelle 2 is the legislative package approved by the French Senate in October 2009, and is due to be reviewed by the National Assembly at the beginning of 2010. The Ministry of Ecology is already working on the implementation regulations, also known as Implementation Decrees, which should be published once the law has been approved by the National Assembly.

Recent efforts to increase consumer recognition and preference

The Casino Group, a large retailer in France, along with the Agency for Environment and Energy Management (ADEME), launched the first environmental labeling project. Environmental labels were placed on 200 products indicating the amount of carbon dioxide (CO₂) emitted by a Casino branded product during the major stages of its lifecycle. The calculation was developed by a consulting group using ADEME lifecycle methodology. Symbolized by a green leaf, the symbol is affixed to the front of Casino's packaged products. The Carbon Index Casino provides consumers with information on the environmental impact of products consumed daily and allows the consumer to differentiate between products. The Carbon Index Casino indicates the amount of greenhouse gases emitted by a product during the 5 key stages of its lifecycle: i) farm steps, ii) product manufacturing, iii) transport from the field to the Casino warehouses, iv) packaging, from raw material extraction to recycling, and v) distribution from warehouses Casino to the final point of sale. It is expressed in grams of CO₂ equivalent per 100g of finished product. Below is an example of Casino's box of four whole flour muffins:



4 ready to eat whole flour muffins	Quantity in grams (g) of CO ₂ equivalent for 100g of product	Share within the total product index (%)
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Packaging	47	23.5
Transport (1250km = 778 miles)	38	19
Retail	72	36
Agricultural Production	31	15.5
Processing	11	5.5

The calculation methodology is based on data integration product specific to Casino (indicators on packaging, transport and distribution), to cover the entire lifecycle of products from raw materials to the point of final sale. Specifically, this allows Casino to take into account the location of the vendor in calculating the environmental impact of its products.

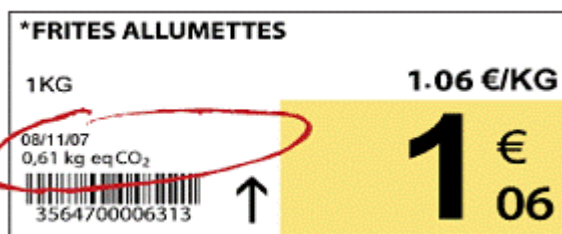
Example: a can of an identical product

225g CO₂ origin France with only trucking

235g CO₂ origin India with transport by ship and truck

305g CO₂ origin Europe (Ukraine) with trucking only

Another retailer, E. Leclerc, has developed a program in two of its supermarkets in northern France that prints on each customer receipt the carbon balance of their shopping. Some products also display their carbon footprint.



This calculation was developed by a consulting group using a simplified lifecycle analysis. Initial consumer reactions showed a strong interest in the idea of environmental labeling, but a lack of

understanding of the information proposed, and it having little or no influence on the choice of purchase, the price remains the guiding factor in consumer purchases.

Current work on the Grenelle 2 project

To prepare for the implementation of the Grenelle 2 law, the French government asked both ADEME and AFNOR (the French agency for standardization) to establish working groups. Some groups will work horizontally on methodology, format of labeling, and packaging, while others will be sector specific. Members of those working groups are trade, retail and producers associations, NGOs, and representatives of the government.

Participants have already agreed on two major principles: 1) the labeling will be limited to the product ready to be purchased (will exclude any components such as carbon footprint after purchase), and 2) will not be limited to the carbon footprint. For agricultural and food products, the environmental labeling will include information on the biodiversity impact of the product, as well as the impact of the product on water quality. Experts are aware that limiting the environmental criteria to the period prior to the purchase will be more challenging for agricultural goods versus other consumer goods, such as electrical appliances which have a simpler production process but a much longer lifespan (and environmental impact) after purchase.

Despite representing a limited share of each French consumer's budget, agricultural and food products, because they are purchased frequently, would be among the first products to fall under the Grenelle 2 law. However, at slightly more than one year before the January 2011 implementation date, many important details still have to be cleared. The working groups have not decided how the environmental information will be passed on to consumers, either by a label on each product or a poster at the purchase point (i.e., in-store).

The final methodology has yet to be chosen. The French Food Industry Association (ANIA) has suggested a simplified version of the Life Cycle Assessment (based on the ISO 14040 and 14044 norms). While unprocessed products (such as fruits or meat) could use a methodology with data calculated from the specific farm having produced the product, processed products may use data calculated upon national French averages for each ingredient. However, pilot experiments on 300 food products have shown a wide range of uncertainties, which is not acceptable. Additionally, no valid methodology has yet to be approved on the biodiversity and water quality criteria. In its preliminary conclusions on the environmental labeling issue, the working group for agricultural and food products highlighted the need to clearly use harmonized and internationally validated methodology and to create a massive database (for at least 80,000 food ingredients).

Many more problems still need to be solved. The environmental impact of a product may also vary at the retailing point, depending how far it is from the manufacturing point. Finally, the cost of this labeling has to be established. It is widely estimated to cost as much as 5 percent of the final product price; a cost the French consumer will have to bear, unless both retailers and producers agree to share the burden. Large food manufacturers and processors are deemed to be more favorable to the issue because they have the know-how and the finances to implement it on their products, but small and medium sized companies will undoubtedly face more difficulties, despite the fact that the Grenelle 2 explicitly stipulates that it should not hamper their competitiveness.

The Grenelle 2 law and its international implications

If implemented, the Grenelle 2 law will set a precedent as no other European Union (nor third) country has established a compulsory environmental labeling on consumer goods. While other EU retailers (such as Tesco) has started to label the carbon footprint of some products, and the Swedish government has set some recommendations for consumers, the French law will be compulsory and apply to domestic and imported products.

The French government has not officially informed the EU Commission of its proposals. This will take place when the Decrees of Implementation are proposed for assessment to Brussels, likely in mid 2010. Several groups under the auspice of the Directorate General for the Environment and the Directorate General for Health and Consumer Protection are already working on the environmental labeling issue at the EU level. It is unclear if the EU Commission will see the French law as a breach of the single market, thus de facto rejecting it, or an initiative which should be extended to all the EU member states.

Obviously, if passed, the Grenelle 2 could pose significant barriers to trade for U.S. processed, intermediate, and bulk products. The pressure to require environmental labeling including carbon footprint, biodiversity, and water quality accounting may affect the retailers/suppliers relationship in ways that may cause anti-competitive concerns. The personnel responsible for data collection (e.g., manufacturers, retailers) may choose to practice “choice editing”, whereby products are selected by an additional criterion based on their environmental scores. Most experts have concerns with the difficulties with assessing the competence of greenhouse gas (GHG) verifiers, data and consistency, comparability, and reliability of a specific carbon footprint number/score for a specific product. Achieving this goal will require more testing of the adequacy of various methodologies on several products and on a variety of industry-sectors.

In addition, the inventory of emissions report intended for the consumer should be relevant and significant. According to a recent report, a bag of grated cheese (1190g CO₂ equivalent) has more impact on the environment than 10 sausages (95g CO₂), a packet of biscuits (215g CO₂), and 20 trash bags (75g CO₂) have collectively. As the environmental impact of a product may also vary at the retailing point, depending how far it is from the manufacturing point, should the product bear an “average” carbon footprint between production and retail, or should it be tailored to each retail point? Many problems still exist.