Some Analytics and Implications of Eco-Labeling

by

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Abstract

Eco-labeling has been proposed as a market incentive to cause industry to manage resources, e.g., forests, in an ecologically sustainable and biodiversity friendly manner. A micro-economic analysis examines voluntary eco-labeling on the assumption that eco-consumers are willing to pay a price premium and that producers will respond in a profit maximizing manner and choose whether to produce labeled or non-labeled based on their cost structure and the market prices of the goods. We find conditions under which the market generates a price differential between labeled and non-labeled products. However, we also find realistic conditions under which no price differential exists, despite different cost structures and consumers' willingness to pay a premium for labeled goods. A implication is that there are realistic conditions under which the market may equalize market prices despite the desire by producers to produce and market goods that are viewed as different and desirable by some segment of the consumer market.

A necessary condition is the sensible assumption that eco-consumers prefer eco-labeled goods but that other consumers are indifferent between eco-labeled and non-labeled goods.

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