

# Market-Driven Environmental Governance:

## Approaches and Possibilities

Reporter: CHEN Yuting



**Ben Cashore**

Ben Cashore is the professor of Environmental Governance and Political Science in Yale University. He is also the Director of the Governance, Environment, and Markets Initiative at Yale (GEM) and Director of Program on Forest Policy and Governance.

International and domestic Environmental Governance will be most successful when effective interactions between governments and markets taken place. We are happy to see that China is embracing the future.

**Reporter:** Your work is mostly about domestic non-state, market-driven governance, to what extent do you think this mechanism will work in explaining international environment governance?

**Ben Cashore:** I will answer this question in two ways. Firstly, we are curious about what is Non-State-Market-Driven and why it exists. We see it everywhere, in forestry, mining, fishery and world's carbon market. Why does it exist? Is it for niche reasons or profit reasons? That helps answer the second question aiming at whether it really works. If you take the forest sector, non-state-market-driven is roused to address all forest products. But if you take fishery sector, it's the opposite situation. So it depends on what programs it's trying to do and where its role is.

So we argue that we have two different collocations looking at none-state-market-driven in the climate sector. If you look at all the different market-driven factors in climate, the biggest impact will probably be the “learning” that takes place. Governments, firms, and NGOs all try to build the proper mechanism. The only significance will occur when the government decides to actually take that knowledge.

Learning is the key result of non-state-market-driven governance. Even it means eventually the government to take it over. In another example, there are a lot of Non-State-Market-Driven efforts on green building codes. Such as in Yale University we have green building standard given by private sector rather than government. There is very little likelihood that any country will be under such standard, so the direct effect is small, but what our finding is that governments in the United States are adopting these Non-State-Market-Driven building codes. So there is a direct impact on government looking at such code and realize they can maintain those rules if they work out well, and such rules become part of the government policy.

Now in the case of climate negotiation, another possibility for Non-State-Market-Driven is that although the international society may have international agreement, there is gap between the ideal solution and the reality, thus the Non-State-Market-Driven could fill in the gap. Take the CDM(Clean Development Mechanism) as an example, it's the mechanism under which the developed countries' governments make a lot effort to undertake projects in the developing world and get carbon credits. However, the critics said where is the environmental value among community in such mechanism? So instead of re-opening up the hard fought agreement, the CDM offers the Gold Standard in which includes communities and environmental values. In a lot of projects, you do not only need to get CDM but also CDM Global Standard Certification. That is a higher approach where private authority reinforces government, and government reinforces private sectors. They act in different ways and it's a kind of interaction.

**Reporter:** What are your suggestions on how countries to be applicant to such international Certification System?

**Ben Cashore:** I think it depends on what the actual problem is. In forest, there are so much global trades along supply chains that I can see a lot of potential benefits. Right now if there are government rules for high standard forest practices in a country, the country will lose when competing with other nations for what it casts on its firms are too strict. This means it's hurting its own companies. But if the entire supply chain is hearing for the similar standard, countries don't have to worry any more for they can have market and protections at the same time. Sometimes this is hard to be achieved through international agreements, but as long as there is a supply chain, Non-State-Market-Driven governance can foster that kind of fairness. The challenge is that, for example, FSC (Forest Stewardship Council) recognizes the specific rules that must be developed internally, so it is a global standard in principle but has actual specific rulings on stake holders inside each country. So countries may not get rid of the problem of worrying about being unfair, but by being supply-chains-focused such concern can be reduced. So I do see some potential.

Governments won't mind if companies are getting rewarded when consumers are paying more, the challenge is that there is no demand posed upon company. There is also possibility that Non-State-Market-Driven doesn't work for some other sectors, for sometimes it's unable to coalesce the interest. When it comes to forest, I see Non-State-Market-Driven working potentially quite well on how to regulate forest companies, or how to create rules to minimize the impact on the environment. But when it comes to land-use allocation, I think Non-State-Market-Driven is a very bad instrument, for it's hard to get enough market incentive for protection. So maybe we need more states' involvement when it comes to land use allocation.

**Reporter:** Can you give a more detailed description of the niche situation? How

to make environmental policies under such situation?

**Ben Cashore:** There are lots of empirical examples of niche market. Sometimes the niche market companies, those who were initially involved, are better off because there are more consumers to buy their product. But sometimes they are worse off because they face competition and lose low value and chair. This depends on price and also on the policy dimension behind it. So a niche market can be created according to the logic of expanding, in which it reinforces the original market, or it could be created that undermines the original customer population. Policy makers must make sure when to reinforce the original market. For example in equal labeling, some companies do not want to become the mainstream, because there is only little room in the market place for certain number of consumers who pay more. If it gets too broad, the price will drop and they lose their market share.

This is an abstract concept but it has practical vocations for designing policies. It's the case you can trigger a bunch of different paths and panels of processes. In environment, you can have multitude path that works, but you need to have principle in mind in designing policies. We need to think about how to avoid a niche market that can't expand.

**Reporter:** For global Timber Legality Verification, China didn't accept it at first. Why do you think China change its attitude afterwards, and what market-driven factor lies behind China's appliance?

**Ben Cashore:** The interesting thing about Legality Verification is that while it is a transnational mechanism, it meant to help governments enforce their own laws, because it's about illegal activity. In Principle, it's not trying to challenge sovereignty at the level of rules, but on the level of mechanism. Ten years later all of the countries which initially opposed give some kind of support, including China. Why these countries give some support at last is because there are greater assurances that there

will be no effort to actually impinge upon sovereignty over substance. There is domestic deliberation, for China still has its own fidelity standard.

Such change refers to the pressure from the European Union and the US trade law, because they need some kind of assurance system. It was until the United States passed the act where it told that any importer who bring woods product into the US must show certain kind of certification, then China got concerned. It will face serious problems in the U.S. for being unable to prove product being legal. But internally the illegal logging file was under the state forestry administration, and the commerce file was under commerce department, so we argue that the forestry administration could regain some lost power domestically. So interaction internally might help explain too.

But again although market signals are strong and clear, they are also abstract, so it's not easy to know what it's really going to happen until we really see how it works.

**Reporter:** The global society has paid more attention to Rainforest in Brazil, what's your opinion on rainforest protection in Brazil? How do you evaluate the effect of Non-State-Market-Driven governance behind it?

**Ben Cashore:** The latest supply-chain-focused effort is now called No Deforestation Commitments. It's getting the private sector to commit not to buy products that would cause deforestation. This is addressed to soya industry in Brazil, what happened was that companies who stop deforesting in 2008 was recognized as part of this no deforestation commitment. A lot of NGOs now think this works. But I think the answer is no. This is a very weak tool. The reason is that no deforestation promises only happen after the deforestation occurred. So you finally get companies to agree to this stuff once their plans for deforestation have already happened. Councils keep moving this kind of dates of deforestation down the time line, they will not sue companies that deforest after 1993, for soya, it's 2008. So I think it accidentally reinforce deforestation for supply chains, not stop it. I think they need to have much

clearer land-use allocation to enforce government to be part of it. Non-State-Market-Driven can help reinforce such efforts absolutely, by certifying companies that are outsiders but part of that solution, but here market itself is a very weak instrument.

I think Galati Verification can play a role in land use allocation and in reinforcing government's policy. But that's different from the Non-State-Market-Driven or the no deforest commitment. Those are too weak, but if you reinforce government's policy it will work. I think environment governance has given too much responsibility to Non-State-Market-Driven, so we should give it pure burdens, and then it can do its job better.

**Reporter:** How do you evaluate China's efforts in dealing with climate change issues and what role do you think China will play on the international scale?

**Ben Cashore:** International norms have influenced on China's domestic approaches. The very norm of doing cap and trade system comes from the Europe and the U.S, so China now has these examples to refer to. China can also help these countries when they are trying to deliberate influence of global policy. It's obvious the case that China's role in international deliberations will be increasingly stronger, for it does not only concern its own interests.

About environmental policies, one thing is how long the policy lasts, the other is how easy it is to change. China has a strong government, it's barely easy to change a policy, but if it did want to, it can change it back. The mechanism for change is the one that if the government wants to, it probably could. In America, the power is so diffuse, so it's hard to change policies. China can do a lot more things quickly. You now see how environmental issues have been paid more attention in China. There are some kinds of combination somehow. In 1970s, the U.S. decides to become a global leader in the government, and China also could, even faster than the U.S.