

# Sustainability labelling schemes: the logic of their claims and their functions for stakeholders<sup>1</sup>

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## Abstract

In this paper I examine the role of labelling and certification schemes in the pursuit of policies to make production and consumption processes more sustainable. I combine a logical analysis of labels with a behavioural analysis of their functions for stakeholders. From a logical point of view, labels are conceived as claims put forward by sellers to inform buyers and other economic agents about certain characteristics of their products or services. In the case of sustainability, labels might identify relevant 'ideals' to approach (e.g., eco-efficiency) and/or significant 'ills' to escape (e.g., dependence on pesticide use or labour in sweatshops). I use Toulmin's argumentation theory to show how claims can be substantiated and challenged. Based on literature on the behaviour of the main stakeholders, I discuss what labelling means for producers, consumers, policymakers and other groups in society. In my conclusions, I draw attention to the way in which societal pressure might interact with market forces to shape the information environment for products and services. As a result, the role of sustainability labels might become more differentiated, varying from direct shopping aids to background quality assurances.

**Keywords:** information disclosure, labelling, claims, sustainable consumption

## 1 Introduction

Labelling and certification schemes are closely connected with the rise of commercial economies in the nineteenth and twentieth century. Labels in the form of trademarks and brand names are part of a rich tradition of practices that sellers have developed to assure buyers of the authenticity of their products or services. In the past, many of these practices have given rise to governmental regulations to prevent misleading claims (Hargin, 1996; Stuyck, 2000). Modern quality assurances are often aimed to attend to changing buyer demands and new competitive positions in the market. Mainly in response to the increasing importance of international trade and multinational supply chains, much work has been done in the last decades to standardise quality control and quality assurance with regard to issues as technical reliability, safety and sanitation. Although this work has been quite effective, it should be noted that even in advanced countries not all the sectors of the economy have reached the same level of quality management. For example, the computer and textiles industries are ahead of the food and wood industries, though the latter are trying to catch up (Holleran, Bredahl, & Zaibet, 1999; Kozak & Maness, 2001).

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Environmental labelling schemes are relatively new in the field of trademarks and brand names, apart from some very specific forerunners, such as the labels certified by biodynamic growers' associations (Browne, Harris, Hofny-Collins et al., 2000; Thøgersen, 2000). The newness applies even more to social labelling schemes and sustainability labelling in general. By their nature, these schemes refer to qualities of products, production processes or services that are not only relevant from a private perspective, such as human health issues, but also from a public perspective, such as issues of biodiversity and social justice. These qualities are neglected by the conventional labelling schemes, but are increasingly recognized by all kinds of actors in the marketplace, including investors, workers, non-governmental organisations (NGOs), and governments (Diller, 1999; Reinhardt, 1998). Apparently, there is a need for more comprehensive labelling and certification schemes that are still compatible with a free-market approach. However, the fact that the qualities in question are relatively new and involve both private and public concerns may preclude their smooth incorporation into the conventional quality assurance systems.

Another problem is that the concept of sustainability refers to long-term balances between ecological, economic and social processes at the level of society as a whole. It is often not possible to fully specify what this concept ideally means at the level of a particular product, production process or service (Pezzey, 1992). With a view to long-term impacts, for example, it may be uncertain whether it is more sustainable to replace a certain product completely than to improve its production process. In the absence of a fully specified ideal model at the level of products and services, there are two more pragmatic strategies one can choose. As the political scientist Charles Lindblom (1990) notes, the first strategy is to identify some relevant 'ideals' to approach (e.g., recycling) whilst acknowledging that these ideals only refer to limited aspects of a complete ideal model. The second strategy is to identify some significant 'ills' to escape (e.g., dependence on pesticide use or labour in sweatshops).

Lindblom (1990: 42-43) argues that it is often easier for a heterogeneous society to agree on the ills to be avoided than on the ideals to be achieved. For example, people who are confronted with social problems can opt to eliminate some of the most severe forms of poverty, although they may not have a broadly shared opinion on the ideal distribution of income and wealth. The same rule may apply to the various issues of sustainability, which can also be identified as ills and ideals. Extreme forms of over-consumption are clearly unwanted, but there are many competing ideas about sustainable production and consumption patterns. Compared with the early 1990s, for example, producers now are more cautious about using 'green claims,' as their initial attempts have been heavily criticised by competitors, consumer organisations and governments (Peattie, 2001; Reinhardt, 1998). Additional attempts to change society in a more sustainable direction will require a deliberate process to discover courses of action that satisfy a whole set of constraints. Accordingly, it is essential to examine the role of sustainability labelling schemes from the perspective of different stakeholders to assess how and under which conditions this instrument might work.

My aim in the present paper is to highlight the role of sustainability labelling schemes by combining a logical analysis of labels with a behavioural analysis of their functions for stakeholders. Section 2 describes labels as claims put forward by sellers to inform buyers. This analysis is elaborated in the following sections, which are based on literature on the behaviour of the main stakeholders. Section 3 takes the perspective of companies. Labelling is seen as one of the ways in which a company can attempt to improve its competitive position in the market and in its wider environment. Section 4 complements this view by describing labels as cues that a buyer can use in the marketplace to learn about certain features of products, production processes or services. Section 5 adds the perspective of policy-makers. Supporting or regulating labelling schemes are tools that policy-makers have at their disposal to correct for information asymmetries in the relationship between sellers and buyers and to achieve environmental or social policy goals. Section 6 regards the interests of other groups. Supporting or criticising labelling schemes are tools that environmental or social NGOs can use to put pressure on producers and consumers to make progress towards sustainability. In Section 7 I shall draw together these discussions and come to conclusions.

## 2. Labels as claims

Labels are not just messages about a product or a service but claims stating that it has particular properties or features. In fact, even the instrument of labelling itself is a claim, as it refers to certain characteristics of the procedure under which the label is awarded. One of the ways to get a better understanding of such claims is to consider them from the perspective of logical theory. From this perspective, a claim is essentially a conclusion whose merits can be established by analysing the arguments on which it is based. Since the arguments will differ, depending on the content of the claim, it is the analysis of their layout or structure that counts.

A general framework for the analysis of arguments has been developed by the British philosopher Stephen Toulmin (1958), who took the discipline of jurisprudence as a starting point to elaborate logical theory in a practical way. Many arguments fit the structure shown in Figure 1 (Kleindorfer, Kunreuther, & Schoemaker, 1993). The general idea is that someone puts forward a claim (C) regarding something on the basis of data (D) that have been collected. The data may be in the form of a description. A relevant example is '*Sustainability labelling discloses certain features of a product or production process.*' In this description the term '*disclosure*' is used because labelling will reveal differences between more sustainable and less sustainable practices, which buyers might have been aware of but which they could not identify in the market. The description (D) has led to the conclusion (C) that '*Sustainability labelling is a kind of quality assurance in the marketplace.*' As shown in Figure 1, the logical relationship between D and C is not a direct one.

In terms of Toulmin, we use warrants (W) to connect the datum with the claim. These warrants are general, bridge-like statements that provide the rationale or plausibility for arguing that D implies C. In this example, the warrant is taken from the field of economics (Reinhardt, 1998) and it can be stated as follows. Buyers will see a feature that is in their interests as a quality of the product. The fact that a product comes from resources

managed in a socially and environmentally acceptable manner is a relevant feature for buyers who are informed of certain unacceptable practices. Their interest in better management becomes clear from their willingness to pay for it. In short, the warrant is ‘Any disclosed feature that informed buyers are willing to pay for is a quality of that product.’ So, almost certainly, ‘Sustainability labelling is a kind of quality assurance.’

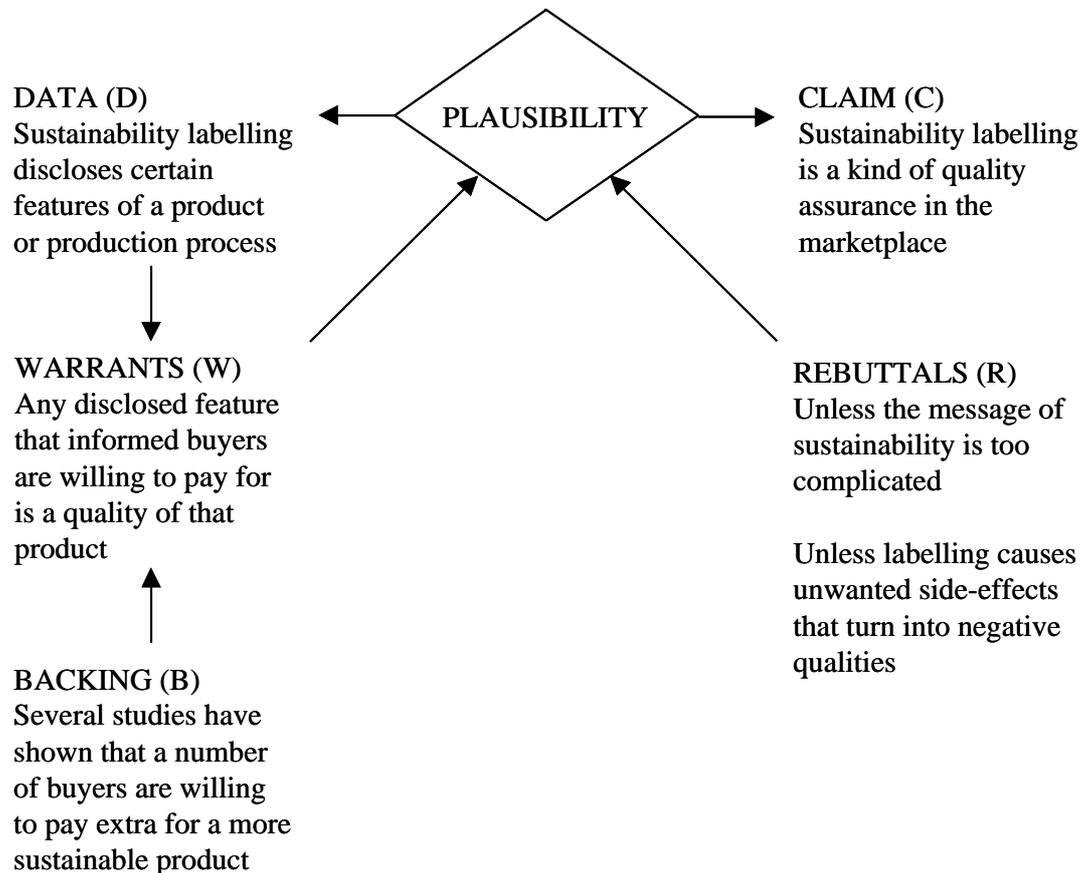


Figure 1 The elements of Toulmin's theory of arguments with an example of their use (lay-out adapted from Toulmin (1958) and Kleindorfer et al (1993)).

As the warrants may not convince anyone who challenges the claim, there will normally be other logical arguments and assurances, without which the warrants themselves would possess neither authority nor currency. This support comes in the form of backings (B), which represent some evident truths or categorical statements of fact, including the relevant sections in the books of law or the scientific literature. In the present example, the backing refers to the field of economics and studies which have shown that at least a number of buyers are willing to pay extra for a product that has been created in a more sustainable manner (Ozanne & Vlosky, 1997).

As a counterforce to the backing, however, there is always an opportunity for rebuttal (R), indicating circumstances in which the general authority of the warrant would have to be set aside. Rebuttals to the present argument are that the message of sustainability is often too complicated for a straightforward quality disclosure and that labelling causes unwanted side-effects in the market, which will turn into negative qualities sooner or

later (e.g., accusations of unfair trading). These rebuttals can lead to a qualified conclusion, such as ‘*Sustainability labelling is a kind of quality assurance in the marketplace, unless its organisers have disregarded the rules of good communication and fair competition.*’

This analysis of the uses of argument may not be final, but it is sufficient for the purpose of the present discussion. However, the claim that sustainability labelling is a kind of quality assurance in the marketplace is not very specific about its nature. A major difference with other quality assurance systems is that sustainability refers not only to private but also to public concerns. How can a private party claim that these concerns are addressed in an appropriate way? Focussing on a hypothetical sustainability label the layout of arguments might be as follows (see Figure 2).

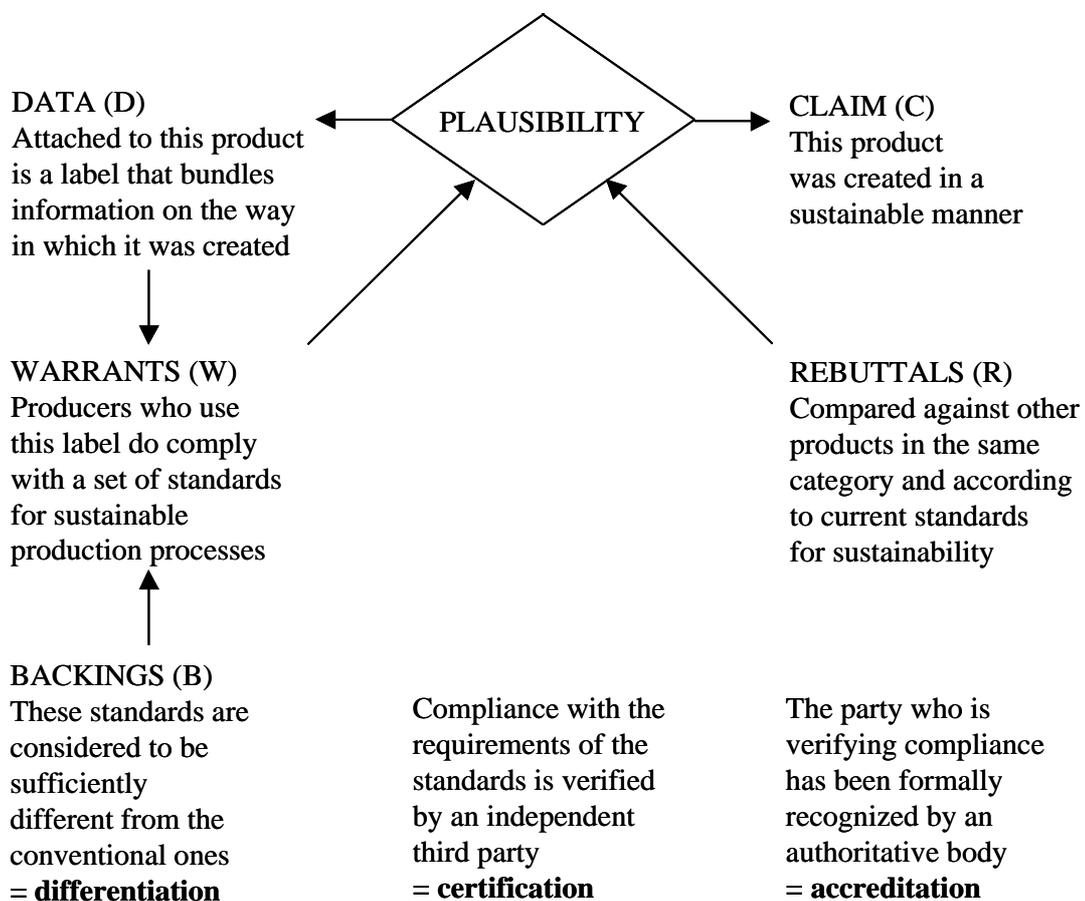


Figure 2 The label on a product is a claim that can be analysed in terms of arguments leading to a conclusion.

In support of the claim (C) that a certain product has been created in a sustainable manner, its producer can appeal to the datum (D) that a special label has been attributed to it, which bundles information about the production process. The warrant (W) is that producers who use such a label do comply with a set of standards for sustainable production processes.

Since, however, questions of sustainability are always subject to qualifications and conditions, the conclusion may be rebutted (R), for example, because the production process is only relatively more sustainable than others and complies only with current standards for sustainability. In case the warrant is challenged, its backing (B) is derived from knowledge about successful quality assurance systems. It states that the standards for sustainable production processes are considered to be sufficiently different from the conventional ones and that compliance with the requirements of the standards is verified by an independent third party.

With regard to the strength of arguments, it can make an important difference whether and how the claim is regulated. It is possible that the claim is regulated by law through legal definitions of the standards it covers or by voluntary instruments. The latter may or may not be recognised by governmental organisations. Their recognition of voluntary instruments can become clear, for example, from financial support or participation in standard setting (Hill and Knowlton, 2000). A closely related point is the authority of the third party. Notably, this party's authority is itself a claim whose plausibility can become subject to argumentation, for example, when its expertise, independence or monitoring capacity is challenged. Accordingly, it can make a difference whether the third party has been formally recognized by an authoritative body.

The layout of arguments shown in Figures 1 and 2 can be used to describe many different labels. The analysis of this layout can reveal which kinds of information, knowledge and value judgements are used to make a claim plausible. In addition, it can show how the initial warrants or backings are challenged and how the claim has to be qualified from a logical point of view. Some straightforward questions are what exactly is being claimed, by whom, and with what kind of warrants and backings? This requires a further analysis of sustainability to identify single issues in the form of 'ideals' or 'ills,' and to assess how the single issues might be combined into a more comprehensive multi-issue label. In view of this, there appears to be a marked difference between environmental labels and social labels. The difference refers to the following.

- Environmental labels, especially the multi-issue eco-labels, are often designed as a benchmark of excellence; the eco-label claims to disclose the top 5% to 30% of the products in a certain category from the perspective of environmental performance.
- Social labels are often designed to become the bottom-line in the market; the label claims to disclose those products or services that have at least been created in a socially acceptable manner.

This difference in strategy has several implications. It means that sustainability labelling cannot simply replace the existing environmental and social labels, as there may be good reasons to keep these instruments. Whether it is relevant to disclose both environmental and social performance will depend, among other things, on the economic sector and the products or services in question. In addition, the companies involved may have their own strategic preferences. Depending on their position in the market and their ambitions, some companies may want to disclose their top-ranking, whereas others may want to disclose their compliance with a proper bottom-line.

An additional strategic point is the difference between generic and sector-specific labels. Generic labels, such as eco-labels, are intended to identify comparable levels of performance, regardless of the product category. It has been argued that generic labels are suitable for product sectors where standards can be easily defined and where no controversial political issues exist (Truffer, Markard, & Wüstenhagen, 2001). For more complex products or products that avoid particular ills (e.g., canned tuna caught in a for dolphins safe way), sector-specific labels have been developed that are tailor-made for the specific problem at hand. Table 1 shows some examples of labels in the various categories.

*Table 1 Examples of labels in the various categories.*

	<b>Label as a benchmark to achieve ideals</b>	<b>Label as a bottom line to avoid ills</b>
<b>Generic labels</b>	EU eco-label	Organic label Fair trade label
<b>Sector-specific labels</b>	Energy consumption label	Dolphin Safe label No Sweat label Green electricity label

Without going into the details of Table 1, it should be mentioned that the position of eco-labels as generic labels meant to achieve 'ideals' has been criticised. For example, a major argument of business representatives (e.g. Shimp, 1999) is the lack of accepted methodology to clearly distinguish individual products across an entire product category. Moreover, the label's claim to identify an 'ideal' has been challenged, because the standards involved are based on an evaluation of products as they exist in the marketplace today, and on publicly known technologies. Thus, the standards cannot anticipate what will develop tomorrow and, instead, can create barriers to innovation. This criticism seems to confirm Lindblom's (1990) observation that it is often harder to agree on the specification of 'ideals' than of 'ills.'

A final point for the present discussion is the question which conclusion can be drawn in the absence of a label. Whether the presence or absence of a label makes a difference will obviously depend on the degree to which environmental and social issues are part of the competition in the marketing of the products or services involved. If these issues are part of the competition, the label's presence or absence can be highly diagnostic for a buyer. In other cases, however, the absence of a label will not be informative at all. It can mean that there are no significant sustainability-related differences between the products or services in a certain category. It can also mean that producers have decided not to compete with each other on a sustainability issue to protect their industry's image and avoid additional costs (IEFE & ICEM - CEEM, 1998). Hence, the logical analysis of a claim is one thing; it is another to find out how that claim is perceived by the actors in the marketplace, such as producers, retailers, purchasers and regulators.

### 3. What labelling means for sellers

Labelling of products, production processes or services is one of the ways in which a company can attempt to improve its competitive position in the market and in its wider

environment. The reasons to choose this option instead of others might be quite diverse, but they can always be translated into traditional business criteria, aimed at short-term and long-term profits. For example, Fineman (1996) has found that even a company with a strong 'social conscience' ethos in the organization will at least ensure that it is still in business at the end of the day. Although a discussion of business criteria is beyond the scope of this paper, it should be noted that these criteria do not necessarily encourage strong competition. For any company there are circumstances in which it is more advantageous to opt for collaboration with other companies or organizations than to proceed on its own. This is particularly relevant for a company's decision on labelling and certification, because these options will often imply both competitive and co-operative aspects.

Before I turn to decisions on labelling, it is necessary to specify how a company might become interested in sustainability issues (i.e. ideals to approach or ills to escape). One obvious reason is that some companies were already free from certain ills, such as farming in a way that is heavily dependent on pesticides, because they did not wish to use this practice (e.g. organic farmers) or simply could not afford it (e.g. small farmers). Other reasons refer to the incentives that can stimulate a company to improve its environmental and social performance. These incentives depend on various kinds of societal pressure, showing the interests of government agencies, shareholders, customers, business associations, environmental or social nongovernmental organizations, and the media (Cashore & Vertinsky, 2000). In varying degrees these actors have the ability to raise and to sustain pressure on certain companies and to turn environmental or social issues into economic ones that affect the companies' profitability. Such pressures are not the same in all sectors and industries. Industries where environmental performance seems to play an important role in the public's perception include chemicals, pharmaceuticals, energy, construction, food and retail (Butz & Plattner, 2000). In addition to differences in the type and the strength of the pressures, there are very different reactions of the companies involved.

A typical reaction is that companies resist any pressure to do more than what is formally required by regulators. Within marketing science it is commonly assumed that this applies in particular to companies that are competing in a cost driven commodity market with largely undifferentiated products, such as paper, grain and crude oil (Miles & Covin, 2000). Price in these markets may be the primary marketing variable that differentiates suppliers. Generally, these companies will enjoy few financial incentives for achieving environmental or social performance beyond compliance. Under specific circumstances, however, they may take additional measures to resolve conflicts with their wider environment. In such a case, for example, it may appear that the initial resistance of a harshly criticized forest company eventually turns into a strong interest in sustainable forestry certification efforts (Cashore et al., 2000).

A more proactive type of response involves that companies seek to take advantage of the pressure on them and their competitors by incorporating sustainability issues into their product or process improvements. The incentives for them to adopt such measures may include strategic advantages over their competitors, cost savings, price premiums for higher quality products, as well as improved relationships with business partners, cus-

tomers and their wider environment (Miles et al., 2000). This response will often require that managers can legitimise the inclusion of sustainability issues as an integral aspect of corporate identity and that they have enough resources ('discretionary slack') for innovation (Reinhardt, 1998; Sharma, 2000). Generally, this is more likely when price is not the primarily basis of competition, when differences between products in a product class are perceived to be significant, when companies are forced to continually improve their products, and when innovations are defensible against imitation by competitors.

An important aspect of societal pressure is that companies are increasingly screened to make sure that they are loyal to, what is often loosely called, 'corporate citizenship' (Butz et al., 2000). This loyalty is not only demanded from the company itself, but also from its business partners in trade networks. As these networks become more varied, companies will need improved control over all the relevant aspects of product quality, including the way the product has been produced. Within international economics, a global commodity chains perspective is used to analyse the functional integration and co-ordination of internationally dispersed activities involved in the design, production, and marketing of a product (Gereffi, 1999). These commodity chains may be driven by large producers (i.e. producer-driven), such as automobile manufacturers, or by large buyers (i.e. buyer-driven), such as large retailers, branded marketers and branded manufacturers. Buyer-driven commodity chains have become common in labour intensive, consumer goods industries (e.g. textiles, foods), which might be particularly vulnerable to society's concern with labour, environmental and product safety standards (Dolan & Humphrey, 2000; Friedman, 2000).

Companies that are in a position to claim voluntarily that their environmental and social performance is fully compatible with societal demands can do so in different ways. When this performance is achieved by all their business units and also by their business partners in the supply chain, they may adopt a 'code of conduct' to articulate their commitments to particular principles and practices (Diller, 1999). Other ways to disclose their position include the publication of corporate reports upon progress against sustainability principles, although it appears that the social dimension of reporting is still a new area (European Environment Agency, 2001). In the field of marketing, a company may invest in its brand or store name to make the relevant sustainability issues consistent with other signals that it is sending to its customers.

When their sustainability performance only refers to certain products or services, companies may use more specific signals to bundle sustainability issues with product quality information and to gain attention from quality-sensitive customers. Such quality signals can be transmitted in many forms. Within information economics, for example, it is assumed that the unobservable quality of certain products, such as durables, can be signalled in the form of high prices when customers understand that it is in the economic self-interest of the company to honour its claims about quality (Kirmani & Rao, 2000). Other signals are logos, warrants, and quality assurance labels certified by the company itself (first-party), by industry-related associations or the country of origin (second-party), or by an independent third party.

A company's decision on sustainability labelling and certification will be governed by strategic and political circumstances, such as the ripeness of certain issues, at the time

the options are contemplated. These circumstances, in turn, will generally depend on its own capabilities, its position in the industry in which it competes, the economic situation of this industry and the industry's public image. Whether an issue is ripe will be influenced on the one hand by technological innovations related to sustainability ideals and on the other hand by public campaigns that emphasize the ills of an industry. For example, in response to societal concern about the harvesting of certain natural resources, such as fish stocks and forests, several collective initiatives are under way to provide companies a market-based incentive to maintain sustainable resources and to counter the common perception by the general public that most fisheries and forest practices do irreversible damage to the natural environment (Kozak et al., 2001; Reinhardt, 1998).

The latter example shows that a company's decision on labelling and certification might involve a mixture of competitive and collaborative strategies. Depending on its size, a company may have different reasons for a collaborative approach, but joint problem solving, cost savings and risk reductions will always be important. For instance, a company may develop its own kind of sustainability standards by largely imitating its best organized competitor (e.g., using benchmarking as a tool of performance improvement (Cox, Mann, & Samson, 1997)), it may comply with the sustainability standards and information requirements developed by its partners in a commodity chain, or it may collaborate with other companies and organizations to improve its own performance and to design a set of standards for a strategically chosen segment of the market (i.e. the top or the bottom-line). The development of a certification scheme means that the companies involved are prepared to share knowledge 'from the kitchen' and want to learn about a particular activity, such as sustainable resource management (Kiker & Putz, 1997).

A collaborative approach can be necessary to overcome barriers to the dissemination of credible information about sustainability issues. The assurance by a distinctive label, indicating collective membership of an organization or certification by an independent third party, may serve this purpose at lower costs than other marketing strategies that can differentiate a product. However, the perceived benefits and costs can also be different. For instance, where brands are trusted by customers, companies may fear that the use of an additional label will serve to undermine this confidence (Zadek, Lingayah, & Forstater, 1998). A related argument is that an increasing number of labels on a product may decrease the value of each additional label. The costs involved with the permission to use the label will also be considered (IEFE & ICEM - CEEM, 1998). Hence, even those companies that can claim that their environmental and social performance is fully compatible with societal demands will not always use a distinctive label for this purpose.

In short, it appears that labelling as a market-based instrument may or may not induce any changes in marketing strategies. Companies in well-established markets may choose a risk-averse strategy (e.g. Moorman, 1998) and that will not always be favourable to real improvements in terms of sustainability. For instance, companies may be reluctant to highlight the relative benefits of a more sustainable product, because they themselves often produce and sell also the conventional brands for which full disclosure would be potentially disadvantageous (Peattie, 2001). As already indicated, companies may even collectively decide not to compete with each other on a sustainability issue to protect

their industry's image and avoid additional costs. Accordingly, much will depend on the pressure of other actors who might emphasize the relevance of the issue.

#### 4. What labelling means for buyers

Labels belong to the cues that a buyer can use in the marketplace to learn about certain features of products, production processes or services. In the case of sustainability, the buyer can learn to differentiate between conventional products and products with distinctive environmental and moral advantages. Regarding the way these cues are used, it is important to distinguish industrial markets from consumer markets (Reinhardt, 1998). In industrial markets, customers have commercial incentives to invest in information about the differentiated products or services, as these might affect their own operations and costs to a very high degree. This businesslike approach to gathering information can also be expected of governments and large institutions seeking to incorporate sustainability considerations into their procurement processes. In contrast, the information needs of consumers are much less determined by a businesslike approach, as they are more sensitive to symbols and emotional appeals. Because the role of labelling and certification schemes in business-to-business relations has already been mentioned in the previous section, this section focuses on their role with regard to consumer markets.

Given the fact that consumers often have limited incentives to invest in information, the idea behind labelling seems to be very straightforward. A label is a distinctive symbol that reveals differences between more sustainable and less sustainable practices, which consumers might have been aware of but which they could not identify in the market. By enabling consumers to identify these differences, it is expected that they will become motivated to buy the labelled products instead of the others. This line of thought might be too simple, however. What happens in practice seems to be that consumers often say to be very concerned about sustainability issues, but that their actual purchases are something of a disappointment to many companies that have tried to create 'green' market segments (Peattie, 2001). An obvious cause of this discrepancy is the level of the premium price that is often charged for the 'green' product. A more general explanation might be that consumers and producers do not recognize or trust each other's intentions and that they need more time to adapt themselves to the changing circumstances in the marketplace. In the following, I shall explore these explanations.

Whether it is the premium price that can explain the behaviour of consumers or some other factor requires a closer look at their motives and lifestyles. Generally, it can be argued that contemporary western societies enable consumers to develop their lifestyles in line with values as identity, pleasure, freedom and equity (Giddens, 1991). By accepting certain products and rejecting others, consumers can develop a moral self, live a morally examined life and take sides in political conflicts. However, there are large differences between consumers in the strength of their motivation to include pro-environmental or moral considerations into their purchasing decisions (Browne et al., 2000; Roberts, 1996). Moreover, many consumers who make an ecologically or ethically motivated choice in the context of a certain product class may not do so in the context of another. The following examples show that consumers are often dealing with mixed motives, which may or may not be consistent:

- Consumers who buy foods produced in an ecologically sound manner may primarily be motivated by considerations related to their personal health, which happen to be consistent with ecological considerations (Wandel & Bugge, 1997).
- Consumers who are well aware of the ethical nature of purchase decisions may not change their buying pattern as long as that would be inconsistent with their loyalty to a particular taste, brand or supplier (Newholm, 2000).

These examples indicate that consumers' preferences cannot simply be read off their purchases in the market. Apart from regular customers of shops that are particularly dedicated to ecological or ethical causes, such as health and natural food stores, there may be large numbers of potential cause-related buyers. In the United Kingdom, for example, it is assumed that only a small percentage (about 2%) of the population are true ethical consumers, who go out of their way to buy on a cause related basis (Browne et al., 2000). About 20 to 30% are said to be semi-ethical consumers, who shop at supermarkets but will buy an ethically sound product sometimes because they are convinced of its claims and are prepared to pay a modest premium. It is estimated that 80% would be ethical if there was no price premium and no special effort was required to buy ethically. Although these figures may vary from country to country, they clearly show the difference between small niche markets and mass markets.

In view of the range between 2% and 80%, the main function of sustainability labelling might be to support the diffusion of ecologically or ethically sound products from small niche markets to mass markets. This diffusion requires a comprehensive marketing strategy that can compete with the strategies developed for other products. For example, an important consequence of the mixed motives of consumers is that they will ordinary not be focussed on ecological or ethical issues when they go out shopping (e.g., to buy new clothes or a pot of paint). As a result, the choice alternatives they consider, i.e. the different stores they visit and the different products they consider buying will not automatically bring them into contact with any labelled products. Even if their set of choice alternatives does include a product with a label, its appeal will often have to compete with other prominent stimuli that marketers place in the immediate decision environment, such as special price tags, to influence consumer behaviour. Therefore, at the moment of the purchase decision, the label's impact will depend on how consumers understand, trust and value its claim in relation to other choice criteria.

Given the many hurdles that might hold consumers back from making a well-informed choice between more sustainable and less sustainable practices, it is presently emphasised in the marketing literature that the companies involved should pay more attention to the question what kind of green product consumers really want (Meyer, 2001; Peattie, 2001). If the only merits of a green product seem to be that it is considered preferable from an environmental or moral point of view, many consumers might not be fully convinced that they should search for that product and pay a price premium for it. In order to create more value for these consumers, both the design and the marketing of a product should be addressed to all the product attributes that they consider relevant, such as functional and esthetical features, together with distinctive environmental and moral advantages. Depending on the product category (e.g., luxuries or necessities) and the market segment the product is aimed at, this strategy might imply that the product's envi-

ronmental and moral advantage is presented as one of its self-evident qualities rather than as its main selling-point.

As a result of these new marketing strategies, it can be expected that the role of environmental and social labels in the communication between consumers and companies will become more differentiated, varying from direct shopping aids to background quality assurances. The present marketing strategies may also involve that the information the labelling is intended to convey to consumers will increasingly refer to the overall corporate image of a store chain or a line of products (e.g., the private label of the Body Shop). In that case the distinctive environmental and moral advantage is claimed by a retailer or producer with regard to an assortment of products. This development might increase the probability that consumers come into contact with a labelled product and that they include it in their set of choice alternatives.

In view of consumers' ability to learn from their information environment, however, it remains to be seen whether the changes in 'green' marketing will enable them to grasp the difference that the labelling implies and to evaluate this difference in terms of their own values. If labelling should help consumers to make more informed choices, they must understand, believe and care about the following topics (Peattie, 2001; Reinhardt, 1998; Truffer et al., 2001; Wessells, Johnston, & Donath, 1999):

- the relevance of the environmental or moral problems involved;
- the links with the choice of a particular product or service;
- the difference between labelled and unlabelled products or services;
- the capabilities of the company (and its backing) to ensure the difference;
- the reasons for a price premium (if any).

Notably, this does not mean that consumers have to think about these topics each time they purchase something. A well-designed marketing strategy can create many opportunities for consumers to learn how to recognize a label and evaluate the meaning of its claim. The idea behind generic labels, such as eco-labels, is that their application to a broad range of products will create more opportunities for learning (Thøgersen, 2000). This learning process may also increase consumers' awareness of sustainability issues in general, even if they don't use the label as a direct shopping aid. Such an additional role of labelling policies is often overlooked (Caswell, 1997).

However, consumer learning is not a smoothly running process. Research has shown (e.g. Alba & Hutchinson, 1999) that consumers are often poorly informed or are slow learners, although it should be added that there is a tendency in the literature to accentuate the negative. Consumers can learn to cope with the complex choice processes of a market-regulated economy, but sustainability issues are often complicated or are contested by pressure groups. In view of this, some obvious differences should be noted between relatively simple and complex labelling schemes. Claims are easier to convey when they provide a clear-cut solution to a well-defined problem. In many cases, however, that is not realistic. In those cases, the emphasis on simplicity might give rise to the rebuttal that the label's claim is incomplete, because some relevant aspects of the problem or the solution have been neglected. This is particularly important with regard to the

question of what 'sustainability' means, because the answers might reveal a serious gap between producers' and consumers' understanding of this concept.

In thinking about sustainability, many people follow the United Nations World Commission on Environment and Development (i.e. the Brundlandt Commission) who linked the project of development to both the state of the natural environment and the issue of social justice (Langhelle, 2000). These three elements can have different meanings, however. Several large companies, such as DuPont and Monsanto, describe sustainability in terms of 'ecologically sound, economically viable and socially acceptable.' In contrast, other organisations as well as consumers may use 'sustainability' as a kind of shorthand for the 'green and good' to indicate production and consumption systems associated with a broader range of attributes, such as community-based efforts to build healthy, just and local food systems (Kloppenborg, Lezberg, de Master et al., 2000). The possible gap between sustainability issues as conceived by large companies and those perceived by consumers might hamper the understanding of sustainability labelling.

To return to an earlier point, it has to be noted that consumers should not only trust the difference between labelled and unlabelled products, but also the reasons for a price premium. As a result of the bad reputation of the 'green' claims in the early 1990s, many consumers have become very sceptical about the behaviour of companies: since most green products are produced and sold by the same companies and retailers as the conventional brands, these companies seem to produce a 'green' product variant at a premium price, regardless of whether production economics requires it or not (Peattie, 2001). This scepticism adds another motive to consumers' purchasing decisions. Those consumers, in particular, who are highly motivated to include pro-environmental or moral considerations into their purchasing decisions may also be highly motivated to scrutinize the claims and the premium prices of labelled products.

## 5. What labelling means for policymakers

Supporting or regulating labelling schemes are tools that policymakers have at their disposal to address some important aspects of two policy issues. The first issue is mainly concerned with the economic interests of consumers and comes down to correcting for asymmetries in information, where sellers have more information than buyers about product qualities. An important aspect of this issue is protection of consumers against any substantial risks associated with a product or service usage, for example through warning labels, and prevention of misleading advertising or deceptive environmental claims. The second issue refers to government policies to achieve sustainability objectives, particularly by promoting the design and marketing of environmentally sound products or services. From the perspective of a policymaker, labelling and certification schemes can be seen as tools that create incentives for business to change the market in a more sustainable direction.

With regard to these wide-ranging policy issues, labelling and certification schemes typically address those aspects that are related to the disclosure of information about products, production methods or services. Clearly, any intervention in the information environment for products or services may have far-reaching consequences in the marketplace, especially if the information refers to culturally 'sensitive' issues, such as health

and moral concerns. This does not only apply to information requirements on product use (e.g., instruction for safe use or disposal), but also to information disclosures that make a market distinction between products with and without a certain advantage. Well-known government interventions include establishing mandatory labelling laws (e.g., to enforce the disclosure of a disadvantage), regulating claims through legal definitions of specific terms (e.g., 'organic'), and providing services to support voluntary labelling (e.g., establishing a body for certification, financing public education). Additionally, governments may incorporate sustainability considerations into public procurement by linking the terms of purchase to labelling and certification schemes. These interventions can often be conceived as complements to or substitutes for other tools, such as the banning of hazardous products, the development of product standards, or the provision of tax incentives for environmentally sound initiatives.

Whether and in which form labelling is an appropriate policy tool for the specific issue involved will, among other things, depend on the regulatory context and its matching socio-cultural tradition. For example, a strong legal and cultural emphasis on consumer right to know combined with consumer responsibility to use the information properly, such as in the United States (Golan, Kuchler, & Mitchell, 2001), makes labelling a policy tool that is highly compatible with the values and practices of all parties concerned (i.e. producers, retailers, consumers and regulators). Unlike a ban, labelling allows consumers to express their preferences in the marketplace and the example of the American Dolphin Safe label (i.e. identifying canned tuna that was caught in a dolphin safe way) shows how consumer pressure can give rise to government regulation of a voluntary label (Constance & Bonanno, 1999; Reinhardt, 1998). Given the strategic role of information in this context, however, potential government interventions may become hotly contested, as they leave much room for legal disputes over the description of claims and appropriate disclaimers (Hill and Knowlton, 2000).

In addition to the legal aspects of information policies, government interventions can be evaluated from an economic and a political perspective. From an economic perspective, the evaluation is often focused on the societal benefits and costs that the interventions are expected to create. Obviously, the benefits and costs are heavily dependent on the specific issue involved. With regard to food safety and nutrition labelling regulations, for example, a large share of the potential benefits are associated with improved health status for consumers and this might be a ground for placing a monetary value on these benefits (Caswell, 1997; Golan et al., 2001). Even in this relatively well-defined case, however, a cost-benefit analysis of labelling programmes is complex, because their impacts on the behaviour of consumers and producers are dependent on many other factors. An additional problem for a cost-benefit analysis of environmental and social labelling is that their potential impacts on society's welfare are much more diverse, as well as more widely distributed in time and space. Accordingly, welfare-based justifications will not be very prominent in decisions on interventions in this type of labelling.

From a political perspective, the evaluation of labelling policies will have to deal with the competing demands of the many groups that are seeking government protection (e.g., producers, retailers, consumers, NGOs). Observers have noted that labelling may often represent a short-term solution to a difficult regulatory problem (Golan et al., 2001). If

there are diverging opinions on the appropriate regulatory response to an issue, labelling can become a compromise that is particularly attractive to policymakers because of its market-based character. For example, labelling may be a second-best solution if the alternative is regulation of imports and international trade disputes, such as in the case of the American Dolphin Safe label. In the long term, labelling can become one of the first steps in a government strategy of gradually increasing pressure on producers and consumers to steer their behaviour in a particular direction (e.g., voluntary labelling as a precursor to mandatory labelling). Although purely information-based policies will usually be insufficient to achieve societal 'ideals' or avoid societal 'ills,' they may effectively prepare the ground for more far-reaching measures.

A final consideration for policymakers in evaluating interventions in labelling refers to potential conflicts between the national right to regulate and international trade-related rules. This point will not be discussed here, because it requires a closer consideration of international institutions. Obviously, there are many differences between countries in the way they are dealing with the issues of consumer protection and sustainability. The need for regulation of these issues is more deeply felt in some countries than in others and this has its effects on the design of interventions in the information environment for products and services. Despite these differences and the resulting lack of harmonisation, however, there are common attempts in various countries to improve the transparency of quality assurances and the substantiation of socially relevant claims, whether they are directly product-related, such as health claims for foods, or not, such as ethical claims (Hill and Knowlton, 2000; Zadek et al., 1998). One of the reasons of this might be that labelling can only keep its status as a market-based policy tool, if policymakers are able to adapt government interventions to the developments in the market and these may require both standardisation and differentiation of quality assurances and claims.

## 6. What labelling means for other groups

Supporting or criticising labelling schemes are tools that environmental or social NGOs can use to put pressure on producers and consumers to make progress towards sustainability. This potential function of labelling for third parties has been highlighted by the economist Julie Caswell (1997), who argues that the analysis of labelling policies should not be restricted to their role as a direct aid to consumers in making purchase decisions. For example, a labelling initiative may stimulate public discussion and crystallise a set of judgements on the environmentally or morally relevant qualities of a product, production method or service. The discussion on these judgements might provide guidelines for appropriate actions by producers, retailers, consumers and other groups. A labelling initiative may also create new relationships between companies and NGOs in the development of standards for practices that are sufficiently more sustainable than the conventional ones (Kiker et al., 1997). This can be particularly important in view of the possible gap between sustainability issues as conceived by large companies and those perceived by other groups.

The role of critics of conventional practices is most fundamentally performed by those NGOs who act in a tradition of opposition to the domination of society by consumerism. Consumerism refers to the particular combination of social arrangements (e.g., shops)

and personal lifestyles (e.g., those of shoppers) that has revolved around the belief that it is good to buy and use a lot of goods. From its early beginning in a number of eighteenth century Western European countries (e.g., Britain, France, the Low Countries and parts of Germany and Italy), consumerism has always provoked opposition, inspired by various moral, esthetical and political themes (Stearns, 2001). At various times and places, many people expressed concern, for example, about the ills of excessive consumption and the evils of commercialism. After the post-World War II recovery, the escalation of consumerism in the United States, Western Europe and many societies elsewhere in the world brought new and renewed kinds of counter-reactions, for example by organisations acting in the interests of consumers, workers, the environment and animal welfare. By the late 1990s, it was the new global economy that, as the historian Peter Stearns (2001: 132) notes, gave rise to a revival of old concerns about consumerism and social inequality through emotional protests against the conduct of international corporations and the international economic framework itself.

Although the rather heterogeneous nature of the opposition to consumerism should not be underestimated, its key themes have much in common with the concept of sustainability. This means that a variety of protest groups and more established NGOs may put pressure on companies and governments, for example by public campaigns or court actions to disseminate information about the environmental and social consequences of consumption. As far as their criticism is based on opposition to consumerism, it is not likely that they will support a labelling initiative to promote sustainable consumption without also promoting other themes, such as consuming less, consuming second hand products or consuming products for a longer time. These themes of what is sometimes called 'voluntary simplicity' are, by their very nature, not designed to fit into the marketing strategies of large companies, but they may be compatible with the patronage of alternative 'ethical' products (Newholm, 2000). A more radical point of view, noted by Peattie (2001), is that labelling will do too little to transform the environmental or social impacts of entire markets and that it should be denounced as potentially counterproductive. In contrast, groups that are closer to the mainstream, such as many consumer organisations, show a broad support for labelling as a tool for sustainable consumption, provided that spurious and misleading claims are eliminated (Consumers International, 1999).

## 7. Conclusions

Taken together, the evidence in the previous sections underlines the special status of sustainability labelling. The claim that a certain product or service has an advantage over a conventional one from the perspective of sustainability is more than just a marketing tool. It refers to ills that can be avoided or ideals that can be achieved in relation to the present production and consumption patterns. By its nature, it is closely connected with the pressure that is generated by all kinds of actors in society to change these patterns in a more sustainable direction. Because this pressure is not the same in all sectors and industries, it is not feasible to draw generalising conclusions on the effectiveness of labelling and certification schemes. What labelling might produce, at the very least, is that it helps to learn more about the relevant ills and ideals through the arguments used to substantiate and to challenge a claim. This learning process requires a transparent organisa-

tion of labelling schemes with enough opportunities for stakeholders to participate in the design of sustainability standards.

A more effective change might be produced through the interaction between societal pressure and market forces. It has been noted that many companies will need improved control over all the relevant aspects of product quality, including the way the product has been produced. This will often require more functional co-ordination of widely dispersed activities and more disclosure of information across the whole supply chain. Improved control is particularly necessary for those companies that want to supply to increasingly discriminating (niche) markets. Sustainability issues (i.e. ideals or ills) may be incorporated into their quality management and quality assurance programmes, but that will depend on various kinds of societal pressure, business strategies, and the ripeness of the issue involved (i.e. innovations and 'hot topics'). Moreover, a company's strategy to improve its sustainability performance may show a mixture of competitive and collaborative approaches. Whether it will disclose its sustainability performance by a distinctive label or by some other means is a matter of benefits and costs in view of its marketing opportunities.

To function as a kind of quality assurance in the marketplace, labelling schemes should not disregard the rules of good communication and fair competition. In view of this, it has appeared that both producers and consumers are still learning how to communicate about sustainability issues in the context of the marketplace. Actually, both of them have to cope with mixed motives, which include other considerations than the environmental and moral advantage of a product. Consumers can learn, but this takes time and also positive experiences instead of lingering doubts about deceptive commercial practices. Similarly, in order to pursue the diffusion of ecologically or ethically sound products from small niche markets to mass markets producers will need time to find out what kind of 'green and good' product consumers really want. Under these changing circumstances, the role of environmental and social labels might become more differentiated, varying from direct shopping aids to background quality assurances.

The potential change in the information environment for products and services may give rise to additional questions about whether and how claims should be regulated. It has been shown that governmental and non-governmental organisations might have various reasons to want to intervene in this context. Government interventions in labelling will often be a complement to or a substitute for other policy tools to improve consumer protection or achieve sustainability objectives. These links with other tools and broader issues have important consequences for the design and the evaluation of an intervention, because labelling will be insufficient to achieve these goals if it is merely an isolated action. Moreover, if policymakers want to optimise the design of this tool, they should adapt the intervention carefully to the developments in the market and these may require both standardisation and differentiation of claims.

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