



Product differentiation

What is product differentiation?

Product differentiation allows agricultural producers and other businesses to demonstrate that their product or service has been created in an environmentally sensitive manner—often referred to as eco-labelling. This may generate opportunities for distinguishing a product in the market, potentially providing a commercial premium and/or improved market access.

What does product differentiation involve?

Eco-labelling schemes are typically implemented by industry groups or non-government organisations. Generally, agricultural producers or businesses apply to register their product with a particular differentiation scheme and an independent party conducts an assessment to determine eligibility. Once a product has received approval it may be marketed accordingly, with ongoing audit processes used to ensure that relevant standards are maintained.

Examples of Australian eco-labelling schemes

Koala Friendly Certification Program

The Australian Koala Foundation is a non-profit organisation that endorses environmentally friendly agricultural production enterprises, particularly those that affect koala populations. Labelling rights are awarded to applicants meeting a rigorous set of criteria

for ecological sustainability and koala conservation. These labels provide market advantage to producers through recognition, while allowing consumers to make an informed choice among products.

Eco Certification

Eco Certification is a similar style of program initiated by Ecotourism Australia. The program aims to provide the tourism industry, local communities and travellers with assurance that products and services such as accommodation, attractions and tours are backed by a commitment to practice sound environmental management. Tourism business operators complete an application that is assessed by an independent body, before an assessment panel makes a decision regarding the level of certification applicable. Businesses pay an annual fee and ongoing audits ensure the maintenance of credibility.

Greenhouse Challenge Plus

The Greenhouse Challenge Plus Program is a joint initiative between the Australian Government and individual organisations. It provides a broader scale example of product differentiation. The program involves businesses signing agreements with the Australian Government that provide a framework for undertaking and reporting on actions to reduce greenhouse gas emissions. As at March 2007, there were over 700 public and private organisations participating in the program with each benefitting from reduced energy costs and the ability to market their product as greenhouse friendly.

Eligibility criteria and credibility

In order to determine the eligibility of landholders or businesses expressing an interest in product differentiation schemes, a set of measurable criteria must be developed. These criteria should be broad enough to incorporate the variety of applications likely to be received, yet specific enough to allow accurate assessment of applications and maintenance of the scheme's credibility.

Eligibility criteria should also be fully transparent, so that potential applicants and consumers may have a full understanding of the environmental standard to which a product or service has been created.

In order to maintain the credibility of a product differentiation scheme, consumers require assurance that claims relating to labeling or marketing campaigns are actually being carried out. Rigorous assessment processes are important to maintain credibility in the scheme and eligibility criteria should be reviewed regularly to reflect emerging best practices. Evaluation processes such as feedback collection from operators and consumers may also be beneficial.

Of particular importance is the implementation of an auditing process to ensure that products and services continue to be produced following the environmental standards or procedures that were originally assessed for eligibility purposes.

Resource requirements

While eco-labelling schemes are typically implemented by industry groups or non-government organisations, government agencies may promote their development within particular regions.

Organisations responsible for product differentiation schemes will be faced with the cost of developing and refining an accreditation process, assessing applications and managing ongoing compliance and auditing regimes.

Related information

The Australian Koala Foundation's certified koala friendly products
www.savethekoala.com/ecolabel.html

Ecotourism Australia's Eco Certification Program
www.qualitytourism.com.au
www.ecotourism.org.au/eco_certification.asp

Greenhouse Challenge Plus
www.greenhouse.gov.au/challenge/index.html

Other factsheets in this series include:

- What are Market Based Instruments?
- Auctions or land management tenders
- Conservation agreements
- Tax incentives
- Cap and trade
- Offsets
- Leveraging private investment
- Revolving funds
- Environmental risk management.

For more information on Market Based Instruments please contact

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www.daff.gov.au/natural-resources/vegetation/market-based