

Component-free strategy of firms under pressure from the NGOs*

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Abstract

There is a growing pressure of NGO on firms to have them eliminate a component (as oil palm) harmful for the environment (as rainforests) from their products or to replace such a component with a sustainable substitute component the NGO certifies. Under which conditions NGO's pressure leads a firm to eliminate basic component in its product or, alternatively, to substitute a damaging component with the certified sustainable component? What are the ensuing effects on welfare? This paper addresses these issues using a model of two-dimensional vertical product differentiation.

Keywords: NGO; Eco-label; Environmental quality; Product differentiation

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