

## INTEGRATED ASSESSMENT OF TRADE-RELATED POLICIES

Submission by UNEP

### I. INTRODUCTION

1. With the recent acceleration of global trade, countries throughout the world have benefited from more investment, industrial development, employment and income growth. These benefits are widely recognized; however, they are developing unevenly across and within countries, and some countries are finding that free trade has resulted in substantial environmental and developmental costs that outweigh the economic benefits they have experienced. Within these countries, globalization and free trade are associated with growing national debt, poverty, natural resource depletion and environmental degradation.

2. There is a growing awareness that, in order to benefit from trade liberalization, integrated policy-making is needed. Policies developed in a coherent manner could promote more uniform and stable economic growth while conserving natural resources, protecting the environment and providing a more equitable access to the benefits of free trade to marginalized economies and impoverished communities world-wide.

3. The need for a comprehensive approach to coordinated policy-making is not new. It was recognized by the international community at the United Nations Conference on Environment and Development (UNCED) in 1992, and the United Nations Commission for Sustainable Development (CSD) continues to promote its further development.

4. Given international recognition of the links between environment and development, it would have been expected that recent trends towards environmental degradation and deteriorating social welfare should have been reversed, or at least slowed down, and economic activity shifted to a more sustainable pattern. However, policy coordination necessary to achieve these objectives at the national level as well as at the international level is still lacking.

5. There is now a growing recognition of the need to develop and apply an integrated assessment methodology which provides a balanced approach to assessing the economic, environmental and social effects pertaining to a particular policy.

6. UNEP's work on integrated assessment benefits from its work in the area of environmental assessment since the organization's establishment in the early 1970s. Throughout this period, UNEP has worked and continues to work closely with governments to assist them in their efforts to enhance their institutional and human capacities for integrating environmental considerations in development planning and decision-making.

7. In 1992, the UNCED specifically requested UNEP to include in its work the "*further development and promotion of the widest possible use of environmental impact assessment, including activities carried out under the auspices of the United Nations specialized agencies*".

8. In 1999, based on demands for technical assistance from a number of developing countries to initiate their own assessments of trade, UNEP established an international working group comprising a multi-disciplinary team of environmental, social, economic, and trade experts to develop a structured, yet flexible integrated assessment (IA) manual of trade-related policies.

9. The manual is intended to:

- Provide a general approach and framework for integrated (economic, environmental, and social) assessments comprising a menu of options through which a user can develop a methodological approach to integrated assessment which can be adapted to national requirements and needs.
- Assist negotiators, policy makers and practitioners to assess trade and trade-related policies against widely accepted sustainable development criteria.

## II. CHALLENGES FOR THE DEVELOPMENT OF INTEGRATED ASSESSMENT

10. The IA development process must respond to many challenges before it can become a practical tool in the trade-environment-development policy-making. The key challenges facing the development of an IA methodology are to operationalize the Rio principles. In developing the manual, the following challenges are specifically being addressed:

- Economic, environmental and social assessments continue to be undertaken in most of the cases as parallel exercises without sufficient linkages between them. Methodologies and techniques need to be developed to pool these assessments together to provide a more balanced approach to assessments with different weights given to the different dimensions based on countries' priorities and requirements for sustainable development. Agenda 21 recommends that governments “*ensure the integration of economic, social and environmental considerations in decision-making at all levels*”.
- IA should support an equitable distribution of costs and benefits of trade liberalization. Globalization has been characterized by distorted markets and trade rules that do not sufficiently provide a level playing field for all subscribing nations. Therefore, the benefits of globalization have not been shared equitably. This is resulting in a growing polarization between people and countries benefiting from globalization and others that are passive recipients of its negative trends – in particular, growing income disparities, natural resource depletion, environmental degradation and associated health hazards. In order to help reverse these negative trends, IA should assist policy-makers to identify the imbalances of current and projected trade activity, both at the national and international levels. Rio Principle 16 recommends that costs associated with particular activities be compensated uniquely by those responsible for their generation: “*the polluter should, in principle, bear the cost of pollution*”.
- Through a clarification of the relationships between trade, environment and development, IA can provide an assessment of the trade-offs involved in policy-making, and can thus help identify those policy options which can enhance the positive, and avoid the negative, impacts of trade liberalization.
- IA should be used not only as a tool to identify the negative impacts of trade liberalization, but more importantly, as a tool to promote the development and implementation of mutually supportive trade and environment policies to achieve sustainable development objectives.

- IA results should lead to the identification of appropriate flanking policies, including market-based instruments, to address and rectify negative environmental and developmental implications of trade policies. IA should therefore incorporate the development of policy response packages to implement sustainable trade and environment policies.
- The internalization of externalities is an important step towards curbing environmental degradation and related social problems for both developed and developing countries. IA should aim at internalizing environmental costs. Rio Principle 16 states that “*National authorities should endeavour to promote the internalization of environmental costs and the use of economic instruments.*”
- Incorporating environmental and natural resource valuation in IA could provide a useful input in the system of national accounts in order to provide a true picture to the GDP. In that sense, IA could thus be used to provide a true indicator of the overall effect of a trade policy on sustainable economic growth as reflected in systems of national accounts. Agenda 21 highlights the need for countries to “*expand existing systems of national economic accounts to integrate environmental and social dimensions in the accounting framework*”.
- Progress in moving from isolated to integrated policy-making has been limited. At the national level in most countries, trade policy and environmental policy are developed separately by distinct sets of policy regimes, and at the international level, WTO trade agreements and MEAs are elaborated independently. IA should be designed to enhance coordination between trade and environment ministries as well as other sectoral ministries.
- It is essential to clearly define the scope of the assessment from the outset. This could include the specific sector to be assessed, a particular ecosystem, or geographic area. It could also include the type of policies being considered which may include trade related policies such as macroeconomic policies, structural adjustment programmes, and investment policies, as well as an analysis of cross sectoral linkages. The geographical scope of the assessment should be defined according to the extent to which impacts are expected to extend, including transboundary as well as international implications. Rio Principle 2 states that: “*States have ... the sovereign right to exploit their own resources pursuant to their own environmental and developmental policies, and the responsibility to ensure that activities within their jurisdiction or control do not cause damage to the environment of other States or of areas beyond the limits of national jurisdiction.*”
- There is increasing recognition to the importance of *ex ante* assessments. Such assessments allow relevant environmental and developmental issues to be brought forward and considered in the formulation of trade policies and at an early stage of negotiations so that the implications of a trade agreement can be clearly identified early in the process. IA methodology should also allow concurrent as well as *ex post* assessments of trade policies. It should be emphasized that an assessment should be considered as an ongoing process to allow for a continuous review and the introduction of the necessary policy measures required to enhance positive outcomes and address negative implications. Agenda 21 emphasizes the need for countries to “*shift time horizons in programme planning and implementation to permit an enhancement of their ability to respond to new longer-term challenges rather than concentrating only on immediate problems*”.
- IA should ensure stakeholder involvement and a wide participatory approach. This does not only contribute to a better understanding of the potential impacts of a trade agreement and to the identification of appropriate complementary policy measures or

alternative options; it also ensures transparency and national “ownership” of the process and its outcome. Moreover, bringing different stakeholders together promotes coordinated policy development and integration. An increase in participatory involvement leads to a clearer recognition of stakeholder concerns allowing policy-makers to address them. As emphasized in Agenda 21, *“One of the fundamental prerequisites for the achievement of sustainable development is broad public participation in decision-making.”*

- Respecting indigenous knowledge and culture is an important element which should be integrated in an assessment process. This would clearly acknowledge the important role indigenous people and local communities play in achieving sustainable development and will ensure the support and contribution of local communities in environmental protection and conservation activities. According to Rio Principle 22 *“Indigenous people and their communities ... have a vital role in environmental management and development because of their knowledge and traditional practices. States should recognize and duly support their identity, culture and interests and enable their effective participation in the achievement of sustainable development”*.
- Poverty and environmental degradation partially result from markets that externalize the environmental and social costs of economic activities. IA should help identify the causal linkages between poverty and environmental variables and to derive better estimates of the degree to which environmental protection can contribute to poverty alleviation.
- IA should identify the special needs of developing countries in relation to the expected outcome of the proposed trade agreement, thus facilitating the design of specific measures and provisions in a trade agreement in order to properly account and provide for such needs. Specifically, these needs include capacity building, preferential treatment under trade agreements, debt relief, investment, technology transfer and development assistance. Following the Rio Declaration, developed countries have a major responsibility to help meet these needs, and trade negotiations should reflect this. Rio Principle 3 clearly refers to the responsibility nations have in this regard: *“The right to development must be fulfilled so as to equitably meet developmental and environmental needs of present and future generations”*. The different responsibilities of countries are recognized in Rio Principle 7: *“States have common but differentiated responsibilities. The developed countries acknowledge the responsibility that they bear in the international pursuit of sustainable development”*. Furthermore, Rio Principle 6 the different needs of countries, stressing that *“The special situation and needs of developing countries, particularly the least developed and those most environmentally vulnerable, shall be given special priority”*.
- IA should include monitoring and follow-up as part and parcel of the assessment exercise. Indeed, Agenda 21 emphasizes the importance of conducting activities at the national level, recommending *“monitoring and evaluating the development process systematically, conducting regular reviews of the human resources development, economic and social conditions and trends, the state of the environment and natural resources”*.
- At the national level, the capacities of governments, national research institutions, industry, the private sector and NGOs needs to be further strengthened to undertake IA. In this regard UNEP jointly with UNCTAD have launched a Capacity Building Task Force on Trade, Environment and Development, one of the main objectives of which is to enhance countries' capacities to undertake IAs.

### **III. FUTURE DIRECTIONS FOR IA: THE ROLE OF UNEP**

11. The expert group established to support the preparation of the manual reviewed the first draft in December 1999 in Geneva and refined the outline during a second meeting in March 2000 in Imbabura, Ecuador. A briefing session was organized at the margins of CSD-8 in New York to present an outline of the manual and receive feedback from governments and NGOs on its objectives and content. A revised version of the manual was reviewed by the expert group in June 2000 in Geneva. The manual is expected to be completed later this year.

12. The manual will be applied in the six country projects on the impacts of trade liberalization on specific sectors recently initiated by UNEP in Argentina, China, Ecuador, Nigeria, Senegal and Tanzania. This second round of country projects follows those implemented in Bangladesh, Chile, India, Romania and Uganda. These projects were entirely country-driven – conceived, designed and conducted by national teams of practitioners. Project studies encompassed new solution-oriented research on unique trade-related environmental problems and their social and economic implications in diverse sectors.

13. The projects involve multi-stakeholder participation to identify the dynamics involved in environmental degradation, and to develop widely acceptable national response strategies. Each country project concludes by recommending a set of practical measures – comprising command-and-control regulations, voluntary initiatives and economic instruments designed to meet national conditions – that significantly reduce trade-related environmental degradation while not negatively affecting trade. The projects do not just end with published studies; their final component involves pilot implementation of proposed measures undertaken by national authorities in collaboration with each project's national team and with technical assistance from UNEP.

14. UNEP will draw lessons from the use of this manual in these projects to refine and revise the methodology. The manual should be considered as a living document.

15. UNEP is prepared to give a presentation to the CTE in its October meeting, subject to the interest of WTO Members, on the extent to which the manual has been applied in a selected number of countries in Asia, Africa and Latin America. The institutions in the countries undertaking the IAs would be invited, on behalf of UNEP, to present their practical experience with the manual.

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