

Committee on Trade and Environment

TRADE LIBERALIZATION, THE ENVIRONMENT AND
SUSTAINABLE DEVELOPMENT

Submission by Australia

I. INTRODUCTION

1. The Marrakesh Decision on Trade and Environment provides for the Committee on Trade and Environment to identify the relationship between trade measures and environmental measures, in order to promote sustainable development, and in the light of this analysis to make appropriate recommendations on whether any modifications of the provisions of the multilateral trading system are required. A central theme in the CTE's mandate is the relationship between trade liberalization, the environment and the promotion of sustainable development and it underlays many aspects of its work programme.

- (i) Several Items on the work programme concern the relationship between the multilateral trade rules and environmental policies. A key consideration in this area is a concern to ensure that these rules do not place inappropriate constraints on the use of measures which may be necessary to achieve sound environmental management in parallel with the economic growth promoted by trade liberalization.
- (ii) A number of Items concern the effect of environmental measures on market access. There is concern that environmental measures might erode some of the market access opportunities expected from trade liberalization, including the reforms achieved in the Uruguay Round. The Marrakesh Decision draws special attention to the need to examine this issue in relation to the concerns of developing countries, in particular the least-developed among them.
- (iii) Another important issue in the CTE's mandate is the examination of the environmental benefits of removing trade restrictions and distortions. There may be opportunities for "win-win" reforms that create fairer and more open trading conditions and at the same time dismantle policies that have provided incentives for environmentally-damaging behaviour.

2. The importance of the relationship between trade liberalization and the environment to the CTE's work is clear from the preamble to the Marrakesh Agreement establishing the World Trade Organization. This states the desire of WTO Members to conduct their relations in the field of trade and economic endeavour in a way which allows for the optimal use of the world's resources in accordance with the objective of sustainable development. The preamble highlights the need to ensure that the international community's efforts to raise living standards, to promote full employment and a growing volume of real income and effective demand, and to expand the

production of and trade in goods and services, are consistent with efforts to protect and preserve the environment.

3. This submission proposes some major themes for guiding the CTE's work as it examines the important issues set out in the preamble to the Agreement establishing the WTO in relation to the various Items on its work programme. In particular, the submission suggests some key elements which should figure prominently in the CTE's Report to the first biennial meeting of the Ministerial Conference in Singapore in December 1996. These relate to the following themes:

- (i) the rejection of perceptions that there is a conflict between the pursuit of trade liberalization and the protection of the environment;
- (ii) the role of complementary and effective environmental policies in addressing any environmental concerns raised by trade liberalization;
- (iii) the consistency and complementarity between a strong multilateral trading system that advances trade liberalization and effective action at the national level and in appropriate international fora to promote environmental objectives; and
- (iv) the need for a continuing work programme examining the environmental benefits of removing trade restrictions and distortions.

4. The CTE should recommend that its future work programme encompass an analysis of the relationship between trade liberalization and the environment for:

- (i) a broad set of trade restrictions and distortions, including high tariffs, tariff escalation, subsidies, non-tariff measures and high internal taxes; and
- (ii) a range of trade sectors, including agricultural products, natural resource-based products, processed commodities, textiles and clothing and other industrial products.

5. The submission outlines a number of the key issues that should be addressed in this work programme in relation to:

- (i) the concerns of low-income commodity-dependent countries; and
- (ii) agricultural trade reform.

II. THE ROLE OF COMPLEMENTARY ENVIRONMENTAL POLICIES

6. The international community has recognized that trade liberalization has the potential to deliver significant environmental benefits through promoting a more efficient allocation and use of resources, but has also emphasized the importance of complementary environmental policies. Both the United Nations Conference on Environment and Development (UNCED) and the Commission on Sustainable Development (CSD) have pointed out that trade liberalization should not be seen as in conflict with the goal of improved environmental protection. Agenda 21 clearly highlighted the fact that the promotion of sustainable development requires both further initiatives to strengthen and continue the liberalization of the trading system, and action to put in place complementary environmental policies to ensure environmental quality.

7. In most cases, the critical issue in determining the environmental impacts of trade liberalization would appear to be the environmental policies in place. When appropriate environmental policies are present, trade liberalization can make a direct contribution to improving a country's environmental management. Import liberalization can facilitate the raising of environmental standards through improving access to inputs and products which are environmentally more friendly and assist with the introduction of environmentally-sound technologies. In addition, trade liberalization can remove environmentally-damaging trade measures and promote more open economies and rising incomes, which see growing demands for environmental protection and the availability of more resources to respond to these demands.

8. However, the potential contribution of trade liberalization to a country's more efficient and ecologically-sustainable use of resources will only be fully realized if effective environmental policies are in place. A key issue is the failure of markets to adequately value environmental costs and benefits, and policy action to address market failures may be needed to ensure sustainable management of natural resources and enhance environmental quality. Improvements in social welfare involve giving priority to the promotion of environmental quality as well as economic growth.

9. Appropriate and effective environmental policies may differ between countries. UNCED recognized that environmental standards applied by some countries may be inappropriate and of unwarranted economic and social cost to other countries, in particular developing countries.

10. In certain circumstances, when appropriate policies for sound environmental management are not in place, trade liberalization may exacerbate existing environmental problems. An important issue for a country's policy makers is the design, sequencing and implementation of complementary environmental policies to address any environmental concerns raised by trade liberalization in its specific situation.

11. Agenda 21 pointed to the importance of dealing with the root causes of environment and development problems in a manner that avoids the adoption of environmental measures resulting in unjustified restrictions on trade. There may be more direct instruments than trade measures available for addressing any particular environmental problem, and these other instruments are likely to be more efficient and effective because they influence the use of environmental resources more directly. Trying to achieve environmental objectives through trade measures can even, in specific circumstances, encourage inefficient and high cost industries that place different but possibly even greater and more wasteful demands on the use of environmental resources.

12. In its Report, the CTE should firmly reject perceptions that there is a conflict between the objectives and values of the multilateral trading system and the objectives of environmental protection. The CTE should emphasize the complementarity between a strong multilateral trading system that advances trade liberalization and effective action at the national level and in appropriate international fora to advance environmental goals. This complementary action is one of the central ways in which trade and environment policies can be made mutually supportive in advancing sustainable development.

III. THE ENVIRONMENTAL BENEFITS OF REMOVING TRADE RESTRICTIONS AND DISTORTIONS

13. Trade liberalization involves the reduction or removal of production and export subsidies, tariffs and non-tariff barriers across traded goods and services. These barriers to trade distort prices and result in the misallocation of resources in favour of protected industries. Trade liberalization promotes an economically more efficient allocation and use of resources, including international relocations of production and consumption.

14. Trade liberalization contributes to an increase in economic efficiency, although this may not equate to improvements in environmental efficiency and sustainability. Resource use will be sub-optimal if the prices of goods and services do not reflect the full social cost of their production and use. However, an increase in economic efficiency should benefit the environment generally in that less resources will be used to produce a given amount of goods and services. There may also be direct and possibly substantial environmental benefits if trade liberalization is complemented by appropriate domestic policies, including pricing strategies for natural resources aimed at reflecting in their prices the costs of the environmental impacts associated with their production and use.

15. Furthermore, a strong multilateral trading system may contribute to a supportive international economic framework for the adoption of appropriate domestic environmental policies, including policies to promote the better valuation of environmental resources. An important constraint which these policies may often face is poverty as the very poor may lack the resources, infrastructure and technical and financial support to avoid degrading their environment.

16. The relationship between poverty and environmental degradation is well recognized and many of the world's poor live in ecologically fragile areas. The Rio Declaration on Environment and Development emphasized that the task of eradicating poverty is an indispensable requirement for sustainable development. Policies to promote proper valuation of environmental assets and sustainable use of resources may have little effect if poor communities continue to face inadequate incomes and other pressures leading them to over-exploit natural resources.

17. In such situations, providing poor producers with opportunities for improving their incomes may often be an essential ingredient in creating conditions to promote more sustainable use of resources, encourage better protection of the environment and implement policies aimed at improving the incorporation of environmental costs and benefits in decision making. For example, the United Nations Convention to Combat Desertification has drawn attention to the close association between socio-economic conditions, widespread poverty and desertification, and the importance of action by the international community to establish an enabling international economic environment as a means of supporting the efforts of countries to combat desertification.

18. The multilateral trading system can make an important contribution to facilitating the actions of domestic policy makers in addressing desertification and other environmental challenges through creating opportunities to earn income that will assist the poor to be active participants in the development process. However, the problems of environmental damage due to poverty and the failure of markets to value environmental costs and benefits have often been made worse by inappropriate government interventions. These have encouraged inefficient resource allocation and led to environmentally-harmful behaviour. These policies include a range of trade and trade-related policies which have distorted markets in ways which have not only unfairly affected the economic opportunities of producers in other countries but promoted poor environmental

outcomes and depletion of resources. Examples include import bans or restrictions, input subsidies on energy, water, pesticides and fertilizers, and domestic price support schemes.

19. Both economic and environmental benefits can be achieved by removing price distorting policies that encourage over-use of resources and promote inappropriate activities at the expense of environmental values. Reform of these distorting policies can lead to more open and fairer trading conditions while removing incentives for environmentally-damaging behaviour. At the same time complementary policies can help to ensure that these reforms contribute to improved environmental outcomes and promote social equity.

20. The CTE should examine the environmental consequences of a broad set of trade restrictions and distortions, and across a range of trade sectors, including:

- (i) high tariffs for a range of products, including processed commodities, textiles and clothing, other industrial products and agricultural commodities subject to tariffication in the Uruguay Round;
- (ii) tariff escalation, especially in the forestry, mining, fisheries and agriculture areas; an important issue in this context is increased tariff escalation in some areas following the Uruguay Round;
- (iii) subsidies, especially for agricultural products, energy sources and natural resource-based products generally;
- (iv) non-tariff measures that might restrict market access; and
- (v) high internal taxes on tropical commodities.

21. This submission outlines some of the issues which the CTE should examine as part of this work programme in relation to:

- (i) the concerns of low-income commodity-dependent countries; and
- (ii) agricultural trade reform.

IV. THE ENVIRONMENTAL BENEFITS OF ACTION TO ADDRESS THE CONCERNS OF LOW-INCOME COMMODITY-DEPENDENT COUNTRIES

22. Participation in world trade remains strikingly uneven. The poorest countries, representing 20 per cent of the world's population, account for less than one per cent of world trade, while the wealthiest countries representing a similar percentage of the world's population account for 84 per cent of world trade.¹ Furthermore, this disparity has widened since the 1960s.²

23. Many of the countries with only a limited participation in world trade retain a high dependence on a narrow range of primary commodities for export earnings. These countries experienced significantly unfavourable movements in the terms of trade from the mid-1980s affecting all major commodity groups. Real commodity prices fell by more than 50 per cent

¹UNDP, Human Development Report 1994, (New York: Oxford University Press, 1994), p. 63 (estimate for 1991).

²UNDP, Human Development Report 1992, (New York: Oxford University Press, 1992), pp. 35-36.

between 1980 and 1993, with a particularly marked decline for tropical beverages.³ Despite a price recovery in 1994-1995, real prices were still generally well below the levels reached in the 1970s and early 1980s. In addition, the price volatility of these commodities has often meant large fluctuations in export earnings with adverse effects on development.

24. It would appear that a key issue is the degree of diversification within the commodity sector and not only diversification out of the sector.⁴ A high dependence on exports of a small number of commodities has resulted in many countries having a high vulnerability to sector-specific adverse changes on commodity markets. It has been suggested that many countries "are trapped in a vicious circle", with the existing production structures able to generate little diversification, and inadequate export earnings and external resource flows constraining the availability of imports needed to facilitate structural change.⁵

25. In many low-income commodity-dependent countries, and other countries with a marginal participation in world trade, major environmental problems are closely linked to poverty, including inadequate sanitation, lack of access to clean water, indoor air pollution from biomass burning and many types of land degradation.⁶ In these conditions, efforts to improve environmental management may often face "income constraints". The danger is that policies aimed at improving the valuation of environmental resources may be unsuccessful if they reduce the income of already poor producers who have few alternative sources of employment. Falling incomes may perpetuate, or even worsen, environmentally-damaging activities.⁷

26. In examining the question of how to ensure that the potential of the multilateral trading system to contribute to the promotion of sustainable development is realized, one issue which needs attention is the challenge of supporting those countries still heavily reliant on exports of a limited range of primary commodities and whose participation in international trade remains marginal. This commodity-dependence may make it very difficult for these countries to ensure sustainable management of their resources, as any decline in export earnings would severely affect their development efforts.

27. The benefits of investment in resource conservation may only be realized after several years, and in some cases the switch to more sustainable production practices may involve a temporary loss of income. These challenges may be particularly significant for countries still reliant on exports of a few commodities.

28. Expansion and diversification of export opportunities, including diversification into higher value-added products, could assist these countries in their efforts to both reduce poverty and protect the environment. Actions to reduce tariff escalation in their export markets, and to address high tariffs and non-tariff barriers on products of export interest to them, could provide a more supportive international framework for efforts to promote a more diversified economic

³World Bank, Global Economic Prospects and the Developing Countries 1994, (Washington, D.C.: The World Bank, 1994), pp. 12-13.

⁴UNCTAD, "Improving Market Opportunities for Commodities, in the Medium Term, with Emphasis on Achieving Diversification", Document TD/B/CN.1/24 (Geneva, 11 August 1994).

⁵UNCTAD, Trade and Development Report, 1993, (New York: United Nations, 1993), p. 100.

⁶World Bank, World Development Report 1992: Development and the Environment, (New York: Oxford University Press, 1992).

⁷L. Karp with C. Dumas, B.Koo and S. Sacheti, "Internalization of Environmental Damages in Agriculture", paper prepared for UNCTAD, Document UNCTAD/COM/53 (Geneva, 25 April 1995).

structure in commodity-dependent countries and to improve incentives for investment in resource conservation. In particular, predictable and bound market access opportunities may be an important factor in creating an enabling environment for longer term investment in new production activities.

29. At the same time, the evidence of countries' experience in relation to diversification suggests that initiatives to open markets and bind access opportunities need to be complemented by policies to improve supply capacity, generate investment funds, assist with structural change, increase competitiveness and strengthen the ability of industries in commodity-dependent and other developing countries to take advantage of market opportunities.⁸ Furthermore, complementary policies to protect the environment and directly target the needs of poor communities may be necessary if the development of more diversified economic structures is to be accompanied by improvements in social welfare.

30. In its Report the CTE should prominently highlight the need to address the problems of low-income commodity-dependent countries and other countries which remain marginal participants in world trade. It should point to the fact that the most urgent environmental problems they face are often different from those of many other countries and the contribution which the multilateral trading system might play in helping them respond to these problems.

31. The CTE should emphasize that a central part of its future work programme should be the examination of the environmental benefits of actions to assist low-income commodity-dependent countries improve their export opportunities, including through addressing tariff escalation, high tariffs and non-tariff barriers for processed commodities, textiles and clothing and other industrial products. The CTE's work programme should also point to the role of complementary actions at both the national level and in a range of international fora in addressing the problems of commodity-dependency, including in relation to technical assistance and cooperation and other actions which may come within the competence of the WTO. The trade and environment debate provides an important opportunity to bring renewed attention to these issues.

V. THE ENVIRONMENTAL BENEFITS OF FURTHER AGRICULTURAL TRADE REFORM

32. Another area which should figure prominently in the CTE's continuing work programme is that of agricultural subsidies and high tariffs for many agricultural products. Agriculture has a more immediate interaction with the environment than most other areas of trade. Not only does agricultural production have a direct impact on the environment, but it is also very vulnerable to changes in environmental conditions. Over-use of resources and unsustainable practices can lead to severe land degradation and impose a heavy price in terms of reduced agricultural productivity in the future. Some agricultural production activities may also have environmental and social benefits which are not adequately valued by market prices. In many countries, the promotion of more ecologically-sustainable agricultural production is a key requirement for both alleviating poverty and protecting the environment.

33. The multilateral trading system has the potential to make a significant contribution to the promotion of more sustainable agricultural production. It may provide efficient agricultural producers with a more certain and predictable trading framework that can assist them to adopt production practices directed at long-term sustainability and conservation of the resource base.

⁸UNCTAD, "Recent Developments in the Diversification of Developing Countries' Commodity Exports", Document UNCTAD/COM/62 (Geneva, 26 July 1995).

Agricultural trade can also generate income earning opportunities for the rural poor and facilitate efforts to break the link between poverty and environmental degradation.

34. However, a range of trade distorting policies have limited this potential. It is well recognized that the provision of agricultural assistance through output-related policies in many OECD countries have imposed high environmental costs in those countries. Studies indicate that these policies have encouraged intensified land use, led to increased applications of fertilizers and chemical pesticides, contributed to the adoption of intensive animal production practices linked with increased pollution and overgrazing, promoted monoculture agriculture and lessened agricultural diversity, and increased pressures for expansion of production into marginal and ecologically sensitive areas at the expense of biodiversity.⁹ Instead of promoting better environmental management, these agricultural policies have too often shielded farmers from both market signals and the need to confront the environmental impacts of agricultural practices.

35. The reliance on domestic agricultural policies that sought to maintain high, stable prices for producers irrespective of market demand also led to the use of restrictive trade policies. There was a resort to import barriers to prevent the domestic programmes being undermined by products from more efficient agricultural producers. Export subsidies were used to get rid of the surplus production and to compete unfairly with other exporters and with domestic production in other countries.

36. The agricultural and associated trade policies pursued in many OECD countries have contributed to an international trading system which has hampered the efforts of more efficient agricultural producers to sustainably manage their natural resources, whether in other OECD countries or in developing countries. The contribution which international trade could play in supporting countries in their efforts to promote more sustainable agriculture has been limited by a combination of these agricultural trade distorting policies and other factors, such as policies discriminating against the agriculture sector, inadequate infrastructure, lack of access to credit, inputs or markets, and the failure of markets to value properly environmental and other social costs and benefits.

37. Trends in world trade in food commodities over recent decades is suggestive of the lost opportunities. Over the period from 1970 to 1992 the share of world exports of food commodities held by developing countries fell from some 34 per cent to 28 per cent. At the same time the share held by developed market economies rose from 58 per cent to 70 per cent.¹⁰ The share of world exports of food commodities held by those OECD countries with the lowest levels of agricultural support, Australia and New Zealand, fell from 4.6 per cent in 1970 to 3.5 per cent in 1992.

38. The great increase in agricultural protection in many OECD countries, which was largely directed to food commodities, was not the only factor in explaining these trends but was clearly an important element. Indeed, total transfers associated with agricultural policies in OECD countries are estimated to have increased, in nominal terms, from about US\$ 24 billion in 1970 to over US\$

⁹Review of the literature in WTO Secretariat, "Environmental Benefits of Removing Trade Restrictions and Distortions", WT/CTE/W/1 (16 February 1995).

¹⁰UNCTAD, "Some Perspectives on Agricultural Protectionism, Diversification and Economic Growth", Document UNCTAD/COM/68 (Geneva, 9 October 1995), p. 11; UNCTAD, Commodity Yearbook 1995. (New York and Geneva: United Nations).

200 billion annually in the mid-1980s and over US\$ 330 billion annually in the early 1990s.¹¹ By comparison, the nominal value of developing countries' earnings from exports of food commodities averaged some US\$ 17 billion in the early 1970s, some US\$ 72 billion in the mid-1980s, and US\$ 97 billion in the early 1990s.¹²

39. This great increase in agricultural protection with its adverse consequences for development and the environment occurred in the period between the United Nations Conference on the Human Environment held in Stockholm in 1972 and UNCED in 1992.

40. In considering these statistics, it is important to remember that agriculture accounts for only 4 per cent of the workforce in high income countries, but for 29 per cent in middle-income economies and 61 per cent of the labour force in low-income economies.¹³ Although urban poverty is a growing phenomenon, the rural poor account for 80 per cent or more of the total number of poor people in developing countries, some one billion people. A large proportion of these are women.¹⁴ Promoting more sustainable agricultural development remains a major policy issue in many countries because of its implications for achieving both reductions in poverty and improvements in environmental management.

41. The Uruguay Round has taken the first steps towards a more sustainable and fair framework for the conduct of agricultural trade, but there is considerable scope for further reform to build on the reductions in trade-distorting support and market access barriers achieved in the Round. A key part of the CTE's continuing work programme must be an examination of the relationship between agricultural trade liberalization and the environment and the need to make the multilateral trading system more supportive of countries' efforts to promote sustainable agriculture.

42. Another important issue is the need for reform of trade-distorting policies to be complemented by actions to ensure that this reform results in more sustainable agriculture. This includes investment in agricultural research and extension services and the adoption of appropriate domestic policies to secure sustainable resource management and to spread the benefits and opportunities to poorer communities.

43. Issues to be addressed include the promotion of a better valuation of environmental assets through recognition of the environmental costs and benefits that may be associated with agricultural production. Other issues are the needs of vulnerable, resource-poor households and recognition of the specifics of local conditions, including the role of appropriate technology and the contribution that traditional and indigenous crops, farming systems and knowledge may make in conserving and developing the resource base.

44. Efforts are needed to ensure that all countries have the resources and needed assistance to adapt to changes in the agricultural trading framework, including through enhancing capacities to

¹¹UNCTAD, "The Uruguay Round and International Commodity Trade and Prices", Statistical Annex, Document TD/B/CN.1.30/Add.1 (Geneva, 31 August 1995), Table 5.

¹²Op.cit., Table 4.; UNCTAD, Commodity Yearbook 1995, pp. 22-25.

¹³World Bank, World Development Report 1995: Workers in an Integrating World, (New York: Oxford University Press, 1995), p. 2.

¹⁴I. Jazairy, M. Alamgir and T. Panuccio, The State of World Rural Poverty, (London: IT Publications for the International Fund for Agricultural Development, 1992).

take advantage of trading opportunities and improving agricultural productivity and infrastructure in ways that support the promotion of sustainable agriculture.

VI. CONCLUDING COMMENTS

45. UNCED and the World Summit on Social Development indicated that improvements in human well-being, including that of future generations, depend on priority being given to promoting environmental quality and advancing social equity as well as to achieving economic growth. They also recognized that trade liberalization is not in conflict with these objectives, and that a strong multilateral trading system could make a positive contribution to the promotion of sustainable development.

46. The CTE's work should build on these perspectives. This submission has proposed some major themes which should figure prominently in the Report of the CTE to the Ministerial Conference and in its future work programme.

47. The CTE should firmly reject perceptions that there is a conflict between the objective of trade liberalization and the protection of the environment. It should emphasize that one of the central ways in which trade and environment policies can be made mutually supportive is through trade liberalization being accompanied by appropriate environmental policies, which may differ between countries. It will be seen as a welcome message if the WTO firmly acknowledges the consistency and complementarity between a strong multilateral trading system that contributes to sustainable development and effective action at the national level and in appropriate international fora to promote environmental objectives.

48. The CTE should also ask Ministers to endorse a continuing work programme examining the potential for "win-win" reforms that would not only contribute to a fairer and more open trading system but would facilitate environmental improvements. This work programme would seek to identify policies that have provided incentives for behaviour that has been environmentally-damaging as well as trade distorting. In addition, the CTE should draw attention to the need for its continuing work programme to undertake a broader analysis of ways of ensuring that the multilateral trading system provides a supportive framework for the efforts of countries to improve environmental management and provide income generating opportunities for the poor.

49. The CTE should recommend that its future work programme encompass an analysis of the relationship between trade liberalization and the environment for:

- (i) a broad set of trade restrictions and distortions, including high tariffs, tariff escalation, subsidies, non-tariff measures and high internal taxes; and
- (ii) a range of trade sectors, including agricultural products, natural resource-based products, processed commodities, textiles and clothing and other industrial products.

50. This submission has outlined a number of the key issues that should be addressed in this work programme in relation to:

- (i) the concerns of low-income commodity-dependent countries; and
- (ii) agricultural trade reform.

51. The debate about trade liberalization and the environment is an important opportunity to explore the contribution which an open, equitable and non-discriminatory multilateral trading system can make to sustainable development and to identify policy actions that can more fully realize this potential.