

## EUROPEAN COMMUNITY COMMENTS ON THE NOTE BY THE SECRETARIAT OF THE WTO'S COMMITTEE ON TRADE AND ENVIRONMENT

### ENVIRONMENTAL BENEFITS OF REMOVING TRADE RESTRICTIONS AND DISTORTIONS (WT/CTE/W/67)

#### Note from the European Community

1. The Secretariat drafted the Note WT/CTE/W/67 as a contribution to the CTE's discussions on "the effect of environmental measures on market access, especially in relation to developing countries, in particular to the least developed among them, and environmental benefits of removing trade restrictions and distortions", commonly referred to as "item 6" on the CTE's ten point work programme.
2. The Community welcomes the Secretariat's Note which was finalized after WTO members made both oral and written comments on the earlier draft. The Community notes the efforts made by the Secretariat to take account of the sometimes diverging views expressed by CTE members and thanks the Secretariat for having included many of the observations and suggestions made by the EU delegation.
3. The Secretariat's Note constitutes an informative and helpful contribution to the Committee on Trade and Environment's discussions on item 6 of its work programme, although, like other delegations, it does not agree with every point made or all the conclusions. The following comments include reference to some of the points in the Note which the Community sees as the most important, as well as some of the main areas where its views differ from those set out in the Secretariat's Note.
4. Overall, the text represents a generally well-balanced overview of the environmental benefits of removing trade restrictions and distortions and might provide a useful source of reference. Accordingly, the Community welcomes the wider availability of the Note arising from its derestriction.

#### **I. GENERAL COMMENTS**

5. Trade and environment policies can be mutually supportive in pursuing the aim of sustainable development. Quoting the 1996 Report of the CTE, the Secretariat's Note correctly points out that trade liberalization in general, including the elimination of trade restrictions and distortions, can yield developmental and environmental benefits by facilitating a more efficient allocation and use of resources. Although the paper does identify the downside of some of the aspects of trade liberalization and correctly notes that flanking measures may sometimes be necessary, it concentrates - rightly given the CTE's mandate - on the benefits accruing from the removal of restrictions and distortions.

6. Yet, although trade liberalization has a key contribution to make to sustainable development, the Community does not agree with the Secretariat's Note that it may be a precondition. Rather, sustainable development must be based on sustainable management practices and, as the Secretariat's Note states, appropriate environmental policies are needed above all at national level if the benefits of liberalization are to be realized.

7. The Community welcomes the inclusion and generally in depth coverage of the range of sectors listed in paragraph 198 of the CTE's Final Report to the 1996 Singapore Ministerial. Although the Note does not yet include environmental services, the only sector listed in paragraph 198 not dealt with, the Community understands that the CTE Secretariat is now drafting text on this sector and looks forward to commenting on it.

## **II. COMMENTS ON THE PARTICULAR SECTIONS OF THE NOTE**

### **A. THE INTRODUCTION**

8. The Community supports the overall direction of the introduction and supports the point made that the removal of trade restrictions and distortions is rarely synonymous with unambiguous improvements in environmental quality *per se*: there may be positive effects but they are not automatic. As the Secretariat's Note correctly points out, the relationship is complex, as is the measurement of any environmental benefits that may occur as a result.

9. The Community agrees with the general remark made in the Secretariat's Note that the removal of trade restrictions and distortions improves the overall functioning of the market and, in particular, that a more open and liberal trading system increases the opportunities for disseminating environmentally-sound products, services and technologies.

10. The Community agrees with the general conclusion of the introduction but underlines the fact that adverse production and consumption externalities must be integrated into the decision-making process for the benefits described to become reality. Such externalities must also be reflected in the price of goods and services.

### **B. AGRICULTURE**

11. The section on agriculture constitutes a useful contribution to the subject and the Community is pleased to see that a number of the Community's earlier comments and suggestions have been taken into account. The analysis would have gained, however, from distinguishing between different agricultural sectors because the environmental effects of liberalization can vary widely between them. Similarly, it would also have been useful to take into account the timespan involved for any changes in production.

12. As is evident from the Secretariat's Note, the linkage between trade liberalization and environmental benefits is particularly complex as far as agriculture is concerned and not at all automatic. As the Secretariat's paper points out, price levels and intensity of agricultural production depend not only on liberalization but also on market developments, demographics and technical innovation. As long as market prices do not reflect environmental externalities, whether costs or benefits, market mechanisms will not lead to the optimal allocation of resources. Environmental policy is intended to correct such market imperfections.

13. Trade liberalization may thus need to be accompanied by environmental and resource management policies if it is to give effect to its full potential for contributing to improved environmental protection and the promotion of sustainable development. The importance of this aspect could have been given further emphasis in the Secretariat's Note. In developing countries, for

example, trade liberalization and the resulting price changes could, under certain conditions, lead to an intensification of production and soil degradation particularly if, as mentioned in the Secretariat's Note, production shifts from food crops to export crops. Intensity of agricultural production may also be affected by growth in the demand for food, especially in developing countries.

14. More attention could have been given to the positive environmental externalities which can be associated with agricultural practices, such as the preservation of biodiversity, the adjustment of micro-climates, the prevention of soil erosion and floods, as well as maintaining local cultures and communities, which can be of substantial value.

#### C. ENERGY

15. In this section, the emphasis in the Secretariat's Note is on the effects of subsidies and taxes related to fossil fuels and the contribution their reduction could make to the quality of the environment. This is important, but the Secretariat's assessment might need some further qualification. In particular, although removal of subsidies for some energy sources, such as coal, could bring automatic environmental benefits, other accompanying measures are very often necessary to promote the internalization of environmental externalities in energy prices.

16. Internalizing environmental externalities arising from energy production and use is a fundamental requirement but the role that taxation can play in achieving this objective is not sufficiently emphasized in the Secretariat's note.

17. It would also have been worthwhile to give greater consideration to the positive environmental effects that could arise from reducing trade restrictions and distortions which have an impact upon renewables and environmentally friendly technologies related to energy.

18. The increasing importance of global environmental problems, in particular climate change, resulting from the use of fossil fuels is not adequately addressed in the paper. It would have been useful to refer to the Kyoto Protocol to the Climate Change Convention under which the so-called Annex I countries accepted quantified emission limitation and reduction commitments for six greenhouse gases. It is also important to note that these countries have agreed progressively to reduce or phase out market imperfections, fiscal incentives, tax and duty exemptions and subsidies in all greenhouse gas emitting sectors that run counter the objective of the Climate Change Convention and to apply market instruments (art. 2.1.(a).(v) of the Protocol). Annex I Parties have also agreed to cooperate with each other to enhance the individual and combined effectiveness of their policies and measures in this and other areas.

19. It would have been useful to refer in this section to the phased opening and liberalization of the energy market within the EU.

#### D. FISHERIES

20. The section on fisheries looks at a number of elements which have an impact on the industry and on fish stocks. The Community agrees with the point made in the Secretariat's Note that the key issue in determining sustainable resource exploitation is fisheries management rather than trade. Indeed, fisheries is a sector in which it is particularly important that trade liberalization be accompanied by sustainable resource management both at national and international level. Regional fisheries organizations can play a key role to this end.

21. The Community also agrees with the point made in the Secretariat's text, and which the Community itself has in the past evoked, that subsidies are not inherently good or bad for fish stocks.

Subsidies which correct environmental externalities, for example, are not trade distorting, whereas those which subsidise the fishing process directly will distort the allocation of resources.

22. The Community would question, however, the unqualified assertion in the Secretariat's Note that "it has been widely recognized that fishing subsidies are a major contributor to ... the mismanagement of fisheries resources". Although in some international organizations it has been suggested that certain subsidies are not resource management neutral, this is far from a political consensus condemning a priori all forms of subsidies.

23. On the subject of non-tariff measures, it would have been useful to have made reference to the role of non-tariff measures relating to transit and access to ports, factors which can have a significant impact on the conservation of resources, especially when they are used to prevent illicit fishing. Reference could also have been made to trade measures used against countries unwilling to cooperate in the responsible management of fisheries resources on the high seas.

#### E. FORESTRY

24. This section might more usefully have been entitled "The Forestry Sector", a term which would have more clearly included both forest resources and downstream processing industries. The section provides a useful basis for further discussions but would have gained from more specific examples to support the general arguments put forward.

25. The Community agrees with the Secretariat's Note that deforestation has little to do with international trade directly and more to do with expanding demand for food, land tenure patterns, expansion of subsistence agriculture and demand for fuel wood. Nevertheless, it is important to recognize the indirect, initiating effect of even selective logging which can be fundamental in triggering other causative agents, especially when concentrated locally. Indeed, although overall figures for the percentage of, for example, roundwood from developing countries entering world trade may be low, they mask both the situation in individual countries where trade in forest products may be economically important and the follow-on effects of trade-related logging.

26. It is important to note that in the case of wood the basic premise of the Secretariat's Note that "in well-functioning market-based economies, prices register the relative scarcity of resources and consumer preferences" does not always apply to wood. In this context the Secretariat's Note makes no distinction between national stumpage values set by governments, often for (semi-) natural forest resources, and the growing costs incurred by private forest owners. The price mechanism is unable to register wood's scarcity or take into account non-wood services, including its value for carbon storage. The long period between the production and harvesting of wood (50-100 years or more) means the wood production period may exceed the time horizon of private owners or even some governments. As a result, some countries have established compulsory forest regimes or public ownership to prevent land from being cleared and used for the most profitable purpose from the private owner's shorter term perspective.

27. Furthermore, a high proportion of benefits from forests are non-wood, many are public goods and some of the services provided by forests are global, such as regulating climate or maintaining biodiversity. When examining the forestry sector, it is thus important to bear in mind that, as regards the "forest resources" aspect, prices cannot reflect their optimal use because some of the benefits which arise do not accrue to private owners, the present generation or solely to the country where the forest resources are situated and, moreover, such benefits are difficult to quantify in market terms.

28. When examining the role of subsidies to the forestry sector it is important to distinguish between the different steps in the wood production and processing chain. Subsidies related to products "closer to the market" such as in the wooden furniture industry might be more distorting than

those for forestry measures related to the production of wood which may be granted 50-100 years before the wood is marketed. A distinction should also be made regarding subsidies granted for social amenity or environmental reasons which may have only limited or localized distortional effects, but which may be justified by the non-market benefits accruing.

29. The reference to "tariff peaks" in the Secretariat's Note is not substantiated and it is thus difficult to know to which countries this refers. The reductions in tariffs cited do not accord with the claims about tariff escalation made elsewhere in the text. This is particularly the case for the EU where paper tariffs are being phased out over 10 years, while those for wood products persist at lower rates than before the Uruguay Round. Furthermore, the FAO report quoted on trade in forest products is still based on (loose) estimates, but in any case the analysis does not distinguish trade increases due to liberalization from those driven by other factors such as increasing wealth, literacy, press freedom, hygiene standards and industrialization, especially computerization.

30. In the section on non-tariff measures, it would have been useful to examine the effect of import restrictions on environmental technologies which could contribute to reducing energy consumption by and pollution from forest-based industries.

31. The Community agrees with the Secretariat's Note that certification of sustainable forest management and the labelling of forest products are complementary to forest management. It does not agree that schemes of this nature necessarily create uncertainty or additional costs for exporters thus constituting barriers to trade. Indeed, the principles for certification schemes agreed by the Intergovernmental Panel on Forests (IPF) are designed to ensure that they do not. The IPF principles call for open access and non-discrimination, credibility, non-deceptiveness, cost-effectiveness, participation of all interested parties, sustainable forest management and transparency.

32. It is important to look at how and under which conditions certification and labelling could contribute to alleviating market failures in forestry, for example when sustainably produced wood is in competition with wood exploited from natural resources without consideration to the natural rate of regeneration. The guidelines agreed in the proposals for actions of the IPF provide a useful reference point.

33. It would have been appropriate to look at the sort of conditions required to make trade and environment mutually supportive and to give greater emphasis to the contribution that Multilateral Environmental Agreements (MEAs) can make to this end.

#### F. NON-FERROUS METALS

34. The Community agrees with the points made concerning the potential benefits to be gained from trade policy reform in the non-ferrous metals sector.

35. The claim that rising waste disposal costs, in particular in OECD countries, have gradually encouraged recovery and recycling of non-ferrous metals is not altogether accurate. Rather, the intrinsic value of metals contained in end of life products, scrap and residues, as well as rising waste disposal costs, have always encouraged recovery and recycling of non-ferrous metals so that secondary non-ferrous metals now meet about 40-50 per cent of global demands for most metals.

36. With regard to the extent and pattern of international trade in scrap and residues referred to at the end of the section on copper, in order to present a fuller picture reference ought also to have been made to the tariff structures and domestic pricing which create trade distortions.

G. TEXTILES AND CLOTHING

37. This section refers mostly to cotton whereas the inclusion of synthetic fibres and wool would have resulted in broader, more balanced and more informative coverage.

38. The analysis in this section underestimates developing countries' share of world trade in textiles because it measures trade in value rather than by volume even though it is the volume of trade which is of interest from an environmental perspective.

39. Given that the dyeing and the chemical finish of products are the most important individual factors in the textile and clothing sector which have an impact on the environment, the Secretariat's Note could have devoted greater attention to this aspect. Indeed, the fact that liberalization in this sector has not yet resulted in an increased use in developing countries of environmentally friendly technologies is an element which would have merited further analysis.

40. In conclusion, the Community believes the Secretariat's Note provides an informative and reasonably broad overview of the environmental benefits of removing trade restrictions and distortions in a number of selected economic sectors. The Community continues to underline that trade and environment policies can be mutually supportive in striving towards sustainable development but recalls that the removal of trade restrictions and distortions is not automatically and in practice is rarely synonymous with unambiguous improvements in environmental quality. Appropriate environmental policies at national level are needed if the benefits of liberalization, including the environmental ones, are to be realized.

41. The Community congratulates the Secretariat on its efforts to produce a balanced text which takes into account comments made CTE delegations during earlier discussions.

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