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TRADE LIBERALIZATION AND THE ENVIRONMENT: A POSITIVE AGENDA FOR TRADE REFORM

Submission by Australia

Item 6

I. INTRODUCTION

1. The Marrakesh Decision on Trade and Environment included on the work programme of the Committee on Trade and Environment examination of the environmental benefits of removing trade restrictions and distortions. The Singapore Ministerial Declaration drew attention to work of the Committee in examining the scope of the complementarities between trade liberalization, economic development and environmental protection. Discussions in the Committee have recognized the complexity of the issues involved in the relationship between trade liberalization and the environment. At the same time, many delegations have drawn attention to the potential for a "win-win" strategy where trade reform could contribute to improvements in both trade and environmental conditions.

2. Delegations have also pointed to the need to situate the debate in the context of sustainable development and have drawn attention to the important development dimensions involved, so that trade reform should be seen as offering opportunities for "win-win-win" outcomes which contribute to development and social equity objectives as well as trade and environmental improvements.

3. There are many areas where the linkages between economic activities, trade and the environment are still not adequately understood. However, the seriousness and severity of many environmental, social and economic problems also point to the urgent need for early action to begin those reforms which are clearly necessary to help ensure more positive synergies between economic activities, the trading system and environmental protection.

4. This paper seeks to highlight some major issues that should be included in a positive agenda for trade reform in future WTO work because of the contribution these reforms could make to the promotion of sustainable development.

II. SUBSIDIES

5. Extensive subsidies are provided to a range of economic activities. It has been estimated that the global resource cost of subsidies for energy, transportation, water, agriculture and fisheries is in excess of US$ 870 billion.[1] These subsidies take a variety of forms, including subsidies to inputs, market price support and direct income support. Some subsidies may be justified on efficiency or equity grounds – to address market failures, reward positive externalities or meet social objectives. However, many studies have identified major inefficiencies with existing support policies, so that often they are ineffective in achieving their objectives, accelerate depletion of natural resources and

[1] V.P. Gandhi, D. Gray and R. McMorran, "A Comprehensive Approach to Domestic Resource Mobilization for Sustainable Development", in UN/DPCSD, Finance for Sustainable Development: The Road Ahead (New York: United Nations, 1997), p. 196.

degradation of the environment, and are distributionally regressive in mainly benefiting the more affluent.[2]

6. Consequently, there must be considerable scope for reform to subsidy policies that would deliver economic, trade, environmental and equity benefits. Given the amount of resources involved in current subsidy policies, reforms that reduced the support provided, ensured that those subsidies that could be justified are well-targeted, and made better use of the resources saved, could make a major contribution to the promotion of sustainable development.

7. In particular, support which is "coupled" to input and output levels may have adverse environmental consequences through stimulating high levels of resource use, promoting inefficient production processes and generating greater levels of pollution and waste than in the absence of the support. Furthermore, subsidies may have pervasive and far-reaching effects on prices and incomes throughout an economy, particularly subsidies on products and services used in many sectors, for example energy, materials and transport. Subsidies on these products and services may have very widespread environmental consequences, such as the effect of energy subsidies on pollution and other externalities.[3]

8. In some cases the positive environmental effects of support removal may only become fully apparent after a relatively long time span, particularly where past support has encouraged investment in long-lasting infrastructure. At the same time, the potential environmental benefits of support removal will be enhanced by the fact that this could stimulate technological change that may lead to increased resource productivity and less impact on the environment.[4] This benefit arises because subsidies may often hinder technological change by locking-in particular production processes or inputs.

9. Reforms to trade distorting support should reduce the direct environmental impacts associated with these policies in those countries with high levels of support. In addition, subsidies can have more indirect environmental impacts through their implications for the export opportunities of other countries. In particular, subsidies can reduce trading opportunities for countries with efficient industries, which receive low levels of support, and this could harm their economic development and adversely affect their ability to adopt appropriate environmental and social policies.

10. The trade reform process should result in shifts in production to countries with low levels of support that should be better able to exploit their comparative advantage in response to changes in market prices. In general, production processes should be more efficient and less resource intensive in these countries although the overall environmental impacts of shifts in production will depend on the extent to which market failures exist and the use of appropriate policy interventions to address these failures.

11. Two of the sectors where subsidies have been significant, agriculture and fisheries, are discussed in more detail below.

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[2] Many of the relevant studies have been reviewed in the notes prepared by the WTO Secretariat on "Environmental Benefits of Removing Trade Restrictions and Distortions", WT/CTE/W/1, February 1995 and WT/CTE/W/67, November 1997.

[3] Jan H.M. Pieters, "Subsidies and the Environment: On How Subsidies and Tax Incentives May Affect Production Decisions and the Environment", in UN/DPCSD, Finance for Sustainable Development: The Road Ahead (New York: United Nations, 1997), pp. 328-29.

[4] OECD, Improving the Environment Through Reducing Subsidies. Part II: Analysis and Overview of Studies (Paris: OECD, 1998), pp. 103, 106.

III. TARIFF PEAKS AND TARIFF ESCALATION

12. Since the 1940s successive rounds of multilateral trade negotiations have contributed to the reduction in average tariff rates to low levels. However, high tariffs – tariff peaks – remain a significant problem in a number of sectors. These tariff peaks may place important limits on the benefits of the multilateral trading system for those WTO Members that have a comparative advantage in these sectors. In addition, to the level of the tariff, the tariff structure may impose constraints on market access. Tariff escalation occurs if tariffs increase with successive stages of processing of the imported product. Tariff escalation may hamper the ability of countries that export unprocessed resource-based commodities to innovate and diversify their export structures through moving into greater value-added production activities.

13. Studies on the post-Uruguay tariff situation have identified a range of sectors where tariff peaks and/or tariff escalation are significant. A substantial number of high tariffs remain, particularly in six sectors[5]:

- major agricultural staple food products;
- fruit, vegetables, fish, etc.;
- the processed food industry;
- textiles and clothing;
- footwear, leather and travel goods; and
- the automotive sector and a few other transport and high technology goods such as consumer electronics and watches.

14. Implementation of the Uruguay Round should result in some significant decreases in tariff escalation. However, high levels of tariff escalation would appear to remain for a wide range of product chains, particularly in the following sectors[6]:

- agricultural products;
- metals;
- textiles and clothing;
- leather products;
- rubber products; and
- wood products and furniture.

15. The environment issues raised by tariff peaks and tariff escalation are similar to those raised by subsidies. Reductions in tariff peaks and tariff escalation could have particularly important indirect impacts through their effects on market access opportunities. As pointed out for the fisheries sector:

> "The result of … tariff escalation is that, in order for exporting developing countries to maximize their fish exports and their foreign exchange receipts, a greater quantity of unprocessed product is exported to achieve a similar level of earnings as the export of processed or value-added product. This could, in the absence of an effective management system, contribute to fisheries over-exploitation and stock depletion. In addition, it impedes

[5] UNCTAD/WTO Joint Study, "The Post-Uruguay Round Tariff Environment for Developing Country Exports", TD/B/COM.1/14, (Geneva: UNCTAD, October 1997).

[6] *Ibid*.; "Tariff Escalation", Note by the WTO Secretariat, March 1996, WT/CTE/W/25; Jostein Lindland, "The Impact of the Uruguay Round on Tariff Escalation in Agricultural Products", (Rome, FAO, ESCP/No. 3, September 1997).

> harvesting countries from exploiting what might be their comparative cost advantages in fish processing, to the economic loss of both the exporting and importing countries".[7]

16. Improved export earnings and export diversification could provide a more favourable economic and trade framework that could facilitate the adoption of improved resource management policies by countries with large commodity and natural resource sectors. At the same time, an increase in commodity processing and value-added activities in exporting countries could pose new environmental challenges in these countries and require appropriate policies to ensure that new or expanded economic activities in these sectors are ecologically sustainable and effectively contribute to improved social welfare. Trade-supported growth could be an importance source of income for financing these improvements.

IV. AGRICULTURE

17. The environmental benefits of further agricultural reforms have been discussed in papers submitted to the Committee by Argentina, Australia and the United States.[8] While there has been some reduction in levels of agricultural support in OECD countries in recent years, agriculture remains the sector with the largest level of support and improvements in market-orientation have been small. Total transfers to agriculture in OECD countries have continued to be around US$ 300 billion or more each year.

18. There has been some shift away from commodity-based market price support policies and towards direct payments and other support policies. However, market price support continues to constitute some 60 per cent of agricultural support in OECD countries as measured by the producer subsidy equivalent (PSE). This means that most support still takes the form of production-linked assistance that encourages overproduction and environmentally-harmful farm practices and which has often led to the expansion of agriculture onto environmentally sensitive land. Furthermore, the decline in market price support has largely been caused by a rise in world prices, with little change in producer prices.[9]

19. The environmental benefits of agricultural policy reform depend critically on both reductions in the level of support and changes in the form in which support is provided. As noted in a recent OECD report:

> "…replacing support measures conditional on levels of input or output by forms of direct income support, as is taking place in many OECD Member countries, will generally lead to environmental benefits. However, if the direct income support is not fully severed from past or present input or production levels, the potential environmental benefits of the change in the composition of the support will be reduced. Direct payments that are linked to previous levels of production or input use may significantly lock-in the previously used practices, thus

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[7] Sevaly Sen, "The Environmental Effects of Trade in the Fisheries Sector", in OECD, The Environmental Effects of Trade (Paris: OECD, 1994), pp. 115-116.

[8] "Non-Trade Concerns in the Next Agricultural Negotiations: Submission by Argentina", August 1998, WT/CTE/W/97; "Communication from Argentina on Item 6 of the Committee's Work Programme", March 1996, WT/CTE/W/24; "Trade Liberalization, the Environment and Sustainable Development: Submission by Australia", July 1996, WT/CTE/W/36; "Trade Liberalization and the Environment: A Contribution by the United States", July 1996, WT/CTE/W/35.

[9] OECD, Agricultural Policies in OECD Countries: Monitoring and Evaluation 1998 (Paris: OECD, 1998), p. 17. Total support as measured by the PSE remains at some US$ 150 billion or more each year.

diminishing the potential for these measures to encourage the recipients to reduce input intensity…".[10]

20. The argument has been advanced that agriculture may have positive environmental benefits, and that these benefits should be enhanced through policies that maintain agricultural production, including the provision of agricultural support. Furthermore, in recent years many countries have introduced agri-environmental measures aimed at providing financial incentives to farmers to deliver environmental services in excess of those provided by adhering to good farming practices.

21. If it is considered that environmental or other social objectives require maintenance of some agricultural practices, this would be achieved most effectively by policies targeted at these practices and the desired environmental or social benefits. However, the possible association of such benefits with some agricultural practices would seem to be a poor justification for most existing forms of agricultural support.

22. In particular, it is a significant fact that agri-environmental measures generally remain a small part of the overall support provided to agriculture and the effectiveness of these measures has been limited by their coexistence with support policies that promote overuse of resources and wasteful farming activities.[11] This means that the resources spent in agri-environmental measures may often be directed at addressing the environmental problems created by other policies, so that there is a higher overall cost to achieving improvements in environmental performance.[12] In such cases removal of the distorting policies would generally be a more effective and efficient response, combined, if necessary, with appropriate policies targeted at addressing environmental costs and benefits. Trade reform can facilitate the move to more effective and consistent policy approaches by reducing overall levels of support and providing for the elimination or substantial reduction of the most distorting forms of support. Savings made from support reduction could also be a source of funding for improved environmental policies.

23. As pointed out in a recent OECD report: "Environmental measures in agriculture should be transparent, targeted to the objective and tailored to the environmental situation, and subject to regular monitoring and evaluation to ensure that they are effective and cost-efficient, and do not distort production and trade".[13]

24. It is doubtful if many of the existing agri-environmental measures meet these conditions. In particular, many appear to have been implemented through payments per hectare or per head of livestock rather than on the basis of specific environmental outcomes. This may reduce their effectiveness or even be counterproductive in achieving the environmental objectives. Many offer a 'menu' of environmental activities from which farmers can choose and "[e]xperience with the programmes suggests that the options preferred by farmers tend to be those that require relatively little adjustment in land use or farming practices and relatively small additional nature conservation benefits".[14]

25. The Uruguay Round Agreement on Agriculture has provided a framework for modest reductions in support and for encouraging WTO Members to move from production-linked support to forms of assistance that should be less distortive from both a trade and an environmental perspective.

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[10] OECD, Improving the Environment Through Reducing Subsidies. Part II: Analysis and Overview of Studies (Paris: OECD, 1998), pp. 62-63.

[11] OECD, The Environmental Effects of Reforming Agricultural Policies (Paris: OECD, 1998), pp. 10-11, 92-93.

[12] OECD, Agriculture and the Environment: Issues and Policies (Paris: OECD, 1998), pp .22-23.

[13] OECD, Agricultural Policies in OECD Countries: Monitoring and Evaluation 1998 (Paris: OECD, 1998), p. 35.

[14] Environmental Effects of Reforming Agricultural Policies, p. 92.

However, more substantial reductions in support and protection will be needed in the WTO agriculture negotiations to begin at the end of 1999 if more significant environmental and trade gains are to be achieved. In particular, key priorities for reform must include:

- The complete and early elimination of all forms of agricultural export subsidies. The Cairns Group has drawn attention to the role of export subsidies in destabilizing markets, depressing international prices and displacing exports by non-subsidizing efficient suppliers, including those in developing countries.[15] Export subsidies are a key policy instrument in the delivery and maintenance of programmes of market price support. Their elimination would be a significant driver of agricultural policy reform away from the most distortive forms of market price support which have encouraged overproduction and inefficient and environmentally damaging use of resources in farm production practices.

- Substantial reduction in agricultural domestic support and stronger discipline on support linked to levels of production, input usage or employment of factors of production. This would provide greater encouragement to the reform of agricultural policies towards forms of support that will be less distortive of production decisions and be less likely to adversely affect the environment.

- Improved market access opportunities including substantial reductions in tariff escalation and tariff peaks, and increases in tariff rate quota volumes. These reforms would be another important driver in the reduction of market price support and in delivering real improvements in trade opportunities for efficient agricultural producers with low levels of support.

V. FISHERIES

26. The environmental and trade benefits of reform to subsidies in the fishing sector have been discussed in papers presented to the Committee by New Zealand and the United States.[16] These papers have drawn attention to continuing concerns about the state of the world's fishery resources and the role which subsidies may play in contributing to overcapacity in fishing fleets, to inefficiencies in production and to overfishing. They noted that while subsidies in the fishing sector are widespread, the information available about the nature, size and effects of these subsidies remains poor.

27. A recent review of fisheries subsidies by Gareth Porter has suggested that the best estimate for global subsidies is that provided by Matteo Milazzo in the range o f US$ 11 billion to US$ 21 billion.[17] Porter noted the widely quoted estimate by the FAO of a deficit of US$ 54 billion between total revenue of the fishing industry in 1989 of about US$ 70 billion and its costs of about US$ 124 billion. Porter noted the FAO estimated that more than half of that deficit was covered by government subsidies. Porter concluded that due to the degree of uncertainty with the figures from which the original FAO estimate was derived the Milazzo estimate appeared to be the best basis for discussion of the fisheries subsidies problem.

28. In a recent update of his estimates Milazzo has concluded that global fisheries "capacity- and effort-enhancing" subsidies are in the range of US$ 14 billion to US$ 20.5 billion, based on separate estimates of:

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[15] Cairns Group Ministerial Statement on Export Subsidies, September 1998, WT/GC/12.

[16] "Item 6: The Fisheries Sector. Submission by New Zealand", May 1997, WT/CTE/W/52; "Environmental and Trade Benefits of Removing Subsidies in the Fisheries Sector. Submission by the United States", May 1997, WT/CTE/W/51.

[17] Gareth Porter, Fisheries Subsidies, Overfishing and Trade. UNEP Environment and Trade Series 16. (Geneva: UNEP, 1998), pp. 39-40.

- budgeted subsidies: US$ 3.5-4.5 billion;
- unbudgeted but direct subsidies: US$ 6-7 billion;
- cross-sectoral subsidies (aids to shipbuilding; infrastructure): US$ 1.5-2 billion; and
- resource rent subsidies (user fees for access to fish): US$ 3-7 billion.[18]

29. Milazzo also concluded that given global ex-vessel sales of about US$ 80 billion, these subsidies amount to about 20 or 25 per cent of world revenues in the fishing industries. As Milazzo concluded:

> "These subsidies are clearly promoting excessive levels of effort and capacity. Most of them promote harvesting operations and capacity, directly and indirectly, through grants, capital cost subsidies, tax preferences, aids to shipbuilding, and subsidized access to both domestic and foreign resources. Therefore, subsidies have to be considered, to some degree at least, a causal factor of the resource crisis in this sector and not just a symptom of ineffective management".[19]

30. Clearly, subsidies are not the only problem contributing to the problems facing world fisheries. Inadequate management regimes, particularly in the presence of open access fishery resources, have combined with the excess capacity in the world's fishing fleets in affecting these problems. Some subsidies may have helped fishing fleets adjust and reduce capacity, but important questions have been raised about the extent to which such subsidies have been effective.[20] Furthermore, as in the agriculture sector, subsidies that may have potential environmental benefits would seem to be a small component of overall support. Milazzo estimated that environmental subsidies, or at least their major component in the form of vessel buybacks, account at most for about 5 per cent of all subsidies provided worldwide in the fishing sector.[21]

31. Improved transparency and greater monitoring and assessment of the size and various forms of fisheries subsidies would seem to be a first step in addressing concerns about their environmental and trade impacts. In particular, there needs to be assessment of whether existing WTO disciplines are effective in limiting the impacts on overproduction and trade of these subsidies and whether additional disciplines are necessary both to reduce the overall level of support and to ensure it is provided in less distorting forms.

VI. THE DEVELOPMENT DIMENSION

32. The objective of international efforts to ensure that trade and environment policies are mutually supportive is to contribute to the promotion of sustainable development. In addition to consideration of the direct environmental impacts of trade policies, the indirect impacts of these policies need to be assessed. These indirect impacts include consideration of the effect of distortions in the trading system on the ability of developing countries to mobilize resources for sustainable development and to adopt policies that will achieve economic development, greater social equity and environmental sustainability. It is not only environmental problems which may not respect national borders. Trade distorting policies may also have their international repercussions and these can be just as significant in their implications for the promotion of sustainable development.

33. It is estimated that half of the world's poor live in "ecologically fragile" rural areas including tropical forests, upland areas and arid and semi-arid regions. Poverty and environmental degradation

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[18] Matteo Milazzo, Subsidies in World Fisheries: A Reexamination, World Bank Technical Paper No. 406 (Washington, D.C.: World Bank, 1998), p. 73.

[19] *Ibid.*, p.77.

[20] Porter, *op.cit.*, pp. 37-39.

[21] Milazzo, *op.cit.*, p. 74.

can be closely interlinked in these areas. Poorer communities tend to suffer most from the effect of environmental externalities, often lack property rights over natural resources and are least likely to receive any benefit from subsidy policies.[22] Developing countries also contain much of the world's remaining stock of natural resources, including much of its biodiversity.

34. Reform to subsidy policies, and improvements in market opportunities for poor communities and for developing countries, could be vital elements in the promotion of sustainable development. In particular, they could provide resources to facilitate the adoption of policies to address market failures and advance social objectives and could complement actions to address supply-side constraints such as lack of infrastructure and weak technological capacity which have affected the ability of least developed and other low income countries to take advantage of trade opportunities.[23]

35. Reforms to trade distorting measures such as subsidies in the agriculture and fisheries sectors, tariff peaks and tariff escalation, can contribute to the promotion of sustainable development through:

- reducing pressure on natural resources resulting from inefficient policies;
- freeing up fiscal resources for other uses;
- improving economic efficiency and providing a more favourable framework for the adoption of technological developments that may enhance resource productivity; and
- facilitating an improved distribution of the benefits of trade to countries with low levels of support and comparative advantages of which they are not able to currently make full use due to trade distortions.

36. As noted by UNDP in its *Human Development Report 1997*, the subsidization of agricultural commodities "in rich countries hits developing countries hard. First, it keeps world prices low, so they can get little for their commodities. Second, it excludes them from food markets in the rich countries. Third, it exposes their domestic food producers to dumping in the form of cheap food imports, which reduces incentives for food production and thus undermines self reliance and livelihoods.[24] As some three-quarters of the world's poorest people live in rural areas, raising agricultural productivity and incomes remains an essential requirement for effectively addressing poverty.[25]

37. In particular, agricultural export subsidies may be a major factor in contributing to low prices in many markets. The relationship between price changes and soil degradation is complex and different views have been put forward on whether higher agricultural prices will lead to increased soil degradation or to better soil conservation.[26] Actual outcomes are likely to depend on the degree to which farmers enjoy secure property rights, have access to appropriate technology and information and extension services. But, at the very least, higher agricultural incomes in rural areas would open up opportunities to undertake both productivity and conservation investments which would not exist in poverty-stricken communities.

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[22] Mark Rogers, "Poverty and Degradation", in Timothy M. Swanson ed., The Economics of Environmental Degradation: Tragedy for the Commons? (Cheltenham, UK and Brookfield, US: Edward Elgar Publishing and UNEP, 1996), pp. 110-113; Matti Vainio, "The Effect of Unclear Property Rights on Environmental Degradation and Increase in Poverty", UNCTAD Discussion Paper No. 130, March 1998.

[23] UNCTAD, The Least Developed Countries 1996 Report (New York and Geneva: United Nations, 1996), p. 65.

[24] (New York and Oxford: Oxford University Press, 1997), pp. 86-87.

[25] *Ibid.*, pp. 7-8.

[26] N. Heerink, A. Kuyrenhoven and F. Qu, "Policy Issues in International Trade and the Environment with Special Reference to Agriculture". In Environmental Impacts of Macroeconomic and Sectoral Policies, pp. 142-47. Edited by Mohan Munasinghe. (Washington, D.C.: World Bank, 1996).

38. Subsidies in the fishing sector are also mainly provided by more affluent countries and may also have deleterious impacts on developing countries. Subsidized fishing operations by distant-water fleets may reduce the fishing opportunities available for local fishing communities; it is possible that subsidized access arrangements are adversely affecting local food needs; and a combination of subsidies and market access barriers may reduce the trade opportunities available to fish exporters in developing countries.[27]

39. Tariff escalation is not the only factor that may hinder vertical diversification of developing country exports, but it may still be a significant contributor in a range of sectors. Major challenges clearly remain in promoting both horizontal and vertical export diversification in commodity producing countries. For example, in 1994 advanced processed agricultural exports (i.e. excluding first stage processed commodities) made up only 16.6 per cent of agricultural exports of developing countries, compared to 32.5 per cent for developed countries. For least developed countries the figure was only 5 per cent.[28] Trade diversification can be an important policy objective for low income commodity producers, in particular as a means of promoting export earnings stabilization, expansion of export revenue and increased value-added.

VII. CONCLUSION

40. Ensuring that trade and environmental policies are mutually supportive in favour of sustainable development is a complex and long-term undertaking. The interaction between trade and the environment should not be divorced from consideration of broader interactions between economic activities and the environment. These interactions are complicated and intricate and defy simple cause-and-effect arguments. Yet it is also clear that urgent action is needed to promote more positive interactions between economic activities, the trading system and the environment.

41. One area where the need for urgent action is widely recognized is in regard to the current unsustainable use of renewable resources such as land and fisheries. The FAO has estimated that 60 per cent of the world's 200 major fish species are fully exploited, overfished or in the process of rebuilding as a result of depletion. The harvest of overexploited fish stocks dropped 40 per cent between 1985 and 1994, with precipitous drops in certain fish stocks.[29] In regard to agriculture, there is an urgent need to move to more resource-efficient farming systems, with major threats posed by land degradation due to soil erosion, physical degradation from soil compaction and crusting, overapplication of agricultural chemicals and poor water management. By 1990 poor agricultural practices had contributed to the degradation of 562 million hectares, about 38 per cent of the roughly 1.5 billion hectares in cropland worldwide. Some of the land was only slightly degraded, but an appreciable amount was damaged enough to impair its productive capacity.[30] The well-being of 1 billion people in 110 countries may be at risk from degradation of drylands.[31]

42. Trade reform is one factor that can contribute to the promotion of sustainable development. It can help address policy failures associated with a range of policy interventions which have too often exacerbated environmental problems while proving inadequate or inefficient in achieving their intended objectives. Furthermore, correcting such policy failures can be an indispensable complement to other policies directed at addressing market failures that may encourage

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[27] Milazzo, op.cit., p. 78; Porter, op.cit., pp. 58-60.

[28] Jostein Lindland, "The Impact of the Uruguay Round on Tariff Escalation in Agricultural Products", (Rome, FAO, ESCP/No. 3, September 1997), p. 3.

[29] The World Resources Institute, UNEP, UNDP and the World Bank, World Resources 1998-99 (New York and Oxford: Oxford University Press, 1998), pp. 195-96.

[30] *Ibid.*, pp. 156-157.

[31] UNEP, Global Environment Outlook –1, Global State of the Environment Report 1997, Executive Summary.

environmentally-damaging practices or overutilization of resources. As pointed out by a recent OECD study:

> "…support removal is viewed here as one step towards the full cost pricing of environmentally-harmful activities. As such, it is not a substitute for but a *complement to* policies which internalise the social and environmental costs of these activities. It is the combination of support removal and the introduction of economic instruments to internalise the external costs of economic activities that will result in 'getting the prices right', and thus optimizing the economic system".[32]

43. There is continuing research to identify environmental externalities and assess the effectiveness of different policy instruments in addressing them. Appropriate policies determined at the national level may be needed to address these market failures if economic growth and development is to genuinely enhance social welfare. Appropriate international cooperation can ensure that the global benefits of environmental resources are addressed in decision-making. Given the strong links between poverty and environmental degradation in many countries, policies to ensure that resources are directed towards poor communities and that equity considerations are adequately addressed can also be vital components in promoting ecologically sustainable patterns of development.

44. The WTO can make an important contribution to the work of "optimizing the economic system". The WTO's specific contribution would be to ensure that future trade negotiations give priority to those trade reforms that either directly or indirectly can facilitate better environmental outcomes. These reforms must include action to eliminate or reduce or ensure adequate discipline is imposed on trade-distorting subsidies. The elimination of agricultural export subsidies should be one important goal. Another must be to ensure better discipline on domestic subsidies in the agriculture and fisheries sectors, particularly through adequate transparency and monitoring of subsidy programmes, substantial reduction in support levels and a decisive move away from the most distorting forms of support. The elimination or reduction of tariff peaks and tariff escalation in a range of sectors where these remain significant problems should be another priority. There is an urgent need for substantial action on all these fronts in view of the serious environmental problems facing many countries.

45. The Committee on Trade and Environment should bring this important task of prioritising such trade reforms to the attention of the Ministerial Conference of the WTO when it convenes later this year.

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[32] OECD, Improving the Environment through Reducing Subsidies. Part I: Summary and Conclusions. (Paris: OECD, 1998), p. 8. Emphasis in original.