3 Trade and Environment in Sustainable Development

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> "From an economic perspective, neither trade liberalisation nor environmental protection is inherently or inevitably more important......On balance...there is no strong a priori economic case that trade policy should take precedence over environmental policy or vice versa."
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> Repetto, R (1993) Trade and Environment Policies : Achieving Complementarities and Avoiding Conflicts, Washington DC : World Resources Institute.

Introduction

The concept of sustainable development as embodied in Agenda 21, recognises that trade liberalisation and environment protection are mutually supportive provided effective environmental policies are implemented. This is premised on the assumption that maximising the economic efficiency of resource allocation and national welfare through free trade should also maximise the efficiency of natural resource allocation and use. This will only be achieved however if environmental externalities are properly valued and internalised. In this context the natural resource base includes biodiversity, ecosystems and the absorptive capacity of the environment to take pollutants, including CO_2 ie it covers both living and non-living natural resources. It is generally the instruments that are applied to correct the market's failure to adequately value natural resource use, that create perceived conflicts between trade and environment policies.

The Principles of Sustainable Development

The interaction of trade and environment policies should be seen as a sub-set of the many interactions that are a part of achieving sustainable development.

Sustainable development is a relatively recent concept; it appeared in an embryonic form in some key international documents of the 1970s, was clearly articulated in

the 1980s, and accepted in the 1990s, through Agenda 21, as an objective of the United Nations system. However, while the basic conceptual framework is firmly established, there is still work to be done in refining its application to some areas of public policy and administration.

For example, the precautionary principle states that "if there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation". The Kyoto agreement is a good example of the precautionary principle in practice. Applying the precautionary principle to some proposed developments can be challenging, since careful judgements must be made about the degree of risk and the scientific evidence cautiously weighed. The twin dangers of taking unacceptable environmental risks and stifling development must be avoided. The task should become easier as decision-makers grow more accustomed to, and develop better tools for, applying the precautionary principle to projects with a high degree of economic and ecological uncertainty.

Uncertainty about long-term economic, environmental, and social outcomes of a particular course of action can also make application of the principle of intergenerational equity difficult. At present, scientific models are more successful in predicting long term outcomes (eg ozone depletion, land salinization), while social and economic models arguably provide better short term projections. Improvements in modelling will help decision-makers to balance the interests of current and future generations. Continuing debates about the interchangeability of natural and manufactured capital will also have a bearing.

The current initiative for achieving ecologically sustainable forest management in Australia (the Regional Forest Agreements process) could not have worked without the very significant investment (around $60million) in data and knowledge about the forest values which allowed for informed decision making about resource use. While the RFA process can be regarded as a model for defining ecologically sustainable natural resource management, the high cost of a such a comprehensive and inclusive process needs to be recognised. Where that investment is not achievable, surrogate measures are needed, such as restraint on logging through woodchip export licences.

Trade and environment and development

The social dimension of ecologically sustainable development also has important ramifications for both trade and the environment. This is through the indirect effect of rising incomes. Research has shown that societies' demand for environmental

protection rises with wealth. For developing countries, the amount of environmental regulation increases with growth in income per capita. Governments respond to community concern for improved environmental quality through improved resource allocation and the development of enforcement capacity to implement environmental policies and laws. Trade driven growth in least developed countries can therefore lead to environmental degradation where the domestic pressures for environmental protection are not well developed and the market fails to account for the environmental externalities and does not adequately define property rights.

The agriculture sector provides ample example of market and intervention failures. In developing countries both output and input prices are manipulated by governments to provide subsidies to farmers or cross subsidies to other sectors. Of particular environmental concern are those pricing policies which encourage deforestation and the use of marginal lands.

Trade provisions in Multilateral Environment Agreements

The range of international instruments that have been put in place through multilateral environment agreements (MEAs) to attempt to correct market and intervention failures and commit the international community to sustainable development in particular areas are many and varied. The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) is perhaps one of the best known and long standing examples of the accepted use of trade controls to redress market and policy failures to protect the environment (in this case endangered species). Product bans, binding targets for pollutant emissions and national reporting are other approaches.

OECD 1995 Report

The 1995 OECD report from trade and environment experts, which was endorsed by OECD governments, represents a valuable consensus view on a number of trade and environment issues. The report has guided international discussion since then. In particular OECD governments have accepted the recommendation that

'international cooperation may involve the use of specifically agreed-upon provisions for trade measures in MEAs to achieve the environmental goals of the agreement. There is a need to develop further internationally agreed principles to guide the use of trade measures within the context of MEAs, while avoiding protectionism and disruptions to trade'.

The main forum for discussion on these principles has been the committee on trade and environment of the WTO, and that discussion is continuing, although the recent proposal for a High Level Meeting by the EU may indicate impatience by some with the pace of progress.

A second general recommendation in the report was on the importance of integration in policy consideration between trade and environment officials and interests, on this subject. Since that time there has been greater integration, for instance in the last year or two the WTO has organised or participated in several symposia with a wide range of NGOs on this subject. Possibly more significantly there have been exchanges of views by the WTO with the secretariats of several of the MEAs that incorporate or may incorporate trade measures. The general effect of this dialogue has been to narrow down areas of possible disagreement, and promote greater understanding on both sides. This is very welcome and will help to take the heat out of the debate, and lead to greater mutual supportiveness of measures in the future.

Australian interests

Australia has particular interests in a number of international environment issues. The Framework Convention on Climate Change, the Montreal Protocol and the Biodiversity Convention are well known areas. Other areas of particular concern for Australia and which provide opportunities for Australia to advance solutions include:

- support for a global ban on the use of tributyltin (TBT) anti-fouling paints through the International Maritime Organisation

- nomination of the Great White Shark for listing under(CITES)

- assessment of a possible role for CITES in protecting stocks of the Patagonian toothfish and, if other international mechanisms prove unsuccessful, Southern Blue Fin Tuna

- work with other nations to stop illegal fishing in the Southern Ocean and promotion of strong measures through the Convention for the Conservation of Antarctic Marine Living Resources (CCAMLR)

- work with the World bank and the World Wide Fund for Nature forest alliance to protect forests in the Asia Pacific region. The principal objective of the alliance is the protection of an additional 50 million hectares of forests by 2010

- continue to pursue an international ban on commercial whaling through the International Whaling Commission and the establishment of a global sanctuary

- completion of a regional plan to implement the decision under the Convention on the Conservation of Migratory Species of Wild Animals (the Bonn Convention) to list all southern hemisphere albatross species

- nomination for listing under the Bonn Convention of all dolphin and porpoise species inhabiting Australian waters which satisfy the prerequisites for listing and development of regional plans for those species successfully listed

- promotion of international efforts to develop national halon management strategies and elimination of halon 1202 through the Montreal Protocol

- leading the development of a multilateral Migratory Waterbird Agreement for the Asia Pacific region

Conclusion

These specific Australian interests and proposed initiatives are in addition to the ongoing work and advancement of Australian interests across the full range of environment related international fora. The essential global environmental challenge is to sustain the natural resource base for future generations in a way that is in harmony with economic and social goals. The instruments that are chosen to achieve these goals need to be tailored to the issue being addressed. In some cases a trade related instrument is the most appropriate and effective. It is important that such trade measures work as instruments to promote ecologically sustainable development. In that way they will work as much in the interests of global trade as in the interests of the global environment.