

Trade, Environment and Sustainable Development

A South Asian Perspective



Edited by
Veena Jha, Grant Hewison
and Maree Underhill

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Foreword by

Rubens Ricupero

Secretary General of UNCTAD



in association with
UNITED NATIONS CONFERENCE ON
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Foreword

In January 1994, UNCTAD and the Tata Energy Research Institute of India (TERI) jointly organised a South Asian regional workshop and an Indian national seminar on Trade and the Environment in New Delhi. The regional workshop was inaugurated by H. E. Kamal Nath, Minister of Environment and Forests, and the valedictory address was delivered by H. E. Salman Khursid, Minister of State for External Affairs. The national seminar was opened by Mr Tejinder Khanna, Secretary, Ministry of Commerce. Mr Erling Desau, Resident Representative of UNDP at New Delhi, also participated. The participants included experts from the South Asian Agreement on Regional Cooperation (SAARC) countries, representatives of the OECD and UNDP, officials from the various Ministries of Commerce and Environment, as well as several NGOs. Two experts from each of the SAARC countries were invited to present two papers each: one on the importance of free trade in promoting sustainable development, and the other on the mutual compatibility of trade and environment policies. The sectors covered by the national seminar included environmentally sensitive products such as textiles, leather, tea, refrigerators and other products which reflect the impact of environmental standards and concerns in OECD countries on the trading opportunities of India.

This book brings together the papers presented at the workshop and the national seminar. Almost all the papers have been authored by experts from the region, and it therefore constitutes an important contribution to capacity building as well as providing an insider's perspective on trade and environment issues for those outside the region. The workshop was organised under the aegis of a UNDP-funded project on Building Institutional Capacities for Multilateral Trade in the Asian Region. UNDP's support is gratefully acknowledged.

Thanks are also due to the many people whose assistance was vital to the publication of this book. These include the project coordinator, Mr Jagdish Saigal, the authors of the papers and the editors, Mr Grant Hewison and Ms Maree Underhill. We also acknowledge the contribution of Ms A. Achanta, Ms Veena Jha, Ms Susana Navarro, Mr P. Ghosh, Mr Roland Mollerus, Mr R. Pachauri, and Mr René Vossenaar in organising the seminar, writing the terms of reference for the papers, commenting on drafts and in handling the administrative tasks involved in putting this book together. Last but not least, mention must be made of Mr Vijay

Kelkar, former director of the International Trade Division at UNCTAD, who worked hard to ensure the success of the meetings and the publication of this book.

A handwritten signature in black ink, reading "R. Ricupero", with a horizontal line extending from the end of the signature.

RUBENS RICUPERO
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Introduction: Trade, Environment and Sustainable Development: A South Asian Perspective

Grant Hewison and Maree Underhill

The linkages between the objectives of liberalised international trade, protection of the environment and sustainable development have become extremely important to international policy making. Although the conclusion of the Uruguay Round of the GATT negotiations appears to have ushered in a new era of more open and expansive international trade, there are concerns about a collision between freer trade and the policies being utilised to protect the environment. While the concept of sustainable development incorporates a requirement to make trade and environment objectives mutually supportive, like the concept of sustainable development itself, this raises more questions than it immediately answers. Many developing countries have raised concerns that the promises now being made to integrate trade and environment policies will be illusory and undermine the achievements of the Uruguay Round and their recent efforts to liberalise their economies.

This book seeks to clarify many of these concerns and identify some of the paths by which all countries can move forward. It does so from a unique perspective – that of developing countries, and in particular the developing countries of South Asia. Almost all the authors who have contributed chapters to this book are from countries in the South Asian region, and all are experts in the field of trade and the environment. The book also builds on the work being undertaken by the United Nations Conference on Trade and Development in their efforts to assist developing countries negotiate an international environmental policy framework that does not have an adverse impact on trade.

TRADE AND THE ENVIRONMENT: A SOUTH ASIAN PERSPECTIVE

Many economists contend that if all the current external environmental costs were internalised and sound environmental policies instituted to enforce this process, then trade and environment policies would not conflict with each other. But this appears, at least in the short term, to be only a dream. Full cost internalisation is rarely possible and sound environmental policies have not yet been universally implemented. Consequently we are left in a situation where some countries internalise their environmental costs more fully than others, with international trade and investment tending to exaggerate these differences.

Environmentally orientated regulations, standards and voluntary mechanisms have created barriers to trade and look set to continue to do so in the future. Although these mechanisms are generally undertaken for genuine environmental purposes, opportunities also exist for them to be used in a protectionist manner. Regulations, standards and voluntary mechanisms are also being used to shift the environmental behaviour of firms, not only with regard to the end products they produce, but also the process and production methods (PPMs) used during the manufacture of products. Indeed, from an environmental perspective, it is often these PPMs that damage the environment rather than the final products themselves.

At present countries are not permitted, under international trade rules, to treat products differently simply because their PPMs produce different environmental outcomes. Thus tea grown with an excessive use of pesticides or fertilisers cannot be treated differently by governments from tea grown organically. Nevertheless private or voluntary initiatives, such as eco-labelling and eco-packaging, that target the 'green consumer' and are tolerated by current international trade rules are beginning significantly to alter the market access and competitiveness of 'green' products over conventionally manufactured products, particularly in specialised or environmentally conscious markets. These types of voluntary market-orientated mechanisms are also starting detrimentally to affect the market access and competitiveness of imported products compared with products manufactured locally. The costs of joining eco-labelling and eco-packaging schemes, altering production or packaging to comply with the schemes or arranging for certification can be considerable, especially if the criteria used differ from one export market to another. For firms in developing countries, these issues have to date appeared only to create small disruptions, but the future does not seem so promising. These eco-labelling, eco-packaging and other environmental schemes are now directing their

attention towards products such as textiles, clothing and footwear that are manufactured predominantly in developing countries and will without doubt have serious effects on their future international trade.

Although the environmental costs of production are not equal in all countries, because of differences in assimilative capacities as well as variations in social and cultural preferences, the regulations, standards and voluntary measures being adopted tend to establish criteria based on the goals of the most developed countries. This impacts even further on firms in developing countries who, in order to maintain their market access and competitiveness, are required to improve their environmental performance so that they meet these higher standards. On the other hand, as many of the authors in this book recognise, liberal trade policies without corresponding environmental protection can lead to serious environmental degradation, undermining future productivity and human welfare. Good environmental policy and performance by firms in developing countries may also provide opportunities to tap into the environmentally orientated consumer markets of the North.

The need for technical cooperation and assistance in understanding how environmental policies operate and their potential trade impacts will be very important for developing countries. In addition the ways in which environmental standards can provide developing countries with trading opportunities also need to be further explored. The use of complementary measures such as sound environmental policies and access to environmentally sound technologies may also provide keys to making trade and environment policies mutually compatible in developing countries.

PART I: ISSUES

The first part of this book explores a number of important overarching issues facing developing countries within the context of trade and the environment. While Kamal Nath's chapter examines these issues broadly and identifies a number of difficult political questions that will need to be answered, the chapters by René Vossenaar and Veena Jha, Christine Wyatt and Roland Mollerus focus more directly on how environmental initiatives in OECD countries affect the products and production processes of firms in developing countries.

In Chapter 1 Kamal Nath, India's minister for the environment, provides an overview of the many issues covered in more detail later in this book. Nath squarely places the trade and environment debate within the context of sustainable development and the outcomes of Rio. It is not

enough, in Nath's view, simply to address the barriers environmental policies can place in the way of trade since the problems raised by trade and the environment are 'systemic of the entire international economy'. Nath contends that any resolution must also redress the imbalances in trade and debt between North and South. For developing countries it is poverty and underdevelopment that produce unsound environmental outcomes, and only through genuinely free and open trade will poverty and underdevelopment be overcome. Although freer international trade brought about through the Uruguay Round agreements may alleviate poverty in the South, Nath expresses the concern held by many other contributors to this book, that the environmental policies currently being promoted by the North are actually protectionism in 'green wrapping paper' and will undermine the achievements of the Uruguay Round. Nath ends with a note of caution for the North. Developing countries are not ready to allow the WTO or any other forum to review their national developmental priorities. Action taken to protect the environment must come about through free will in an atmosphere of shared global concern, not by the use of unilateral trade restrictions.

In Chapters 2 and 3 René Vossenaar and Veena Jha of UNCTAD examine the range of environmental regulations and standards being adopted by OECD countries and their effects on market access and competitiveness, especially for firms from developing countries. Vossenaar and Jha begin by making a distinction between policies that regulate process and production methods (PPMs) and policies that regulate the characteristics of a product itself. They argue that while PPM policies are essential for protection of the environment, there is little justification for applying these standards to imported products, since almost all environmental problems caused by PPMs are local and are not transmitted by the product. Moreover these authors contend that policies seeking to address PPMs tend to be based on a country's own particular social, cultural and development goals, which may be inappropriate for other countries. They make the same point regarding international harmonisation of environmental policies, and reject claims that variations between environmental policies in different countries affect competitiveness or result in the migration of 'dirty' industries. Although Vossenaar and Jha firmly reject the use of trade restrictions as a means of raising environmental standards, they are of the view that positive means, such as financial assistance, the transfer of technologies, the application of 'green' trade preferences, eco-labelling and sustainable production of commodities may appropriately be employed to raise standards. In their chapter dealing with environmental policies that regulate the characteristics of a product itself, they particularly focus on concerns that compet-