

# **TRADE, THE ENVIRONMENT AND SUSTAINABLE DEVELOPMENT AT THE CROSSROADS**

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## **INTRODUCTION**

World Vision Australia is a member of the World Vision International Partnership which works in over 80 countries among some of the billion or so people living in extreme poverty - people for whom the benefits of growth and trade have largely failed to trickle down. They are also the people who tend to suffer most from environmental degradation. They usually don't have much choice where or how they live. Unlike most of the citizens of the developed world and the wealthy educated elites of their own countries, they usually can't escape the consequences of environmental degradation. They farm marginal, degraded land, if they have any land to farm. They drink polluted water, or walk for hours each day to fetch clean water. They scrounge scarce fuelwood and get respiratory illnesses from burning animal dung in smoky cooking fires.

World Vision is deeply concerned about the issue of trade and environment and how it affects the poorest and most marginalised people. We certainly don't claim to speak on their behalf – but we do try to listen to them and to discern and advocate policy goals which will make their lives easier, instead of further marginalizing and crushing them. This is not easy and I look forward to learning from our discussions today.

The current multilateral trading system and the WTO have a number of significant strengths, but they are far from perfect. All of us here are aware of the growing backlash against globalisation and trade liberalisation, and the protests that will ensue in Seattle. A great many would like to see the WTO overthrown and disbanded. But a rules-based multilateral framework, however flawed, remains important to ensure that small countries have even a remote chance of fair outcomes in trade disputes with big players. Without an open, transparent, rules-based system we would have global trade anarchy and the rules of the powerful. Small, weak countries would have no defence at all against the protectionist impulses of major developed trading partners. This is the strength of the multilateral approach to trade and the WTO. One of its weaknesses is the weakness of most of the developing countries and their lack of capacity to engage in the negotiations in any meaningful way – a subject which I will address later.

Steering a sensible course through the backlash against globalisation is one of our greatest challenges. It is not an easy task, because there are both winners and losers from trade liberalisation. Many developing countries stand to gain a great deal from greater access to developed country markets and the liberalisation of key sectors such as textiles and agriculture. But trade liberalisation will not benefit every individual or even every community. For this process to be sustainable and to receive widespread public support, the losers must be compensated and empowered to share in the

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overall benefits. One of the tragedies of our current course is the way many governments are pushing trade and investment liberalisation while at the same time abrogating their duties to ensure that growth is equitable and that the losers share in the benefits.

Recent research from the World Bank and IMF indicates that growth *with* equity produces the strongest sustained growth – the two don't have to be traded off. Long-term inequitable growth is a recipe for social chaos and a sustained backlash against liberalisation. The IMF is now paying much greater attention to the need for social safety nets in countries undergoing adjustment and has even recently affirmed that “governments should sometimes intervene to ensure not only that the size of the pie increases, but that everybody gets a fair share” (IMF, 1998b, p. 11).

One of the greatest contributors to environmental degradation is undoubtedly poverty. To meet the global environmental challenges facing us, poverty must be eradicated. However, the very process of eliminating poverty will itself lead to a certain degree of environmental degradation. So this presents a dilemma – how can we refine the international economic system so that it promotes the elimination of poverty *and* halts global environmental degradation?

International trade and the rules that govern it under the WTO play a crucial role here and will either help or hinder the process. The WTO's Third Ministerial Meeting in Seattle will take place at a critical juncture not just for the multilateral trading system, but for the vision of 'sustainable development' itself.

I use this much-abused phrase deliberately. As we well know – for some, ESD means *economically* sustainable development; for others it means *ecologically* sustainable development. Many environmentalists raise serious questions about whether there can be any such thing as development that is ecologically sustainable. Our discussions today on trade and the environment therefore need to be set in the context of the vision of sustainable development and the underlying question of whether growth itself can be ecologically sustainable.

## **GROWTH AND SUSTAINABLE DEVELOPMENT**

Our thinking about sustainability must relate both to 'sources' – from which we derive raw materials, and 'sinks' where we put the waste. Much of the early work on sustainability focussed on 'sources', and the danger of running out of key resources such as minerals and fossil fuels. Some of this work was legitimately criticised for not taking into account sufficiently the opportunities provided by substitution and technical innovation. At the end of the century then we find that we have not run out of key resources, and prices for many have even declined. This has led to an unfortunate degree of complacency in some circles - unfortunate because the world does face serious challenges in a number of other 'source' areas, including: inadequate fresh water supplies, biodiversity losses and species extinctions, deforestation, exhausted fisheries, ongoing land degradation and plateauing food production.

We also face real problems on the 'sink' side. Even if our growth is sustainable on the basis of resource availability and we can continue to use more and more matter and energy in the international economic system - we still have to dispose of the waste. We've already seen the effects of this waste on the ozone layer. Other major challenges include climate change, and the continuing problems of the permanent disposal of nuclear and toxic wastes.

At the risk of oversimplifying, economic growth can be thought of as being composed of the growth of three components: first the growth of the *physical* characteristics of products and services - the growth of the physical *scale* of the economy, the matter and energy employed in the economic

system; second, growth in the *efficiency* of the use of matter and energy; and third, the growth in the *value* of those products and services. Together these lead to a growing economy and rising GDP.

So is growth sustainable? Few people seriously believe that on a finite planet the exponential growth of matter and energy being churned through the economic system can be sustained indefinitely – no matter how efficiently it is used. Goods and services always have an irreducible physical component – even if that is just electricity. At a 3% growth rate, the world economy doubles in size roughly every 24 years. If the physical scale of the world's economy were to double at this rate, it would be 16 times as large by 2100 – i.e. the global economy would be consuming 16 times as much matter and energy as it does now. This of course has very serious environmental implications.

So if development is to be truly sustainable in the developed countries, of course we need efficiency improvements, but the bulk of *sustainable* growth must come from the greater *value* of the products and services we produce, per unit of matter and energy. Given the environmental challenges we face, and the constraints on the biosphere to both provide resources and absorb wastes, the continued growth in the net physical *scale* of developed country economies seems difficult to justify.

However, developing countries where absolute poverty is still widespread, need to considerably increase their use of resources to help lift their people out of poverty and build the physical and social infrastructures needed to sustain a decent standard of living. They need growth in the volume of resources they are using. Some of that growth is going to be environmentally destructive, simply because it requires physical resources such as mines, power stations, water and timber – and it will produce waste.

The crisis of the vision of sustainable development then is not simply one of tweaking the edges of the current economic systems while helping developing countries develop with the latest environmentally-friendly technologies. Many ecological economists argue that we have reached the point where the physical scale of the global economy is now pushing up against the limits of the biosphere's capacity (eg. Goodland & Daly, 1993). This means that while it is right and appropriate that we talk about *synergies* between trade and environmental concerns which can produce 'win-win' outcomes, the challenges we face are wider than this. Win-win outcomes will not in themselves make up for the uncontrolled growth in the physical scale of the world's economies.

In a very real sense the developed countries, including Australia, must move towards economic systems which are truly sustainable - not in an isolationist autarkic sense, but economies in which environmental and social costs are fully incorporated into prices and economic decision making. The growth of the physical *scale* of the industrialised economies must at some point be curtailed to create the ecological biophysical space needed for developing countries to grow and develop. This crowding of the ecological space is seen most acutely with climate change – a problem caused by developed countries which are now saying to poor developing countries after two or three centuries of growth that they need to bear the burden too, while most of their people still live in poverty.

In short, the rules of international trade must provide opportunities for developing countries to grow and develop, and at the same time, they must not create disincentives for industries and economic systems in developed countries (or indeed anywhere) to move to a more sustainable basis.

### **CAN TRADE AND THE ENVIRONMENT BE SEPARATED?**

One of the most disturbing features of some of the discourse on trade and environment is an argument which runs something like this:

- The WTO was set up purely to govern international trade arrangements;
- Trade is essentially an economic matter that can and should be separated from environmental considerations;
- Therefore the environment is an issue outside the scope of the WTO.

This is a flawed argument. Firstly, trade and trade-induced production of goods and services have environmental implications and consequences. Trade can affect the environment for good or ill, so the rules that govern trade must take this into account. Trade rules cannot simply ignore the environmental dimensions of trade and growth. It is simply not good enough to pretend that trade and environment can be neatly separated - that the WTO should pronounce that it is not competent to deal with environmental issues. If the WTO is not competent then it should refrain from ruling on disputes that impinge on the environment until such time as it has the relevant expertise, or some new institutional arrangement is put in place - such as a joint WTO-UN body to rule on environmentally-related trade disputes and to oversee the trade-environment nexus.

Secondly, trade theory says that free trade will generally produce optimally efficient outcomes, but it makes a number of important assumptions, particularly that the prices of goods and services accurately reflect their true costs of production. However when significant social and environmental costs are unaccounted for – when they are simply ignored or ‘externalised’, then a free-market solution will be based on false price signals and will produce sub-optimal outcomes – a polite way of describing ruined lives and devastated environments.

#### **THE NEED FOR FULL COST ACCOUNTING**

Environmental costs, such as the pollution of the atmosphere, groundwater and waterways, the depletion of soils and the disposal of wastes, are generally ignored or externalised and treated as ‘free’. Yet when measured in dollars, the impact of this neglect on national economies is astounding.

The deterioration of Europe’s forests due to air pollution, for example, causes economic losses of around US\$35 billion every year; the estimated annual losses in agricultural production due to air pollution are US\$1.5 billion in Sweden, \$1.8 billion in Italy, \$2.7 billion in Poland and a massive \$4.7 billion in Germany (UNDP 1996, p. 26).

The UNDP argued that simply using GNP growth as an economic barometer was like navigating with a faulty instrument: the earth is treated ‘like a business in liquidation’ (UNDP 1996, p. 57). Or, as Robert Repetto from the World Resources Institute in Washington, DC, wrote:

A country can cut down its forests, erode its soils, pollute its aquifers and hunt its wildlife and fisheries to extinction, but its measured income is not affected as these assets disappear. Impoverishment is taken for progress (Repetto 1992, p. 64).

The growth of this sort of distorted economic activity can only lead inexorably to greater environmental destruction. It is not trade as such, but trade in goods and services which ignore environmental and social costs which is the root of the problem.

The notion that strong domestic social and environmental regulations can distort trade needs to be examined. What are the criteria used to define ‘distortion’? The underlying assumption is that by definition *deregulated* trade is *non*-distorted trade. But this simply ignores the well-established fact that left to itself, an unregulated market fails to incorporate environmental and social ‘externalities’ into the pricing structure. Strong and well-designed regulations are essential for social and environmental costs to be incorporated into prices. Without these, the market, and therefore trade in

the market, is *profoundly* distorted. To talk of 'free', 'undistorted' trade, when these costs are simply ignored is ridiculous. Shrybman (1990, p. 31) is right to argue that:

as long as the environment remains an externality that is ignored during the trade negotiation process, trade agreements will often institutionalize principles that are at odds with, and at times antithetical to, the objectives that are being pursued through international environmental agreements.

Externalising environmental costs forces others to pay for the damage, either directly with money or indirectly through loss of amenity. It is both unjust and extremely inefficient because the costs of repairing environmental damage are usually far greater than the costs of preventing it in the first place. The logic that says, "we need to get wealthy before we can afford to worry about the environmental consequences of rapid growth", is deeply flawed for three reasons:

First, it is a direct contravention of the economic argument for efficiency and precise, well-targeted policies for dealing with distortions and externalities.

Second, much environmental degradation is irreversible, such as species extinctions, habitat and rainforest destruction, loss of topsoil due to erosion, and climate change. Those who believe that technology will come to our rescue on most of these issues should bear this irreversibility in mind.

Third, those who make such arguments seldom have to actually live with the consequences of their advice. We often hear the argument that people in developing countries demand different levels of environmental quality. The problem with this argument is that 'consumer demand' as used appropriately by economists is a very misleading term when simplistically applied in the public policy arena because the concept is inherently biased towards the wealthy. It only actually measures the willingness to pay of those who are *able* to pay – it does not reflect the desires of those who simply cannot pay no matter how much they may 'demand' or desire something. The unemployed landless peasant living in a slum does not want to drink polluted water or breath toxic fumes any more than you or I do. The difference is that we can express that desire with our wallets. She can't.

The task of incorporating the environmental and social costs of goods and services into their prices is not an easy one. There is of course a great deal of controversy among economists over the actual method of accounting for environmental costs because of a basic philosophical difference: some argue that social and environmental costs should be internalised *within* the economy - that *everything* be given a price and then markets be left to work out the optimally efficient allocations.

Conversely, others argue that the level of analysis should be the community and the biosphere as a whole, with the economy located within it and that the economy should be given very definite boundaries (Daly & Cobb, 1994, p. 141). Amir, for example, claims that internalisation of environmental externalities by pricing everything is not the panacea it is thought to be and can be no more than a temporary solution because it is impossible to internalise all costs. Partial internalisation is also inadequate because it saves harmed resources by abusing other environmental resources whose costs remain externalised (Amir, 1994, p. 139).

Daly and Cobb (1994, p. 142) reach a similar conclusion on the horrendous complexities involved in trying to guesstimate the costs of global warming and how these could be incorporated into prices:

Instead of beginning with the impossible task of calculating full-cost prices and then letting the market determine the right quantities on the basis of these prices, we could begin with the 'right' quantities and let the market calculate the corresponding prices. But what do we mean by the 'right' quantities? Only that the economy is constrained to operate with volumes of resource flows that are within the renewable biospheric capacities of regeneration and waste absorption. Environmental carrying capacity and sustainable exploitation rates of natural sources and sinks are roughly definable in physical terms. We say 'roughly' because we recognise that the concept of carrying capacity has its

ambiguities. But these are small compared to the truly impossible calculations used to internalize a pervasive externality by the same method used to deal with localized externalities. Imposing sustainable biophysical limits as a boundary on the market economy will lead to changes in market prices that reflect these newly imposed limits. These new prices would have 'internalized' the value of sustainability, the sacrifice of which had previously been an external cost (Daly & Cobb, 1994, pp. 142-43).

Whatever method is used to account for environmental and social costs, we need to avoid what forecaster Daniel Yankelovich calls 'the McNamara fallacy' (after Robert McNamara, former US Defence Secretary and former World Bank president):

The first step is to measure whatever can be easily measured. This is okay as far as it goes. The second step is to disregard that which cannot be measured or give it an arbitrary quantitative value. This is artificial and misleading. The third step is to presume that which cannot be measured easily is not really very important. The fourth step is to say what cannot be measured really does not exist. This is suicide (quoted in Daly, 1992, p. 145).

As long as prices do not somehow reflect reality they will continue to give misleading signals resulting in market failures, inefficiencies in the allocation of resources, distortions in trade and generally sub-optimal outcomes.

A crucial question then arises: shouldn't the WTO agreements permit, or indeed encourage, the differential treatment of products which endeavour to incorporate environmental and social costs of production, compared with those which do not? This question leads to the complex and controversial issue of Production and Processing Methods.

## **PRODUCTION AND PROCESSING METHODS AND PRODUCT LABELLING**

The consideration of Production and Processing Methods (PPMs) is a difficult and complex area because of the danger for appropriate provisions to be abused by protectionist interests. Nevertheless, the time has come for the WTO to take this issue seriously. PPMs matter – they have significant environmental and social implications.

PPMs which are overly environmentally destructive and polluting, or which are dangerous to the health and safety of workers, or which use child labour, repressed labour, or labour subjected to regular human rights violations are not examples of comparative advantage, but are more appropriately thought of as hidden subsidies, paid for by workers, their families and the environment, and which distort trade.

It is true that different regions have different 'assimilative capacities'. This is a legitimate reason to reject the absolute quantitative harmonisation of environmental standards. One country's domestic environmental standards should certainly not be unilaterally applied to another country. However, domestic industries that are attempting to internalise their environmental costs should still in some way be treated differently from 'subsidised' competitors making no such attempt. Domestic firms trying to internalise environmental and social costs will be at a competitive disadvantage to other domestic and foreign firms that are not. Firms trying to achieve the highest environmental and social standards and internalise these costs should not have to compete on a so-called 'level playing field' with firms which continue to externalise these costs.

As long as PPMs are ignored, and social and environmental costs of production continue to be externalised, then prices will continue to give false, inefficient and sub-optimal signals and a global shift to sustainable development will be impossible.

But differential treatment based on PPMs does not have to mean old-style tariff or quota protection. It could include a variety of mechanisms such as subsidies (particularly for adapting to new environmental laws and R&D<sup>3</sup>), tax breaks (such as a progressive drop in company tax for companies meeting higher social and environmental standards) and relatively costless mechanisms such as free advertising, promotion and awards by government, which would help improve the company's business. Tariffs and quotas should in fact be avoided because of the market distortions they introduce, the burdens they add to domestic consumers in the form of higher prices, and the way they penalise overseas producers.

Some 'dirty' industries and plants would not be viable once social and environmental costs are incorporated – but this would simply demonstrate that they were uneconomic once properly costed. Their closure would be a correction of an existing market distortion. However, other more socially and environmentally appropriate industries would flourish.

Strong environmental regulations can cost jobs in some industries which are environmentally destructive and wasteful. Conversely they can also contribute to job creation and indeed *not* protecting the environment can *also* cost jobs. Safina reports a study in the US which found that annual profits of the yellowtail flounder fishery could increase from *zero* to US\$6 million by *removing* more than 100 boats (Safina, 1995, p. 34).

Related to PPMs is the issue of labelling. While it may be legitimate at the nation state level for countries to be forbidden to unilaterally block imports based on their domestic environmental preferences, the same lack of choice should not be forced on individual citizens. Consumers should be given adequate information to make product choices which accord with their own tastes, values and preferences. If consumers don't want their food irradiated or genetically modified or their tuna caught in ways harmful to dolphins, then appropriate labels should be provided to enable them to make that choice.

Of course such schemes could be open to protectionist abuse. If exporting countries are not to be faced with a bewildering variety of product labelling requirements, which could easily become non-tariff barriers to trade, then some internationally agreed standardisation of labels needs to be considered. These would not be barriers to trade since they would simply be a way of giving more information to consumers who themselves would decide whether or not to buy the products.

Another way in which the PPM issue could be abused is through the inappropriate use of anti-dumping and countervailing duty provisions. It has been argued that the externalising of environmental costs, is really just 'ecological dumping' and therefore, under Article VI of GATT 1994, should be subject to anti-dumping levies or countervailing duties<sup>4</sup> since under Paragraph 3 of Article VI it is legitimate to levy a countervailing duty against an *estimated* subsidy determined to have been granted *indirectly* on the *production* of a product (WTO, 1994, p. 494). However this interpretation would almost certainly run foul of the new Agreement on Subsidies and Countervailing Duties, which has a much tighter definition of subsidies (Article 1, WTO, 1994, p. 264).

In any case, developed countries have already demonstrated their willingness to abuse antidumping and other Non-Tariff Measures (NTMs) in a way that discriminates against competitive exports from developing countries. In fact the benefits of trade liberalisation for many developing countries have been compromised by this abuse which is compounded by the lack of resources available to

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<sup>3</sup> These would appear to be permitted under the WTO's Agreement on Subsidies and Countervailing Measures, Article 8.2 (WTO, 1994, pp. 273-276.)

<sup>4</sup> "A special duty levied for the purpose of offsetting any bounty or subsidy bestowed directly or indirectly, upon the manufacture, production or exportation of any merchandise" (GATT Article VI, 3).

small and medium enterprises in developing countries, and indeed their governments, to defend themselves against such legal action. These kinds of resource constraints also hinder the abilities of the governments of many developing countries to effectively protect the legitimate concerns of their own industries by means of pursuing their own anti-dumping cases.

Pakistan cites significant developed country abuse of anti-dumping measures during the transition phase of the ATC, and notes that the mere initiation of anti-dumping proceedings by the EC resulted in a yearly *decline* of 7% in exports of textiles and clothing from the target countries! (Pakistan, 1999a, p. 2).

More generally, Clark (1998) carried out a statistical analysis of NTMs employed by the US and found that it systematically discriminated against the exports of countries with a per capita GDP below US\$2,600 – the poorest 60% of developing countries.

It is also of some concern that Australia is a disproportionately frequent user of anti-dumping measures against our trading partners. In its *Trade & Assistance Review 1997-98*, the Productivity Commission noted that Australia accounted for 18 (8%) of the 224 anti-dumping and countervailing cases lunched internationally in 1996. Moreover, despite accounting for only about a third of Australia's merchandise imports in 1997-98, countries in the Asian region, excluding Japan, have been subjected to 46% of the 203 initiations since 1992-93. Poor countries such as China, India, Indonesia, Thailand and Malaysia, together accounted for 23% of actions, and South Africa alone was subjected to 16 actions, or 8% of the total (Productivity Commission, 1998, pp. 67 & 69).

The Commission concluded that: "Relative to its share of world trade (less than one per cent), Australia continues to be one of the most frequent users of anti-dumping and countervailing measures" (Productivity Commission, 1998, p. 68).

### **THE PRECAUTIONARY PRINCIPLE**

Another environmentally-related concept which should be explicitly recognised in WTO rules is the precautionary principle – the principle that where there exists the possibility of serious or irreversible harm, the absence of full scientific certainty should not be used as a reason to postpone cost-effective measures to prevent environmental damage (Rio Declaration, Principle 15, 1992).

To require so-called scientific 'proof' before regulation is permitted is short-sighted and inappropriate because by its very nature, scientific analysis can require five, ten and even fifty years of monitoring and experimentation to yield data series which will give the kinds of statistically significant results that could popularly be termed 'scientific proof'. Public debates are distorted when appropriate scientific caution is seized upon by those with vested interests and is exploited in public relations campaigns to give the impression that there is no reason for concern. To release potentially dangerous products prematurely, or to delay action or regulation, in order to wait for years for scientific 'proof' can be disastrous for the environment and for human health.

There must be space in WTO rules for appropriate precautions when there is reasonable doubt about a product's safety or reasonable cause for concern about an environmental problem.

### **MARKET ACCESS AND THE IMPLEMENTATION OF THE URUGUAY ROUND AGREEMENTS**

Improvements in market access for developing country exports are essential to help these countries grow and eliminate poverty over the long term – and in so doing reduce the environmental destruction caused by poverty.

However, there has been a significant lack of progress from a number of developed countries on the implementation of the Uruguay Round Agreements (URAs) which are of key concern to developing countries – particularly the Agreement on Agriculture (AoA), and the Agreement on Textiles and Clothing (ATC).

One Ministerial decision adopted by the Trade Negotiations Committee on 15 December 1993 which was of key concern to many developing countries was the *Decision on Measures Concerning Possible Negative Effects of the Reform Program on Least-Developed Countries and Net Food-Importing Developing Countries* (WTO, 1994, p. 448) which is cited explicitly in Article 16 of the Agreement on Agriculture.

The terms of this decision committed developed countries to provide various forms of compensation to Least Developed Countries (LDCs) and Net Food Importing Developing Countries (NFIDCs) if they were adversely affected as a result of the URAs. Progress on the implementation of this agreement since 1994 has been disappointing and the reluctance of developed countries to offer any compensation gives us little confidence in any such commitments in the future.

The Government of Pakistan concluded that the Ministerial Decision “has been completely ignored” (Pakistan, 1999b, p. 2). This, the Government of Egypt noted, is particularly galling since this Decision “was a major reason for an important number of developing countries to agree to conclude the Uruguay Round Negotiations” (Egypt, 1999, p. 8).

The Government of Zimbabwe tried to be diplomatic when it outlined the extent to which developed countries were compounding the problems of their poorer trading partners:

We are however concerned that developed countries who do not have the same capacity constraints have not been implementing fully and faithfully the Uruguay Round Agreements – especially in those areas of critical developmental interest to developing countries. These areas include, among others, the question of special and differential treatment; textiles and clothing; agriculture; and the plight of Net food importing countries. There has also been unjustified resort to the application of Anti-dumping provisions as well as tariff peaks and tariff escalation against products of export interest to developing countries – especially on manufactured products. (Zimbabwe, 1999, p. 2).

The implementation of the Agreement on Textiles and Clothing has also been poor. The Government of Pakistan also noted that those products in the US and EU which have been freed from quotas under the ATC in fact represent a “miniscule” percentage of the total restrained imports in those two major markets. In addition, Pakistan points out, these countries have resorted to very frequent use of transitional safeguard measures, which were supposed to be used “as sparingly as possible” (ATC Article 6.1; WTO, 1994, p. 94). However, Pakistan notes, one country in the four years up to 1998, has resorted to 28 transitional safeguard actions, affecting US\$1 billion worth of trade - a number of which were directed against small countries (Pakistan, 1999a, p. 2).

Similarly in their joint paper, the governments of Cuba, the Dominican Republic, Honduras, Indonesia and Pakistan note that:

In the case of the implementation of the ATC, the integration programmes for the first two stages have not lead to any meaningful liberalisation of the sector. Additionally, the textiles exporting countries continue to face export barriers due to frequent use of the exceptional transitional safeguard mechanism, anti-dumping measures, as well as other unilateral measures. This has lead to the rather ironic situation where growth in the textile exports of the developing countries have been less than the growth rates registered previously under the MFA restraints. (Cuba *et al.* 1999, p. 3).

The lack of progress on the implementation of such key agreements should give developing countries considerable cause for scepticism about the benefits of a new round.

## ENVIRONMENTALLY HARMFUL SUBSIDIES

It is widely acknowledged that direct producer subsidies are a less trade-distorting means of protection for local industries than are tariffs and quotas. Tariffs increase local prices and harm both local consumers as well as foreign producers.

However, subsidies can be used inappropriately, resulting in distorted markets and environmental destruction. The continuing high levels of support in many OECD countries is of great concern - especially support which takes the form of production-linked assistance, which encourages wasteful and often environmentally-destructive overproduction.

The OECD recently estimated that total support to agriculture in OECD countries reached US\$362 billion in 1998, and that support to producers increased from 32% of total gross farm receipts in 1997 to 37% in 1998. Market price supports accounted for 65% of these payments. Furthermore, average OECD total farm receipts were 59% higher than at world prices, with support in individual countries ranging from 1% to over 80% in some instances (OECD, 1999).

The problem of over-subsidisation of the world's fishing fleets is also well known. Safina, for example, reports that government subsidies attempting to preserve employment have for years enticed investors to buy more fishing boats than the sea could possibly support:

Between 1970 and 1990, the world's industrial fishing fleet grew at twice the rate of the global catch, fully doubling in the total tonnage of vessels and in number. This armada finally achieved twice the capacity needed to extract what the oceans could sustainably produce (Safina, 1995, p. 34).

In general, trade-distorting subsidies should be phased out, especially in fisheries, energy, water, and agriculture – *except* when such measures would adversely affect the poor who rely on them for their very survival. Any phase out of subsidies though, must also take place gradually, with careful attention to the impact on those less well off, and appropriate safety nets and compensation payments to mitigate social dislocation and hardship.

This liberalisation of agricultural trade and the elimination of massive EU and US subsidies would lead to higher prices for agricultural commodities - good news for producers able to gain higher returns for their exports, but bad news for net-food importers.

The FAO study of the effects of the URAs on the food import bills of developing countries concluded that for the developing countries as a whole, their food import bill is projected to be nearly US\$25 billion (62%) higher in 2000 than in 1988, of which US\$3.6 billion (15%) would be due to the URAs. The effects on Africa are particularly concerning since the region is projected to widen its trade deficit in agricultural products, and the URAs do not change this outcome. Both its volume of imports and the prices it pays for them are expected to increase substantially – mainly reflecting population-induced growth in demand. The net effect is expected to be an increase in the total food bill from US\$6 billion in 1988 to US\$10.5 billion in 2000 – of which US\$500 million would be due to the URAs. Overall, the food import bill of the net-food importing developing countries is expected to increase by nearly US\$10 billion, of which around 14%, or US\$1.4 billion would be due to the effects of the URAs (Greenfield, et al., 1996, pp.372, 374).

These higher food import costs need to be paid for in hard currencies which must be earned by exports. This short-term pressure to boost exports could accelerate environmental degradation if the exports are based on environmentally destructive products such as rainforest timbers.

## TRADE-RELATED INTELLECTUAL PROPERTY RIGHTS

A number of developing countries, particularly India (1999, p. 3) have expressed the view that the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) gives higher priorities to private profits than to the public good, and that because of the TRIPs agreement, technology transfer to developing countries is becoming more difficult and more expensive.

The TRIPs agreement's articles pertaining to biological patenting and the food security implications of poor farmers potentially being forbidden to save patented seeds for replanting are certainly concerning.

It should be noted in this regard that under the provisions of TRIPs Article 27.2, members may exclude inventions from patentability “to protect the *ordre public* or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment...” (WTO, 1994, p. 397).

TRIPs article 27.3(b) states that “Members shall provide for the protection of plant varieties either by patents or by an effective *sui generis* system or by any combination thereof.” (WTO, 1994, pp. 379-380). The development of such *sui generis* systems should be encouraged to protect traditional medicine and biodiversity. Calls to harmonize such *sui generis* systems under UPOV 1991<sup>5</sup> should be resisted.

The introduction of the combination of new patented seed varieties and the widespread application of western-style intellectual property rights regimes to poor farming communities in developing countries, could have adverse effects on food security and could result in widespread indebtedness, poverty and malnutrition.

The TRIPs Agreement does oblige developed countries to provide technical and financial assistance (Article 67) and incentives for their own enterprises to promote technology transfer to developing countries (Article 66.2). Little seems to have been done to meet these requirements.

## TRADE AND THE NEGOTIATING CAPACITIES OF DEVELOPING COUNTRIES

Many developing countries were not able to take part effectively in the Uruguay Round negotiations, and as a result, the agreements largely reflect the key concerns of the wealthier OECD countries. Many developing countries are still struggling to implement the URAs and even in some cases to understand their implications.

The Government of Egypt (Egypt, 1999, p. 11) has pointed out that in 1997 a total of 2849 formal and informal WTO meetings took place - an average of approximately TEN per working day. Even with a delegation of five members, each delegate would have to attend an average of two meetings every working day of the year. The proliferation of meetings is contributing to the further marginalisation of many developing countries, especially those from Africa.

Constantine Michalopoulos, the Special Economic Advisor at the WTO made a study of the participation of developing countries in the WTO (Michalopoulos, 1999), where he discussed the range of capacities of developing countries – from those with substantial missions in Geneva (15 staff or more) such as Thailand and the Republic of Korea, to countries with no representatives at all for WTO matters, or who list their national capital as the location of their representative. At

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<sup>5</sup> UPOV 1991 is the 1991 Convention administered by the International Union for the Protection of New Varieties of Plants.

present developing countries account for 74% of the WTO's membership (p. 121). He notes that 65 developing countries maintain WTO Missions in Geneva, but 26 others are represented by Missions or Embassies elsewhere in Europe, and seven others list their representatives as being located in Ministries in their national capital. Of the 29 LDCs which are members of the WTO, only 12 had representation in Geneva, and virtually *all* the small island economies were represented from Missions in Europe or their national capitals (p. 125). Some 30 developing countries were also barred from chairmanships on WTO committees because they were in arrears to the Organization. (p. 121).

Michalopoulos estimated that just to follow the topics of the various WTO bodies and to attend their meetings requires a staff of 4-5 people, and that as of mid-1997, the overwhelming majority of developing countries did not meet this minimum. In fact, 56 developing countries (60% of the total developing country members) were in some way handicapped from being properly represented, either by having no Mission in Geneva (33 countries), a mission with a less than three staff available to deal with WTO matters (the barest minimum!) (17 countries), or by having arrears problems with the WTO Secretariat which made them formally 'inactive' members (6 countries). A further 15-20 developing countries had nominally adequate missions, but the staff also had to deal with non-WTO matters. This leaves just 20-25 developing countries able to participate fully in WTO proceedings! (Michalopoulos, 1999, pp. 126-127).

He further points out due to the growing range and complexity of issues that the WTO is taking on, the capacity of developing countries to participate effectively in the work of the WTO depends very substantially on the analytical capacity and strength of the governmental and other institutions which are handling WTO issues in the capital (p. 135).

Even implementing the URAs, (let alone undertaking any new negotiations as part of a comprehensive round!), is placing heavy burdens on many developing countries – especially for those 50 or so developing countries with weak representation at the WTO. Of the more than 30 needs assessments that were completed by LDCs in 1997-98, virtually all requested assistance in strengthening national trade-related institutions (Michalopoulos, 1999, p. 136).

These capacity constraints for implementing the URAs and for negotiating a new round are one of the main reasons World Vision is opposed to the rush into a new comprehensive round.

Against this background, the continuous decline in aid from most OECD countries – including Australia is somewhat bewildering. In the latest federal budget released, despite the nominal \$22 million increase, our level of ODA spending as a proportion of GDP reached its lowest level ever - just 0.25% - a further decrease from last year's record low. Even the IMF (1998a), following its Article IV consultations with Australia last October, stated:

Noting that Australia now provides a relatively low level of official development assistance (ODA), some Directors urged the authorities to seize the opportunity of the expected budget surpluses to gradually raise the level of ODA. (IMF, 1998a, p. 2).

Since then the Australian economy has continued to grow strongly with low levels of inflation. Overall, our position is strong. If we are unable to increase our levels of ODA giving now, it is hard to imagine circumstances under which we could.

Any further demands on developing countries to participate in a new trade round should be accompanied by significant real increases in aid flows, capacity building programs and technical assistance from OECD countries and deep cuts to the debt of the most heavily indebted poor countries.

It is hypocritical for developed country governments to continuously call for developing country participation in new comprehensive trade negotiations while emasculating their ability to do so by endless aid cuts and crushing debt repayment regimes.

## CONCLUSION

The trade-environment nexus is clearly one of the major challenges facing the world, and is a key to facilitating the transition, if it is ever to occur, towards more environmentally sustainable development. The agreements negotiated by the WTO can either be a major help along this path, or they can derail it, blocking moves by individual nations to move to a more sustainable footing.

A caution must also be raised. If poverty is indeed one of the major causes of environmental degradation, and all the evidence suggests it is, then a far more concerted international effort needs to be undertaken to eliminate this scourge. Growth and trade alone will not do it – or more precisely, without a concerted international effort to eliminate poverty, then it's likely that we won't have much of an environment left to worry about.

Barro and Sala-I-Martin in their book *Economic Growth* (1995, pp. 1,3), note that between 1870 and 1990, when the US economy grew by an average of 1.75% annually, average per capita GDP rose from US\$2244 to \$18,258 in constant 1985 dollars. They go on to observe that if the GDP of Ethiopia were to grow at 1.75%, it would take *239 years* to reach the 1990 level of US real per capita GDP. As Goodland and Daly point out, so much depends on the base a country starts from:

The traditional view emphasising global income growth will exacerbate inequality while scarcely denting poverty. An annual 3% increase in global per capita income translates initially into annual per capita increments of \$633 for USA, but only \$10 or less for China, India, Bangladesh, Nigeria etc. After a decade, the US income will have risen by \$7257 whereas such income growth will have raised Ethiopia's income by only \$41 (Goodland & Daly, 1993, p. 92).

Our hope is that the WTO and its member governments will read the signs, sense the public mood of suspicion and distrust and rise to the challenge of integrating trade rules with a coherent vision of ecologically and socially sustainable development.

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