

ASSESSMENT OF THE ECONOMIC, ENVIRONMENTAL IMPACTS AND THE INSTITUTIONAL CAPACITY FOR THE FREE TRADE AREA OF THE AMERICAS (FTAA)

The case of Paraguay

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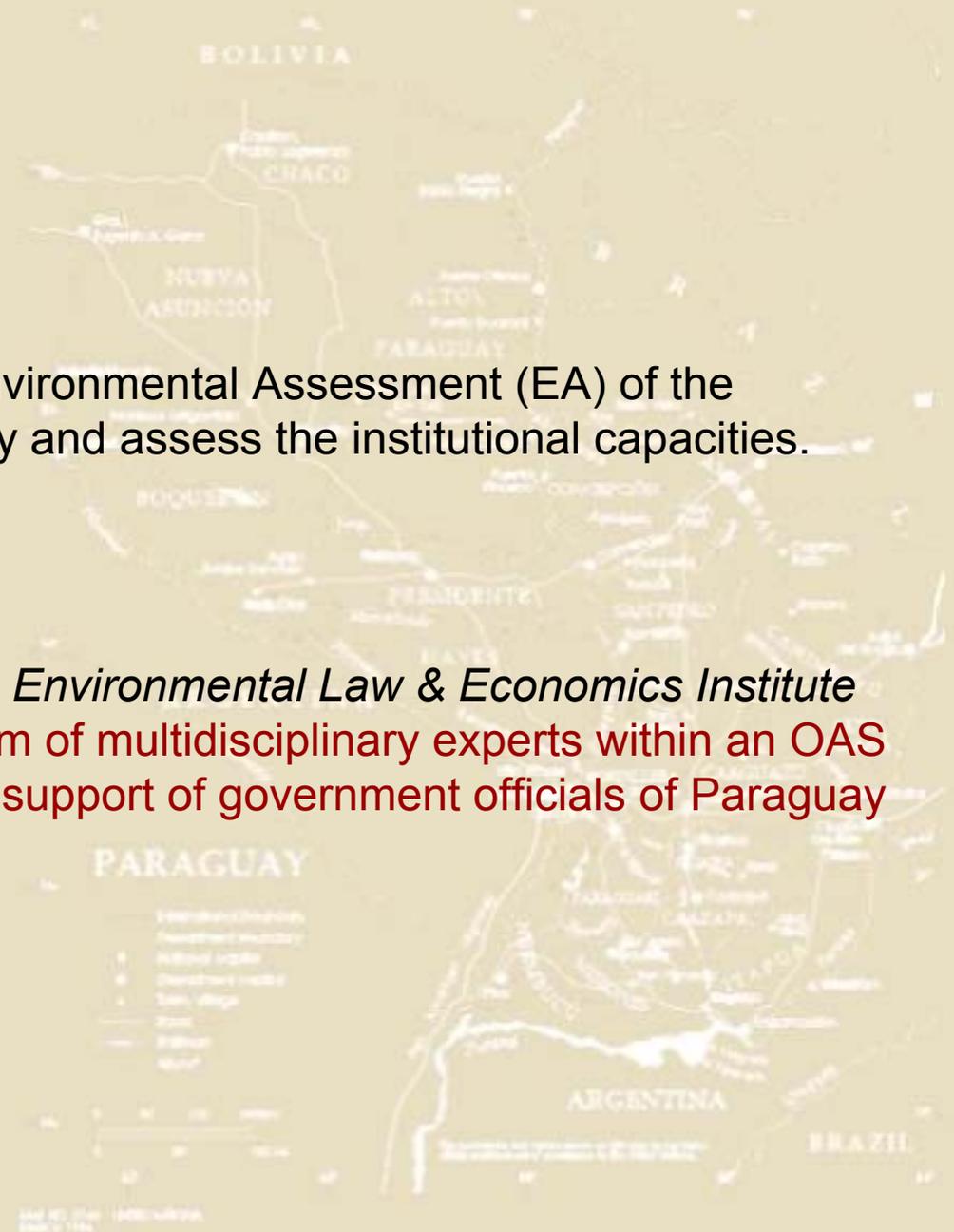
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Objectives

To conduct an Environmental Assessment (EA) of the FTAA in Paraguay and assess the institutional capacities.

Performed by the *Environmental Law & Economics Institute* (IDEA) with a team of multidisciplinary experts within an OAS program with the support of government officials of Paraguay



Approach and Methodology

The approach was rather **sectorial** than general. The main focus was the potential **impacts of the FTAA in Paraguayan exports**.

An *ad hoc* methodology was developed in order to accomplish a value chain analysis for the economic component.

The four main economic sectors were chosen based on the paraguayan historical and current exports flow in value and volume. These sectors are: soy in grain, oil and flour, cotton fiber, meat and parquet wood.



The basic methodologic approach consisted in 4 basic elements

- Economic analysis
- Environmental assessment
- Social impacts
- Legal and institutional review

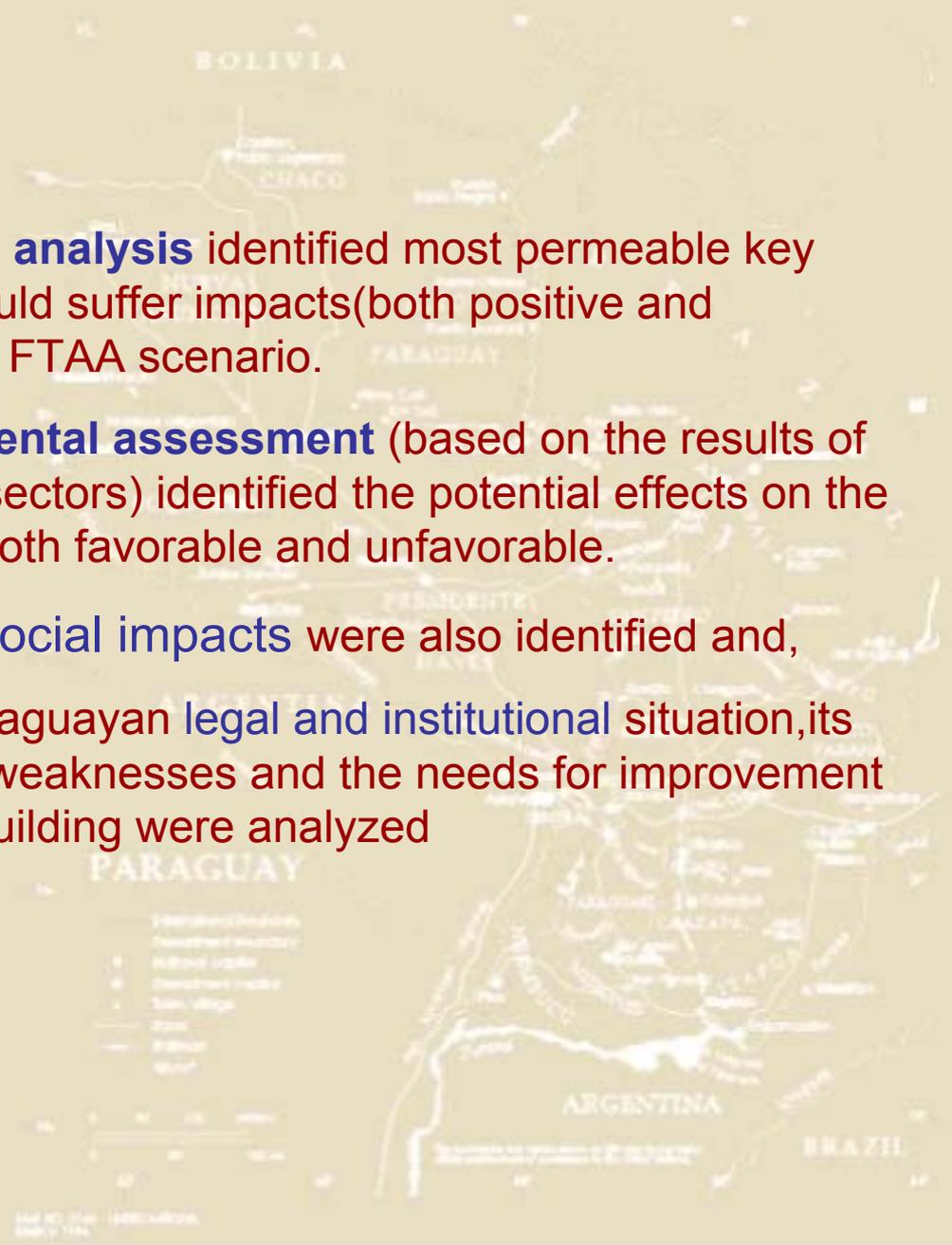


The **economic analysis** identified most permeable key sectors that could suffer impacts (both positive and negative) in an FTAA scenario.

The **environmental assessment** (based on the results of the economic sectors) identified the potential effects on the environment, both favorable and unfavorable.

The potential **social impacts** were also identified and,

Finally, the paraguayan **legal and institutional** situation, its strengths and weaknesses and the needs for improvement and capacity building were analyzed



Environmental levels for selected sectors

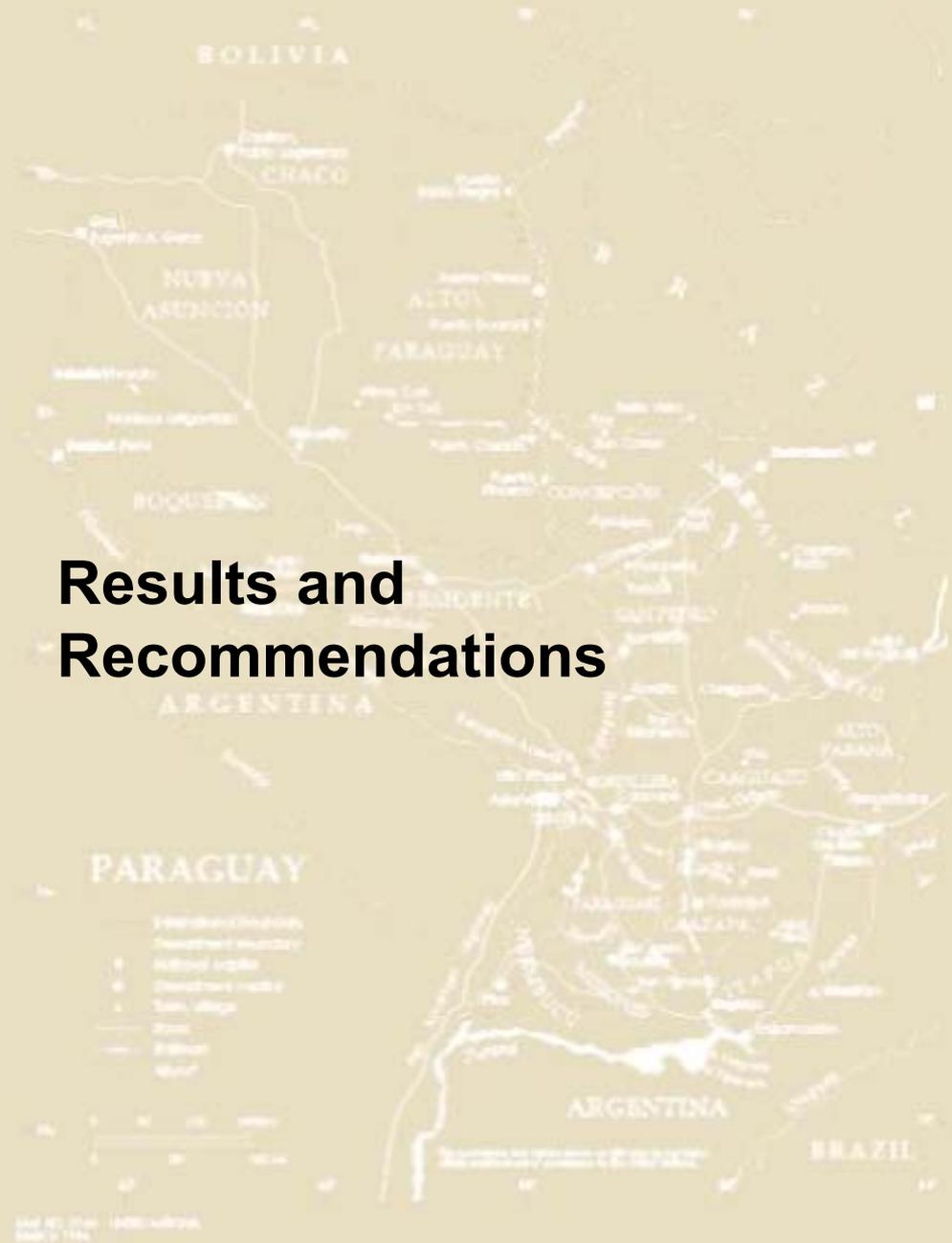
Sector	Indicators
Inputs	Rate of plaguicides use Rate of artificial fertilizers use Energy consumption
Resource use	Quantity of water for irrigation Quantity of organic matter in fertile soil Soil surface for agricultural purposes
Products	Greenhouse gases emission rates Water quality tendencies Surface dewed with plaguicides Plaguicide residues in water, soil and food Loss of nitrate and phosphorus in agricultural soil Erosion rates
Biodiversity	Land dedicated to organic agriculture Main flora and fauna species in agricultural lands

Source: United Nations, 2002.





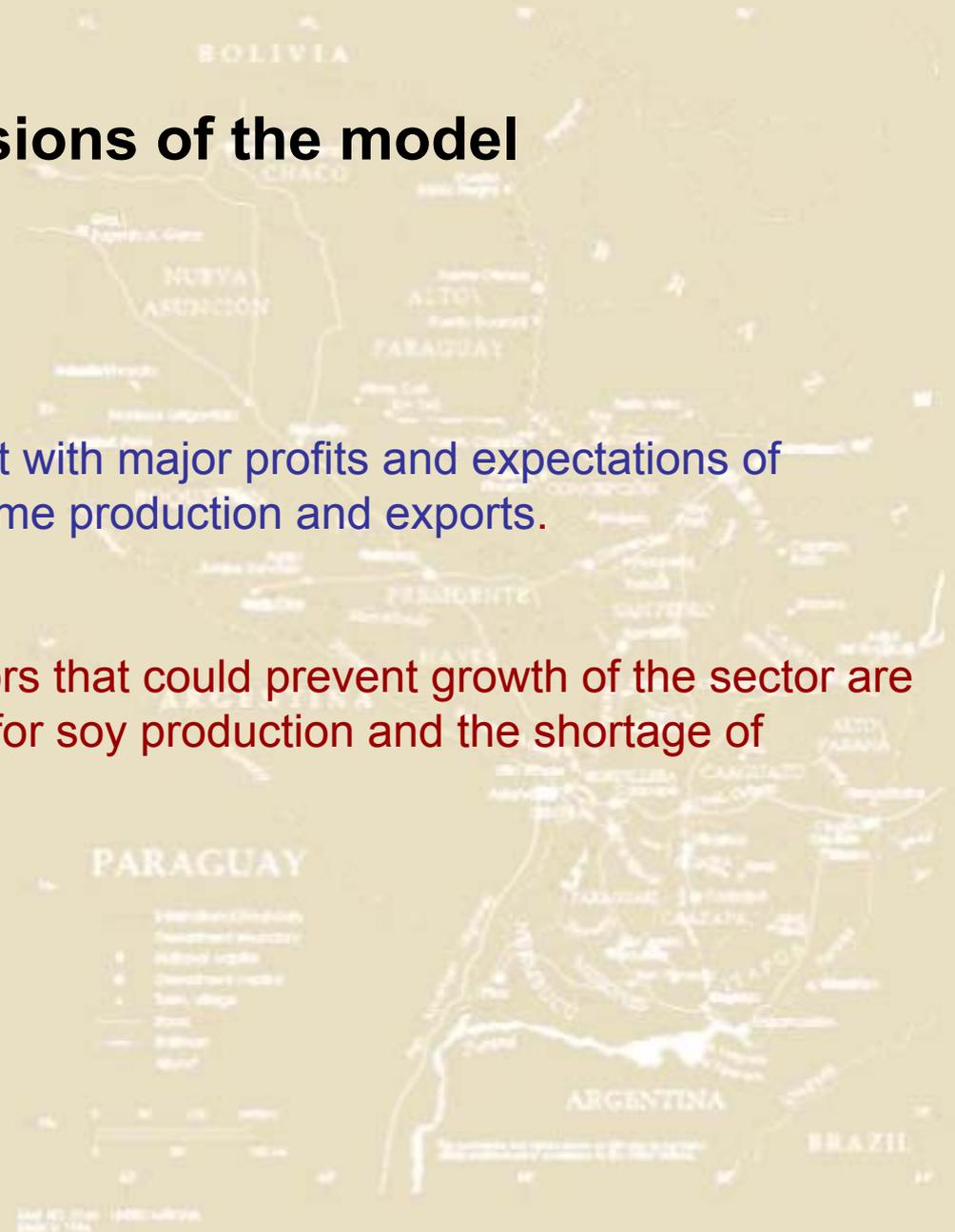
Results and Recommendations



Main conclusions of the model

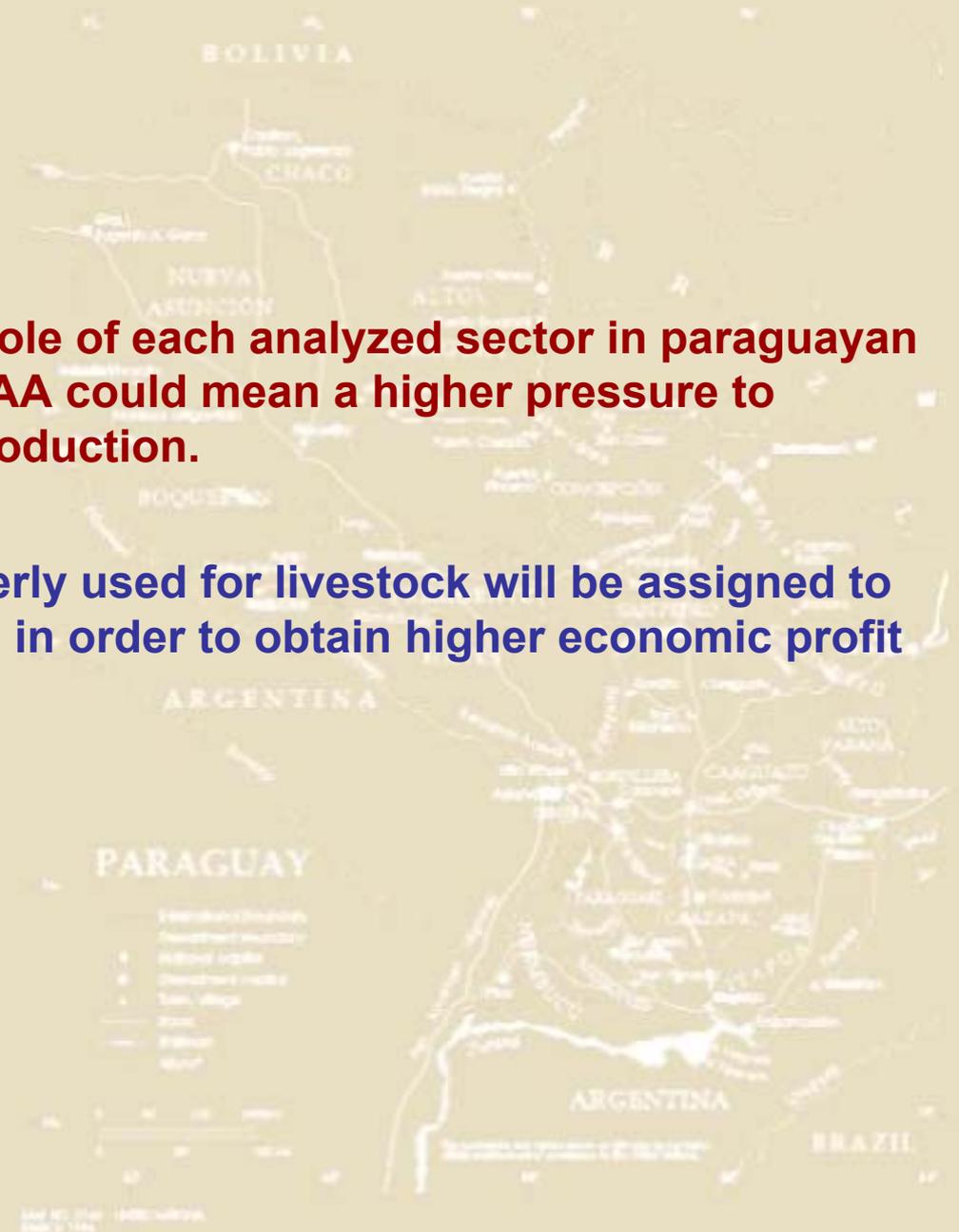
-Soy is the product with major profits and expectations of increasing its volume production and exports.

-The two key factors that could prevent growth of the sector are soil requirements for soy production and the shortage of available land.



Regarding the role of each analyzed sector in Paraguayan exports, the FTAA could mean a higher pressure to increase soy production.

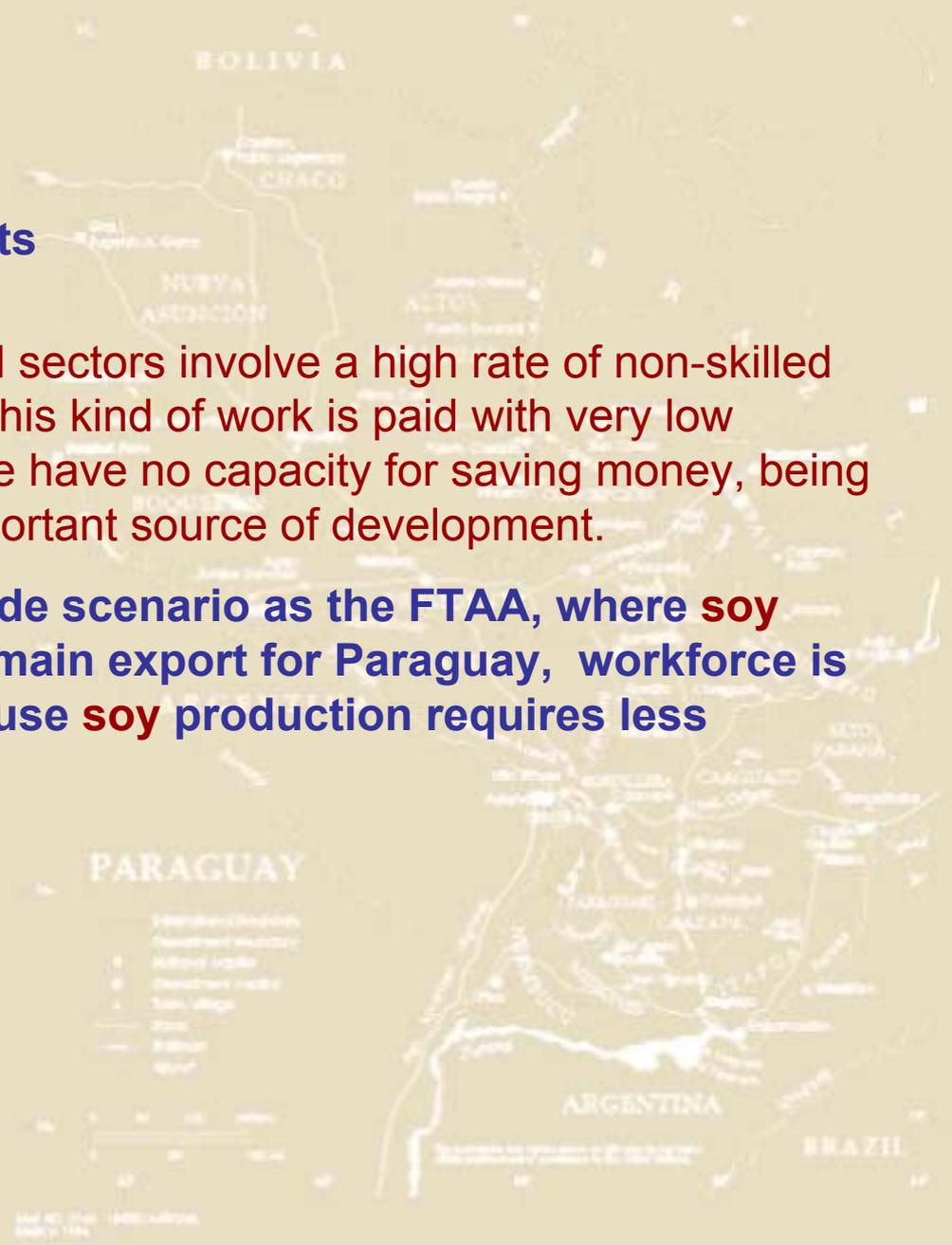
If so, land formerly used for livestock will be assigned to soy production, in order to obtain higher economic profit per hectare.



Social Impacts

All the selected sectors involve a high rate of non-skilled workforce. As this kind of work is paid with very low salaries, people have no capacity for saving money, being savings an important source of development.

Under free trade scenario as the FTAA, where soy would be the main export for Paraguay, workforce is reduced because soy production requires less workers.

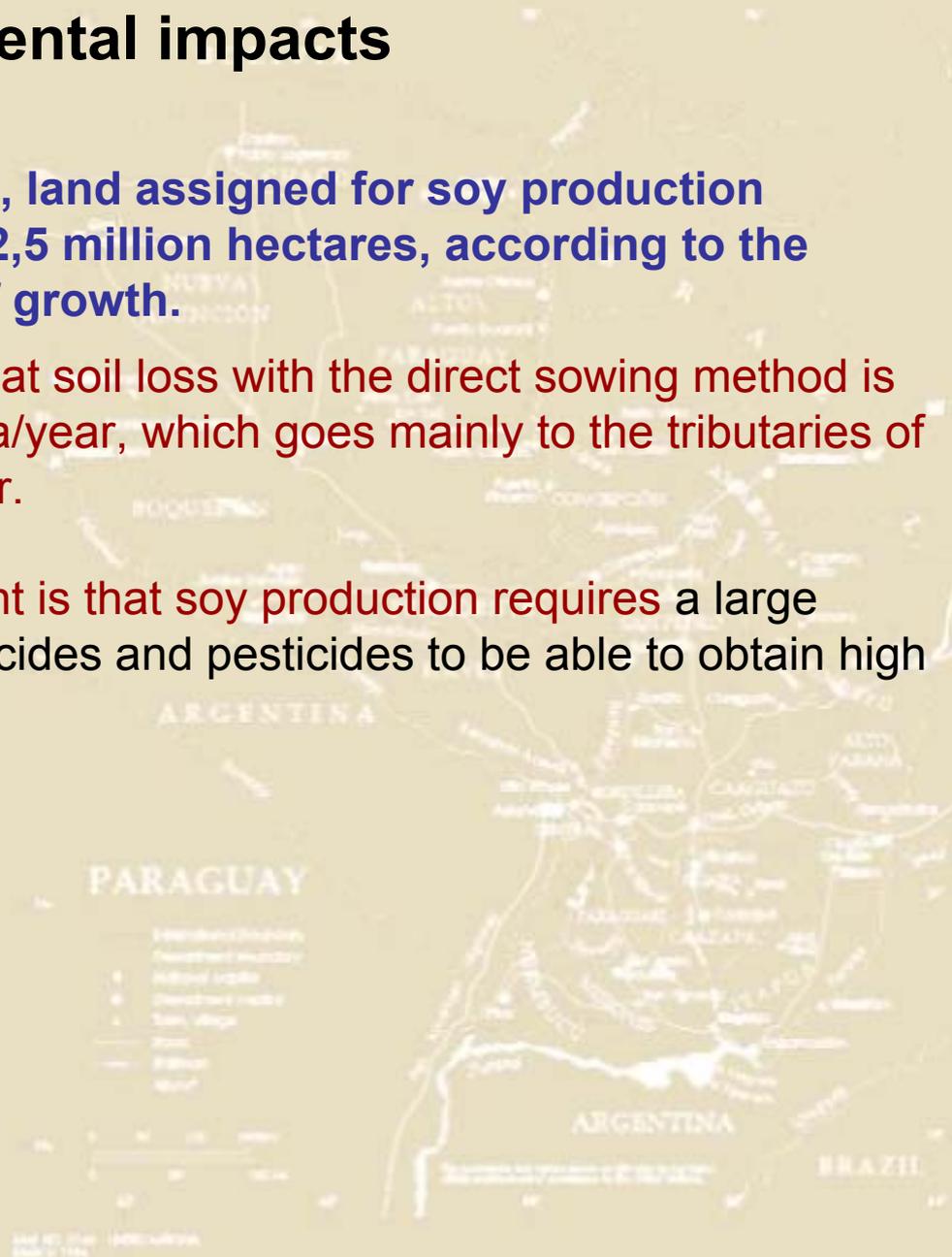


Environmental impacts

Within 10 years, land assigned for soy production would raise to 2,5 million hectares, according to the current rates of growth.

It is estimated that soil loss with the direct sowing method is about one ton/ha/year, which goes mainly to the tributaries of the Paraná River.

Another key point is that soy production requires a large quantity of herbicides and pesticides to be able to obtain high performances.



To improve the positioning of the environmental sector within the decision-making spheres

Capacity	Who needs it	Methodology	Needed support
1) Leadership and negotiation skills	Ministry of the Environment Parliament	Awareness on the importance of the topic in the economic, social and political areas.	Other Governmental sectors Private Sector Civil Society

To minimize social and environmental impacts

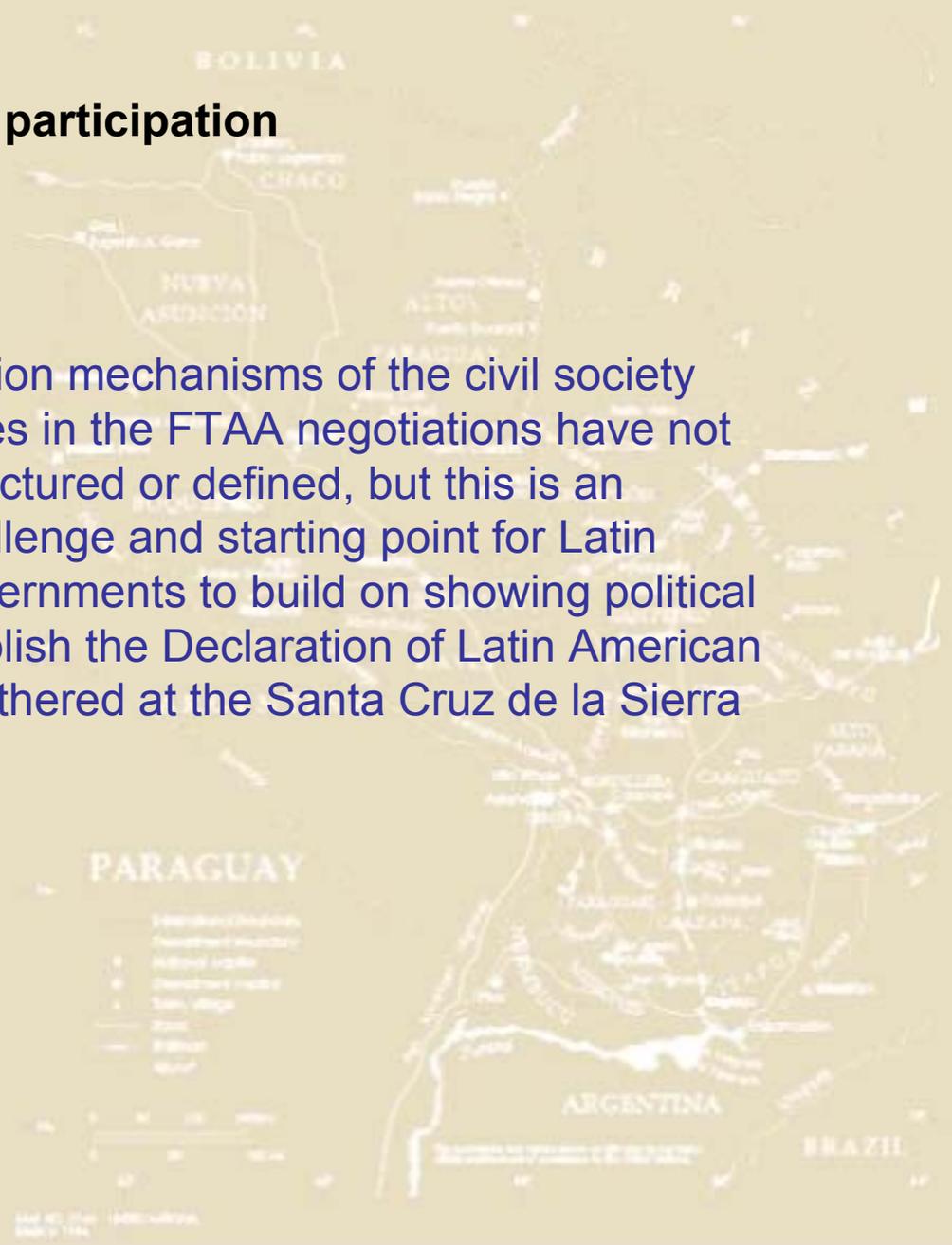
Capacity	Who needs it	Methodology	Needed support
1) Improvement of preventive actions	Private sector Governmental sector	Cost-Profit Balance. Diffusion of legislation .	Governmental Sector, International Funding Institutions
2) Legislation enforcement	Ministry of the Environment Prosecutor's Office	Clear Definition of the Authority Legislation awareness	

Transparency and efficiency in the Administrative work

Capacity	Who needs it	Methodology	Needed support
1. Strengthening of the internal and external communication/information	Environmental legislation application authority	Citizen Monitoring Systematization and availability of the information Participation of several actors Continuity of procedures	Effective sector responsibilities assumed. Infrastructure and material resources improvement
2. Fulfillment of obligations assumed	Application authority	Greater availability of human, financial and infrastructure resources Participative methods for clarification and achieving of objectives, plans and programs	Higher budget International entities which support data collection methodologies
3. Field monitoring	Local governments, Civil Society Organizations Educative institutions	Local empowerment	Technical & Financial resources.
4. Effective Decentralization	Governmental entities	Training and role assumption	Resources assignment

Civil society participation

The participation mechanisms of the civil society representatives in the FTAA negotiations have not been well structured or defined, but this is an important challenge and starting point for Latin American governments to build on showing political will to accomplish the Declaration of Latin American Presidents gathered at the Santa Cruz de la Sierra meeting.

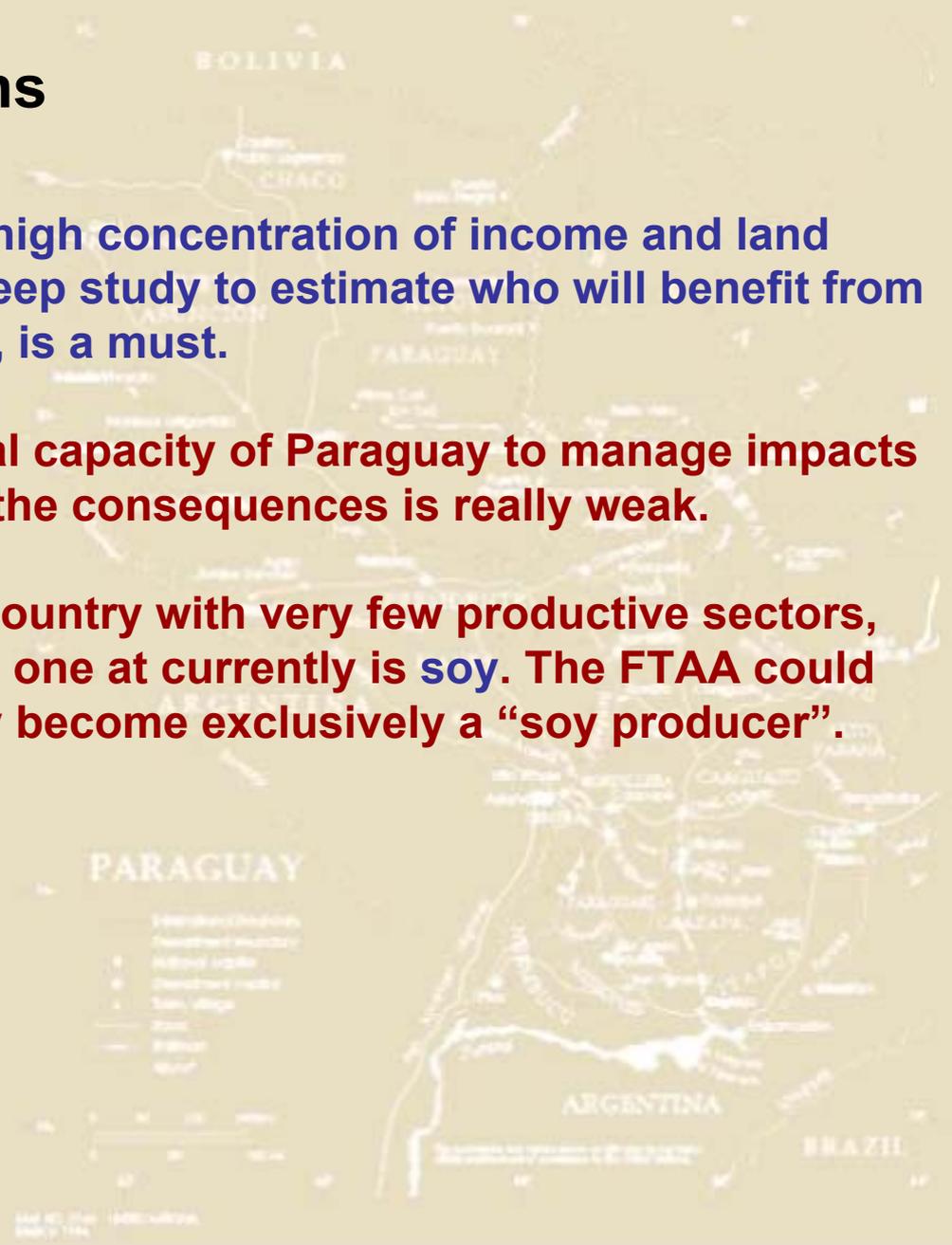


Conclusions

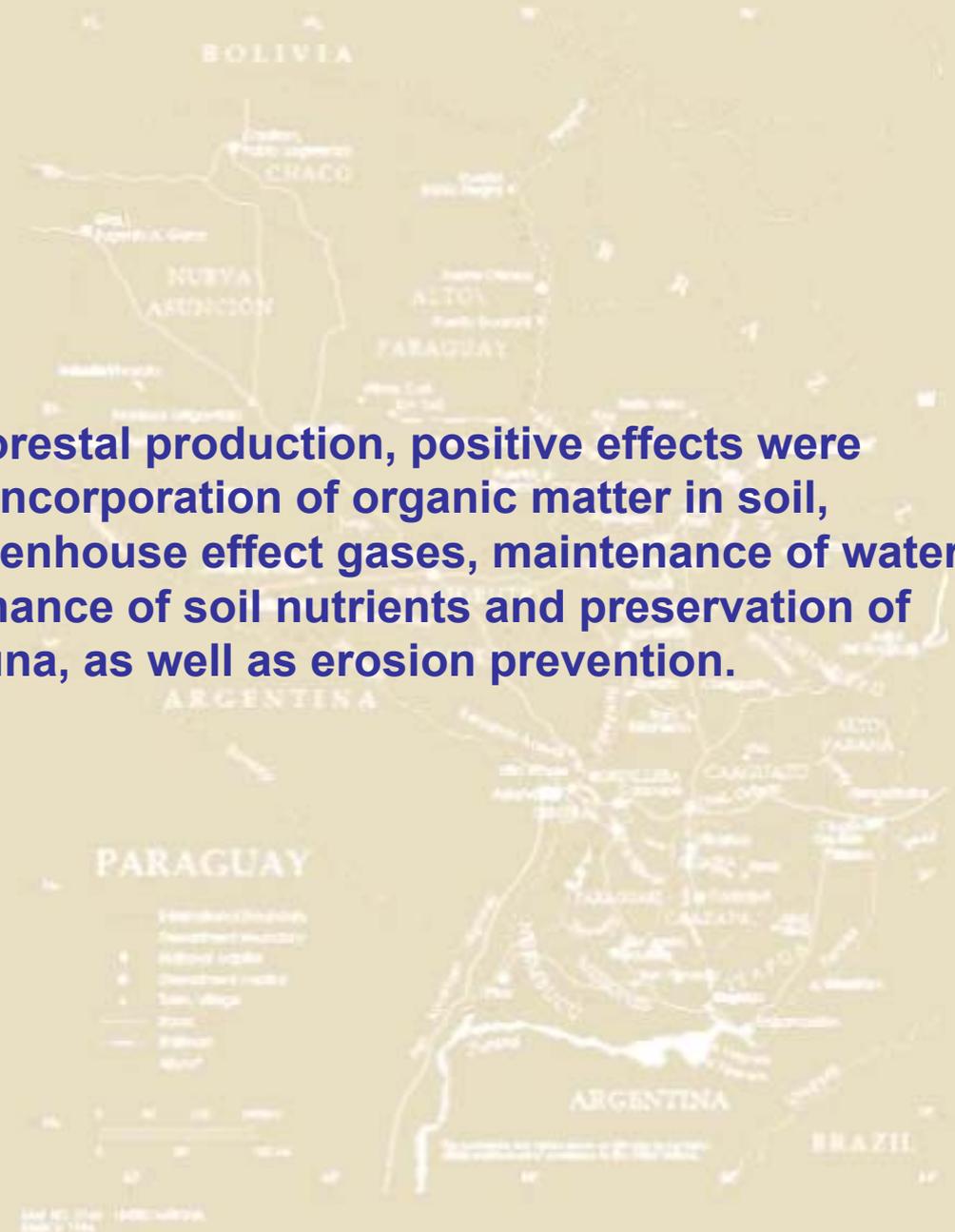
Regarding the high concentration of income and land ownership, a deep study to estimate who will benefit from this agreement, is a must.

The institutional capacity of Paraguay to manage impacts and overcome the consequences is really weak.

Paraguay is a country with very few productive sectors, where the main one at currently is soy. The FTAA could make Paraguay become exclusively a “soy producer”.



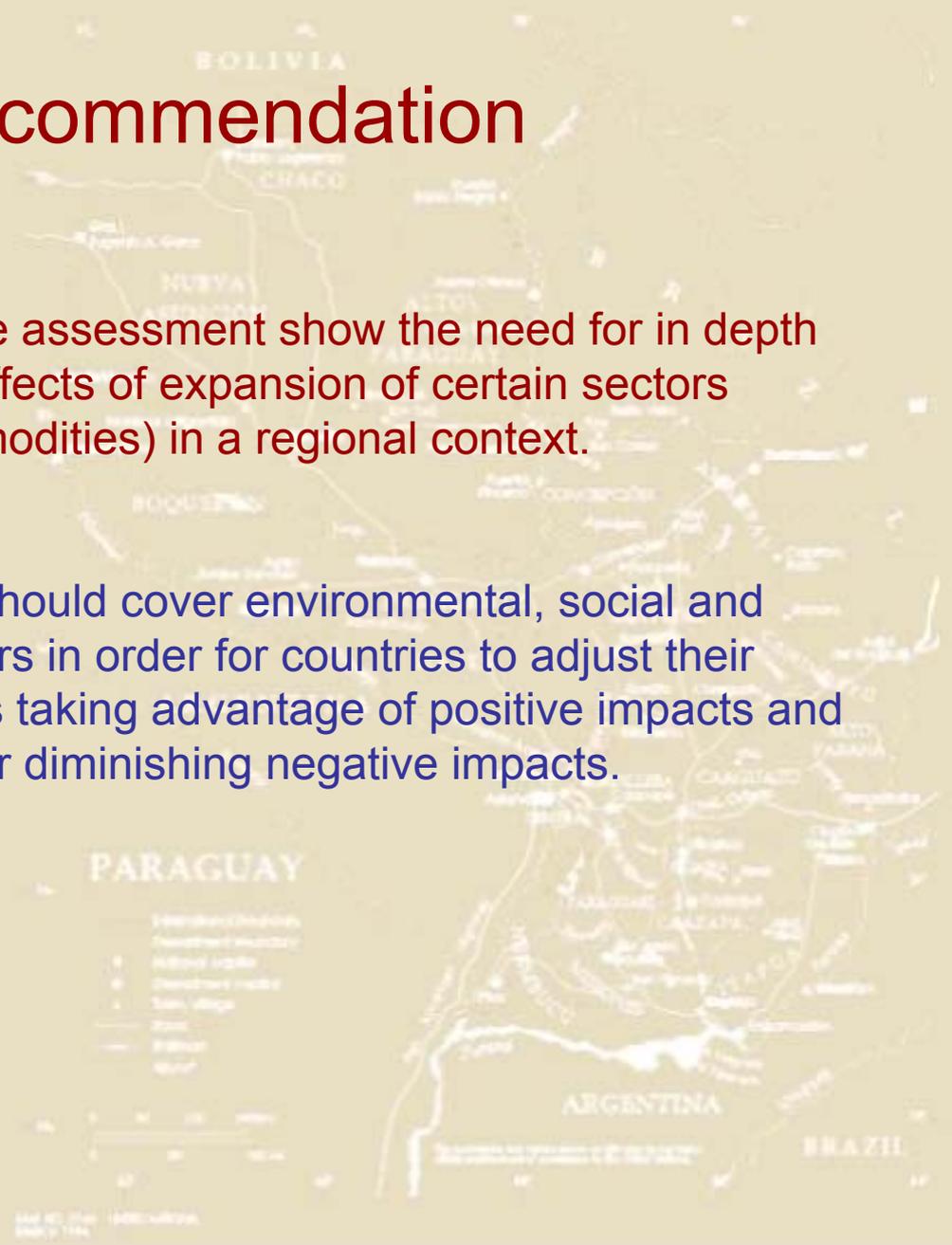
In the case of forestal production, positive effects were found with the incorporation of organic matter in soil, decrease of greenhouse effect gases, maintenance of water quality, maintenance of soil nutrients and preservation of local flora & fauna, as well as erosion prevention.



Final Recommendation

The results of the assessment show the need for in depth analysis of the effects of expansion of certain sectors (especially commodities) in a regional context.

These analysis should cover environmental, social and economic indicators in order for countries to adjust their domestic policies taking advantage of positive impacts and preventing and/or diminishing negative impacts.



Thanks



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PARAGUAY

- International boundary
- Department boundary
- National capital
- Department capital
- Town, village
- Port
- Road
- Railroad
- Airport

