Trade and Environment Capacity-Building for Government Officials

Module I:
Intersection between Trade and Environment

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OVERVIEW:
FIVE HYPOTHESES

a) Trade Affects Environmental Quality (direct and indirect)

b) Trade Policy Affects Environmental Quality

c) Trade Policy Affects Environmental Policy (policy-to-policy or regime links)

d) Environmental Quality Affects Trade (example: collapse of fish stocks, water depletion, climate change)

e) Environmental Policies Affect Trade (example: WTO TBT notification covering green goods)

OECD ANALYTICAL FRAMEWORK

a) Scale Effects
b) Compositional or Structural Effects
c) Technology Effects
d) Product Effects
e) Regulatory Effects

FIRST HYPOTHESIS: TRADE AFFECTS ENVIRONMENTAL QUALITY

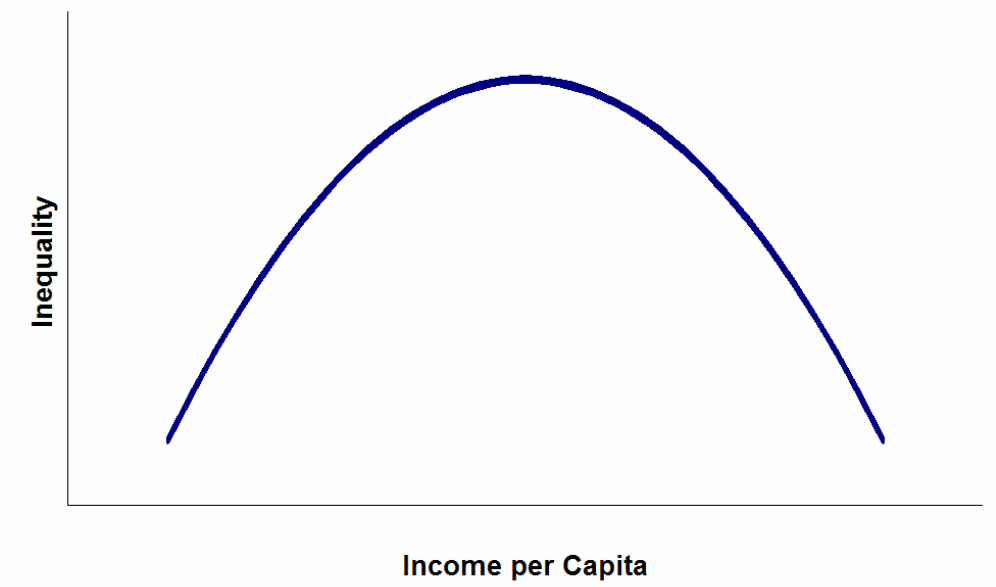
First Argument:

Trade Expansion **Benefits** Environmental Quality

i. Trade-Growth-Poverty Nexus
ii. Trade-production specialization-efficiency gains nexus

FIRST HYPOTHESIS: TRADE AFFECTS ENVIRONMENTAL QUALITY

Environmental Kuznets Curve Debate from Grossman & Krueger



FIRST HYPOTHESIS: TRADE AFFECTS ENVIRONMENTAL QUALITY

i. Win-Win Trade Environment Outcomes:

1. Subsidies
2. Environmental Goods and Services

ii. National Coordination among ministries

FIRST HYPOTHESIS: TRADE AFFECTS ENVIRONMENTAL QUALITY

Second Argument:

Trade Expansion **Harms** Environmental Quality

Scale Effects:

i. Uruguay Round generates addition US$550 billion to global GDP
ii. Doha Round to contribute US$110 billion to global GDP
iii. Negative scale effects accelerate resource depletion; global pollution (EKC constraints)

FIRST HYPOTHESIS: TRADE AFFECTS ENVIRONMENTAL QUALITY

In Search of Evidence

FIRST HYPOTHESIS: TRADE AFFECTS ENVIRONMENTAL QUALITY

Environmental Assessments of Trade

a) Differs from project-specific environmental impact assessment (EIAs)

b) US, Canada, EU, NAFTA CEC Environmental Assessments

c) Example: NAFTA Mexico Findings

FIRST HYPOTHESIS: TRADE AFFECTS ENVIRONMENTAL QUALITY

Environmental Assessments of Trade (cont'd)

d) Problems:

   i. Comparable Baseline Data

   ii. Reliable Indicators

   iii. Isolating Relationships: Trade Liberalization Impacts versus other Economic Policies (Correlation versus Causation)

e) Scenarios and debate over models

   i. (CGE versus econometric)

SECOND HYPOTHESIS: TRADE POLICY AFFECTS ENVIRONMENTAL QUALITY

a) Washington Consensus Debate:

Liberalize, Privatize, Deregulate

a) Budgetary Effects on Regulatory Compliance/Enforcement

THIRD HYPOTHESIS: TRADE POLICY AFFECTS ENVIRONMENTAL POLICY

a) Policy-to-Policy: Regime Coherence

b) Trade Rule Consistency – WTO and RTAs

THIRD HYPOTHESIS: TRADE POLICY AFFECTS ENVIRONMENTAL POLICY

Trade Rules Constrain Domestic Environmental Regulations

a) Main Debate – like products and production process methods (PPMs)

b) Environmental Policy – sources of pollution and life-cycle assessments

c) Trade Policy – product performance and border-to-grave

d) GATT and WTO issues and disputes:

   i. Eco-labels and certification (TBT)

   ii. Tuna-Dolphin; Shrimp-Turtle; Asbestos;

e) Dueling Science – US-EU Beef Hormones and US-EU genetically modified organism

THIRD HYPOTHESIS: TRADE POLICY AFFECTS ENVIRONMENTAL POLICY

Trade Rules Constrain Multilateral Environmental Agreements

- 250 MEAs – 20 contain trade measures (Montreal, Basel, CITES, Stockholm, Rotterdam)
- notification and prior consent requirements (Montreal, CITES, Stockholm, PIC) complement TBT and other WTO notification systems
- Trade bans – CITES and Basel ban (1995) – could contravene GATT Article XI
- Main issue – discriminatory Measures Against non-Parties:
- Montreal Protocol and beyond

FOURTH HYPOTHESIS: ENVIRONMENTAL QUALITY AFFECTS TRADE

Scale effects from trade accelerate resource depletion

Resource depletion has feedback loop that constrains production

Example: 60-70% of global fish stocks at risk due to over-exploitation

i. IUCN red-list of endangered commercial fish stocks

ii. Response: WTO debate on rolling back fish-subsidies

FOURTH HYPOTHESIS: ENVIRONMENTAL QUALITY AFFECTS TRADE

Trade Specialization, Intensive Agriculture and Environmental Impacts:

i. 60-70 percent of water use for agricultural production
ii. depletion of groundwater aquifers
iii. contamination of freshwater from nutrient and agro-chemical inputs

FIFTH HYPOTHESIS: ENVIRONMENTAL POLICIES AFFECT TRADE

Annual expenditures on environmental protection = US$600 billion

Largest category of WTO TBT notification: Relate to environmental requirements (approximately 15%)

FIFTH HYPOTHESIS: ENVIRONMENTAL POLICIES AFFECT TRADE

Competitiveness Fears

Race-to-the-Bottom or Race-to-the-Top?

FIFTH HYPOTHESIS: ENVIRONMENTAL POLICIES AFFECT TRADE

New policies:

i. Renewable19 portfolio standards

ii. Product take-back and producer responsibility schemes (eg EC)

FIFTH HYPOTHESIS: ENVIRONMENTAL POLICIES AFFECT TRADE

Climate Change Regime: 2006 -- $30 billion

i. 2007 expected to double – EU-wide trading system; Kyoto Clean Development Mechanism

ii. Carbon Offsets for this meeting = approximately 44 tons of carbon offset @ US$ 29 tonne

THANK YOU

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