

OPPORTUNITIES FOR THE ENVIRONMENT IN THE INTEGRATION AGENDA

As previously mentioned, the economic integration agenda is accompanied by a number of opportunities for environmental cooperation. Consequently, trade could benefit institutional and capacity building for environment and sustainable development. In the case of bilateral and regional trade agreements, many countries have negotiated parallel environmental cooperation agreements. This is the case with the Environmental Cooperation Agreements among Canada - Costa Rica, Canada - Chile, and United States - Central America.¹¹ In the case of the FTAA, a mechanism for cooperation was approved during the last quarter of 2002: the Hemispheric Cooperation Program (HCP). Since its approval, OAS member States have been identifying their national needs and priorities within different areas, including the environment.

HEMISPHERIC COOPERATION PROGRAM (HCP)

“...The Program is intended to strengthen the capacities of those countries seeking assistance to participate in the negotiations, implement their trade commitments, and address the challenges and maximize the benefits of hemispheric integration, including productive capacity and competitiveness in the region...” Paragraph 18, Quito Ministerial Declaration, November 2002.

Central America, the priority areas for cooperation are listed in the agreement and include improvement of environmental management systems, enforcement of environmental law, development of environmental goods and services, biodiversity conservation, and exchange of information concerning the implementation of multilateral environmental agreements. All these areas are highly important, especially for countries where environmental institutions are relatively new.

However, some of the remaining key challenges are to improve institutional capacities and information for decision-making, to anticipate changes in industrial and other pollution emissions, to put in place robust environmental regulations, and to improve the ability to anticipate other challenges such as how trade creates new pathways to alien invasive species, among others. Hence, it is crucial to take advantage of the cooperation opportunities arising in different trade forums to begin working in concrete areas. Improving access to information for decision making related to sustainable trade policy and directing the new opportunities of economic integration towards sustainability and environmental benefits in the hemisphere.

For further information, please contact Claudia S. de Windt, (cdewindt@oas.org, telephone 202-458-6914) in the Office for Sustainable Development and Environment of the General Secretariat of the Organization of the American States (OAS/OSDE). This OSDE Policy Brief Series provides a forum for discussion on issues pertaining to sustainable development to help transfer good practices and lessons learned from project design and implementation. This is the sixth in a series that includes topics on:

- Biodiversity Conservation
- Water Resources Management
- Transboundary Aquifers
- Natural Hazards Management
- Renewable Energy
- Public Participation in Environmental Governance.

MERCOSUR also included environmental cooperation in its environmental framework agreement¹² signed in 2001. Discussions in this area are actively taking place in the context of its working group 6 on environment (SGT 6).

The cooperation agenda places the environment in a beneficial position compared to other sectors. In regards to the Environmental Cooperation Agreement between the US and

Analyzing the Linkages between Economic Integration and Sustainable Development in the Americas¹

ECONOMIC INTEGRATION IN THE AMERICAS

For the past fifteen years numerous economic integration and free trade agreements (FTAs) have been signed and negotiated in the Americas, including:

- the North American Free Trade Agreement (NAFTA),
- the Mexico - Northern Triangle Agreement (El Salvador-Guatemala-Honduras),
- the Canada - Costa Rica FTA,
- the Canada - Chile FTA,
- the United States - Dominican Republic - Central America FTA (DR - CAFTA),
- the current US Andean FTA, and
- the Free Trade Area of the Americas (FTAA).

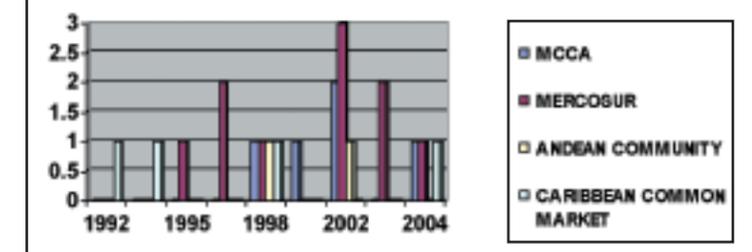
Trading blocs such as the Central and South American Common Markets (MCCA and MERCOSUR), are key examples of achievements in economic integration. The Central American region alone has negotiated 5 free trade agreements in less than 6 years, as a result, tariffs in the region have been reduced from an average of 54 percent at the beginning of the 1980s to less than 7 percent to date.² In the case of MERCOSUR, 11 trade agreements of different nature were signed in less than 7 years, with a current average for tariffs in the region ranging between 11 and 14.3 percent.

In the last decade these efforts in the economic front have coincided with initiatives within the region to strengthen existing national environmental regulations and standards, such as expanding protected areas to safeguard the hemisphere's rich endowment of biological diversity, as well as to introduce new commitments at the national, regional, and global levels.

At the 1992 UN Conference on Environment and Development held in Rio de Janeiro, leaders of the Americas

recognized that a key challenge for development is to ensure that trade liberalization and sustainable development are mutually supportive. This challenge has been strongly echoed in the context of the Summits of the Americas process, as Heads of State and Government have committed to the integration of economic prosperity, poverty reduction, rural development, equitable income, and sustainable use of natural resources. A number of organizations, including the OAS, the United Nations Environment Programme (UNEP), the World Bank and the Inter-American Development Bank (IDB), continue to work with countries at the national and regional level to translate that broad goal of policy coherence between trade and sustainable development into concrete, meaningful action on the ground.

CHART 1. NUMBER OF TRADE AGREEMENTS SIGNED IN THE WESTERN HEMISPHERE



THE TRADE AND ENVIRONMENT RELATIONSHIP



The relationship between trade and environment is dynamic and complex; a straightforward approach to understanding this relationship is to look at the basics: the physical and the policy-to-policy linkages.

Economic activities, including trade, are often dependent on the environment and natural resources. In the Western Hemisphere this is particularly relevant given the share of agriculture in the Gross Domestic



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11. This agreement has not been executed to date.

12. Acuerdo Marco sobre Medio Ambiente del MERCOSUR, Decisión N°2/01

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2. Murillo, Carlos, Promoting Sustainable Development through Mutually Supportive Policies. (Paper presented during the Canada and Costa Rica Public Workshop on Trade and Environment). San Jose, Costa Rica, 2004.

Product (GDP) of the region. The trade-environment nexus has been shown empirically to create new challenges in several ways. Trade-related production specialization, linked to the reallocation of production resources, can create additional environmental pressures associated with scale effects. At the same time, scale effects are offset or mitigated by a number of other variables, including the compositional effects that trade liberalization brings about in a national economy for instance, from agriculture to industrial goods to the services sector, as well as increased capital turn-over with increased trade in technologies.

In addition to direct environmental effects, a great deal of attention during the past decade continues to focus on the policy-to-policy effects of trade and environment. Both trends are regulated by different and complex structures of law³: trade, by the World Trade Organization (WTO) and regional trade agreements; and environment, by different multilateral, regional environmental agreements as well as by national laws and regulations. Policies defined within both structures interact in different ways, for example, trade and market access are influenced by environmental standards and concerns whereas trade measures can affect the environment in terms of direct effects and degrees of conservation when trade obligations are imposed with a conservationist objective. Moreover, international trade law often helps shape how domestic environmental laws are designed, given the need to comply with the non-discriminatory nature of the multilateral trading system.

It is important to highlight the opportunities that open economies and economic gains derived from free trade provide for the environment, including increased capacity to afford and provide higher levels of environmental protection. One such example is how the decrease in tariff and non-tariff measures affecting sanitation and wastewater treatment technologies has a measurable impact on lowering prices and making life-saving technologies affordable for importing countries. Furthermore, recent negotiations for cooperation in trade have supported cooperation in other areas, including cleaner technologies and management practices and systems.

However, for trade to become a driver of sustainable development, it is necessary to consciously integrate the social and environmental components of sustainability into the economic agenda. In this sense, and according to paragraph 51 of the Doha Development Agenda,⁴ member States of the WTO have begun to analyze how to effectively incorporate sustainable development into trade negotiations at the multilateral level.

Progress has been made regarding the incorporation of environmental issues to regional and bilateral trade agreements,⁵ such as the NAFTA, United States - Singapore, United States - Jordan, United States - Chile, Canada - Chile, CARICOM - Dominican Republic, CARICOM - Colombia, and in the recently signed Canada - Costa Rica, and DR - CAFTA agreements. Since the execution of these agreements, signatory countries in the region have begun to seriously consider the environmental issues related to specific key sectors such as energy, transportation and agriculture. They have also begun to focus on priorities and capacity building needs at the national and regional levels.

THE EFFECTS OF TRADE ON THE ENVIRONMENT

Organizations such as the WTO, UNEP, the United Nations Economic Commission for Latin-American and the Caribbean (ECLAC), the Organization for Economic Cooperation and Development (OECD), and the North American Commission for Environmental Cooperation (CEC) have been analyzing the effects of trade on the environment and sustainable development for several years. However, only the Office for Sustainable Development and Environment (OSDE) of the OAS⁶ has focused exclusively on the Western Hemisphere, analyzing both positive and negative effects of trade and economic policy on the environment and sustainable development through environmental assessments.

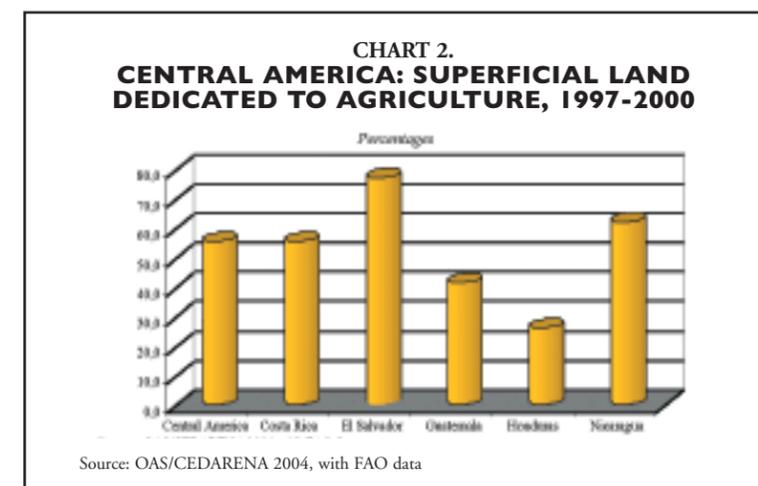
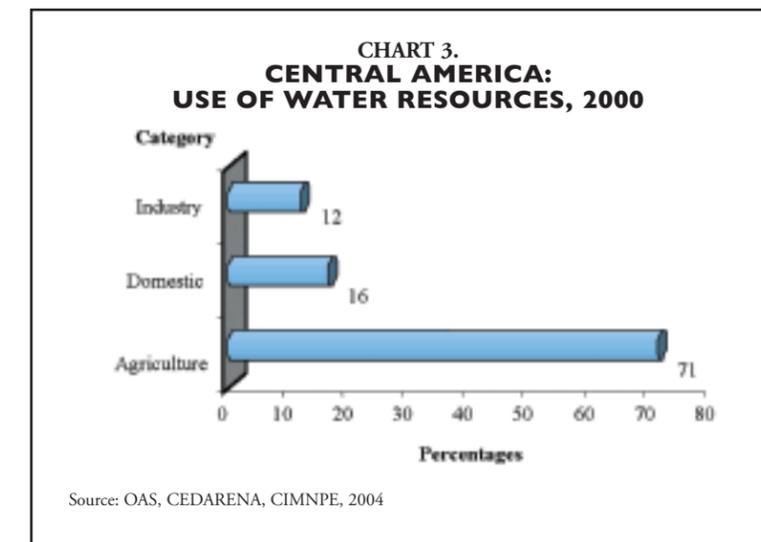
Along with national organizations, the OAS has performed environmental assessments of trade in Argentina, Brazil, Paraguay, Uruguay, Costa Rica, and Guatemala. Currently, the OAS is working on assessments for Colombia, Ecuador, Peru, Dominican Republic, Panama, and Trinidad and Tobago.

The main objective of these multidisciplinary assessments is to provide policy makers and regulators with the tools and required information to anticipate the trade-related environmental pressures. For example, if economic forecasts suggest that a country will have a comparative advantage in higher-value added fruits and vegetables, then it is important to anticipate how free trade may create new challenges in the following areas:

- increased pesticide use and related environmental health challenges;
- increased use of nutrients in fertilizers and associated non-point source nutrient run-off that is emerging as the number one pollutant in the hemisphere;
- the effects of increased irrigation and impacts of rapid freshwater and ground-water depletion; and
- the effects of increased transportation.

These examples show that increased trade can and does lead to different kinds of environmental pressures. However, the purpose of this analysis is not to halt or condition trade liberalization, but rather to ensure that trade and environmental policies work in tandem, given the cross-cutting nature of both areas and their interaction.

The assessments (available for review and comments at <http://www.oas.org/usde/fida/>) have been developed in a participatory and cooperative way between the governments, civil society and key stakeholders at the national level. In particular, they have been useful for identifying certain areas that require attention and should be considered at the policy level. For instance, production of some crops of economic relevance in Central America, a region where a very high



In the case of Southern Cone countries the OAS assessments⁹ indicated a massive increase in soy production, becoming a monoculture crop, in the case of Paraguay. Due to the erosive effect of soy production, the OAS study¹⁰ highlights the need to promote agricultural diversification, along with mechanisms that prevent the replacement of sustainable crops and the expansion of the agricultural frontier, protecting biodiversity.

Although progress continues to be made in understanding the linkages between trade and environment, a decade of empirical evidence and policy analysis shows that environmental effects of trade are complex, largely indirect

and difficult to isolate (for example from other economic variables such as monetary changes, fiscal imbalances, endogenous variables). However, two lessons are clear: first, the exposure of all countries to free trade creates new challenges on environmental laws, regulations and institutions. At the same time, free trade creates new opportunities in such high-growth market segments as sustainable coffee, eco-tourism and other “green” markets that globally exceed \$550 billion per year. Second, the process of looking at the effects of trade on the environment is futile if not done together with national counterparts in each country and incorporating public participation.

percentage of superficial land is used for agricultural purposes (Chart 2) and where this sector used 71 percent of the total water demand during 2000 (Chart 3). An environmental assessment conducted by OAS in Costa Rica and Guatemala⁷ indicates the possibility of an increase in the production of melon⁸ and sugar cane with the future implementation of CAFTA in Central America. The study reflected the need to consider policies and regulations for water resources management in order to assure availability for other uses. Other concerns related to production of the crops include the use of pesticides and burning practices in the case of sugar cane production, a source of pollution that carries many health consequences to surrounding populations.

3. United Nations Environment Programme (UNEP) and International Institute for Sustainable Development (IISD). Environment and trade: a handbook. Canada, 2000.

4. Doha Ministerial Declaration, Qatar November 14, 2001. Paragraph 51 “The Committee on Trade and Development and the Committee on Trade and Environment shall, within their respective mandates, each act as a forum to identify and debate developmental and environmental aspects of the negotiations, in order to help achieve the objective of having sustainable development appropriately reflected”

5. At the multilateral level in WTO discussions have focused on the relationship between the multilateral trading system and specific trade obligations contained in multilateral environmental agreements; on the reduction or elimination of tariff and non tariff barriers on environmental goods and services, and on the relation between environmental measures and market access (See paragraphs 31, 32 and 33 Doha Ministerial Declaration). In bilateral trade agreements signed with the United States, environmental provisions have been agreed upon further to the Trade Act of 2002. This Law establishes mandatory inclusion of environmental provisions in trade agreements signed by the United States and also establishes that free trade agreements should foster mutual support between trade and environmental policies.

6. See Declarations of the Summit of the Americas Process, 1994-2001.

7. Organization of American States, Centro de Derecho Ambiental y Recursos Naturales (CEDARENA) and Centro Internacional de Política Económica para el Desarrollo Sostenible (CINPE). Evaluación de impacto Ambiental y Capacidad Institucional de la Región Centroamericana frente a la Liberalización Comercial: Estudios de caso de Costa Rica y Guatemala. United States of America, 2005.

8. The total of melon exports in 2001 for both countries was \$118 million, and the cultivated area for the region reached 20 thousand hectares (6.7 thousand in Costa Rica and 5.9 thousand in Guatemala).

9. Organization of American States and Fundación Ambiente y Recursos Naturales (FARN). Sostenibilidad ambiental en el comercio: evaluación de los impactos potenciales del ALCA, el caso de Argentina, United States of America, 2003; and Organization of American States and Ronaldo Seroa, Instituto de Pesquisa Econômica Aplicada (IPEA). Environmental Sustainability in Trade: Evaluation of the Potential Industrial Environmental Impacts of the FTAA, Brazil Case Study, United States of America, 2003.

10. Organization of American States and Instituto de Derecho y Economía Ambiental (IDEA). Evaluación de impacto ambiental y capacidad institucional para el Área de Libre Comercio de las Américas (ALCA): El caso de Paraguay. United States of America, 2005.