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# Inter-linkages

Strategies for bridging problems and solutions to work  
towards sustainable development

## Trade, Environment and Sustainable Development

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In 1995 the General Agreement on Tariffs and Trade - the GATT – was transformed into a new international organization - the WTO. This change contributed to the construction of a new world order – an order in large part founded on a recognition of the importance of free and fair trade.

While the establishment of WTO represented in many respects a quantum leap forward in international economic cooperation, the fundamental principles on which the rules-based multilateral trading system was founded were not changed: *non-discrimination* (which means that countries must grant equivalent treatment to like products imported from different sources, and to like imported and domestically produced products), *predictable and growing access to markets* (which refers to the gradual reduction of barriers to trade) and *special and differential treatment* for less developed countries by way of more time to adjust to new obligations, greater flexibility, and technical assistance.

In the course of 47 years of GATT rule, a number of trade negotiations took place. The importance of trade in the global economy steadily increased. Tariffs and other trade barriers were reduced. Changes and adjustments in rules occurred, reflecting new realities and opportunities as they arose in international economic cooperation. However, the GATT was ad hoc and provisional. It was never ratified in members' parliaments, and it contained no provision for the creation of an organization. It was restricted to trade in goods, and had many agreements which only applied to a small portion of its contracting parties (known as plurilateral agreements).

The WTO, in contrast, is a full-fledged organization, created through a Treaty which has been ratified by 142 Members. It deals not only with trade in goods, but also with services and intellectual property, brought together in a single undertaking, and underpinned by a strong dispute settlement system.

The Uruguay Round negotiations which created the WTO were concluded in 1993, the year after the UN Conference on Environment and Development took place in Rio de Janeiro. It was no coincidence, that the "Earth Summit" stressed the importance of concluding and implementing the results of these trade talks. Likewise, it was not a coincidence when the WTO recognized at the very moment of its creation the importance of ensuring that trade contributes to sustainable development. The Preamble of the Agreement establishing the WTO states that, while WTO Members recognize that trade should raise standards of living, it should also allow, and I am now quoting:

"for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so..."

In comparison, the 1947 GATT Preamble referred to "the full use of the resources of the world". This change in language is a reflection of the fact that while the establishment of the WTO contributed to the creation of a new world order, other aspects of that order – such as the concept of sustainable development – themselves shaped the WTO.

The WTO has become an organization that not only cares for economic growth, but also for the environment. However, while the WTO has committed itself to the concept of sustainable development, it must be stated at the outset that achieving this goal has not been, and is by no means, an easy task. It is a task which not a single institution can work towards alone. It is a task which requires the collaboration of the international community as a whole, in trade, environmental and developmental fora.

In order to assess the contribution that the WTO has made, and which it must continue to make to promote sustainable development, one must scratch the surface to explore the meaning of this concept - a concept which many of us today use in the absence of a common definition. As stated in the "Brundtland Commission Report" of 1987, *Our Common Future*, sustainable development is development which "meets the needs of the present without compromising the ability of future generations to meet their own needs." It is a concept which has two essential components: (i) *intragenerational equity* (which refers to the redistribution of resources in the current generation to address the problems of debt and poverty); and, (ii) *intergenerational equity* (which refers to bequeathing to the next generation the resources which it, in turn, is entitled to enjoy).

At the Rio Earth Summit, world leaders identified **two principle paths for the multilateral trading system** to pursue in order to achieve sustainable development:

The first entailed *liberalizing trade* in order to address what the Brundtland Report had termed the "pollution of poverty". Poverty, the report had stated, is the single most important contributor to environmental degradation, as it encourages the overuse of scarce environmental resources to meet survival needs. Thus, world leaders requested the trading system to reduce barriers to developing and least-developed country exports, in order to generate the resources needed for environmental protection.

The second path entailed taking all the necessary measures to ensure that *trade and environmental policies be mutually supportive*. This included recommendations to promote dialogue between the trade and environmental communities, and to avoid unilateral actions to address environmental problems of a transboundary or global nature.

WTO Member governments are pursuing these two paths in the light of the following four broad parameters which they have agreed on:

**First**, the WTO is not an environmental protection agency and does not aspire to be one. Its competence for policy coordination is limited to trade policies, and those trade-related environmental policies with a significant impact on trade;

**Second**, GATT/WTO Agreements already provide significant scope for national environmental protection policies, and do not stand in the way of non-discriminatory environmental protection. Nevertheless, views differ as to whether or not there is still a need to clarify, strengthen or extend present WTO rules.

**Third**, secure market access opportunities are essential to helping developing countries work towards sustainable development; and

**Fourth**, increased national coordination as well as multilateral cooperation are necessary to adequately address trade and environment concerns.

With respect to the first path laid out at Rio, relating to *trade liberalization*, the WTO is based on the theory of comparative advantage – the efficient use of resources – which also underlines the goal of sustainable development. Trade can increase efficiency, allowing for more to be produced with the same given set of natural resources, labour, capital and technology. Competition can lead to the dissemination and use of new technologies for environmental protection. Trade is a locomotive for economic growth with obvious development benefits. Evidence from a range of developing countries suggests that those countries that open up to international trade benefit from more rapid economic growth than those that do not.

In alleviating extreme poverty, trade contributes to saving people from the vicious cycle of having to degrade their environment to survive, while becoming even poorer in the process. Efficiency benefits the environment by making people wealthier, and thus more likely to demand stronger environmental protection.

Of course, development is more than economic growth, and economic activity can also have negative environmental effects. The most dynamic and open economies in the world are also those with the most sophisticated domestic regulations to ensure that production does not harm the environment, or endanger human health and safety. The consequence of trade can only be judged case to case, country by country. However, trade is most often not in itself the source of environmental problems. Trade exacerbates environmental problems, when appropriate environmental policies are not in place – only when Members put those in place will they reap the full benefits of trade. Restricting trade, therefore, is not the solution. It is only in certain specific instances that trade itself is the direct source of an environmental problem (such as when trade in endangered species contributes to their overexploitation for commercial reasons), and for those instances a trade solution, to what is a trade problem, is warranted.

Having spoken about the sustainable development potential of international trade, what then has the WTO actually achieved in its 6 years of existence? Leaving aside all the work undertaken in the GATT years, the first achievement that springs to mind is, naturally, the implementation of the results of the Uruguay Round. In the area of customs tariffs substantial reductions have taken place, occasionally to zero. A very high percentage of tariffs are now bound (99 per cent of all tariff lines in the developed countries and 73 per cent for developing countries). This is very important because investors, producers and traders all need as much predictability as they can possibly get.

Other obstacles to trade, such as product technical requirements and sanitary and phytosanitary measures, were brought under tighter control while at the same time not undermining safety and environmental needs. The discriminatory treatment of competitive developing countries in textiles and clothing, inherited from the past, is set to disappear at the end of 2004. In the agricultural sector, the conversion of import restrictions to transparent and predictable tariffs was another major step away from the mismanagement of this sector in the past. These achievements have all been important contributions to the environmental agenda for, Principle 12 of the Rio Declaration called on States "to cooperate to promote a supportive and open economic system that would lead to economic growth and sustainable development in all countries".

More, however, must be done. And more is actually being done, for instance to address developing country concerns with respect to the implementation of WTO Agreements.

In the Committee on Trade and Environment (known as the CTE), which is the WTO forum for trade and environment discussions, WTO Members have embarked on the ambitious exercise of identifying the environmentally harmful trade restrictions and distortions which continue to exist, and which the trading system would be well-advised to remove. Environmental degradation often occurs because producers and consumers are not always required to pay for the costs of their actions. The CTE has examined instances in which high tariffs, tariff escalation, export restrictions, subsidies and other non-tariff measures, have damaged the environment, in a number of economic sectors. In recommending the removal of measures that restrict or distort trade *as well as* hurt the environment, the CTE has uncovered a large potential for "win-win-win" situations for both trade, environment and development.

Creating the conditions for international trade to thrive and prosper by opening markets, particularly to exports from developing countries, and by keeping markets open through strong, clear and enforceable rules is very much part of a comprehensive approach towards the promotion of sustainable development and falls squarely within the WTO's mandate and competence. It is key to raising the standard of living of the current generation by allowing some countries to venture into areas they previously could not (hence intra-generational equity). It is also key to allowing future generations to enjoy environmental resources which will be better protected (hence inter-generational equity).

A WTO study, conducted about a year ago, argued that one obvious contribution that the multilateral trading system can make to environmental protection would be the removal of all remaining barriers to trade in environmental goods and services in order to reduce the costs of cleaner production and of environmental management systems. Another contribution would be the reduction of government subsidies that harm the environment, including in areas like energy, agriculture and fisheries. These are, as you know, controversial sectors, and countries do not always agree on whether a particular type of measure is environment-friendly or environment-harmful.

With respect to the second path laid out at Rio - to make trade and environment mutually supportive - what has been achieved? The WTO has worked long and hard to raise awareness on the links between trade and the environment, and the need for proper national coordination between trade and environmental communities. Through regional seminars which the WTO has organized, it has attempted to sensitize national governments to the importance of dialogue between their trade and environmental officials and to the need for coherent policies when trade and environmental interests intersect.

We also continue to explore the links between trade and environment, and whether or not changes should be made to the rules of the multilateral trading system to accommodate those links. Confidence building has been key to this exploration, since at the beginning of the trade and

environment discussions in the WTO, developing countries feared that environmental standards would be used as the new vehicle to protecting markets ("green protectionism"). Confidence has, to a large extent, today been established in the CTE through a better understanding by developed and developing countries of each others' positions. Such understanding will in and of itself, hopefully, make it easier to bridge differences on the multitude of trade and environment issues confronting us. This being said, and as we have seen in the preparations for the Qatar Ministerial Conference in November this year, there are still wide divergencies of views, and not all differences go along North-South lines.

WTO agreements already provide significant leeway for governments to protect their environment. Certain provisions of the GATT Agreement allow countries to use trade measures to protect human, animal or plant life or health, or to conserve exhaustible natural resources, even when these measures violate GATT/WTO rules (but provided, of course, that this does not mean arbitrary or unjustifiable discrimination or disguised protectionism.) Through the Agreements on Technical Barriers to Trade and on Sanitary and Phytosanitary Measures, the WTO also recognizes the right of countries to protect health and the environment at whatever level they consider appropriate. These Agreements in fact guarantee countries that right. They simply try to ensure that all environmental protection measures that are taken are proportional to the objective that they are trying to achieve, and do not unduly compromise trade.

Through the CTE, the WTO has also expressed its support for multilateral environmental agreements (MEAs) as the way to proceed to tackle environmental problems of a global or transboundary nature. Multilateral cooperation on problems such as on ozone depletion and climate change is crucial to confronting these global environmental challenges, and is no doubt superior to unilateral efforts. The reason is simple - a single country would never be able to fix a global problems alone. The WTO fully lends its support to the conclusion of further international agreements for environmental protection.

A thorny issue which the CTE has had to contend with is that of process and production methods (PPMs), and the extent to which countries should be allowed to distinguish between products based on the way they are produced, if their process of production leaves no trace in the product itself. This is very much at the heart of the debate about labelling. Environmentalists would like the WTO to "bless" and allow for distinctions between products on those grounds. In the trade community, views differ. Developing countries have opposed this fearing that all sorts of concerns would creep into the trading system, affecting access to markets on the basis of concerns that would have nothing to do with the actual products that are crossing borders. Among developed countries some see a need to clarifying the status of labelling under WTO rules, whilst others consider the present rules to be adequate. The question of precaution is another very controversial issue on which delegations in the WTO are far apart. Therefore, one would have to rely on the dispute settlement procedures should a conflict arise one day.

Through its many years of work on trade and environment, which is no longer a new subject for the WTO, the organization has realized the importance of involving all stakeholders in trade and environment discussions. In symposia which it has held, the WTO has invited high level trade and environment officials from capitals, and a broad spectrum of non-governmental organizations (environment, development, business, academia and consumer groups), to partake in an open dialogue on what must be done. Such dialogue must continue.

Therefore, while the WTO is a key element of the new world order, it itself has worked hard to integrate into its system other aspects of that order – notably, the concept of sustainable development. There is no doubt in my mind that this concept is fundamental to the new world order. Can trade contribute to sustainable development? The answer is that it has to.

On 24 July, the Chairman of the WTO's General Council in cooperation with the Director General, presented a report on the current State of Preparatory Work in preparation of the Doha Ministerial. The section on "Trade and Environment" read as follows:

"There is convergence on reaffirming WTO's commitment to sustainable development in appropriate introductory language. Elements in this regard include the need to ensure that environmental

protection is not used as a cover for protectionism, and that trade, environment and development policies are mutually supportive. It has been emphasized that there is no inherent policy contradiction between upholding and safeguarding an open, non-discriminatory and equitable multilateral trading system, and acting for the protection of the environment, and the promotion of sustainable development.

Some Members have called for the maximization of positive synergies between trade liberalization, environmental protection and economic development. Sustainable resource utilization has also been mentioned. Some have suggested market access for environmentally friendly goods and services, and the reduction or removal of environmentally harmful subsidies while providing flexibility to use environmentally friendly subsidies. A number of other Members have proposed to address subsidies in the fisheries sector that contribute to over-capacity and over-fishing, or have trade-distorting effects, giving special consideration to the development dimension of the issue.

However, there are still wide divergences as to any operational treatment of environmental issues in relation to possible negotiations on market access or rules-related matters. There is no consensus yet with regard to proposals by a number of Members to clarify the relationship between trade measures in Multilateral Environmental Agreements and WTO rules; to review and, as appropriate, clarify the status of labelling under relevant WTO rules, and to ensure the recognition and non-protectionist application of precaution in the WTO. A major concern relates to the need for certainty that the purpose of any such exercise is not to weaken those rules.

Views also differ on the role of the Committee on Trade and Environment in relation to any possible expanded negotiating agenda."

This section is part of a much broader picture, and the task ahead for governments in the few weeks still remaining before Doha, is to agree on an agenda that must be balanced and fair, and the principle of consensus must ensure that the outcome is acceptable to all Members.