

Trade and Environment

This key sheet is part of a series of awareness raising tools developed by Irish Aid to accompany its Environment Policy for Sustainable Development.



1. Introduction

This key sheet is part of a series of awareness raising tools developed by Irish Aid to accompany its Environment Policy for Sustainable Development. Key strategies for implementing the policy are:

- i) mainstreaming, where the environment is recognised as a critical part of sustainable development and is taken into account in all policies, programmes, activities and funding decisions; and
- ii) partnership, where Irish Aid works with national governments, multilateral organisations, international agencies and civil society organisations to contribute to sustainable development.

The first step in environment mainstreaming is to understand how the environment is linked to the development challenge or sector you are responsible for. In this key sheet, we explain how trade and the environment are linked, and suggest sources of additional information. More detailed guidelines on environment mainstreaming will accompany this sheet at a later date.

Trade matters to the environment because it can:

- > Accelerate the use of natural resources and exacerbate poor environmental practices.
- > Facilitate the transfer of environmentally sound technologies and the introduction of environmental regulation.
- > Promote a higher national income, and with the right policies in place, this could be translated into higher demand for better environmental practices.





Women selling food at the market, Accra, Ghana.

2. How are trade and the environment related?

International trade is central to the global economy. It has grown by a factor of 12 since 1960¹, thanks to a proliferation of multilateral, regional and bilateral trade agreements. Meanwhile, growing demand for food, water and energy have led to radical changes to ecosystems and the degradation of natural resources such as forests, oil reserves, minerals and fisheries.

Trade has been a significant driver of this environmental damage². Rising demand for palm oil has, for instance, led to vast areas of Indonesian rain forests being cleared to make way for plantations.

Yet trade itself cannot be said to be “good” or “bad” for the environment except on a case-by-case basis, as it can also have positive effects. It can create opportunities for investment in environmental projects and can promote processes and technologies such as “green” packaging, organic produce, renewable energies and improved energy efficiency.

The overall effect of trade on the environment will depend on the extent to which the goals and policies for trade and the environment can be made mutually supportive both nationally and internationally. Problems can arise when this coherence is lacking.

For instance, trade liberalisation involving a poor country may actually lead to environmental degradation if its government fails to support or keep up with the liberalisation process (see Box 1). This can effectively push smallholders off the land and thereby exacerbate poverty.³

📌 Box 1 Trade liberalisation and Mexican maize — a cautionary tale³

The North American Free Trade Agreement (NAFTA) between Canada, Mexico and the United States came into force in 1994. It immediately removed some tariffs on many products traded between the three countries and aims to remove them all by 2009. While trade has increased and the poorest nation – Mexico – has benefited economically, poverty levels there remain high.

In the late 1990s, Oxfam and WWF conducted a study looking at how NAFTA had affected maize production in Mexico. What they found shows that trade liberalisation can lead to serious problems if state support is lacking and emerging economic, environmental and social changes are virtually ignored.

Under NAFTA, Mexico’s maize production did not decline as expected, despite a sharp drop in prices and a rise in imports. In fact, although maize yields shrank, the area planted increased. Farmers had few incentives or opportunities to modernise or reallocate resources to other crops. Many small-scale farmers were forced to migrate to marginal lands, where soil erosion accelerated.

State support during the transitional stage would have made a big difference. As it was, the adjustment to a more liberal agricultural regime was rushed and poorly planned.

2.1 Environmental impacts of trade

Trade can:

- > Accelerate the use of natural resources, which in turn can increase pressure on ecosystems (see Box 2).
- > Promote the transfer of environmentally friendly technologies, which are often lacking in developing countries.
- > Affect the level of “environmental friendliness” of the traded products: while trade in some products, such as organic produce, may be environmentally friendly, others products such as hazardous waste may be dangerous for the environment.
- > Either improve environmental standards, or encourage companies to operate in places where more lax standards reduce production costs.

2.2 Trade, environment and development

Trade, the environment and development are increasingly connected in our globalised world. Understanding how they interact is important in achieving sustainable development.

- > Industrialised countries’ demand for certain products — such as organic produce or timber from sustainably managed forests — creates opportunities for developing countries to both protect their environment and provide social benefits. For instance, Amfri Farms in Uganda exports organic fruit and vegetables to Ireland through the Traidlinks / Heart of Africa scheme (see www.traidlinks.ie).
- > At the same time, some developing countries fear that rich nations can use such environmental concerns to disguise trade protectionism, which favours domestic producers over those in the South. One form this can take is “green protectionism”, in which an environmental pretext may be used to protect domestic trade (see Box 3).

1 UNEP/IISD 2005

2 Millennium Ecosystem Assessment Board 2005

3 UNEP 2001

4 UNEP 1999

- > Trade and the exploitation of natural resources have helped to raise global income and improve the lives of many people. However, important development concerns have arisen where these changes have involved losses for some groups (such as small-scale farmers) and increased inequality both within and between countries. A 2005 UNEP study showed how trade liberalisation has affected the rice sector in Senegal. It warned that environmentally-insensitive trade liberalisation can lead to soil degradation, water pollution, biodiversity loss and deforestation. It also showed that many local producers — especially small-scale farmers — suffered from the drop in rice prices during the liberalisation process.

↘ Box 2 Cultivating trouble — shrimp farming in Bangladesh

In the mid-1980s, Bangladesh began to turn traditional subsistence shrimp farming into an export-oriented industry. To make that happen, the country introduced policy changes — such as tax breaks and subsidies — under the trade-related structural adjustment programme of the World Bank and International Monetary Fund. But the industry's growth has come at high environmental cost, as a UNEP study has shown.⁴

In 1985 the World Bank gave Bangladesh a substantial credit boost for a large-scale Shrimp Culture Project. The project document mentioned that it would not have any detrimental effect on the environment. In reality however, the coastal shrimp farming areas suffered environmental degradation; a rise in salinity in soil, a reduction in grazing land and loss of livestock; destruction of mangrove forests; a reduction in soil quality; and adverse effects on the cropping intensity, timing and crop mix of arable farming.

These resulted from the conversion of agricultural land and mangrove forests to ponds for rearing shrimp, and the intrusion of salt water into wells and farmland. In addition, there was a rise in unemployment in the shrimp cultivating areas, and social and economic conflicts and tensions were also aggravated there. This is in part because the number of people needed to look after shrimp farms is considerably lower than for traditional farming, but also because of large-scale land-grabs by powerful elites, which led to poor local people becoming landless.

↘ Box 3 “Food miles” vs “Fair miles”⁵

Some people in the North now regard “food miles” — the distance food travels from farm to plate — as a key factor in choosing what goes on the dinner table. Air-freighted goods in particular are an issue, given the link with emissions and climate change. But when poor countries have built up a line of trade in air-freighted goods, the ethics of the situation become more complex.

The produce now air-freighted from Africa to the West is a case in point. Some 70 per cent of Kenya's green bean crop of exportable quality comes to the UK, for instance. The trade has drawn considerable criticism as a classic example of unsustainable consumption. But seen from the stance of poverty reduction, these markets are a major success story for Sub-Saharan Africa.

As a concept, food miles fail to take into account the social and economic benefits associated with the trade, nor other environmental impacts of the product. A fully informed choice involves finding a balance between environmental harm and developmental gain by:

- > Measuring the degree of harm and putting it into the context of other food choices
- > Putting the degree of harm in the context of Africa's current per capita right to natural resources, known as “ecological space”
- > Measuring the degree of development gained from the trade.

3. Policy and regulation

Two groups of policies and guidelines affect trade and the environment. One set, which includes multilateral environmental agreements (MEAs), aims to protect the environment. The other regulates trade itself and includes international law dictated by the World Trade Organization (WTO) and other bilateral and regional trade agreements.

3.1 Multilateral environmental agreements

Of over 200 multilateral environmental agreements (MEAs), 20 regulate trade or contain trade-oriented provisions, while seven are seen as crucial in the context of trade and the environment.

Among the earliest in the latter group is the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). It entered into force in 1975, and seeks to regulate trade in certain endangered species and their parts, as well as products made from them. Three annexes list species in which trade is restricted — ranging from a general prohibition on commercial trade to a partial licensing system.

The remaining six key MEAs relevant to trade are as follows:

MEA	Relates to trade in
Montreal Protocol	Substances that deplete the ozone layer
Basel Convention	Hazardous waste
Cartagena Protocol	Genetically modified organisms
Kyoto Protocol	Carbon (e.g. carbon credits) and clean energy technologies
Rotterdam Convention	Hazardous chemicals and pesticides
Stockholm Convention	Organic pollutants that persist in the environment

3.2 International trade regulations

3.2.1 The World Trade Organization

The World Trade Organization (WTO) was set up in 1995 to liberalise trade by reducing or removing barriers such as tariffs. It operates a system of rules for trade and provides a forum for its 150 members to negotiate trade agreements and settle trade disputes.

The WTO governs international trade through the General Agreement on Tariffs and Trade (GATT), which was created in 1947. At the heart of these agreements is the notion of trade without discrimination. All WTO members accord ‘most favoured nation’ status to each other, meaning that no nation will be treated worse than any other.

They also agree to treat equally imported and domestically produced goods, services, trademarks, copyrights and patents once they have entered the market, under a principle called ‘national treatment’.

A controversial exception to this principle, and one that relates to the environment, is the WTO’s handling of ‘like products’ that are commercially substitutable but have been produced in markedly different ways. Line-caught tuna is, for instance, produced in a more environmentally sound manner than net-caught tuna but the two final products are indistinguishable, so are classed as “like”.

Multilateral trade negotiations under the WTO are long and drawn-out. The so-called Doha Round, which began in 2001, is important because it deals with the connections between trade and the environment. The Doha Declaration lists a dozen items addressing these links⁶ as well as a number of environmental issues for negotiation. These include:

- > Relationships between WTO rules and obligations set out in Multilateral Environmental Agreements (MEAs)

- > Procedures for information exchanges between MEA secretariats and relevant WTO committees, and criteria for granting observer status to MEAs
- > The reduction or elimination of barriers to trade in environmental goods and services
- > The effect of environmental measures on market access, and the environmental benefits of removing trade distortions such as subsidies
- > The relevant provisions — including those to do with the protection of plant varieties, which is a part of biodiversity conservation — of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which aims to establish minimum standards of intellectual property rights such as patents and copyrights
- > Labelling requirements for environmental purposes.

Other key WTO provisions affecting the environment are contained in the Agreement on Technical Barriers to Trade (TBT), which covers standards-related measures that might represent non-tariff barriers, especially in the context of exports from developing countries. Some of these are technical performance standards a product must meet before import or export: these could include the energy efficiency standard for washing machines, for example. There are also environmental, health, labour or other standards that must be met during a product’s lifecycle. Wood, for instance, may have to be sourced from a forest where timber is harvested sustainably, using techniques such as selective logging, to allow regeneration.

The WTO Agreement on the Application of Sanitary and Phytosanitary Measures is also directly relevant to the environment. It deals with standards designed to protect humans, animals and plants from certain hazards associated with the movement of plants, animals and foodstuffs in international trade. Although such measures are important, they may impose a substantial burden on producers from developing countries (see Box 4).

Subsidies are another WTO discipline with clear links to the environment, since they may artificially lower the costs of resources, leading to their overexploitation. The EU subsidies for fisheries are a prime example. West African countries have been selling off access to their waters to European and Asian fishing fleets for some years. European vessels, subsidised by the EU, have been fishing the waters to such an extent that many stocks there are now over fished. Researchers at the University of British Columbia have estimated that fish stocks off West Africa have halved in the past 30 years.

↘ Box 4 Brazil nuts from Bolivia⁷

Brazil nuts are Bolivia's fourth biggest export, with most being exported to the EU. The nut grows wild in forests in the far north of the country where indigenous people harvest it by hand.

European demand for the nuts therefore supports rural livelihoods and promotes forest conservation in Bolivia. At the same time, however, strict EU regulations on food quality make these benefits insecure.

This is because Brazil nuts are prone to contamination by aflatoxins — poisonous and carcinogenic chemicals produced by mould. The EU has imposed a strict maximum level of aflatoxins on imported goods. This could seriously impede trade in the nuts.

The Bolivian government and traders, with EU assistance, have considered ways around the problem. Transportation and storage facilities will need boosting. Laboratory facilities have been set up and accepted by the EU to allow in-country testing of products, but such facilities and inspections generally end up involving large costs for Bolivian producers.

In addition to this direct environmental impact, over fishing has meant fewer fish for local people to eat. In Mauritania this has wiped out the livelihood of traditional fisher folk called the Imraguen, and in Ghana it has created an indirect environmental impact — increased demand for bushmeat often derived from endangered wildlife⁸. EU fish catches from West Africa rose 20-fold from 1950 to 2001, while subsidies rose from US\$6m in 1981 to more than US\$350m in 2001.

Similarly, the EU spends about half of its annual budget on subsidies paid to European farmers under the Common Agricultural Policy. These can distort trade and harm poor farmers, as surplus produce can be exported to developing nations and sold more cheaply than local crops. When poor farmers in such nations feel the squeeze and their livelihood options are reduced, environmental degradation often follows.

In 2005, the Commission for Africa concluded that rich-country trade barriers and subsidies “are absolutely unacceptable; they are politically antiquated, economically illiterate, environmentally destructive, and ethically indefensible. They must go.”

Not all subsidies have a negative effect, however. Some can lead to environmental benefits when they are targeted to remedy the failure of markets to account for environmental costs of production, such as with subsidies for organic farming.

4. Towards a better integration of trade and environment

National governments need a better understanding of the complex relationship between trade and environment and how each affects development.

To develop the right set of supporting policies, they need to analyse the national and international impacts of their trade policies. The benefits of trade are not automatic, and policies that either increase benefits or minimise harm need to be in place to allow the net positive contribution to be maximised.

The international community can help with channelling resources and generating and disseminating information on the different connections between trade, environment and development; the variety and effectiveness of different sets of supporting policies; and providing capacity building to national governments.

Irish Aid can assist these efforts by:

- > Considering trade in the context of both environment and human development
- > Analysing local aspects of trade, environment and development to illuminate the connections between them
- > Supporting capacity building in research on international trade rules
- > Disseminating information on links between trade and the environment to policymakers
- > Supporting the participation of developing countries in international trade negotiations
- > Boosting the importance of valuing natural resources – which could generate sustainable trade in goods and services they provide
- > Promoting trade in environmentally sound goods and technologies
- > Promoting a pan-governmental approach to trade and environment through tapping into the experience and resources of relevant departments, and ensuring coherence in environment, trade and development policy using the Inter-Departmental Development Committee as a forum.

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Useful websites

- The Fairtrade Foundation www.fairtrade.org
- Food and Agriculture Organization of the United Nations (FAO): Trade in agriculture, fisheries and forestry www.fao.org/trade/index_en.asp
- The International Centre for Trade and Sustainable Development www.icstd.org
- International Property Watch www.ip-watch.org
- Third World Network www.twinside.org.sg
- Trade Justice Movement www.tjm.org.uk
- Traidlinks Ireland www.traidlinks.ie
- United Nations Environment Programme www.unep.org
- World Trade Organization www.wto.org