



Agriculture and the environment in free trade agreements

Dale Colyer

*Agricultural and Resource Economics, West Virginia University, P.O. Box 6108
Morgantown WV, 26506-6108, USA. email: dcolyer@wvu.edu*

Received 3 November 2002, accepted 12 January 2003.

Abstract

The inclusion of environmental issues in trade liberalization agreements has become a major issue since they were included in NAFTA and recognized by the Uruguay Round GATT agreement. However, the exact role and nature of these remains contentious with many WTO members opposed to an extensive role for environmental issues in multilateral trade agreements. Nonetheless, the declaration that established the Doha Round recognizes a role, albeit a limited one, for the environment in negotiating the next trade liberalization agreement. The exact nature of environmental issues in the Doha Round will be the result of extensive negotiations and compromises.

Key words: Trade and environment, agricultural trade, trade liberalization, Doha round.

Introduction

The North American Free Trade Area (NAFTA) was the first trade agreement to explicitly and strongly encompass environmental issues. This came about, in part, due to a General Agreement on Trade and Tariffs (GATT) decision about U.S. regulations that prohibited the importation of tuna caught by methods that killed large numbers of dolphins. The loss energized environmentalists, led to widespread demonstrations, and threatened ongoing Uruguay Round negotiations. The final version of new agreement explicitly recognized the environment, with an objective to protect and preserve the environment in its preamble and with environmentally related provisions in other sections of the agreement. Environmental concerns then became important under the World Trade Organization (WTO) and have an important but controversial role in the Doha Round undertaken in 2001.

Concerns and Issues

There are a large number of both trade and multilateral environmental agreements (MEAs), which contain provisions affecting each other. Many analysts, especially economists, think that it is not appropriate to continue to address environmental issues in trade agreements,¹ while many environmentalists think that it is essential to address relevant environmental issues trade agreements². The basic arguments for utilizing separate agreements are that free trade results in increased incomes, higher incomes increase the demand for improvements in the environment and will result in increased expenditures on the environment, environmental regulations in trade agreements become trade barriers which restrict trade and reduce incomes, and, thus, environmental issues should be left to domestic policies and multilateral environmental. The arguments for including environmental issues in trade agreements are that trade and environmental issues are interdependent, trade produces harmful effects on the environment, free trade procedures and agreements ignore or are biased against the environment, in disputes about environmental issues MEAs tend to lose and, thus, are not effective in protecting the environment, will attract polluting industries, and produce irreparable environmental damage. Thus, environmental protection must be incorporated into the

trade agreements so that production will be kept sustainable. However, this now appears to be a moot issue, since it now seems inevitable that environmental issues will be addressed to some extent in future multilateral trade agreements due, in part, to increased concerns about these issues. The arguments are focused on the nature and extent to which the environment will be addressed.

An important issue affecting environmental issues in the WTO negotiations is the position and concerns of the less developed nations. They tend to view this as just another way the developed nations are imposing trade barriers to the goods produced by the world's low income countries which cannot afford to undertake the costly environmental programs being imposed on them as conditions to export products to the industrialized nations^{3,4}. This was specifically stated by Argentina in a position paper to the CTE⁵. However, Article XX of GATT permits regulations to protect animal life, which includes endangered species.

The WTO and the Environment

Environmental issues had not been important in the several rounds of GATT negotiations that preceded the Uruguay. The Group on Environmental Measures and International Trade in 1971 to focus on issues of industrial pollution, but had not met⁶. It finally met in response to the threat the tuna decision posed for concluding the Uruguay round⁷. Meetings resulted in a Chairman's Report with conclusions that its activities remain within the GATT mandate, there is no necessary contradiction between upholding the principles of multilateral trade and environmental protection, trade rules should not present an unjustified obstacle to environmental policy making, and an open and secure trading system can facilitate environmental protection. Environmental issues became an established part of the multilateral trading system with the establishment of the WTO. According to a note prepared by the WTO Secretariat: "At the end of the Uruguay Round, Trade Ministers adopted the Decision on Trade and the Environment which anchored environment and sustainable development in WTO work" (p. 67). With implementation of the WTO agreement, the Committee on Trade and Environment (CTE) was established and given a mandate over most aspects of the

trade and the environment. Nordström and Vaughan (pp. 2-7) concluded that trade barriers generally make poor environmental policy and that it is not necessary to harmonize all environmental standards. Additionally, they found that public accountability and good governance are essential to good environmental policy and that international cooperation is required to protect the environment

Agriculture and the Environment in the WTO

The multilateral trade discipline and produced the Uruguay Round Agricultural Agreement (URAA). The WTO incorporates environmental issues in a number of places, including the preamble to the Marakesh Agreement Establishing the WTO, GATT Article XX, Technical Barriers to Trade (TBT) Agreement, Agriculture Agreement, Intellectual Property (TRIPS) Agreement, and Services: General Exceptions of GATS Article XIV (WTO 2002). These tend to indicate that domestic laws on the environment or to protect human, animal and plant life and health can be exceptions to prohibitions to trade barriers. The agricultural agreement contains provisions with environmental implications, although these are not its primary purpose. It deals, rather, with border measures, export subsidies, market access, domestic support measures, and product attributes such as sanitary/ phytosanitary provisions⁸. Many analysts argue that the provisions of the URAA were designed to have minimal current effects on agriculture⁹. Its importance is in bringing agriculture into the agreements with the prospect that agricultural trade would be further liberalized in the following round of WTO negotiations. The URAA has important implications for the environment in provisions dealing with domestic subsidies and product characteristics. The agreement limited and required reductions in agricultural subsidies that were deemed to be trade distorting. Payments for conservation, environment, infrastructure, and domestic food aid are classified non- or minimally trade distorting. Several governments, including the U.S. and EU, adjusted their agricultural policies to take advantage of such payments to their farmers. In the U.S., for example, the 1996 Federal Agricultural Improvement and Reform (FAIR) Act largely decoupled farm subsidies from current production, although the loan deficiency payments portion of the subsidies are tied to production, although the loan deficiency payments under FAIR and the 2002 farm legislation are not eligible since they are not accompanied by production control measures and, thus, are reported under the amber box. The impacts of the act are yet to be determined, but are viewed negatively by other countries¹⁰. The sanitary-phytosanitary measures and other provisions dealing with product characteristics recognize the legitimacy of domestic laws and regulations to protect human, animal and plant life and health, provided that such regulations are based on science and, thus, are not imposed as trade barriers to protect domestic industries. Such regulations must apply equally to both domestically produced and imported products.

Environmental Issues in the Doha Round Negotiations

The Ministerial Declaration from the Doha meetings mandates environmental negotiations in the round announced in November 2001^{11,12}. The Committee on Trade and the Environment (CTE), as part of the Trade Negotiation Committee (TNC), has responsibility for these negotiations

as outlined in paragraph 31:

31. With a view to enhancing the mutual supportiveness of trade and environment, we agree to negotiations, without prejudging their outcome on:

(i) the relationship between existing WTO rules and specific trade obligations set out in multinational environmental agreements (MEAs). The limitations shall be limited in scope to the applicability of such existing WTO rules as among parties to the MEA in question. The negotiations shall not prejudice the WTO rights of any member that is not a party to the MEA in question;

(ii) procedures for regular information exchange between MEA Secretariats and the relevant WTO committees, and the criteria for granting observer status;

(iii) the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services.

Thus, the charge to the CTE is specific and fairly strictly circumscribed, but the negotiating process is contentious, at least as discussed in the CTE meeting March 21-21, 2002. The European Union (EU) is the primary group contending that environmental issues should be included in Doha negotiations¹³.

The CTE is also to consider information exchanges with the MEAs and observer status for nonmembers and this has resulted in a number disputes³. Issues include which of the MEAs to include and the role of the CTE in determining observer status. There appears to be some reluctance to permit the MEAs to participate in the special negotiating sessions. Finally, the CTE is to determine what is to be included in environmental goods with some members, e.g., the EU, wishing to include those produced in environmentally friendly ways or that are environmentally sound (recyclable). Other members are not supportive of including this approach, which they believe to relate to production processes. This, along with the other issues, will be the subject of future meetings of the CTE.

Conclusions and Implications

Environmental and trade issues are interrelated with important implications and effects within the global economy. The tuna-dolphin case and the protests at Seattle delayed the start of the next round of WTO trade negotiations and resulted in environmental issues being recognized and integrated into the negotiation process, although to a relatively limited extent. These negotiations are contentious due to the very different views of the EU, U.S. and developing countries with respect to the role to the environment in the international arena. However, while environmental protection is not apt to receive the support that most environmentalists would like to see in the WTO, it will continue to be an important part of the process with the WTO involved in more coordination with international environmental agreements, which will continue to be the more important venue for handling and resolving environmental issues.

References

- ¹ Bhagwati, J. 2002. *Free Trade Today*. Princeton, NJ: Princeton University Press.
- ² Deere, C.L. and D.C. Esty, eds. 2002. *Greening the Americas: NAFTA's Lessons for Hemispheric Trade*. Cambridge, MA: The MIT Press.
- ³ Hoekman, B. and K. Anderson. 2000. *Developing Country Agriculture*

and the New Trade Agenda. *Economic Development and Cultural Change* 49(October): 171-180.

- ⁴Huff, K. 2000 Developing Country Concerns and Multilateral Trade Negotiations. CATRN Paper 2000-02 (http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=3966&ftype=.pdf).
- ⁵International Centre for Trade and Sustainable Development. 2002. WTO environment committee zeroes in on scope of negotiations. *Bridges Weekly Trade News Digest* 6:22:5-6, June 12.
- ⁶Nordström, H. and S. Vaughan. 1999. *Trade and the Environment*. WTO Special Studies 4. Geneva: World Trade Organization.
- ⁷Esty, D.C. 1994. *Greening the GATT: Trade, Environment and the Future*. Washington: Institute for International Economics.
- ⁸Josling, T., P. Dixit, and D. Blandford. 2001. *The current WTO agricultural negotiations: options for progress, synthesis*. Commissioned Paper Number 18, International Agricultural Trade Research Consortium.
- ⁹OECD. 2001. Policy brief: towards more liberal agricultural trade. *OECD Observer* (www.oecd.org/publications/Pol-brief), November.
- ¹⁰New York Times. 2002. Raising farm subsidies, U.S. widens international rift. (<http://www.nytimes.com/2002/06/15/international/Europe/15FARM.html>), June 15.
- ¹¹International Centre for Trade and Sustainable Development. 2001. Environment moves onto WTO agenda. *Bridges Weekly Trade News Digest*. Nov.13, p. 3-4.
- ¹²World Trade Organization. 2001. Ministerial Declaration: Adopted 14 November 2001. WT/MIN(01)/DEC/1, Doha, November 20.
- ¹³European Union. 2001. Trade and environment: what Europe really wants. Memorandum, Doha, Nov. 11 (<http://europa.eu.int/comm/trade/miti/environ/doha/htm>).