



**Informal Meeting Report:
Executive Director of UNEP
Secretary General of UNCTAD**

**Informal High-Level Session
"Environment and Trade:
Perspectives of Developing Countries"**

17 February 1994
Geneva

Informal Meeting Report of UNEP Executive Director/UNCTAD Secretary General

(A) MEETING BACKGROUND:

An informal, high-level meeting entitled "*Environment and Trade: Perspectives of Developing Countries*," was held in Geneva on Thursday, 17 February 1994. The session was co-hosted by the Executive Director of UNEP, and the Secretary General of UNCTAD. It was held at the Palais des Nations, Geneva. Among those who participated were nine Ministers of the Environment, and some eight deputy ministers of the environment. It is important to note that the general focus of the discussions were aimed at encouraging an exchange of perspectives among *environment* policy-makers from developing and developed countries. In this regard, the meeting was not intended to duplicate discussions underway in other fora, including the GATT, UNCTAD, OECD or elsewhere.

The informal session comprised representatives from 26 countries or economic regions, as well as nine international organizations. The Chairman was Ambassador Rubens Ricupero, Minister for the Environment and the Amazon Region, Brazil. Participating nations were: Argentina, Australia, Austria, Brazil, Canada, People's Republic of China, Egypt, European Commission, Finland, France, Germany, Ghana, Hong Kong, Hungary, India, Jamaica, Japan, Malaysia, Mexico, Netherlands, Sweden, Switzerland, Thailand, United Kingdom, United States, and Zimbabwe.

(B) PURPOSE OF MEETING:

The purpose of the informal session was to facilitate an exchange of views among developing and developed countries on environmental aspects of the trade-environment debate. In December 1993, at the OECD high-level meeting on trade and environment, the Executive Director of UNEP stressed the need to include developing countries as full and equal partners in the trade-environment debate. In this context, it was suggested during the December 1993 meeting that UNEP, in cooperation with UNCTAD, organize a small, informal session of developing and developed countries.

In keeping with the original intent of the session, only a limited number of countries were invited to participate. In drawing up the invitations, unfortunately not all countries which have played an active role in, and made a positive contribution to, the trade-environment debate could be invited. Representation was sought from all regions, while at the same time efforts were made to keep the meeting informal and small.

(C) CONTEXT OF TRADE-ENVIRONMENT ISSUES:

In recent years, links between environmental protection and trade liberalization policies have come under closer scrutiny. Concerns revolve around two major issues: (i) the potential effects of both national environmental regulations, as well as international environmental measures (including multilateral environmental agreements), on free trade; and (ii) the environmental impacts of trade liberalization.

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Analysis of trade-environment links has increased significantly, both at the national level, as well as in international fora. In 1991, for example, the GATT working group on trade and environment began meeting on a regular basis, to clarify specific policy compatibility issues. UNCTAD's work on Trade and Sustainable Development comprises of a broad range of activities, including country-case studies, market access and export promotion activities for developing countries, education and training. UNCTAD has implemented a broad programme of work on Trade and Environment at the inter-governmental level. The OECD joint experts group on trade and environment continues to analyze specific areas in the trade-environment rubric, including production and process methods (PPMs), trade measures in MEAs, border effects of environmental fiscal and tax-related policies, and other areas.

In December 1993, negotiations for the GATT Uruguay Round were completed. The TNC text contains several provisions related to the environment, including reference to sustainable development in the text preamble, and specific environmental provisions in the draft text. Policy makers are now assessing how best to more closely integrate two major policy achievements of the 1990s: the recommendations of the Earth Summit, which comprise of the current follow-up work related to UNCED, and the implementation of the Uruguay Round.

As work on trade and environment intensifies, it is clear that the legal, economic, scientific and other links are highly complex, requiring additional analysis, an exchange of views and perspectives, as well as more detailed work. It was in this broad context, that the UNEP/UNCTAD informal session on environment and trade was held. The purpose was matched closely to suit the overall context of the issues, as well as the particular timing of the meeting in light of the follow-up work of Uruguay Round.

(D) *GENERAL ISSUES OF CONSENSUS:*

There was very strong consensus that trade and environment are, and should be, designed to be mutually supportive in the pursuit of sustainable developments. It was felt that international trade rules did not impede environmental goals; and that environmental priorities did not impede trade liberalization and market access. As a means of achieving this, a multi-lateral approach was widely supported.

Free trade was viewed by the participants as being a pivotal means to alleviate poverty, increase per capita incomes, build and strengthen infrastructure, etc. There was unanimous agreement that economic growth and environmental protection need to work in tandem. Trade liberalization represents a principle engine of economic growth in the global economy, and is of crucial importance to developing countries, both by alleviating poverty and underdevelopment, widely held to be a major cause of environmental degradation and by generating resources for financial protection. The challenge was to ensure economic growth was sustainable.

Likewise, there was strong consensus that trade and environment could not be addressed outside of commitments and recommendations of Agenda 21. Participants noted the need for sustainable development, and that perspectives of developing countries in trade and environment were related to multi-lateral financial assistance, and international co-operation. There was strong agreement that such cooperation represents the most effective strategy to ensure policy compatibility between trade and environment. Multi-laterally agreed rules

should be the norm, and, whilst welcoming the conclusion of the Uruguay Round, one participant suggested that analysis needed to be undertaken in clarifying both the contributions, and identifying further initiatives in securing environmental protection.

In this context, many participants noted that environmental standards and/or environmental measures should be the least trade restrictive, and that unilateral trade actions should be avoided. Several participants noted that although progress is now underway towards the so-called "Greening of the GATT," comparable efforts need to be made towards the "Gating of the Greens": that is, the need for the environmental community to understand more clearly the rules of international trade, and ensure environmental policies fit into trade rules. Indeed, some participants felt that multi-lateralism in this context implied access to relevant information in order to ensure market access for developing countries.

Furthermore, there was also strong consensus that trade-environment debate was not North-South in nature. Instead, building compatibility was of vital importance to developing and developed countries alike. There was, however, recognition that certain issues involving trade and environment policies can assume North-South dimensions. Several reasons underlined the particular nature of the developing-developed dimension, including (a) often widely differing environmental standards; (b) the potential capacity of environmental standards -- intentionally or unintentionally -- to hinder market access of developing country exports; and (c) the high share of natural resources-based products in developing country exports.

In the context of these issues, many participants pointed out that developing countries were looking for fair trade and improved market access. "Trade, Not Aid" was regarded as pivotal to sustained trade and sustained development.

There was thus the recognition that conflicts can and have arisen, and many participants commented on the legal and conceptual frameworks which have been elaborated to avoid potential conflicts. Of particular relevance were three legal and other frameworks: (1) GATT rules, and the GATT Working Group on Trade and Environment; (2) Multilateral Environmental Agreements; and (3) UNCED Recommendations.

(1) GATT Working Group on Trade and Environment: Many participants pointed to the extremely worthwhile work undertaken by the GATT working group on trade and environment. Policy analysis undertaken since 1991 in the GATT working group has helped clarify, in a systematic and disciplined manner, a number of complex issues related to policy compatibility between trade and environment, in such areas as (a) legal compatibility between MEAs and GATT rules; (b) transparency of national environmental regulations; and (c) eco-labelling and eco-packaging.

(2) Multilateral Environmental Agreements: Several multilateral environmental agreements (MEAs) -- such as CITES, the Montreal Protocol, and the Basel Convention -- employ trade measures as a necessary means to help achieve environmental goals. Such MEAs helped define certain legal linkages between trade and environment, since various MEAs use, as one environment minister pointed out, "trade measures as the very essence of their ability to reinforce environmental goals."

Several participants underlined the need for further work on MEAs: to determine, for example, under what conditions exemptions to GATT or other rules should be allowed.

(3) UNCED Recommendations: There was very strong consensus that UNCED -- and in particular the Rio Principles and Agenda 21 -- represents the political context in which to address trade and environment. Foremost among the recommendations of UNCED of relevance to the trade-environment discussions was recognition of the need to build "an open, equitable, secure, non-discriminatory and predictable trading system is a benefit to all trading partners."

Several participants pointed out that the UNCED recommendations were "indivisible": that environmental management needed to be regarded within the context of sustainable development, and that the particular economic and development challenges facing developing countries were of special relevance to the trade-environment debate.

Also within the context of UNCED, many participants pointed out that poverty and under-development are the most serious causes of environmental degradation in developing countries.

Some participants pointed to the need to work on more general principles, linking trade to sustainable development. The contribution of the International Institute of Sustainable Development's Principles on Trade and Sustainable Development, which were released in mid-February was made available during the meeting.

Finally, there was general recognition of the special concerns of developing countries with regard to trade and environment. UNCTAD's role in this regard was seen to be specially important. Developing countries are naturally concerned lest environmental policies act as non-tariff barriers to trade, or become, in the words of one minister, "a screen for trade protection." This would decrease access to OECD markets, and inhibit development prospects. Furthermore, compliance costs for developing countries with the regulations and standards set by OECD countries might be onerous. In this context, several participants noted the need for greater transparency in national environmental standards, regulations and other measures.

Related to transparency is the need for national measures to have a firm scientific basis, more stringent environmental standards affecting production and process methods, as well as increased popularity of voluntary eco-labels. It was often difficult to distinguish between genuine and false environmental measures at the national level. Hence, the need to recognize the role of science. UNEP's role in this context was seen to be specially important.

(E) SPECIFIC POLICY ISSUES:

(i) **Pricing Internalization:** There was broad agreement on the need for progress to be made on the so-called internalization of environmental externalities, as a means to adjust environmental underpricing. There was strong agreement among both developing and

developed country participants that current models of economic development were, in the words of one participant, "fatally flawed." In order for sustainable development to gain a foothold on economic activities, it was vitally important that pricing internalization take place. It was also noted by virtually all participants that trade represents a fundamental means with which to build sustainable development.

Participants pointed to the work underway in this area, by OECD, UNEP, UNDP and elsewhere in addressing specific aspects of pricing internalization. Furthermore, UNCTAD's forthcoming Trade Development Board will discuss "The effect of the Internalization of External Costs on Sustainable Development".

Several participants pointed to the need for market prices based on the true costs of products. In this regard, it was recognized that more work needed to translate the Polluter Pays Principle into operation. At the same time, discussion also centered on the need for a User Pays Principle.

(ii) The Development Context: There was strong consensus that a central concern to the trade-environment debate is the urgent need for developing countries to increase economic growth. Indeed, some delegates mentioned that improved market access might have a beneficial impact on the environment. In addition, some participants pointed to the need for industrialized countries to change consumption patterns, as indicated in Agenda 21.

From UNCED, there is a clear understanding of the linkage between underdevelopment and environmental degradation. In cases of deforestation, for example, it is usually the poorest who are also the most adversely affected.

Accordingly, there was strong consensus expressed that the most appropriate means to address environmental degradation in developing countries is not through trade or other measures, but rather -- as in keeping with Agenda 21 -- through the strengthening of national capacity. The international community cannot expect international environmental standards to be established, and then compliance by developing countries to take place, without recognition of the development differentials, and wide marginal compliance costs, which developing countries face in environmental management. In this context, there was mention of proposals for a compensation system, perhaps a Solidarity Fund, which could help developing countries improve their environments.

Furthermore, some participants noted the importance of specific national capacity-building priorities, including national environmental legislative capacity building, pricing internalization, environmental monitoring, environmental management, etc. Further, there was the need for strengthened, and more coherent environmental impact assessment tools; cost-benefit analysis tools; improved waste management and waste disposal capacities. Several participants welcomed the work underway by UNCTAD, in education and training related to trade and the environment, as well as that undertaken by UNDP.

An important area related to national capacity building entailed building environmental awareness. The country-case studies being undertaken by UNCTAD were welcomed as an important contribution to building awareness and relevant information at the country-level on specific issues related to trade and the environment.

(iii) **Environmental Standards:** There was general consensus that environmental standards were important in the trade-environment debate. More work was needed in clarifying how environmental standards were established both at the national, and international levels. Some participants noted that work is also needed on domestically prohibited goods.

In establishing international environmental measures, there was strong consensus that the starting point must be international cooperation.

Differing Environmental Standards: Many participants pointed out the important economic, as well as environmental reasons, why different countries could often have different environmental standards. This was due in part, as noted during UNCED, to the widely differing costs of environmental protection between developing and developed countries. In addition, developing countries face pressing development priorities, including poverty.

Accordingly, environmental standards, and more general interpretations of sustainable development, need to take account of the development context, as well as particular local conditions, traditions, management and conservation approaches, etc.

Many participants noted that developed countries should not, therefore, offset cost differences arising from differing environmental standards through trade restrictions.

(iv) **Role of Science:** Many participants suggested that more work needs to be done in defining the role of science in trade-environment issues. Maximizing the available scientific information, in formats which gave clear policy choices and guidance, was felt by many to be crucial towards harmonizing trade and environment concerns.

In specific cases of disputes involving trade and environment, for example, there is a need for objective, timely and accurate scientific data to help clarify issues involved.

There was consensus on the need for accurate scientific data and updates, as a means of clarifying public misinformation about specific environmental management issues. Several participants pointed out, for example, that misinformation about environmental issues could have enormous adverse effects on international trade flows.

Several participants pointed to the need for the environmental community to be more disciplined and focused in the trade-environment debate. Ways to tighten coordination between trade and environment entailed (a) the establishment of internationally-accepted environmental targets for global environmental problems, and (b) the negotiation of multilateral environmental agreements as an instrument to meet those international targets. There was consensus that developing countries needed to be accorded greater flexibility, in meeting international standards, and that related issues -- including technology transfer and additional financing -- were directly related to international standards harmonization.

Discussions focused on the need for up-to-date, objective scientific information as a means to clarifying possible trade-environment disputes. It was noted that, (already in the GATT,) there was a special place for the ISO or CODEX in providing objective information related to harmonization.

It was suggested by several participants that UNEP had an important role to play in ensuring that environmental information, based on scientific observations, was included in the trade-environment debate.

While stressing the need for scientific input into the trade-environment debate, many participants also cautioned that there is no such thing as 100 percent scientific certainty, which is why the concept of the Precautionary Principle was so important in understanding environmental risk.

(v) **Eco-labelling:** More work was needed to understand how eco-labels were conferred. Some participants pointed to the need for harmonization of environmental labels. At the same time, one participant noted that eco-labels have been "used, mis-used and abused," and there was a need for greater transparency in how national labels were set.

Many participants pointed to the important role, and quickly changing aspects, of Life-Cycle Management and Life-Cycle Assessment. The development of new environmental management tools have potentially important trade aspects, which require further work at the international level.

Several participants pointed to the growing importance of information exchange, including prior informed consent models, in relation to eco-labels. Several participants expressed encouragement for the work underway by the ISO Technical Committee 207 in its work, which involved eco-labels.

(vi) **Certification:** During the meeting, the Secretary General of UNCTAD outlined a joint UNCTAD/UNEP proposal, to begin work on guidelines for the mutual recognition of national eco-labels.

Certification could be developed on the basis of equivalent environmental standards, which implies that "environmentally friendly" certificates could be granted to products which improve the local environment of the producing country. Principles of mutual recognition of national environmental labelling schemes could be established with due consideration of the national environmental and economic priorities of developing countries. Internationally agreed guidelines could outline broad criteria for certification. However, the formulation of specific standards, testing and monitoring of the application procedure could be left to the local standardization bodies.

It was noted that already, at least 17 national eco-label programs are either launched or being developed, each with distinct evaluation criteria. It was suggested that in addition to UNCTAD and UNEP, several other international organizations -- including ISO, ITC, ILO and others -- had an important role to play in eco-labelling issues.

(vii) **Technology Transfer and Additional Financing:** A number of participants pointed to the need for increased technology transfer, as well as additional financial resources, as a means to strengthen environmental protection. Several participants noted that both technology transfer, and additional financing, were of direct relevance to the broader challenges of integrating trade and environment.

Some participants pointed to the need for developing countries to receive financial compensation, and pointed to the recently-mooted proposal of an environmental "solidarity fund," with revenues generated from 0.25 percent of tariffs, as being a proposal worthy of further discussion.

One participant suggested that certain trade-environment issues related to additional financing should be addressed by the Global Environment Facility (GEF). Other organizations have an important role to play in encouraging technology transfer. These include: UNIDO, WIPO, the CSD, UNDP, UNCTAD and others.

Another participant suggested that developing and developed countries need to work more closely together on issues related to environmental technologies. It was suggested that an international clearing house be established, to facilitate technology transfer.

(vii) **Policy Coordination at the National Level:** Many participants pointed to the need for trade and environmental decision-makers to work more closely together at the national level.

(F) INSTITUTIONAL COOPERATION:

(1) UNCTAD Work Programme on Trade and Environment:

Participants were strongly supportive of the work already underway by UNCTAD. There was recognition that UNCTAD had a very strong mandate from UNCED and from the General Assembly in the trade-environment field. Many participants expressed strong encouragement to the UNCTAD Secretariat for their continued work, particularly in supporting developing countries.

There was general consensus on UNCTAD's role on: policy analysis and debate; conceptual work; the building of consensus among member States on the interaction between environmental and trade policies; the dissemination of information to policy-makers and the encouragement; and provision of assistance in capacity-building.

(2) Environmental Forum:

Several participants pointed to the need for the creation of an informal, environmental forum which would facilitate a disciplined discussion of the environmental components of the trade-environment nexus.

There were suggestions by several participants that the trade-environment debate involved broader, and longer-term issues, than specific trade rule compatibility issues. In this context, some of the environmental issues which would emerge were, strictly speaking, outside of the mandate of the GATT.

Some participants suggested that although the WTO was unable to address in detail issues related to scientifically-sound data, the WTO could play a key role in establishing the framework for discussions.

Several participants suggested that UNEP should play a lead role in putting forward objective scientific criteria of relevance to the trade-environment agenda. It was also suggested that UNEP had an important role to play, outside of the environmental sciences, in helping to avoid potential conflicts related to the MEAs, in strengthening its work on national environmental capacity building, as well as environmental economics -- in particular environmental valuation, and environmental impact assessment.

(3) UNCTAD/UNEP Cooperation:

Participants welcomed the cooperation between UNCTAD and UNEP. They appreciated the initiative of the two organizations which led to convening of this meeting, which was found very timely. Such cooperation was evidence, some suggested, of the multi-sectoral dimensions of sustainable development. Some participants suggested that future UNCTAD/UNEP informal sessions be held.

Several participants also pointed to the need to involve other relevant agencies, particularly UNDP in issues related to national capacity building, as well as UNIDO, the ILO, WHO and others.

(4) Commission on Sustainable Development:

Several participants pointed to the importance of the CSD, in providing a high-level forum for discussing the complex policy issues related to trade and the environment. Several participants encouraged the CSD to make proper preparations, in order to address the trade-environment issue at its May 1994 meeting.

(5) GATT/WTO:

GATT/WTO is the rule-making organization on trade and environment. Many participants pointed to the important contribution that GATT could make in clarifying trade-environment links and participants welcomed the work of the GATT. Many underlined the important role that the GATT working group, or possible creation of a GATT Committee on Trade and Environment would play.

Several participants pointed to the important role the World Trade Organization (WTO) will play in the future in building sustainable development, through sustainable trade policies. Some suggested that the GATT/WTO Committee be strong enough, with a clearly defined mandate, to address trade and environment issues.

(F) CHAIRMAN'S INFORMAL SUMMARY:

The Chairman made an informal summary of the session's deliberations. Some of the points raised by the Chairman include:

- (1) There was a pivotal role for the GATT/WTO in future work on trade and the environment.
- (2) There was an important role for both UNEP and UNCTAD to play, in such

areas as: conceptual and scientific clarification of issues; political and intellectual input; environmental law; pricing internalization; incentives-based mechanisms, and other areas.

3) There was a general consensus that such informal meetings were useful, and should continue, after the Marrakesh meeting. In this connection, there was consensus of the need to build an environmental forum, for a focused exchange of perspectives on the environmental aspects of trade-environment.

(4) A suggestion that UNCTAD and UNEP may wish to consider writing a paper jointly for the CSD.

(5) That future work needs to be undertaken within the context of Agenda 21; that specific issues, including capacity building, technology transfer, specific environmental management issues at the local and regional levels, need to be addressed.

(6) That trade and environment are both multi-disciplinary and multilateral, and more analytic work, and political consensus are needed.
