Trade and Sustainable Development

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Outline of presentation:

- Trade Liberalization and Sustainable Development: the links, the issues
- Market access: changing nature of challenge
  -- Non-Tariff Barriers (NTBs)
  -- Labeling, voluntary certification
  -- Domestic regulations and trade
- Fast-tracking trade lib in env goods and services
- Trade in biofuels, low-carbon goods and services
- Trade and climate change: what are the issues?
Trade and Sustainable Development – the links

**Greater trade openness generally provides:**

- Incentives to adopt efficient, clean technology
- Access to imported clean technology
- Technology transfer through export-oriented FDI
But also ...

• Supports production on a much larger scale than most countries’ domestic markets would ...

• Potentially overwhelming effects of greater resource efficiency ... and

• Exacerbating pollution, resource degradation
Also, on demand side ...

- Environmental, other consumer preferences in major markets call for new supply capacities, e.g.,
  - new production methods
  - tighter quality control
  - product testing, certification
  - cold chain for perishables
Market access:

Changing nature of the challenges
Facing developing countries
Non-traditional agricultural export opportunities for developing countries

- Moving up value-chain does not always mean moving from primary commodities to manufactures
  - Adding value along the agricultural supply chain one option (but tariff escalation...)
  - Producing high-value fresh produce another: agriculture, horticulture, fisheries and livestock products (SPS an issue ...)

Non-tariff barriers (NTBs)

- Even as tariffs have reached low levels for many products ...
- NTBs are becoming key market-access concerns, especially for the world’s poorer nations
- Currently affect up to 40% of the exports of the least developed countries
Some concerns posed by NTBs

- Can affect higher value agricultural, aquaculture exports — making moving up value chain more difficult;
- Risk of market fragmentation;
- Measures may exceed multilaterally accepted norms;
- Duplication of testing measures;
- NTBs are encountered also in South-South trade.
Evolution of NTB use by category

Source: UNCTAD (2005) with UNCTAD-TRAINS data.
3 different ways of looking at the incidence of non-tariff barriers
1. Frequency of non-tariff measures facing developing countries' exports, by market and group of products

![Graph showing frequency of non-tariff measures](image)

Source: Bacchetta and Bora (2001) with UNCTAD-TRAUNS data.

- Live animals and related products
- Machinery and electronics
- Chemical products
- Textile articles
- Footwear and headgear
- Base metal articles
- Vehicles, aircraft and vessels
- Foodstuffs and beverages
- Miscellaneous manufactures
- Medical devices
- Plastic articles
- Other

3. Agricultural imports:
Percentage of regulatory violations in the EU and the US, by region of origin and hazard category (2003-2004)

Source: Wiig and Kolstad (2005) with data from the EU’s Rapid Alert System for Food and Feed (RAASF) and the US’s Food and Drug Administration.
Voluntary labels and standards

- Informing consumers of the environmental and labour conditions associated with specific products and their production is increasingly pursued through voluntary standards and labels.

- Transparency, non-discrimination & technical assistance principles.

- **But is this enough?** What about low income countries, small-scale and data-deficient fisheries, agriculture and industries?
  - Only 3 developing country fisheries have been certified by the MSC: South African hake, Baja California Rock Lobster and Argentine Patagonian scallops.
  - Case studies on coffee and timber show that sustainability certifications can marginalize smaller producers and producers in smaller countries.
  - Only “old wave” initiatives, such as organic and fair trade pay regular premia at the farm level and bear part of the certification costs.
SPS and Technical Barriers to Trade in the WTO

1) A separate agreement on food safety and animal and plant health standards (the Sanitary and Phytosanitary Measures Agreement or SPS) sets out the basic rules to ensure that strict health and safety regulations are not being used as an excuse for protecting domestic producers.

2) The Agreement on Technical Barriers to Trade (TBT) tries to ensure that regulations, standards, testing and certification procedures do not create unnecessary obstacles to trade.
Domestic environmental legislation and barriers to trade

• The **phase-out of hazardous substances** in developed country markets has forced producers of electrical and electronic equipment in third countries to change production processes and even product design.

• EU approval of **biotech products** is long and complex.

• Foreign **organic production systems** are not recognized in the EU and the US, thus requiring recertification.
Fast Tracking: environmental goods and services

- Negotiations were launched in 2003 on the reduction or, as appropriate, the elimination of tariff and non-tariff barriers to environmental goods and services.

- In 2002, total exports of environmental goods amounted to about $238.4 billion when one uses the OECD-defined list, representing around 4.0 per cent of world exports.
Growth of environmental goods trade, 1990-2002

Growth Factors for environmental goods and services

- Domestic regulation and public pressure
- Customer requirements: global supply chains
- EU enlargement; regional trade agreements
- Infrastructure development
- MEAs and associated financing mechanisms
Biofuels: trade and sus dev

• Market access concerns in US and EU
• Key trade + development issues:
  – **Biofuels** are of agricultural origin, thus affected by protective trade rules and domestic subsidies, legislation
  – Competition with food production: ethanol feedstocks
  – Impacts on deforestation: biodiesel feedstocks
EU tariffs and domestic legislation

- **Ethanol tariff:** €073/gal
  - Tariff equivalent in excess of 60%
  - ACP and LDC tariff free (@ 100 countries)
  - Not Brazil, Thailand, Mexico, So Africa

- **Domestic legislation:** Directive 98/70/EC
  limiting ethanol blends in fuel to 5%
US price support

- Ethanol subsidy: $1.40-1.70 per gal gasoline equivalent, including
  - Ethanol import duty of $0.54 per gal
  - Cost per tonne of CO2e displaced: corn-based ethanol: $295; cellulosic ethanol: $109
- Biodiesel subsidy: $1.80-2.30 per gal diesel equivalent
  - Cost per tonne of CO2e displaced: biodiesel: $239
- Local content regulations in some states

Source: Global Subsidies Initiative, IISD, 2007
Outstanding issues for biofuels trade

- Countries that are competitive face high tariffs
  - Brazil, Thailand, Malaysia, Indonesia and South Africa
- Potential EU certification for sustainable palm oil
- Need to look at:
  - food vs feedstock
  - land use impact of feedstock expansion
- Alternative feedstocks:
  - Cellulosic
    - R&D to dampen price increases in cassava, corn and oilseeds
  - Jatropha
    - Moderates land-use impacts of biofuels, using degraded land
WTO and MEAs

- Agenda 21 of the Rio Conference states that measures should be taken to “avoid unilateral action to deal with environmental challenges outside the jurisdiction of the importing country”.
- Of the approximately 200 MEAs currently in force, about 20 contain trade provisions, including Montreal Protocol
  - These can be used to deter free riding
  - Also as an enforcement mechanism
- WTO Members have agreed to clarify the legal relationship between WTO rules and MEAs
- No disputes have thus far come to the WTO regarding the trade provisions contained in an MEA
International trade and Greenhouse effect (1)

• Under the Kyoto Protocol, climate regulation is characterized by:
  – Asymmetrical commitments among its parties
  – Territorial responsibility principle

• As a result, free trade tends to reduce the force of these commitments:
  – Existence of a carbon deficit in the regulating economies
  – Incentives for consumers to substitute imports for locally produced goods
International trade and Greenhouse effect (2)

- These effects are still debated as some economists argue that technological change could offset the cost of climate regulation.
- The risk of carbon leakage is likely to increase if governments commit to significantly cut the level of greenhouse gas emissions.
What role for the WTO in the mitigation of carbon leakage?

• The World Trade Organization recognizes that any contracting party is entitled to apply measures “necessary to protect human, animal or plant life or health” and “relating to the conservation of exhaustible natural resources” (article 20)

• In principle, WTO member states that are committed to reducing their GHG emissions could apply tariffs on their imports to offset the cost of these regulations.
Introducing carbon tariffs: modalities and debates (1)

- However, the WTO Dispute Settlement Body has not clarified its jurisprudence on the ways trade regulation could be used to offset the cost of climate regulation.
- Some economists (J. Stiglitz) suggest that countervailing duties could be utilized to tax imports from countries with low carbon efficiency.
- A more systematic system of tariffs has been suggested as an alternative (OECD, 2006). In this context, border tax adjustment is perceived as a possible mechanism whereby WTO regulation could help mitigate carbon leakage.
Introducing carbon tariffs: modalities and debates (2)

The implementation of carbon tariffs raises concerns as

- It goes against the free trade dynamic that has ensured the wealth of many countries over the last decades.
- It requires the certification of the carbon content of internationally exchanged goods, which may prove costly and difficult to organize.
- It would de facto involve developing countries, including the least developed ones, in the global effort to cut emissions, which many of them refuse at this stage.
Future trade issues in WTO

- Fast-tracking env goods and services: what about agricultural-based ones?
- IPRs: revisit rules, exceptions given urgency of low-carbon technology transfer?
- WTO and MEAs: what role for WTO in a carbon-constrained world?
Priorities for d’ing countries?

- Successful conclusion of Doha Round
  - Significant agr trade liberalization could help reduce poverty, meet MDGs
  - Improve market access for d’ing cntry biofuels
- Building supply/trade capacity in LDCs for:
  - seizing opportunities from liberalization of agr markets
  - environmental goods and services, inc.
  - sustainable production, certification of biofuels
Measures to address market access concerns

• Enable developing countries to be more involved in standard setting

• Enhance the capacity of developing countries to deal with NTBs, including
  – Understanding and as appropriate challenging NTBs
  – Assisting exporters, esp SMEs, to meet SPS, other requirements in major mkts