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# UNIT 8 ENVIRONMENT IN MULTILATERAL PERSPECTIVE

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## 8.1 INTRODUCTION

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In the previous unit you have studied about the role of UN agencies in environmental governance. In this unit you will learn about the role of multilateral agencies like the World Bank and the World Trade Organisation in the maintenance of environmental standards in our quest for a better quality of life.

Trade liberalisation is being pursued vigorously by many countries across the world as part of the globalisation strategy to accelerate growth through market expansion and improved competitiveness. The implication of this global increase in economic activity on global environment has been debated extensively by economists, environmentalists and policy makers. The World Bank, in its 1992 World Development Report on environment, raised the following three important questions in this regard: What are the environmental effects of trade liberalisation? Should trade policies be used to influence environmental standards of other countries? Should trade policies be used to enforce or implement international environmental agreements?

An attempt is made in this unit to address these questions. The trade-environment inter-linkage is analysed first before discussing an appropriate trade policy in the context of increasing openness under globalisation. The role of multilateral agencies, particularly the World Bank and the World Trade Organisation in resolving the environmental concerns is also analysed.

### Objectives

After studying this unit, you should be able to:

- explain the environmental concerns in the multilateral perspective ;
- discuss the efforts of the global community in addressing these issues; and
- highlight some important multilateral initiatives.

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## 8.2 ENVIRONMENTAL STANDARDS AND INTERNATIONAL TRADE

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The relationship between the environment and international trade has become a matter of concern to both economists and environmentalists. Economists are basically interested in analysing the influence of environmental factors on the pattern of international division of labour and the gains from such specialisation.

Environmentalists, on the other hand, are concerned about the impact of expanded market and output through international trade on the local and global environmental

conditions. In other words, the links between trade and environment are complex and also two-way; one affects and in turn gets affected by the other.

One effect is that trade can raise production volumes. This effect is always considered positive, as the amount of resources used to produce the same level of output will decline. However, if international trade induces a change in the composition of output, it is possible that the polluting industries, even when large-scale operations are realised, may increase and clean industries contract, nullifying the benefits of scale effects. International trade may also permit greater access to more advanced and cleaner technology. The net effect, therefore, depends on the change in the output mix and technology used with trade induced growth.

Environmental regulation is likely to change the pattern of international trade and the location of 'dirty industries'. One hypothesis is that pollution intensive industries take flight to countries with liberal environmental standards. Also, when environment is treated as a factor of production like capital and labour, environmental abundance will encourage the countries to specialise in pollution intensive industries. However, the evidence on the specific linkages between environmental regulation and international trade is mixed. While some studies analysing selected pollution intensive industries in 23 developing countries could conclude that environmental regulations have resulted in a change in the trade pattern, other studies taking the case studies of North American Free Trade Area (NAFTA) could not find any evidence to that effect. A third group of studies, using gravity models could not establish any relationship between the differences in environmental standards and changes in bilateral trade between developed and developing countries.

Notwithstanding the inconclusive evidence on the linkages between trade and environment, it is generally held that there is a direct effect as production and consumption of traded goods use and damage the environment. These externalities are considered important and relevant as the countries carry on trade with other countries in the form of imports or exports. A dilemma is that as trade is otherwise welfare-improving, the attitude of the new world is to encourage more and more free trade through globalisation and liberalisation under the WTO framework. Since most national or trans-national industries have been expanding their international markets, a concern about the size of the actual and potential damages to environment, consequent to this expansion, is being articulated by many analysts.

A simple hypothetical example could be used to highlight the essential nature of the trade-environment trade-off and its global dimensions. Consider a human settlement surrounded by a common land including adequate source of timber and space for waste disposal. With population growth, increasing activities and exchanges, emissions, deforestation, and waste discharge will increase beyond the carrying capacity of the regions. The resource base therefore gets depleted. The activities of some individuals produce adverse effects on others through the environmental impact of these activities and exchanges. If individuals, in this example, are treated as nations in the world economy, it would be evidently clear as to how the activities of individual countries would erode the common resource base of the global economy and affect the environment.

Pure theory of international trade argues that trade is welfare improving for the world as a whole and also for individual countries. The theory, however, ignores the effects of trade on environment. There is evidence in support of the view that international movement of goods has been associated with significant adverse changes in the bounties of nature involving negative international externalities.

From the view point of the global economy, environmental consequences result from two interrelated aspects. Firstly, the adverse impact of economic activities in all countries, domestic or trade oriented, on the natural resource base of the global economy is a matter of concern for the whole world.



**Fig.8.1: The dilemma before developing nations: How to strike a balance between economic activity and a clean environment? A case in point is that of the small-scale polluting industries in Delhi; factory owners and workers facing court-ordered shut-downs fight for survival (Source: [image.pathfinder.com/.../0309/as.pollution.jpg](http://image.pathfinder.com/.../0309/as.pollution.jpg))**

Secondly, as a result of trade policies, there is an impact on the resource base in the form of accumulative negative externalities, either confined within or crossing territories. Issues of global concern associated with environmental degradation and those related to international trade essentially overlap. It is of extreme importance to the world population as these effects are not confined to a region or to any particular country producing the sources of degradation but are spread across borders and affect a significant proportion of the present and future population across the world.

You may like to reflect a bit more on this issue before you study further.

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### SAQ 1

Describe an instance from your own context, where economic compulsions were given precedence over the environmental concerns or vice-versa. Present your own analysis of the situation.

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## 8.3 TRADE-ENVIRONMENT TRADE OFF – POLICY INITIATIVES

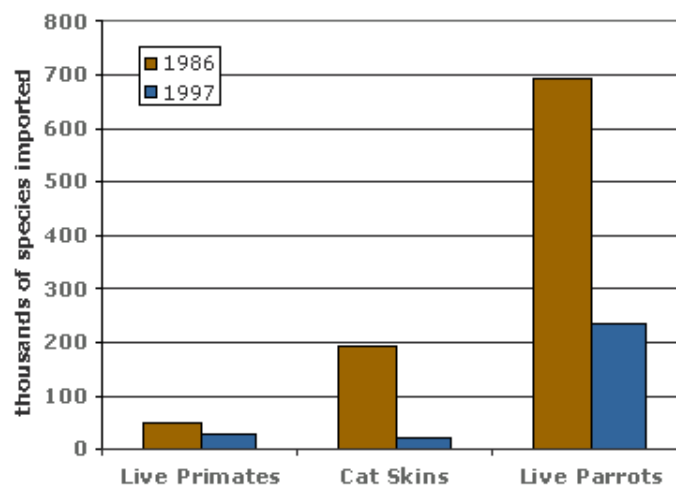
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Against the background of what has been said on the linkages between trade and environment, it is necessary to ask a simple question, what policy tools and institutions are best suited to promote higher levels of environmental protection? One way of restricting access to a developing country market is the introduction of trade sanctions to support environmental protection. However, they may become counterproductive if environmental regulations restrict trade and growth. Also, sanctions penalise whole industries, the clean firms, as well as the polluters in an industry. Besides, many produce for the local market and therefore are not affected by sanctions. Finally, it is argued that domestic pollution and environmental protection can be effectively controlled through appropriate domestic measures like taxes.

Analysts consider the establishment of policy coordination among the participating countries to be a more productive approach than sanctions. This would allow for joint regulation of common watershed and air basin controls in areas of trans-border pollution and for development assistance to transfer clean technology and environmental aid to strengthen environmental protection overtime. Global environmental agreements such as the Montreal Protocol that bans certain ozone depleting chemicals and others, based on sound cost benefit analysis can raise environmental quality over a period of time.

Kym Anderson, analysing the theme “Environmental Standards and International Trade” at the 1996 World Bank Annual Conference on Development Economics arrived at two important points. First, as far as the domestic environmental problems are concerned, countries should be allowed to set their own standards as low income countries may choose lower air and water quality standards than high income countries to develop comparative advantage in pollution intensive industries. Differences in competitiveness that result from differences in domestic environmental standards, according to Anderson, are not a source of inefficiency and therefore do not call for a trade policy response.

Second, when a country’s production or consumption decisions impose environmental externalities on other countries, there may be a theoretical case for using trade policy to correct these externalities. Many international environmental problems including acid rain, global warming, and bio-diversity destruction require multilateral cooperation to achieve a first best solution. But if the first best solution cannot be achieved, trade policy may produce a second best outcome. The threat of trade sanctions might provide an incentive for countries to abide by multilateral environmental agreements. Trade policy must be used with caution since, as a second best solution, it is likely to be an extremely blunt instrument for correcting the environmental externalities.



**Fig.8.2: The ban on trade in products made from endangered species is an example of protecting the environment through trade regulation. Commercial trade in several species and animal products has dropped after popular action. For example, trade in animal skins came down after it became socially less acceptable in the US and Europe to wear furs; trade in live parrots dropped after the US banned its imports.**  
(Source: earthtrends.wri.org/)

However, environmentally motivated trade policies might improve welfare only under specific instances:

- when domestic environmental standards do not reflect social preferences,
- when nothing else is done to correct trans-boundary pollution problems,
- when endangered species are being over harvested, and
- when used as an enforcement mechanism for environmental agreements.

### 8.3.1 WTO and Environment

The World Trade Organisation (WTO) established on the 1st January 1995, is the successor to the General Agreement on Tariffs and Trade (GATT) and the embodiment of the results of the Uruguay Round. As the legal and institutional foundation of the multilateral trading system, the WTO provides the principal contractual obligations that determine how governments frame and implement domestic trade legislation and regulations. The WTO provides the platform on which trade relations, among members, evolve through collective debate, negotiation and adjudication.

The WTO provisions include a number of references to the environment, such as the preamble to the Marrakesh Agreement, which notes the importance of “allowing 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 a manner consistent with their respective needs and concerns at different levels of economic development.”

Specific references to the environment are included in the Agreements on subsidies and Countervailing Measures, Agriculture and Technical Barriers to trade and a number of other WTO provisions. The principal focus of the WTO’s work on trade and environment is contained in the Uruguay Round Final Act, under which ministers adopted a decision on trade and environment that called for the establishment of the Committee on Trade and Environment (CTE) and outlined its work programme.

#### Green provisions

##### Examples of provisions in the WTO agreements dealing with environmental issues

**Technical Barriers to Trade** (i.e., product and industrial standards), and **Sanitary and Phyto-sanitary measures** (animal and plant health and hygiene): explicit recognition of environmental objectives.

**Agriculture:** environmental programmes exempt from cuts in subsidies.

**Subsidies:** allows subsidies, up to 20% of firms’ costs, for adapting to new environmental laws.

**Intellectual property:** governments can refuse to issue patents that threaten human, animal or plant life or health, or risk serious damage to the environment (TRIPS Article 27).

**GATS Article 14:** policies affecting trade in services for protecting human, animal or plant life or health are exempt from normal GATS disciplines under certain conditions.

**Source:** <http://www.wto.org/>

### 8.3.2 Work Programme of the Committee on Trade and Environment (CTE)

The CTE has an agenda of 10 items for discussion:

1. The relationship between trade rules and trade measures used for environmental purposes, including those in MEAs.
2. The relationship between trade rules and environmental policies with trade impacts.
3.
  - a) The relationship between trade rules and environmental charges and taxes.
  - b) The relationship between trade rules and environmental requirements for products, including packaging, labelling and recycling standards and regulations.

4. Trade rules on the transparency (that is, full and timely disclosure) of trade measures used for environmental purposes, and of environmental policies with trade impacts.
5. The relationship between the dispute settlement mechanisms of the WTO and those of MEAs.
6. The potential for environmental measures to impede access to markets for developing country exports, and the potential environmental benefits of removing trade restrictions and distortions.
7. The issue of the export of domestically prohibited goods.
8. The relationship between the environment and the TRIPS Agreement.
9. The relationship between the environment and trade in services.
10. WTO's relations with other organisations, both non-governmental and inter-governmental.

Environmental rules, according to the strong groups from developed countries, should not confine to simple pollution control or natural resource management standards. They need to provide the ground rules for international commerce and serve as an essential bulwark against market failure in the international economic system. Building environmental sensitivity into the trade regime in a thoughtful and systematic fashion should therefore be of interest to the trade community as well as environmental advocates. This certainly contradicts the interests of the Third World.

Trade liberalization certainly provides many opportunities for developing countries and is very important for countries like India. The gains from trade are not without costs, and the environment might suffer as the result of liberalized trade in several ways. Overall, trade liberalization is likely to produce not only negative environmental externalities, but also some environmental gains. The negative association does not imply that freer trade should be halted. It suggests that most cost-effective policies should be undertaken to optimise the externality. Thus the solution to the growing environmental challenge for countries like India clearly lies in developing a firm environmental framework and implementation capacity. Freer trade may give some accidental benefits to the environment, and also result in serious environmental consequences if environmental policy framework remains weak as it is now. Therefore environmental policy must be designed to minimise the environmental effects from the economic activity and not by restricting trade. A firm environmental policy may itself have positive international trade effects.

**Eco Labelling:** Labelling environmentally -friendly products is an important environmental policy instrument. For the WTO, the key point is that labelling requirements and practices should not discriminate — either between trading partners (most-favoured nation treatment should apply), or between domestically-produced goods or services and imports (national treatment). One area where the Trade and Environment Committee needs further discussion is how to handle — under the rules of the WTO Technical Barriers to Trade Agreement — labelling used to describe whether *the way a product is produced* (as distinct from the product itself) is environmentally -friendly.

**Dispute Settlement:** Suppose a trade dispute arises because a country has taken action on trade (for example, imposed a tax or restricted imports) under an environmental agreement outside the WTO and another country objects. Should the dispute be handled under the WTO or under the other agreement? The Trade and Environment Committee says that if a dispute arises over a trade action taken under an environmental agreement, and if both sides to the dispute have signed that agreement, then they should try to use the environmental agreement to settle the dispute. But if one side in the dispute has not signed the environment agreement, then the WTO would provide the only possible forum for settling the dispute. The preference for handling disputes under the environmental agreements does not mean that environmental issues would be ignored in WTO disputes. The WTO agreements allow panels examining a dispute to seek expert advice on environmental issues.

**Source:** <http://www.wto.org/>

### 8.3.3 The Role of the World Bank

The World Bank makes significant contributions to control industrial pollution on several counts. In the long run, the support for growth oriented policies will encourage strict pollution control by more prosperous societies. The World Bank has also realised that all economic reforms may not have clean impacts. Therefore, the Bank has revised its operational guidelines to ensure that Bank-Supported Reform Programmes incorporate environmental concerns. Successful implementation of these guidelines would need sustained efforts, coordination between the Bank's economists and environmental specialists, and active collaboration between the economic ministries and environmental agencies in the partner countries.

The World Bank has also financed decentralised environmental information systems that support the new regulatory model with an emphasis on scale. This comprehensive approach, which could be encouraged by the World Bank's preference for Big Loans, can easily distract regulations from confronting their communities' most critical pollution problems. The World Bank also provides direct finance for pollution control as the Bank has realised that subsidizing abatement investments by large individual polluters is seldom the best way to control air and water emissions.

So far you have learnt about various aspects of the trade-environment trade-off and the role of trade regulatory bodies in encouraging environment-friendly trade practices. In the next section we will discuss the multilateral agreements. You may like to concretise the ideas presented so far.

#### SAQ 2

Consider a World Bank funded project in your country. Analyse the role played by the World Bank in maintaining environmental standards in that project.

## 8.4 MULTILATERAL AGREEMENTS

International agreements on environmental issues may take two forms – bilateral and multilateral. When only two countries are signatories in an agreement, it is termed a bilateral agreement. If it involves many countries as signatories it is called a multilateral arrangement. The figure below shows the growth in the number of countries signing these agreements.

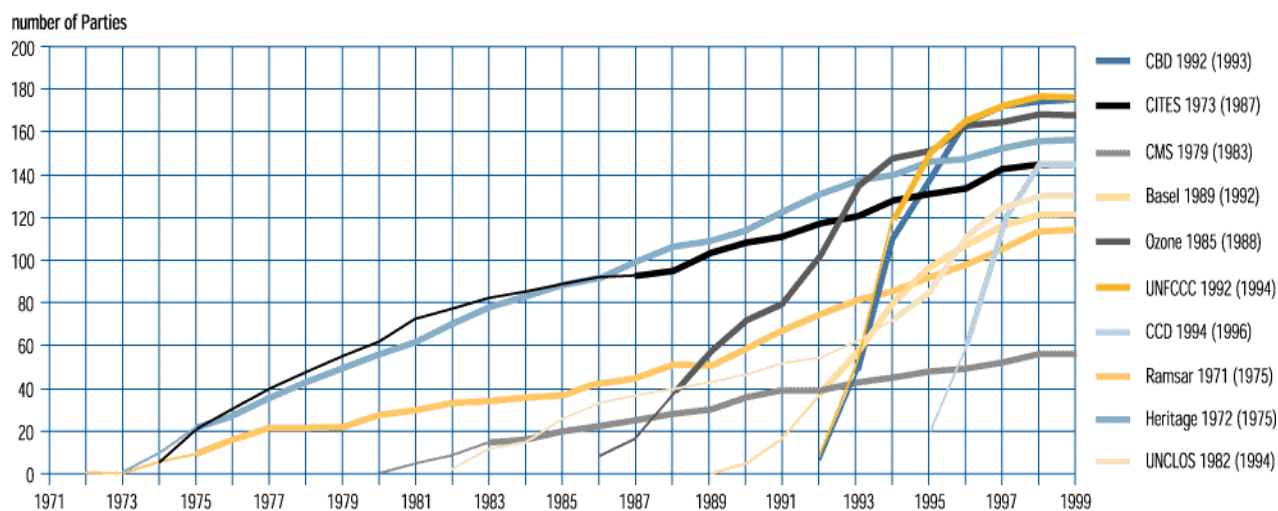


Fig.8.3: Growth in numbers of parties to selected MEAs

We also provide a representative list of multilateral environmental agreements.

### Some Important Multilateral Initiatives

<b>Trans-national Air Pollution</b>	<b>Signed</b>	<b>Enforced</b>
Convention on Long-range Trans -boundary Air Pollution (CLTAP)	1979	1983
Protocol to CLTAP on European Programme of Cooperative Financing of Monitoring (EMEP)	1984	1988
Protocol to CLTAP on Sulphur Emissions by at least 30 per cent	1985	1987
Protocol to CLTAP on nitrogen oxides	1988	—
Vienna Convention for the protection of the ozone layer	1985	1988
Montreal protocol on ozone layer depleting substances	1987	1989
Kyoto protocol	1997	—
International Convention for the prevention of pollution of the sea by oil	1954	1958
Agreement for cooperation on controlling pollution of the North Sea by oil	1969	1969
International Convention on civil liability for oil pollution damage	1969	1975
International Convention for intervention on the high seas in cases of oil pollution casualties	1969	1975
International Convention on prevention of dumping of wastes and other matter	1972	1975
International Convention on prevention of pollution from ships	1973	—
International Convention on prevention of marine pollution from land-based sources	1974	1978
International Convention on protection of the Mediterranean Sea against pollution	1976	1978
Protocol on the constitution of an International Commission for the protection of the Moselle against pollution	1961	1962
Agreement on International Commission for the protection of the Rhine against pollution	1963	1965
Convention on the protection of the Rhine against chemical pollution	1976	1979



Convention creating the Niger basin authority and Protocol relating to the development fund of the Niger basin	1980	1982
<b>Biodiversity</b>		
European treaty on the conservation of birds useful to agriculture	1902	1902
Convention on nature protection and wildlife preservation in the Western Hemisphere	1940	1942
International Convention on regulation of whaling	1946	1948
International Convention on wetlands of international importance especially as waterfowl habitat	1971	1975
International Convention on international trade in endangered 1982 species of wild fauna and flora	1973	1975
<b>Others</b>		
United Nations Convention on the law of the sea	1982	—
Basel Convention on the control of the trans-boundary movement of hazardous wastes and their disposal	1989	—

**Source:** Field, B, (1997) Environmental Economics, Tata-Mcgraw Hill, New Delhi.

Let us now summarise what you have studied so far.

## 8.5 SUMMARY

- It is generally accepted that trade liberalisation does not have to resort to conflict with sustainable development provided certain measures are taken at the national and international levels. There is no denying the fact that there are both costs and benefits from trade liberalisation and trade expansion.
- From an environmental perspective, trade liberalisation can have a negative or a positive effect on the environment. But most experts feel that, in general, the direct effects of trade on the environment are limited, as only a small share of environmentally sensitive goods enter into trade and also because trade is only one of the many factors affecting the environment.
- The best way to correct externalities is by implementing the popular “polluter-pays principle (PPP)”, not restricting the level of trade. Where PPP is not feasible (because exporter is a poor country), cooperative policies or assistance in cleaning up activities are preferable compared to adopting trade restrictions.
- There is a need to review both international trade and global environmental laws and agreements in the interests of both developing countries and advanced countries. However, the interests of the developing countries need to be protected by giving their basic concerns of development, a top priority on the agenda.

## 8.6 TERMINAL QUESTIONS

1. Explain the inter-linkages between trade and environment.
2. How does multilateralism affect environment?

### **Global Responses**

3. Examine the role of multilateral agencies like WTO and World Bank in protecting the global environment.
4. Discuss the multilateral initiatives to control environment.

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