



**Friends of the Earth  
Les Amis de la Terre  
Europe**

**‘THE NON-TRADE IMPACTS  
OF TRADE POLICY –  
ASKING QUESTIONS,  
SEEKING SUSTAINABLE DEVELOPMENT.’**

**An informal commentary to  
the European Commission’s  
discussion paper of DG Trade**

**April 2001**

# **‘THE NON-TRADE IMPACTS OF TRADE POLICY – ASKING QUESTIONS, SEEKING SUSTAINABLE DEVELOPMENT.’**

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## Introduction and Summary

**Friends of the Earth Europe (FoEE), the European branch of Friends of the Earth International (FoEI), is a federation of environmental organisations with national members in 30 European countries and over 3000 local branches. Friends of the Earth aims to protect the environment and to create sustainable societies. Friends of the Earth's International Trade, Environment and Sustainability Programme (TES) has been established in 1992. Friends of the Earth believes that we need profound changes in the way the world trade system works. In the meantime short-term measures must be implemented to address some of today's most pressing environmental and social problems which relate to trade. FoEE's views on trade reflect the concerns of our partners groups - in both Northern and Southern countries. It is based on previous papers of FoEI and FoEE on trade.**

Friends of the Earth welcomes the opportunity to comment on the informal discussion paper called "Non trade impacts of trade policy making, asking questions, seeking sustainable development". Friends of the Earth also appreciate that DG Trade has started in February 2001 a public debate among interested players on sustainable development for EU trade policy-making. This debate is urgently needed. Whilst there have been public discussions about the impacts of existing WTO agreements and a new round of trade negotiations, a debate about the more **basic assumptions of trade liberalisation** as well as of the **impacts of the increasing number of bilateral and regional trade agreements** has been missing.

The European Commission has a unique strategic role to play to develop a fair, sustainable and equitable trade policy-making and a more effective global economy. The informal discussion paper is a first step in the right direction. However, Friends of the Earth is concerned that this paper constitutes nothing more than an informal discussion paper prepared by DG Trade, given that is published:

- more than 2, 5 years after the Cardiff European Council in June 1998 and the request to **integrate environmental protection and sustainable development into other policies,**
- four months before the Commission will propose a **EU Sustainable Development Strategy** to the EU Gothenburg Council and
- with preparations well under way for the **World Summit for Sustainable Development** in Johannesburg.

Almost all relevant Directorate Generals have contributed with Communications to the Cardiff environmental integration process, notably DG Development, Agriculture, Internal Market, Energy, Transport EcoFin. DG Relex is in the process of finalising a communication.<sup>1</sup> We would like to encourage DG Trade **to initiate and develop a communication for sustainable development** together with colleagues from other DGs. It is only in co-operation and consultation with other sectors that a true debate about more sustainable ways of trade can be launched.

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<sup>1</sup> See Ecologic: Results of the 'Cardiff –Processes' – Assessing the State of Development and Charting the Way Ahead', Report to the German Federal Environmental Agency and the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, Berlin 2001.

FoEE calls on the Commission to consider the following as primary goals of a more sustainable policy-making:

cutting resource use in the North and reducing negative impacts of its own production and consumption patterns;

promoting sustainable production and consumption patterns in developing countries;

and eradicating inequality and poverty.

As part of a set of measures in trade policy-making the EC should advocate the following long-term strategies:

Progress/economic welfare needs to also be measured in terms of social progress, poverty eradication, gender equality, environmental quality etc and not only in terms of GDP. In the long run a new measurement of economic welfare needs to be developed.

Social and environmental costs of transport ought to be internalised so that trade patterns shift in favour of the local, strengthening local economies.

Trade has to be brought within the Kyoto targets of reducing CO<sub>2</sub> emissions and so-called 'unnecessary trade miles' have to be cut.

Sustainability Impacts Assessments need to be conducted for all bilateral, regional and multilateral trade agreements before trade liberalisation measures are negotiated.

New economic goals, including the equitable and sustainable use of limited resources and recognition of the importance of economic diversity need to be applied.

The following internationally agreed principles should be at the heart of trade negotiations: the precautionary principle, the polluter pays principle, respect for high environmental, health and safety, social, and health standards; diversity in biological, cultural and economic systems; respect for human rights; economic and political subsidiarity; repayment of ecological debt; democratic accountability and transparency of governments, businesses and other organisations, the public 'right to know' and citizens' access to justice.

National, regional and international trade rules should not override laws designed to protect local communities, the environment and public health.

Nations need to be able to control and direct domestic and foreign investment flows. Investment flows need to be regulated at the international level but not further deregulated within the WTO.

Initiatives to rebalance trade, deprioritising international trade, giving a higher priority to local and regional trade (and small and medium-sized enterprises) and promoting more local self-reliance should be encouraged by the EU.

Bilateral and multilateral debt needs to be cancelled in order to take a genuine step forward towards poverty eradication.

Further recommendations on the issue are offered in chapter 1.3 (ways towards sustainable economies), 3.3 (WTO) and 4.5 (on the Euro-Med Free Trade Zone).

We will offer in our paper comments that follow the structure of the Commission's paper. The paper will address the required long term changes in the first section of the paper (on Trade, Growth, Environment and Development), outline some of the short term measures in the second part of the paper (on multilateral and regional trade agreements) and then address some additional questions and issues.

# 1. Trade, trade policy and sustainable development

The present trading system promotes the free movement of goods, services and capital as a goal in itself. As a result, current trade rules encourage unsustainable resource use and an inequitable distribution of resources; and can conflict directly with local, national and international environmental laws. The European Commission should take a lead in advocating that **trade is not a goal in itself but only a means towards sustainable, peaceful and equitable development.**

FoEE believes that the word sustainability is largely overused and often misinterpreted. When speaking of sustainable development, the concept of **'fair shares of environmental space'** should be used. The Earth can only sustain a certain amount of resource use and pollution. At the same time every person in the world should have the same right of resource use of the Earth, including future generations. The resultant per-capita use of resources and the environment is what FoE calls environmental space. Such an understanding of environmental space calls for a drastic reduction of per-capita resource consumption in the industrialised world.

## 1.1 Trade, growth and environment

The paper states under the section entitled "trade, growth and environment" that removing obstacles to economic activity increases the efficiency of the world economic system. 'It will allow the same level of production with less resource depletion and pollution. Liberalisation provides a more effective market world-wide and gives producers a powerful incentive to adopt more efficient production practices.'

### ***What is the impact of trade liberalisation on resources use?***

FoEE would like to underline that economic growth achieved through unchecked trade liberalisation will go hand in hand with an increase in resources use in general. There is a wealth of evidence that shows that with international trade liberalisation **natural resources are overexploited at unsustainable rates.** Forest are clear cut, minerals strip mined, fossil fuels exploited, and biological diversity is eroded and we are faced with increased levels of air, water and soil pollution.

As the **environmental costs of transport are not incorporated** in consumer prices, international trade is favoured over local production. With trade liberalisation, more and more products – agricultural goods, timber, minerals, oil etc are transported over long distances. Much **environmental damage and increased CO<sub>2</sub> emissions** are caused by long distance transport. Trade miles – the average distance travelled by trade goods are getting longer.<sup>2</sup> In addition, an increase in access routes leads to the increased exploitation of natural resources, such as timber products.

In addition, specialisation in products and services often **increases monocultures and decreases diversity.** A new UNEP study<sup>3</sup> presented to the UNEP Governing Council

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<sup>2</sup> New Economics Foundation: Collision Course. Free Trade's Free Ride on the Global Climate, London 2000.

<sup>3</sup> Cultural and Spiritual Values of Biodiversity: A Complementary Contribution to the Global Biodiversity Assessment," edited by Professor Darrell Addison Posey of the Federal University of Maranhao, Sao Luis, Brazil, and the Oxford Centre for the

meeting in Nairobi on February 2001 warned that indigenous systems for environmentally harmonious living may soon be lost forever as a result of growing globalisation. The study based on work by hundreds of academics, claims many indigenous languages and cultures are already on the brink of extinction in the face of globalisation.

A major challenge will be how to improve resource efficiency, use less natural resources and develop trade policy making and economic development within the carrying capacity of the earth. A reduction of worldwide (world-wide) material flows is needed. Given the uneven distribution of resources today, an **average reduction target of 85-90 % or a factor 10 for the industrialised countries is needed**<sup>4</sup>. The resource consumption of export production and the so-called ecological rucksacks of trade products should be accounted for with the total sum of total material flow<sup>5</sup>.

### ***Comparative advantage - an out of date economic concept?***

The argument seems to be based on flawed economic concepts that have been developed in the 18<sup>th</sup> century. These **concepts need to be questioned**, as they seem to be out of date.

Comparative advantage theory states that all countries will benefit by investing in those sectors in which they produce goods most efficiently and then trading with each other. However, it was developed at a time when capital was firmly anchored in domestic economies and when the limit of the world's resources was not a limiting factor. Today, with new and powerful information technology and open borders, capital can be moved around the world virtually instantaneously. As a result, it is increasingly difficult for those countries that do *not* hold the winning cards (a stable economy, low costs and good infrastructure, for example) to retain or attract internationally mobile investment capital. In other words, *absolute* advantage increasingly applies and the system is *not* mutually advantageous for all.

Furthermore, benefits are increasingly going to companies and their owners, rather than countries and their citizens. On the one hand, potential investors (both domestic and foreign) can play governments off against each other, extracting tax concessions or sweeteners and generally demanding lower corporate taxes and standards; and transnational companies can minimise their tax obligations by shifting their profits to low-tax countries. On the other hand, governments are increasingly prevented from benefiting from inward investment by placing obligations or performance requirements on foreign investors; and it is now clear that wealth does not automatically 'trickle down' to a population as has been previously argued.

With regards to sustainable development: environmental and social externalities are not internalised in comparative advantage theory. With no internalisation environmental problems can be exacerbated as countries become primary producers of agricultural, forests, fisheries and mineral products.

The Commission's paper seems to assume that there is 'an invisible hand' guiding the market towards sustainability'. But **sustainable trade and economies needs to be managed**.

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Environment, Ethics and Society at Mansfield College, University of Oxford, 2001. See also Global Environment Outlook, UNEP, February 2001 and Environment News Service, 8 February 2001.

<sup>4</sup> See Sustainable Europe Research Institute (SERI): Reconciling trade and environment, Vienna 2001.

<sup>5</sup> European Environmental Agency, Total material requirement of the European Union, Technical report No. 55, Copenhagen, 2001, see [http://reports.eea.eu.int/Technical\\_report\\_No\\_55/en/tech55.pdf](http://reports.eea.eu.int/Technical_report_No_55/en/tech55.pdf)

## 1.2 Trade, growth and poverty

The discussion paper states that 'there is a widespread consensus among academics that trade openness reinforces economic growth and that where countries, both developed and developing, trade more they tend to grow more rapidly'.

Obviously the EC is measuring economic growth in the simple terms of GDP, but a question that should be raised is:

### ***Is GDP the right measure for progress?***

GDP as it is currently calculated does not measure quality of life, social progress, poverty eradication, human development, food security or environmental quality; and underpriced transport means that highly polluting and habitat-destroying forms of production and trade are favoured over local production and commerce.

### ***What are some essential issues to be raised in relation to poverty and development?***

FoEI has outlined in its paper, Sustainable Economies: Challenging Neo-liberal Economic Globalisation<sup>6</sup>, that neoliberal economic globalisation is associated with **increasing levels of inequality**, both between and within countries; the concentration of resources and power in fewer and fewer hands (resulting in an erosion of democracy); economic, social, political and economic exclusion; **economic instability**; spiralling rates of natural resource exploitation; and a loss of biological and cultural diversity. It prevents the maintenance and development of locally-appropriate and sustainable systems of commerce.

Furthermore, the 'global North', using the resources of the 'global South' at rock-bottom prices, has incurred an **ecological debt** to the South. Yet it is still those impoverished countries in the South that find themselves compelled to play the neoliberal game - exporting more and more - in order to pay off the only debts that seem to count: the financial ones. Ironically, this leads to oversupplied world markets, falling commodity prices and *decreasing* returns on Southern exports. These worsening terms of trade make it ever more difficult for the South to pay its financial debts.

### ***How can a global race to the bottom be prevented?***

FoEE also fears that with unregulated trade liberalisation a so called **'global race to the bottom' appears**: a so-called competition between countries to lower, or keep low, social and environmental standards in order to be more 'competitive'. Averting a 'race to the bottom' requires government involvement yet the world trade system aims to reduce government 'interference' in the international flow of goods, services and capital.

## 1.3 What are ways towards sustainable societies?

Overall, the key issue that needs to be addressed is the fact that because of these impacts, the policies promoted by proponents of neoliberal economics *undermine* those needed to develop sustainable societies. Just and sustainable societies require, almost by definition, equity, democracy, diversity and sustainable production and consumption. They require

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<sup>6</sup> Friends of the Earth International: Towards Sustainable Economies: Challenging Neo-liberal Economic Globalisation, December 2000, for the full version see <http://www.foeeurope.org/trade/about.htm>

stronger local communities and economies *and* stronger and more cooperative relationships at the international level.

The real challenge for human-kind will be providing a decent quality of life for a predicted population of 10 billion people in 2050, whilst reducing environment impacts to levels which stay within the limits of the natural system. Neoliberal economic globalisation is increasing the scale of that challenge. Yet the official line is that 'there is no alternative'.

The time has come to develop alternative approaches, **to map out a framework for sustainable economies. We should:**

**Change course - establish new economic goals.** A credible and productive system of economics should have as its goal the satisfaction of people's needs through the equitable and sustainable use of the planet's limited resources. Poverty eradication, social and cultural sustainability, intergenerational equity and human dignity must be key economic objectives. Production and consumption levels need to be made sustainable; and special and differential treatment for impoverished countries and people should be an integral component.

Simply attempting to maximise GDP is no longer sufficient. To achieve these objectives, 21st century societies require sophisticated national and international economic policies that promote optimum levels of economic activity based on key internationally agreed principles, including:

- the precautionary principle
- the polluter pays principle, legal liability and redress;
- respect for high environmental, health and safety, social, labour and health standards;
- respect for human rights;
- respect for diversity in biological, cultural and economic systems;
- economic and political subsidiarity;
- equity within and between generations, including redistribution of control over resources such as land and repayment of ecological debt;
- democratic accountability and transparency of governments, businesses and other organisations, a public right to know and citizen access to justice;

Diversity is integral to sustainability and this applies to economics just as much as any other field. Economic diversity includes diverse economic strategies, diversified economies (which implies a range of sectors and activities, rather than an economy dependent upon one or two particular commodities) and diversity within sectors (meaning no monopolies). Countries and communities should have the option to select those economic mechanisms and strategies that they believe best suit their economic, social, cultural and environmental needs at any one time. These decisions should be made with a view to optimising economic activity and maintaining a degree of self-reliance, in order to encourage the development of strong and diverse economies capable of withstanding and adapting to external shocks.

**Plan for the future - cut resource use and conflict.** Many natural resources are already severely over-used. In fact, if people all over the world were to consume at the levels that many in the North do already, we would need at least eight planets to provide us with the resources we would need by the year 2050. Significant changes to production and consumption patterns (which will in turn require effective and far-sighted

international agreements) are required to ensure that global resource use is brought within sustainable levels for the long-term health and benefit of all. These changes must, however, take into account and address under-consumption, predominantly in the South.

'Reduce, reuse and recycle' policies are absolutely key to increasing efficiency and reducing resource use in the North. However, in order to reach sustainable resource use levels whilst still providing resources for increased consumption by impoverished people, nations will also need to promote demand management and sufficiency strategies.

Countries must be enabled to introduce taxes on energy and non-renewable resources in order to reduce resource dependency and to push for innovation and efficiency.

Reducing resource use in the North is more likely to bring peace and security than neoliberal economics (by reducing competition for resources); and has the potential to generate higher levels of employment.

**Share resources - eradicate inequality and poverty.** Current economic policies, such as those promoted by the WTO, World Bank and the International Monetary Fund, effectively redistribute resources from the poor to the rich, aggravating poverty and inequality. Repayment of debt, in particular, has resulted in a tragic 'reverse Robin Hood' transfer of wealth from impoverished countries to rich Northern creditors, even though rich importing countries have incurred an ecological debt to the countries of the South which far outweighs the official financial debt of the South (through long-term access to undervalued resources). This redistribution needs to be reversed, in order to reach a balance whereby access to resources and benefits from the use of those resources is distributed equitably within countries, between regions and amongst people. **The financial debt must be cancelled; and access to resources, a healthy life and a healthy environment should be deemed human rights.**

**Change priorities - invest in the real economy.** Policies which **promote economic stability** (and contribute to or at least do not undermine sustainability in general) must be a key component of sustainable economies. Nations need to be able to **control and direct domestic and foreign investment flows**, favouring stable and welcome investment in the real productive economy over and above the 'virtual' money economy. Screening of foreign investors, locally-decided performance requirements, preferences for local and domestic enterprises and regulation of domestic investors - all with a view to promoting sustainable economies - should be the norm.

**Rebalance trade - reinvigorate local and regional economies.** There is a clear need to rebalance trade, deprioritising international trade, giving a higher priority to local and regional trade (and small and medium-sized enterprises) and promoting more local self-reliance. Local economies and communities need to be reinvigorated. People must have the right, through democratically elected governments, to strengthen protection of their local and national environments; to promote small-scale, sustainable economic activity; and to exert control over their shared natural resources. Implicit in this is the ending of externally imposed export-led development.

Furthermore, **national, regional and international trade rules should not override laws** designed to protect local communities, the environment and public health.

## 2. Measuring these impacts: Sustainability Impact Assessments

FoEE calls on the EC to assess the ecological foot print of trade liberalisation measures in Sustainability Impact Assessments (SIAs) of any trade liberalisation measures. FoEE recommends that Sustainability Impacts Assessments **be conducted for all bilateral, regional and multilateral free trade agreements**. The purpose of an SIA should be to assess potential implications so that **political conclusion will be drawn**. SIAs should not be a mere academic exercise but rather should serve as a useful instrument for the future development of more sustainable trade policy-making. The **political conclusions to be drawn therefore also need to be made by the Commission** that initiates such Assessments. FoEE welcomes that the Council and European Parliament will be more involved in assessing the results of an SIA.

**On the WTO**, we notice with great concern that despite calls from more than 1500 organisations from 89 countries the EU has not initiated an assessment of the Uruguay Round of trade negotiations. We reiterate our call for an **in-depth empirical review** of the **WTO's Uruguay Agreements** and their impact on development, democracy, environmental sustainability, health, human rights, and the lives of women and children. It should also assess the impact of the WTO's refusal to adopt a precautionary approach; and reconsider the impact of a system which undermines economic self-determination by prioritising international trade over and above local and national trade. The review should be conducted with input from civil society (through a number of different institutions, including the UNEP, UNCSD and UNCTAD).

We would like to reiterate our concern about the already **conducted SIA of a new round**. The Assessment was based on the EU's mandate for Seattle for a new round and did not assess the impacts of the Uruguay Round. FoEE has also expressed earlier its concerns with the methodology and underlying assumptions of the assessment. From the outset 'the desirability of WTO-led liberalisation as such' has been taken as a basis for the assessment. In addition, the conclusions have not led the Commission to change its policy towards a new round and were not reflected in its new policy document presented in mid December to the Council.

On the **Euro-Med Free Trade Zone** we would like to underline that the European Commission already has promised in April 1999 at the environmental forum of the Barcelona IV conference that a SIA would be conducted. Until today the terms of reference are not yet drafted.

In addition, we call on the Commission to develop a **coherent policy** towards Sustainability Impact Assessment with regards to the MFTZ and the WTO assessments and recommend improved interservice communication.

### 3. Implications for multilateral trade

FoEI believes that multilateral rules are needed and rules and enforcement needs to be strengthened. One of the major concerns of our network is that multilateral environmental and social agreements are too weak and lack teeth. In contrast the WTO has developed a strong dispute settlement procedure with strong enforcement measures. The WTO in our view is covering already too many crucial areas (such as agriculture, intellectual property rights, services etc) that affect basic human rights of people and environmental protection in a negative way. Therefore we are advocating a **more restricted scope and application of WTO rules with respect to environmental and social issues**. We are against further expansion of the WTO into new issues. At the same time we wish to see a strengthening of MEAs (Multilateral Environmental Agreements). To avoid further institutional divide among global economic institutions and international UN agreements we propose that the WTO as well as the Bretton Woods Institutions should be **fully incorporated into the United Nations**.

#### 3.1 The EU approach

The EU is at the forefront of pushing for a comprehensive new round of trade negotiations that would bring new issues into the WTO, notably **investment, competition and government procurement**. In addition, the EU is also pushing for the expansion of the GATS negotiations in the field of water. As written in a NGO statement released in March 2001<sup>7</sup>, these issues, if located in the remit of the WTO, would lead to disastrous consequences socially, environmentally, economically and in terms of human rights. Negotiations in these issues will be particularly negative for people in developing countries, as their possibility for development will be immensely reduced. Those issues cannot be dealt with properly within the WTO in absence of new international rules governing those issues. These sectors should be treated by the appropriate fora and should not be brought in either multilateral or plurilateral mode. The proposal for a New Round, especially by the EU, is causing serious divisions and destabilising the multilateral trading system. We call on the proponents to **call off their offensive for a Round** and instead focus on **solving the serious and disastrous problems, caused by the WTO agreements and their implementation**.

#### 3.2 Some key issues

##### 3.2.1 Environment

The paper states that 'Some fear that WTO obligations are an obstacle to sound environmental policies in the EU and world-wide. This is plainly wrong.'

FoEE believes that there are concerns at various levels:

- Whilst no multilateral environmental agreement (MEAs) has ever been challenged, the WTO has a marked impact in the negotiations of some MEAs. We have seen that WTO

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<sup>7</sup> NGOs urge governments to call off 'New Round' proposal. Joint NGO Statement, Geneva, March 19, 2001.

agreements have been used as a threat in the negotiations of environmental agreements (Cartagena etc.)

- There are also various examples outlining that national rules to protect the environment have been overruled (hormone beef case, US Clean Air Act, US Endangered Species Act etc.)

From the EC's current position, we understand that the EC aims to clarify the relationship of MEAs and WTO rules, PPMs and labelling, and environmental principles, particularly the precautionary principle. We notice that that the EC aims to clarify these areas with good intentions. However, a clarification in the WTO could be used to reinforce the effective primacy of global trade rules and override MEAs and eco-labelling. FoEE is of the view that **an international agreement should be advocated at the upcoming UN Summit in Johannesburg** whereby governments agree that **MEAs take precedence over trade rules and that multilateral environmental agreements need to be strengthened**. Governments should be provided with incentives to cooperate: incentives and penalties should become a standard feature of multilateral treaties. Governments should also have a duty of care when it comes to designing and implementing domestic policies to protect the environment and promote health, when those policies could have undesirable effects in other countries. International court(s) should be mandated to resolve disagreements in this respect; and disputes should be resolved on the basis of agreed principles.

The **Precautionary Principle is a key component of sustainability**. The Commission itself recognises that it applies when there are reasonable grounds for concern of potentially dangerous effects on environment, human, animal or plant health, and that, in such cases, the EU has the right to establish the level of protection it deems appropriate (Communication from the Commission on the Precautionary Principle, COM(2000) 1, 2.02.2000). Furthermore, the Council (in its Resolution adopted at the Nice Summit, December 2000) "considers that WTO rules do basically allow account to be taken of the Precautionary Principle" and believes that the Community and Member States are "entitled to establish the level of protection they consider appropriate in risk management and may to that end take appropriate measures under the Precautionary Principle".

The lack of clear understanding regarding the environmental effects of GM crops vindicates the applications of the Precautionary Principle in their Regulation.

Conventional risk assessment is not a substitute for the Precautionary Principle: even when supposedly sufficient data on risk assessment is available, political decisions about risk are still required. This has become abundantly clear in light of several recent agriculture and food crises, most notably Bovine Spongiform Encephalopathy, the GM StarLink maize case in the United States and the recent Foot-and-Mouth epidemic in Europe. The cost of these catastrophes from both an economic and social perspective will continue to be counted for many years to come. These crises should reinforce the fact that **governments must retain the right either to ban, or to ensure complete traceability and labelling** of any products which have the potential to harm human or animal health and the environment. In this regard, the Commission and Member States should work together to ensure that such measures are swiftly put in place regarding GMOs and GMO-derived food and animal feed. Furthermore, the Community should co-operate with developing countries which may become a dumping

ground for GMOs to support them in their efforts to ensure not only food safety but also food security and food sovereignty at national level.

FoEE believes that when speaking of trade and environment in the multilateral context, the EU's agenda is too limited. In addition, environmental issues are misused to bring environmental NGOs on board for a broad new round and for investment issues to be included under the WTO. We recall that environment has been used as a bargaining chip in Seattle. If the EC is really serious about sustainability, then the environmental issues questions outlined in the first part of the paper need to be addressed: **in particular resource use and the impacts of the various agreements (agriculture, TRIPS, services etc.)**. The EU also needs to reconsider the WTO's 'agreed functions' and agreements.

### **3.2.2 Sustainable trade must also include a development dimension**

FoEE welcomes the statement that 'The European Commission, however, feels, much can be done without waiting for the launch of a New Round.' We have been convinced that the WTO should be reformed and the focus be redirected towards improving existing WTO agreements and rules. This also included dealing with the implementation difficulties of many developing countries.

The Commission should **abandon plans to bring new issues, notably investment and competition, into the WTO** opposed by a number of developing countries.

### **3.2.3 Capacity-Building**

FoE welcome initiatives for new and substantial commitments to capacity-building for developing countries, with a view to allowing them to participate meaningfully and on their own terms in international negotiations. Programmes to develop technical and professional capacity both at the governmental and private sector levels need to be implemented in order to identify and address trade-environment issues and to facilitate exploitation of environmental opportunities within the multilateral and regional level.

### **3.2.4 The missing issues: Services and Forests**

While we have already touched the issues of agriculture, MEAs, the precautionary principle and labelling in earlier sections, we would like to underline that two essential issues are missing 1) services and 2) forests.

#### **3.2.4.1 Services**

The results of the current services negotiations in the WTO will touch nearly every aspect of the environment and our lives: **water, energy, transportation, tourism, waste disposal, distribution of goods and services and much more**. Every day, the activities of multinational service corporations – from oil companies to waste disposal businesses to private water companies to hotel chains – have major environmental and local community impacts around the world.

Major countries are pushing in the WTO for significant extensions of market access commitments and rules on domestic regulation to a much broader range of services sectors, including those sectors that were not made the subject of such commitments or rules during the Uruguay Round Negotiations.

Current and proposed GATS commitments, together with current GATS rules and obligations, effectively restrict the ability of governments to impose regulations on the activities of multinational service corporations that may adversely affect the environment and local communities.

Hence, GATS will continue to be a threat to the environment unless significant changes are made to the existing agreement and proposed negotiating positions, to ensure that environmental protection and sustainability are not undermined.

FoE demands that the GATS negotiations should be

**placed on hold** until these critical environmental and social issues are addressed.

**A full and complete assessment** of the actual and potential environmental and social impacts of the GATS Agreement, including impacts on local communities and developing countries, and including all sectors currently covered or proposed for inclusion should be conducted.

In addition, the following steps need to be taken

**clear and strong exceptions in the GATS** ensuring that no reasonable environmental laws and regulations will be undermined or challenged by GATS rules, including an environmental exception for measures relating to the conservation of exhaustible natural resources;

**removal of the Article VI provisions**, including a "necessity test", that restrict the right of governments to adopt laws and regulations protecting the public interest and the environment;

the clear **exclusion from any GATS disciplines of any services related to the extraction of energy fuels, minerals and water**; and

the clear exclusion from any GATS disciplines of **all publicly provided services**.'

### 3.2.4.2 Forests

The preliminary findings of the EC's SIA indicated that further trade liberalisation as proposed by the EU's agenda for a new round will have negative impacts on forests. Therefore there should be **no further trade liberalisation in the forest products sector, including negotiations on both tariff and non-tariff measures**. Also the EU should reject any forest products negotiations that threaten the legitimate conservation measures as illegal 'non tariff trade barriers'. **Forest protection measures** such as stimulating the recycling of wood products; log exports ban; forest certification and eco-labelling are seen by some WTO members as technical barriers to trade. The EU **should reject trade agreements that threaten these legitimate conservation measures as trade barriers**.

In addition, the liberalisation of tariffs in palm oil, beef and soybean will likely have a large negative impact on forests in the countries exporting these products. The EU should ensure that **measures are in place that mitigate possible negative impacts**.<sup>8</sup>

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<sup>8</sup> NGO Statement on forests and trade, presented to Pascal Lamy and David Sandalow, Brussels, May 11, 2000.

### 3.3 Recommendations for the WTO

In the meantime, there are several immediate steps that could be taken to reduce the worst impacts of the international trade and investment system. One set of suggestions, from an international coalition of organisations that includes Friends of the Earth International, is the WTO Turnaround Agenda.

This recommends several first steps, including:

- ensuring that basic social services such as health, education, water and energy are not subject to trade liberalisation rules (for more detailed recommendations, see the section below on services);
- prohibiting the patenting of life forms in all national and international regimes;
- ensuring that measures taken to promote and protect food security and self determination, subsistence farming, humane farming practices and sustainable agriculture are exempt from international free trade rules.
- eliminating the WTO's Trade Related Investment Measures (TRIMS) Agreement
- recognising and expanding the special and differential rights for third world countries;
- and ensuring that actions taken to implement multilateral agreements dealing with the environment, health, development, human rights, safety, indigenous peoples' rights, food security, women's rights, workers' rights and animal welfare cannot be challenged at or undermined by the WTO.

In addition, FoEE recommends:

**Food Security and Food Safety as Top Priority.** European decision-makers should give food security and food safety issues top consideration. The EU should make efforts to eliminate export subsidies and stop the dumping of agricultural products as part of measures to signal its genuine intentions towards the developing world and support further fundamental reform of the EU's Common Agricultural Policy (CAP)<sup>9</sup>. Instead of focusing on trade, support measures need to be based on meeting local and national needs for employment and food security, targeted support for rural communities sustainable agricultural practices and environmental protection; high food quality standards, access to appropriate technology and recognition of the contribution of farmers around the world to crop diversity. In the WTO policy priorities should be 1) to review as part of the assessment of the Uruguay Round agreements the current Agreement on Agriculture's impact on food security and safety, national and rural economic stability, biodiversity, and natural resources. Related issues with an impact on agriculture and food security such as structural adjustment, financial and debt crisis, economic stability, currency revaluation and speculative commodity markets need also to be addressed. 2) Sustainable methods of agriculture need to be supported and a trading system that does not favour large scale export oriented, fossil fuel and pesticide dependent farming and multinational agro-industry but meets the needs of people and the environment. 3) No new food and agricultural issues such as biotechnology should be brought into the remit of the WTO. 4) The fundamental principles of food security and food safety need to be acknowledged. Every country should have the right to apply measures to ensure self-sufficiency and to guarantee the safety of people.

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<sup>9</sup> Friends of the Earth Europe and Pro Natura: Agriculture, Rural Sustainability and Environment in Europe, Brussels 2000.

**No patenting of life.** The ongoing review of the Trade-Related Intellectual Property Rights (TRIPs) Agreement should be used to require Members to exclude living organism and parts thereof from patentability. Developing countries need to be allowed to exclude from patentability pharmaceuticals, agricultural products and foods. European decision-makers need to ensure that the TRIPs agreement does not cover biodiversity, which should be dealt with instead in the Convention on Biodiversity and the Biosafety Protocol.

**A Moratorium on Disputes.** With regard to dispute settlement procedure, FoE calls on industrialised countries to agree to a moratorium on WTO challenges to environmental protection and health standards until the precautionary principle and the need for high environmental and social standards is recognised;

**Keeping investment out of the WTO.** The sustainable development of economies requires the careful direction and management of both domestic and inward investment. The WTO is thus the wrong place to deal with international investment issues, since it deals primarily with deregulation and is unlikely to be the source of a suitably balanced agreement.

**Corporate control.** Whilst there is no internationally agreed and widely supported corporate code of conduct (the current review of the OECD's Guidelines for Multinational Enterprise notwithstanding) the EU should pursue the issue of corporate responsibility; and promoting a binding international agreement, that focuses on regulating the activities of transnational corporations and takes into consideration the legitimate fears of poorer countries and civil society and the responsibilities of foreign investors. A binding agreement should be negotiated under the auspices of the United Nations. The right to Parliamentary Scrutiny of Trade Negotiations must be secured.

**Increased democracy and transparency of the global trading system.** In the European Union vastly increased scrutiny of all international trade negotiations by parliamentarians from the European Parliament and national member states is urgently needed. In addition, input from private sector and civil society groups needs to be better balanced in the formulation of the EU's trade policy.

## 4. Regionalism and bilateral trade: Does the impact differ?

### 4.1 The Euro-Med Free Trade Zone – EU puts sustainable livelihoods under threat

The paper mentions that agreements cover the development dimension and that environmental considerations are taken into account. FoEE disagrees.

We further are saddened by the fact that the Barcelona Process that was launched in 1995 to create a Euro-Mediterranean Free Trade Zone is not mentioned at all. This reflects that the Euro-Med Partnership in particular lacks environmental integration altogether in its bilateral as well as regional co-operation aspects.

Whilst the Amsterdam Treaty mentions in Art. 6 that environmental protection is to be integrated into all policy fields, the Barcelona process has obviously forgotten this crucial stipulation.

According to the Barcelona Declaration, the founding document of the Euro-Med Partnership, one of the Partnership's primary goals is to promote "*sustainable and balanced economic and social development.*" Without doubt, the regional integration envisaged under the Euro-Med Partnership, especially the liberalization of EU-Mediterranean trade, will have far reaching environmental and social impacts counter to this aim.

### 4.2 The Relationship between Trade and Environment in the Mediterranean

In the Euro-Med region economic integration is taking place between nations with very different levels of economic development, national infrastructure, consumption patterns, and natural resource bases.

If no precautions are taken to protect the environment in light of the removal of trade barriers, however, the overall repercussions of the MFTZ process for the environment are likely to be negative. **Probable negative environmental outcomes** of the MFTZ, should environmental considerations not be introduced into the policies, as a result of the increase in economic activity include:

- increased pressure on natural resources such as open land, soil, water, and plant and animal bio-diversity.
- higher levels of air, soil, and water pollution.
- increased production of hazardous wastes, and a subsequent increase in related problems of transport and disposal of said wastes.
- short-term economic incentives to reduce environmental standards for purposes of attracting/securing investment.

In the Mediterranean region, such outcomes could be particularly detrimental, as many of the countries are those that already suffer from shortages of cultivable land and fresh water resources. Some are also those which have the least developed infrastructure capable of handling the associated increases in waste production. Thus, they may be put in a position wherein they must choose between a much needed short-term economic gain and the preservation of the integrity of their natural resources.

Indeed, in the Barcelona Declaration itself, potential environmental benefits that can be derived are emphasized, such as promotion of environmentally-friendly agriculture,

renewable energy, secure and clean water sources, and transfer of technologies, including environmental technology. While such objectives are laudable, however, commitments to specific target objectives are lacking. Thus, the calls for environmentally friendly development are open to critique for being merely token references.

#### 4.3 Cause for Concern: Has the Environment Fared under other FTZs?

Other **regional trade agreements**, especially those between trading partners at substantially different levels of socio-economic development, demonstrate that a number of environmental problems can develop, unless precautions are taken to avoid or minimize them in advance:

- Areas likely to see increased economic activity lacked sufficient infrastructure to handle the **increase in wastes and pollution**, and therefore the carrying capacity of the surrounding eco-systems could be overwhelmed.
- **Differences in levels of environmental legislation and enforcement** between nations within the FTZ mean there exists a potential danger of the establishment and/or relocation of polluting industries to areas with lower environmental standards; the so-called “pollution haven” problem. (Even if companies do not relocate specifically to take advantage of the lower environmental standards, experience with trade agreements such as the North American Free Trade Area (NAFTA) shows a disproportionate increase in the number of the most polluting industries in areas with lower environmental standards).
- In addition, there is the corollary threat of a deliberate **lowering of environmental standards**, or a reluctance to raise them, in an effort by governments to attract capital investment.
- Even if environmental standards were raised in developing nations, there might not be resources available to enforce them.
- The banner of free trade could be used to repeal or otherwise **subvert environmental measures** which impacted upon trade, such as national product standards or even provisions within international environmental agreements that have trade clauses in them, e.g. the Convention on International Trade in Endangered Species (CITES) or the Basel Convention on the Transboundary Transport of Hazardous Waste.

In sum, at least for the time being, progress on economic liberalisation under the Euro-Med Partnership is far out-pacing any actions to provide the necessary regulatory and financial framework necessary to prevent environmental damage.

#### 4.3 What are Environmental Impacts of the Euro-Med Free Trade Zone?

FoE Middle East has conducted an environmental review of the MFTZ with research conducted in Egypt, Israel, Jordan and Palestine<sup>10</sup>. Results have shown that immediate steps need to be taken to avoid environmental and social problems.

The Euro-Mediterranean Partnership’s current economic liberalisation programme is likely to contribute to environmental degradation in the Mediterranean Partner Countries, especially in

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<sup>10</sup> Friends of the Earth Middle East: Environmental Impacts of a Euro-Mediterranean Free Trade Zone: Impacts, Cases Studies and Recommendations, Jerusalem 2000, available at <http://www.foeme.org/mftz/study/MFTZstudies.pdf>

the short and medium term. If the Euro-Med Partnership is to live up to its stated goal of creating “a zone of shared prosperity,” based on sound, sustainable development, a rethinking and reordering of priorities needs to be undertaken immediately.

#### **4.4 Recommendations for the Euro-Med Free Trade Zone**

In order to avoid or to mitigate some of the environmental pressures anticipated to result from the Euro-Mediterranean Partnership’s trade policy and to actively promote potential environmental opportunities opened by the Partnership, the following measures are recommended:

**Incorporation of Environment in Bilateral and Regional Agreements.** Environmental concerns need to be considered in the negotiation and implementation of the EU-Mediterranean Partner countries bilateral association agreements, as well as at the regional level (energy, transport, industry, information society, and the new potential priority areas of agriculture and tourism, which form the basis of the Euro-Med economic partnership). Specifically, this would include the following: Parties need to commit in bilateral agreement to promote higher levels of environmental protection, including enforcement measures of environmental laws, and to sustainable development and co-operation to protect natural resources and the environment among the parties and with other countries.

**Higher Environmental Standards and Enforcement.** Any trade agreement conducted by the EU should give incentives for upward movement of environmental standards instead of downward harmonisation. At the same time lower environmental standards should not be used to attract foreign investment. Any agreement should state that the partners agree not to lower environmental and health standards in order to attract investment. Commitment would need to be made binding and enforceable and subject to a mechanism for citizens to submit complaints.

**Environmental Protocols.** Environmental Protocols should be added to the already existing association agreements to commit partners to the measures listed above.

**No Environmentally Harmful Tariff Reduction and Elimination of Non Tariff Measures.** Tariffs should not be reduced or eliminated and non-tariff barriers when those actions are anticipated to encourage environmental harm.

**Avoid Environmentally Harmful Services Liberalisation.** Trade liberalisation in the following service sectors can have tremendous environmental consequences: energy, transport, water, tourism, mining and sewage and waste disposal. Environmental protection needs to be ensured.

**Sustainability Indicators and Targets.** As it does for its trade programme, Euro-Med agreements and policies should designate specific sustainability indicator targets, with reasonable schedules and finances necessary for achieving them. These targets should be included in Euro-Med trade agreements, in the various sectoral fora, and in development of funding allocations.

**Environmental Screening of Official Euro-Med Finance.** All significant financing undertaken within the framework of Euro-Med institutions (e.g. MEDA and EIB), or between Euro-Med governments (e.g. via export credit agencies) should undergo sustainability screening, especially that promoting industrial and/or infrastructure expansion. In cases in which projects receive funding despite limited environmental damage, matching funds should be made available for necessary mitigation and/or compensation measures.

**Towards a Sustainable MEDA.** Stated commitments to environmental goals be backed up with specific references to the environment and sustainable development in forthcoming MEDA policy. MEDA should support the development and implementation of National Strategies for Sustainable Development (NCSD) in the partner countries and support cooperation with the Mediterranean Commission for Sustainable Development (MCSD) and the Mediterranean Action Plan (MAP).

**Participation and Transparency.** Incorporation of multiple stakeholders into the Euro-Med decision-making process should be developed and integrated throughout the various levels of Euro-Med policies and activities. Euro-Med economic integration processes, including in the negotiation of association agreements, project finance, investment, and macro-level policy, should be made more transparent to civil society, including granting of observer status to environmental and other NGO representatives at policy planning forums and releasing of draft association texts on the internet for public comment.

The MFTZ is given as an important example, but the Commission should develop a **coherent trade policy making that integrates environmental policies in all bilateral and regional trade agreements.**

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