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ARTHUR DUNKEL CALLS ON GOVERNMENTS TO DEVELOP CONSTRUCTIVE LINKS BETWEEN
TRADE AND ENVIRONMENTAL POLICY-MAKING

Arthur Dunkel, Director General of GATT, today (Thursday) called for international efforts to create an alliance between trade liberalization and environmental protection.

Speaking in Bangkok to a conference on Business and the Environment, organized by the International Herald Tribune and the Thailand Development Research Institute, Mr Dunkel said that concluding the Uruguay Round successfully was the single, most important contribution that the GATT could make in the fields of sustainable development and the environment.

In particular, he pointed to the potential of the agricultural negotiations to correct price distortions which had led to the intensive use of chemical fertilizers and pesticides and consequent environmental damage to the countryside in Europe, North America and elsewhere. He also held out the prospect that positive results in the Round could help the recently liberated economies of Eastern and Central Europe raise economic growth rates, giving them access to modern technology and less environmentally-damaging production methods.

Mr Dunkel said that GATT found itself at the centre of a lively debate on the role that trade policies could play in resolving environmental problems.

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policy-making because they put the cart of the trading system before the environmental horse. On the other hand, there is concern that ill-considered action involving unnecessary trade restrictions would come at a high price in terms of disruption to international commerce....and would not necessarily help to solve the environmental problem."

"In defining the role for trade policies" said Mr Dunkel, "we should start by acknowledging that a healthy environment and a healthy economy must go hand in hand."

He concluded that "there exists considerable scope, both at the national government level and among international organizations, for close cooperation in the future to avoid unnecessary conflicts between trade and environmental policies."

The full text of Mr. Dunkel's speech follows.

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ADDRESS BY MR. ARTHUR DUNKEL TO THE
CONFERENCE OF THE INTERNATIONAL HERALD TRIBUNE IN
ASSOCIATION WITH THE THAILAND DEVELOPMENT RESEARCH INSTITUTE
"ASIA AND THE PACIFIC: MERGING BUSINESS AND THE ENVIRONMENT"

Distinguished guests, ladies and gentlemen:

Whether in an industrialized, a developing or an ASEAN country - for example here in Bangkok - or in East or Central Europe, it is impossible to mistake the fact that cleaning up the environment and protecting it from further degradation has become a political priority around the world. Problems of air, water or soil pollution at home, and damage on a global scale to our forests and oceans, to untold species of animal and plant life, and even to our climate, affect us all at the national and global level.

Many of the problems require urgent attention and governments are having to examine closely the policy instruments at their disposal, best suited to the job. One result is that even as the Uruguay Round negotiations are reaching their conclusion in Geneva, GATT finds itself at the centre of a lively debate over the rôle that trade policies can play in resolving environment problems. On the one hand, the pressure to act quickly, and particularly to anticipate and prevent further environmental damage have led some to claim that GATT rules and disciplines are an irritating obstacle to environmental policy-making because they put the cart of the trading system before the environmental horse. On the other hand, there is concern that ill-considered action involving unnecessary trade restrictions would come at a high cost in terms of disruption to international commerce. It would also cause economic damage that will not easily be repaired whilst not necessarily helping to solve the environmental problem.

Are the environment and the world trading system inevitably on a collision course? I do not believe so. There are, however, two fundamental challenges we face: one, to find the appropriate balance between environment and trade policy goals and two, to integrate our approaches to solving problems in both areas, so that our efforts complement and reinforce each other.

Last July, the London Economic Summit of the G-7 agreed to "look towards the GATT to define how trade measures can properly be used for environmental purposes". More recently, GATT's member countries have convened a Group on Environmental Measures and International Trade to start work on the issue. The problems involved are not only highly complex but also politically delicate. The discussions leading up to the decision we had in this Group clearly revealed the sensitivities that exist.

The fact is that not all countries take a sanguine view of GATT's involvement in environmental matters. Several from the Asia-Pacific region are in this category. Their reasons are all such that need very careful consideration. For example, they are against any distractions from the

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priority task of bringing the Uruguay Round to a rapid and successful conclusion. For another, trade is the life-line of their economies, and keeping goods and services flowing as freely as possible in world markets is, therefore, vital for their growth and development. But, even more importantly perhaps, they, and other countries as well, fear that sanctioning too readily, in GATT, the use of environment-related trade measures could erode the security of market access and of rules and disciplines they enjoy under the multilateral trading system.

Everyone agrees, I believe, that it is important, not to say essential, to manage the environment more effectively and efficiently than we are doing at present. The question is how. Clearly, international cooperation, for which the Rio Summit in June is a major rendez-vous, as well as greater national accountability and responsibility in environmental matters are part of the answer. Clearly also, sharing environmentally sound technology and helping countries finance programmes of environmentally sustainable development are vitally important. And clearly too, governments, private operators and consumers will all have crucial rôles to play.

When it comes to defining the rôle for trade policies, I believe we should start by acknowledging that a healthy environment and a healthy economy must go hand in hand. This is true at the national level but also at the international level. About two decades ago, when the state of the environment first became a significant public policy issue, there was a tendency to look at the question exclusively in terms of excessive consumption leading to the depletion of finite resources. This assumption led people to conclude that only social adaptation to zero economic growth would prevent mankind from committing environmental suicide. What this view ignores, however, is the importance of productivity growth and technological progress, and the critical rôle of market forces in contributing to the efficient use of environmental resources. They - and open international competition particularly - are strong incentives to develop and spread new, environment-friendly products and technologies to meet the demands of consumers who are becoming increasingly environment-conscious.

The Brundtland Commission was influential in bringing about a change in attitude. It pointed to the need for a healthy, growing world economy and for dynamic economic development opportunities to be provided to generate the resources necessary to reverse environmental degradation. Trade is a vital ingredient of both. The best evidence of that is to be found right here, in this region of the world, where dynamic trade performance has become the keynote of economic success. Creating the conditions for international trade to thrive and prosper, by opening markets particularly to the exports of developing countries and by keeping markets open through strengthening and extending the rule-based trading system of GATT, is very much part of a comprehensive approach towards taking care of our environment more effectively.

In that regard, concluding the Uruguay Round negotiations as boldly as they were begun is without doubt the single, most important contribution

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that GATT can make in the fields of sustainable development and the environment.

Two examples come readily to mind to illustrate this. One concerns agricultural trade policies, which have been central to the Uruguay Round negotiations and which are also very much at the heart of environmental concerns. The use of chemical fertilizers and pesticides is, we know, closely linked to the prices received by farmers. Countries with relatively low producer prices, such as Argentina, Australia and Thailand, use less than one-twentieth the amount of chemical fertilizer per hectare used by high price countries such as some Western European countries. For the first time, there is a possibility of achieving world-wide agricultural trade reform offered by the Uruguay Round. Correcting the gross price distortions that exist in the marketplace is, of course, an end in itself; but it can also contribute at the same time to reducing environmental damage to the countryside in Western Europe, North America and elsewhere.

A second example comes from the recently liberated economies of Eastern and Central Europe. There, decades of central economic planning in which environmental considerations were never factored into the cost of production has created some of the most industrially polluted sites in the world. Again, for the first time, a major opportunity is now provided by the Uruguay Round to these countries to integrate themselves with the international market economy, to encourage private foreign investment from abroad and to raise their stake in the global trading system. This is essential not only for raising economic growth rates and standards of living in these countries, but also for giving them access to modern technology and less environmentally-damaging methods of production.

In other words, promoting efficient, rational resource use that respects environmental priorities can only improve one's position in the competition game. And we are seeing a new, high growth commercial sector already taking shape, in the developing as well as the industrialized countries, based on the multitude of business opportunities that cleaning up and protecting the environment have created.

These trends can only be greatly accelerated through a successful conclusion of the Uruguay Round. But the issues in this area are so pressing that even while governments are busy grappling with the difficult political decisions they need to take in these negotiations, they are confronted domestically with strident demands to use their trade policies more aggressively as instruments of environmental protection.

Trade policies are, of course, no longer a simple matter of import tariffs and quotas erected at national borders. The reach of the GATT has been extended steadily, but it is above all in the Uruguay Round negotiations that we have seen the traditional boundaries between trade policies and domestic economic policies broken down. That is inevitable in an increasingly interdependent world economy. Policies that were once thought of as the strict preserve of domestic policy-making are recognized today to have potentially far-reaching implications for the commercial

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interests of trading partners around the globe. But this also brings with it the responsibility that many political objectives must be weighed in the balance before deciding on the pros and cons of choosing any particular economic policy instrument.

In many areas of the economy, governments have gained considerable experience already in coordinating their policy goals with their policy instruments. Job creation is one area. The modern view clearly recognizes that opening world markets, rather than closing them down, is the surest means of supporting domestic employment programmes. Protecting farm incomes and the livelihood of rural populations is another. There, the interaction between agricultural production and import restrictions, price and income support policies and export subsidies is being thought out afresh, and there are encouraging signs that a new political consensus is emerging which will allow farm policies and trade policies to co-exist in far greater harmony than has been possible in the past.

The environment is by far not, then, the only domestic policy objective which overlaps with the goal of ensuring undistorted competition. But it is one where that overlap may prove to be particularly broad. Understandably, with an issue that has grown to political maturity so rapidly as the environment, there has been an initial inclination to reach out to almost any policy instrument that might offer a solution. And inevitably, since environmental resources cannot be sealed up within national boundaries, some of those reached for most instinctively are recognized already as powerful instruments of trade policy-making.

Import and export restrictions, domestic and export subsidies, countervailing duties and anti-dumping measures, and technical regulations such as eco-labelling and environment-friendly packaging requirements have long been subject to negotiated agreements in GATT. And the Uruguay Round has brought new elements into the picture, such as the protection of intellectual property rights, sanitary and phytosanitary measures, and agreement that processes and production methods may be used to distinguish one product from another.

This brings me to a fundamental question: How can trade agreements such as these accommodate effective environmental policies? In my view more easily than is sometimes made out to be the case, although I recognize that there are complications from both the environmental and the trade policy point of view.

Take, as an example, a government's decision to protect a national environmental resource. It may want to protect the health of the general public from a harmful product such as a toxic chemical, or prevent pollution of a river or lake from the discharge of phosphates in washing powder, or ensure that a renewable resource such as a tropical forest is managed more effectively. Although it may seem quite reasonable to view the environmental problem from a strictly national point of view, a solution will rarely be possible without taking measures to control trade in the products which are causing the environmental damage. The government may want to control imports of the toxic chemical as well as its domestic

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production, or enforce regulations on the phosphate content of imported as well as domestically manufactured washing powder, or regulate exports of tropical timber as well as domestic production or consumption.

The key feature of the policy response, from the GATT's perspective, is that environmental regulations which incorporate trade provisions do not discriminate between home-produced goods and imports, nor between imports from and exports to different trading partners. That goes a long way already towards ensuring that they will not be subject to a legal constraint under the GATT. Preventing discrimination has been a primary objective of the post-war trading system, and it has been adopted as a cornerstone in all areas where the reach of the GATT has been extended, both through the Tokyo Round agreements and in the new draft agreements prepared during the Uruguay Round. And it makes good sense also from an environmental point of view. You would have found the examples I have just given rather odd, I imagine, if I had suggested that public health could be protected effectively by banning the import of toxic chemicals while allowing domestic production to continue undisturbed.

Under GATT's exceptions, a member country may even be permitted to place public health and safety or conservation goals ahead of its general obligation not to raise trade restrictions or to discriminate against imports or exports. And in the associated Agreement on Technical Barriers to Trade, the environment is explicitly recognized as a possible justification for the adoption of national technical regulations and standards even though these may have an adverse effect on the trade of other countries. These provisions are regarded by environmentalists as offering the closest approximation there is in the GATT at present to an environmental safeguard clause, and there have been suggestions that they should be expanded to allow environment-related trade measures to be applied more easily.

That possibility will need to be examined in due course by GATT's Contracting Parties, but in doing so they will no doubt pay close attention to the conditions attached to the use of exceptions in GATT and to the application of trade-related technical regulations under the TBT Agreement. These aim to ensure that trade measures are justified by circumstances and that they do not go beyond what is essential to achieve the policy objective involved. In other words, there should not be a pretext for reducing competition on world markets. In short, trade measures are required to meet the conditions of legitimacy and proportionality.

There has been very little call until recently on the Contracting Parties to examine trade disputes arising from environmental causes, and little opportunity with the Uruguay Round in progress to look beyond specific cases and draw more general conclusions on the scope of the GATT with regard to environmental matters. Whether it is decided eventually to enlarge the scope of application of existing GATT provisions or to negotiate entirely new ones, a major task of GATT's Contracting Parties in the context of their work on the environment will be to ensure that the trade interests of other countries continue to be protected when governments establish national standards of environmental quality and adapt their own regulatory approaches to achieving environmental goals.

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Let me say quite clearly that in spite of what I have said about the compatibility between a well-functioning trading system and effective environmental policy-making, the danger of a proliferation of different national environmental standards leading to trade policy friction is very real. A key principle guiding environmental policy-making today is the Polluter Pays Principle, which argues for the internalization of pollution costs through taxation or mandatory regulations so that they are automatically captured in market prices. Pollution costs are likely to include also any politically determined social costs associated with the degradation of the environment. The way those costs are valued and passed on to the marketplace can vary widely from one economy to the next.

When the products concerned compete with imports in the home market or find their way onto world markets as exports, price differences resulting from differences in imputed pollution costs are brought into stark relief. To some extent, of course, we should not be surprised when that happens. It is normal that national environmental resources, in much the same way as other public resources such as a nation's health or education system, are valued differently from one society to another; in the case of the environment it may depend upon differences in levels of development or income, or in natural resource endowments, or simply in differing assessments of the risk of environmental damage from society's point of view. Whatever the reason, there is nothing inherently wrong in finding that the price of a good varies from one country to another because of a difference in the value placed on environmental protection and conservation.

While this is true, it is, nevertheless, also essential that governments be conscious of the danger that arguments such as these could lead to producers, in countries with relatively strict and costly environmental standards, complaining that their products are becoming uncompetitive on world markets, and that they are losing sales, investment and jobs to less environment-friendly imports. This, in turn, would expose these governments to demands for import protection or subsidies in order to compensate for higher domestic production costs. The focus in the trade and environment debate would very soon become not environmental protection as such, but national differences in competitiveness that are created by taking environmental protection on board.

The GATT does not entirely block a government's recourse to trade policy action in such circumstances, but it does require that the trade interests of other contracting parties are respected. Broadly speaking, if an import restriction is to be raised for any significant length of time to protect the domestic market share of a newly environment-friendly, but accordingly higher-cost, domestic industry, the GATT requires that compensating trade advantages be offered to that country's trading partners.

A carefully crafted programme of subsidization may well be viewed as preferable to raising trade restrictions, as long as it is clear that it is environmental repair and conservation that is to be subsidized and not a failure of individual industries to compete commercially on world markets. Each case would need to be reviewed on its own merits, but the difficulties

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of finding a genuinely trade-neutral approach should not be underestimated. The controversy about what is to be regarded as "unfair trade" is one of the most hotly contested in GATT today, precisely because it is almost impossible to draw the line between where matters of exclusively national interest end and matters of direct commercial concern to trading partners begin.

The danger is, then, for one country's environmental programme to become another country's trade distortion, not only when there are explicit environmental subsidies in play but also -- and this is most worrying of all, particularly from many developing countries' point of view -- when the perception develops abroad that not enough is being done by other trading partners to protect their own environments. It is a view which will find support among foreign environmentalists, who wish to see environmental standards raised around the world, as well as among foreign producers who wish, less honourably, to raise the production costs of their overseas competitors.

The "unfair trade" controversy has no simple solution. Part of the answer lies in agreeing as specifically as possible upon what standards governments should respect in sensitive areas of domestic policy-making, so that trade distorting actions are avoided as far as possible, and when unavoidable, are nevertheless kept to a minimum. And part of the answer lies in agreeing upon what recourse should be available to a country that suffers economic injury from the policy actions of its trading partners. This approach in GATT has so far touched only tangentially on the linkages between trade and environmental policy-making, but the real problems emerging in this regard today make it probable that it will be central to GATT's work on the environment in the future.

When environmental problems spill physically over national boundaries, as acid rain, greenhouse gases, or the depletion of the earth's ozone layer for example, they move from the preserve of national policy-making to the area of regional or even global concern. Cooperative, multilateral action is far and away the best solution. Whereas GATT is the logical forum in which to negotiate a cooperative solution to trade frictions that result from different national standards of environmental quality, it is to other fora that we must turn first to provide solutions to international environmental problems.

This is not an easy task. The Rio Summit later this year has one of the most challenging agendas of any recent international conference, and I speak from the experience of the Uruguay Round when I say that bringing a major multilateral negotiating effort to a successful conclusion is fraught with difficulties. I can assure Mr. Maurice Strong and his UNCED colleagues that they have the enthusiastic support of GATT for their endeavours. And I should add that our enthusiasm is not based only upon the support of one international organization for the work of another; from the GATT's point of view there is also a distinct aspect of self-interest in seeing the UNCED conference succeed.

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If, in Rio, governments can negotiate environmental agreements with universal participation, then whatever trade provisions may be included in those agreements, no controversy need arise over them in GATT. Of course, some countries may wish to go further still and raise individually their environmental standards higher than the international norm. That would bring us back to the situation I have already discussed, with a role for the GATT in ensuring that different national standards do not result in trade friction.

It becomes indeed more difficult from the GATT's point of view if participation is less than universal in new environmental agreements which contain trade provisions. That possibility cannot be ruled out. Most environmental agreements do not require that all countries participate in order for the agreement to deal effectively with the environmental problem in question. And in such circumstances, the inclusion of trade provisions may appear attractive not only to enforce the environmental agreement among signatories, but also to prevent the relocation of environmentally damaging practices to non-signatories as well as to encourage non-signatories to join. The main difficulty this causes in relation to the GATT is one of trade discrimination.

A number of existing international environmental agreements do have the characteristics that I have just described, in particular the Washington Convention on International Trade in Endangered Species, the Basle Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, and the Montreal Protocol on Substances that Deplete the Ozone Layer. So far, no trade disputes resulting from these agreements have been brought to the attention of the GATT, and the Contracting Parties have not taken a decision on whether such departures from non-discrimination could be accommodated under the GATT as it stands at present. However, a review of the trade provisions contained in these and other multilateral environmental agreements vis à vis GATT principles and provisions is on the agenda of the GATT Group on Environmental Measures and International Trade to which I referred earlier.

This Group met just two days ago in Geneva and its deliberations are continuing. Naturally, I do not want to prejudge its conclusions. What I do feel, however, is that there exists considerable scope, both at the national government level and among international organizations, for closer cooperation in the future to avoid unnecessary conflicts between trade and environment policies. To steal a phrase from the environment literature, one might view it as putting the precautionary principle into practice.

And I would go further than simply proposing we avoid conflicts. The real challenge we face is to forge a constructive alliance between trade liberalization and strengthening the multilateral trading system on the one hand, and environmental protection and conservation on the other. I am convinced this can be done, and I hope that, today, I have presented you with some of the elements on which such an alliance can be built.

Thank you.

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