

**Trade and
Sustainable
Development**
Principles

IISD

INTERNATIONAL INSTITUTE
FOR SUSTAINABLE DEVELOPMENT

Copyright © 1994 International Institute
for Sustainable Development (IISD)

Canadian Cataloguing in Publication Data

Trade and sustainable development principles

ISBN 1-895536-14-6

1. Commerce – Environmental aspects. 2. International trade
– Environmental aspects. 3. Environmental policy.
4. Sustainable development. I. Blackhurst, Richard.
II. International Institute for Sustainable Development.

HF1412.T72 1994 380.1 C94-920047-6

This book is printed on paper with 50% recycled content,
including 10% post-consumer fibre, using vegetable-based
inks.

Printed and bound in Canada.

Published and distributed by:

International Institute for Sustainable Development
161 Portage Avenue East - 6th Floor
Winnipeg, Manitoba, Canada
R3B 0Y4

Phone: (204) 958-7700

Fax: (204) 958-7710

Email: reception@iisdpost.iisd.ca

Price: \$10

Aussi disponible en français et español.

Reprinted December 1994



Trade and Sustainable Development *Principles*

IISD

INTERNATIONAL INSTITUTE
FOR SUSTAINABLE DEVELOPMENT

TABLE OF CONTENTS

PREFACE	3
MEMBERS OF THE IISD WORKING GROUP	5
INTRODUCTION	9
PRINCIPLES FOR TRADE AND SUSTAINABLE DEVELOPMENT	13
1. Goal	14
2. Points of Departure	14
3. Principles	
Efficiency/Cost Internalization	16
Equity	19
Environmental Integrity	21
Subsidiarity	23
International Cooperation	25
Science and Precaution	28
Openness	29
4. Applying the Principles	30

Winnipeg, February 1994

We are pleased to present herein the result of our efforts to draft a set of principles for trade and sustainable development. We are unanimous in advancing them as an innovative and practical guiding framework for policy-makers, and for those who shape policy in a wider sense, to help achieve sustainable development in the areas where trade, environment and development interact.

In noting our unanimous endorsement of the principles, we wish to caution against the temptation to accept some of the principles while rejecting others. From our experience in drafting the principles, it is very clear that they constitute a balanced and integral package which can only be judged in its entirety.


Richard Blackhurst


Janine Ferretti


Arthur J. Hanson


Nurul Islam


Konrad von Moltke


H.E. Rubens Ricupero


David Runnalls


H.E. Mohamed Sahnoun


Erna Witoelar

PREFACE

1994 ushers in a new era for international trade. The completion of the Uruguay Round of the GATT will fundamentally change our ways of doing business. 1993 also brought with it a tremendous surge of interest in the relationship of trade, environment and development. The NAFTA and its side agreement on environment are significant steps in addressing this relationship, but they are only that.

Sustainable development has emerged as a key objective, espoused in the GATT, the NAFTA and the Maastricht Treaty alike, and wealth creation via expanded trade is a powerful means to this end. Yet there are also fears that expanded trade will lead to significant environmental damage. IISD's interest is to determine how trade can serve sustainable development—how the expanded exchange of goods and services can create new livelihoods and the wealth needed to address poverty and environmental restoration without degrading global and local ecosystems.

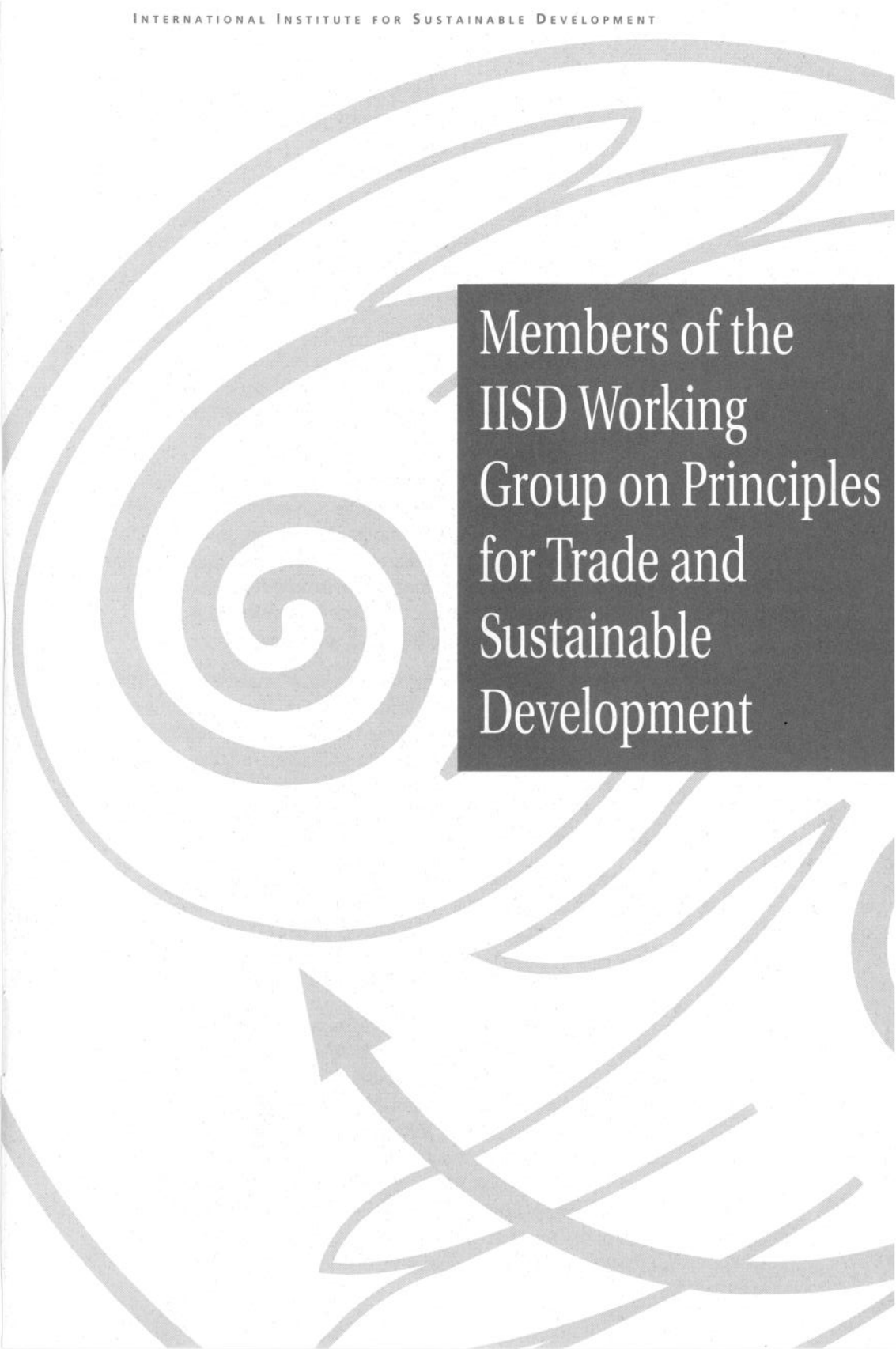
Our Board of Directors believes that profound changes in world economic and environmental relations are needed if we are to have a satisfactory relationship between trade and sustainable development. These changes should be based upon a starting set of principles from which new rules, agreements and conventions can be derived.

IISD convened a distinguished international Working Group to develop a concise set of principles which could be shared with the environment, trade and development communities. By including members of all communities, the Group was able to deal with issues in a comprehensive manner. The process has taken a full year, with numerous meetings and exchanges of drafts.

The principles, IISD believes, point the way toward future cooperation among the relevant actors on a global scale. While there are myriad ongoing efforts to deal with the trade, environment and development relationship, most lack a commonly-agreed framework for analysis and discussion. These principles constitute such a starting point. We believe they should influence future rounds of GATT and the agendas of other trade regimes, international environmental agreements with trade implications, domestic environmental policies and international development.

IISD invites others to join in the challenge of examining these principles and determining how they can be put into practice in the years ahead.

Lloyd R. McGinnis, P.Eng.
Chairman of the Board
International Institute for Sustainable Development



Members of the
IISD Working
Group on Principles
for Trade and
Sustainable
Development

MEMBERS OF THE IISD WORKING GROUP ON PRINCIPLES FOR TRADE AND SUSTAINABLE DEVELOPMENT

The members of the Working Group all served in their capacities as individuals. None of the material in this document should in any way be attributed to their affiliated organizations.

Richard Blackhurst is Director of Economic Research at the General Agreement on Tariffs and Trade (GATT). Since joining the GATT Secretariat in 1974, he has also been an Adjunct Professor at the Graduate Institute of International Studies in Geneva.

Janine Ferretti is Executive Director of Pollution Probe, Toronto. She is a member of Canada's International Trade Advisory Committee, and a member of the Ontario Round Table on the Environment and the Economy.

Arthur J. Hanson is President and CEO of IISD, Winnipeg. He was Professor and Director of the School for Resource and Environmental Studies at Dalhousie University, and a staff member of the Ford Foundation. Other positions have included serving as Chair of the Canadian Environmental Assessment Research Council and Director of the Environmental Management Development Project in Indonesia.

Nurul Islam is Senior Policy Advisor at the International Food Policy Research Institute, Washington, D.C. Previously, he was Assistant Director-General at the U.N.'s Food and Agricultural Organization, and served as Deputy Chairman/Minister in the Planning Ministry of the Government of Bangladesh. He was also Fellow at Saint Anthony's College, Oxford, and at The Economic Growth Centre, Yale.

Konrad von Moltke is Senior Fellow at the World Wildlife Fund, Washington, D.C., and Senior Fellow at the Institute for International Environmental Governance at Dartmouth College, New Hampshire. He was founding Director of the Institute for European Environmental Policy.

H.E. Rubens Ricupero is Brazil's Minister for the Environment and the Legal Amazon Region and, formerly, Ambassador to the United States. He served as Brazil's Representative to the GATT, and as the Chairman of GATT's Contracting Parties he undertook, in 1991, at the request of the GATT Council, consultations for the reactivation of the GATT Group on Environmental Measures and International Trade. At the U.N. Conference on Environment and Development (UNCED) in Rio de Janeiro, he was the Coordinator of the Contact Group on Finance which drafted Chapter 33 of Agenda 21.

David Runnalls is Senior Advisor to the President of the International Development Research Centre, Ottawa. With Barbara Ward, he was one of the founders of the International Institute for Environment and Development. He is a member of the Council of The World Conservation Union (IUCN) and of the Ontario Round Table on the Environment and the Economy.

H.E. Mohamed Sahnoun is Pearson Fellow at the International Development Research Centre, Ottawa, and Board Member of IISD. He was Special Advisor to the Secretary-General of the UNCED, and was a member of the Brundtland Commission. He was previously Special Representative of the Secretary-General of the U.N. for Somalia; Chief of the Algerian Permanent Mission to the U.N.; Deputy Secretary-General, Arab League; and Deputy Secretary-General, Organization of African Unity.

Erna Witoelar is founder and first Executive Director of WALHI, the Indonesian Environmental Forum. She was a member of the Advisory Group on Industry and Development to the Brundtland Commission, and of the Commission on Developing Countries and Global Change, and is former President of the Indonesian Consumer's Association. She is currently President of the International Organization of Consumers' Unions.

Serving as the Working Group's Secretariat are: Aaron Cosbey, Research Officer with IISD's Trade and Investment Program, who was responsible for coordinating the drafting of the principles, and Nevin Shaw, Executive Interchange Fellow with IISD, on leave from the Government of Canada, Ottawa, where he has held positions dealing with policies and negotiations concerning trade, investment and competition. The members of the Working Group are indebted to their invaluable contributions, especially on the part of Mr. Cosbey who has served as the principal point of contact from the beginning of this endeavour.

The Group would also like to gratefully acknowledge the input it received from a number of sources during the drafting process. The participants at the Group's Jakarta and Washington workshops provided substantive and constructive comments, as did those at the Winnipeg meeting on trade and the environment, convened by UNCTAD, IISD, UNDP and UNEP. As well, a number of individuals too numerous to name improved the draft through their comments and criticism. Among the IISD staff, Robert Gale, Cynthia Pollock-Shea and Stephan Barg were especially helpful in this regard.

An abstract graphic design featuring a central spiral that expands outwards, surrounded by several thick, wavy lines that resemble stylized waves or leaves. The design is rendered in a light gray color on a white background. A dark gray rectangular box is positioned over the upper right portion of the spiral, containing the word "Introduction" in white serif font.

Introduction

INTRODUCTION

The need for a wider vision in the formulation of trade, environment and development policies, based on a clearer understanding of how the three are related, is becoming increasingly obvious. Today's environmental concerns have great potential for affecting development policies and global trade flows. As well, trade can have powerful effects on the environment and development. IISD believes trade policies and practices can and should support sustainable development, and that this linkage will be crucial, since international trade is an increasingly important engine of economic growth. Incorporating a sustainable development perspective permits the joint consideration of environment, economy and human well being in trade matters—a qualitative step beyond current trade-environment debates.

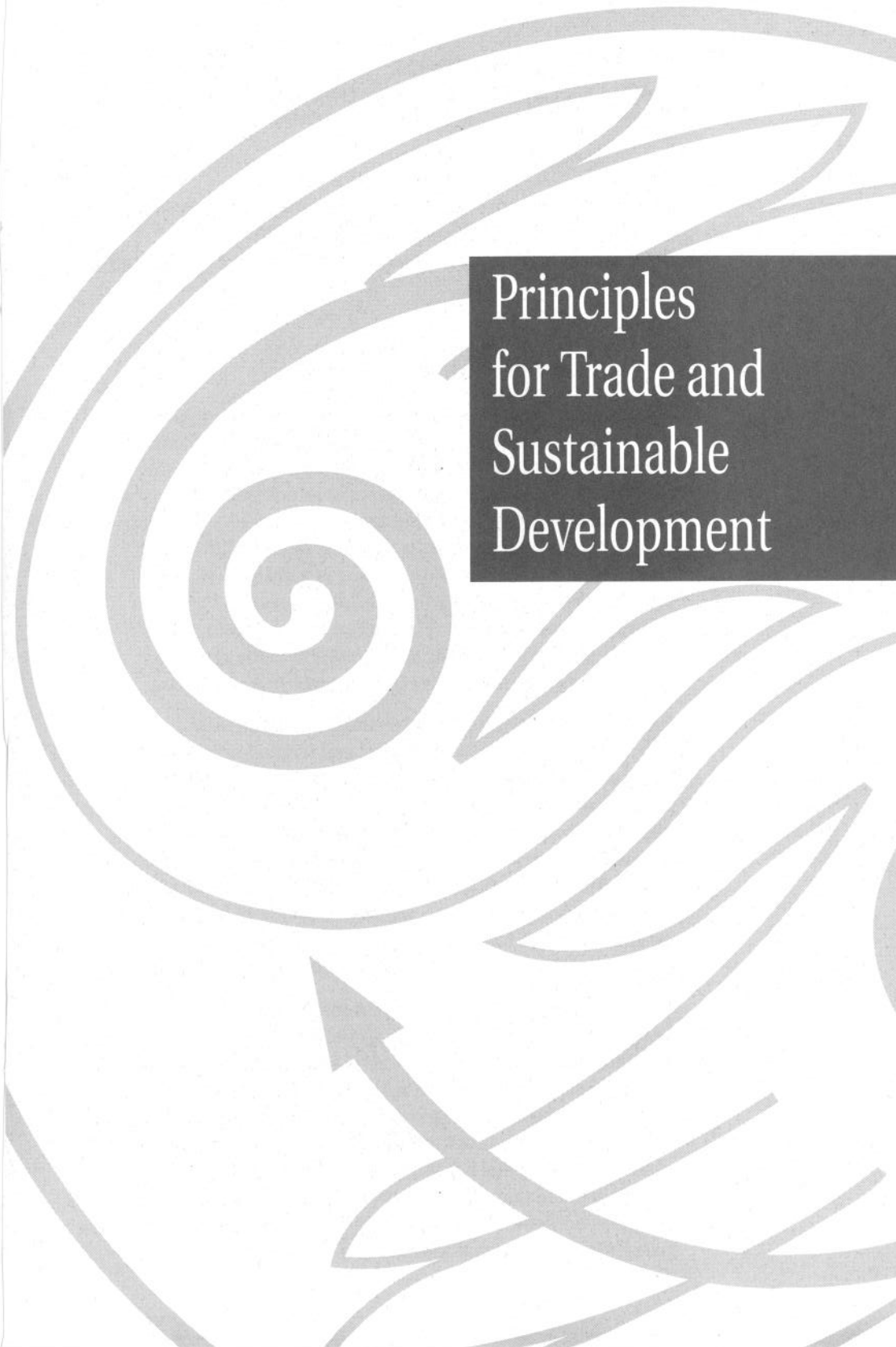
With the high level of interest in global and regional trade agreements, and the growing emphasis on sustainable development, the need for concepts to inform policy makers and interested groups is urgent. Yet there is no well defined set of principles to guide policy-making in the area of trade and sustainable development relationships. Such principles would be valuable in various applications, among them: trade agreements; international environmental negotiations; national trade-related environment and development policies; structural adjustment plans; and trade-related investment. Properly applied, these principles could form the framework for determining the adequacy of existing international agreements, and for formulating new accords. The principles could be of practical value also to national and multinational enterprises and non-governmental organizations with interests in trade and sustainable development.

In February 1993 IISD convened an international Working Group to try to identify such principles, drawing on members of the trade, environment and development communities. There were real differences to confront based on the way individuals interpreted experience and on their priorities concerning choices that must inevitably be made. Arriving at an agreement was a lengthy process, requiring commitment from each member to listen to others and to seek consensus. The group also discovered that what appeared to be important differences in analysis and policy prescriptions were in fact often "language differences", including instances in which the same concept was interpreted

differently according to members' backgrounds. The principles described below draw upon concepts rooted in all three areas, but in such a way as to emphasize the areas of common interest for the different communities.

There is no pre-existing middle ground waiting to be discovered which fully accommodates all views, yet the group made considerable progress in achieving agreement. Of course some differences remain, but they are minor compared to those which were overcome in the course of the drafting process. The principles which follow constitute a framework which serves to overcome the more serious differences which are blocking progress on these issues internationally. In the area where environment, development and trade interact, broad agreement appears possible over time, but it requires flexibility and a conviction that each group's goals are best served by dialogue and cooperation.

These principles represent an attempt to build a much needed bridge, spanning the trade, environment and development communities. The nature of the task is such that the principles cannot be seen as a final product, but rather as an initial attempt that will evolve and improve over time. Our hope is that, by identifying actions which can and should be taken to ensure that trade, environment and development policies work in harmony to achieve sustainable development, they point the way forward in an area where meaningful, productive discussion has been seriously lacking.



Principles
for Trade and
Sustainable
Development

PRINCIPLES FOR TRADE AND SUSTAINABLE DEVELOPMENT

1. GOAL

These principles are intended to guide trade and trade-related environment and development policies, practices and agreements, to help ensure that they work to achieve sustainable development.

2. POINTS OF DEPARTURE

The growing realization that the earth's environment and economy are linked is transforming international relations, and creating a demand for sustainable development. Of the many new sets of issues this raises, one—the multifaceted linkages connecting trade, environment and development—has only recently received serious attention. The relationships which encompass these sectors are evolving rapidly in response to structural changes in the world's economies, in particular in response to the declining relevance of national boundaries for production and investment decisions, and to the growing recognition of the imperative of environmental protection.

Global and regional trade agreements, environmental policies and accords, structural adjustment and lending policies and national and multilateral development efforts all have spillover effects beyond their own policy spheres. Repercussions from these effects often come back full circle, to impede or improve the achievement of the original policy goals. As this is better appreciated, the need for an integrated approach to formulating trade, environment and development policies, at both national and international levels, becomes increasingly obvious. In each sphere, sustainable development must become a primary goal.

Sustainable development is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts: the concept of “needs”, in particular the essential needs of the world's poor, to which overriding priority should be given; and the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs. We embrace this Brundtland Commission definition and note the seven strategic imperatives it identified for sustainable development: reviving growth;

changing the quality of growth; meeting essential needs for jobs, food, energy, water, and sanitation; ensuring a sustainable level of population; conserving and enhancing the resource base; reorienting technology and managing risk; and merging environment and economics in decision-making.

The principles that follow take this definition of sustainable development as their starting point, along with three key assumptions:

Need for Poverty Alleviation. Sustainable development cannot be achieved worldwide while massive poverty persists. Poverty alleviation is a central objective of development, and a key concern for environment policies. Wealth created by trade is an essential means to achieving this end. In the developing world, combating poverty and achieving sustainability depends on the growth of per capita income, on its distribution, on appropriate domestic policies, and on international policies that support them. Worldwide, economic growth, continued economic reforms, and a substantial increase in the transfer of financial resources and technology from rich to poor countries are vital for achieving poverty alleviation.

Importance of Environmental Policies. Domestic and international environmental policies are of paramount importance for all aspects of sustainable development. These policies rely principally on cost internalization as a means of achieving environmental protection. As internalization progresses, the risk that economic activities—including trade and development—may contribute to environmental degradation is reduced. Until that risk is eliminated, through considerable improvement in environmental policies and cost internalization, the environmental repercussions of trade and development policies will need to be considered and addressed, in ways that are consistent with the continued promotion of sustainable development.

Role of Trade Liberalization. Barriers to trade can create impediments to the achievement of sustainable development, particularly for developing countries, and trade liberalization is an important component of progress toward sustainable development for all countries. Developed country import barriers make poverty alleviation more difficult for exporting countries, and may cause them to accelerate rates of natural resource

exploitation by preventing diversification. As well, countries with relatively closed trading systems often pay heavily to protect inefficient domestic producers, and tend to have poor access to environmental technologies. The contribution of trade liberalization to sustainable development is promoted by policies that respect environmental and social policy goals.

3. PRINCIPLES

► EFFICIENCY AND COST INTERNALIZATION

Efficiency is a common interest for environment, development and trade policies. An activity is efficient if it uses the minimum amount of resources to achieve a given output, or alternatively, achieves maximum output from a given amount of resources. Increased efficiency is the *raison d'être* for trade liberalization.

Internalization of environmental costs is essential to achieve efficiency. Despite the substantial practical difficulties this entails, high priority should be attached to its implementation. As costs are progressively internalized the contribution of all economic activity, including trade, to the efficient utilization of resources is enhanced .

Environmentalists, development specialists and trade economists share a common interest in promoting efficiency. More efficient production reduces the drain on scarce resources such as raw materials and energy, and limits the demands placed on the regenerative capacity of the environment. It should be noted in this connection that preventing environmental damage and minimizing waste is generally more efficient than engaging in remedial cleanup and restoration. Efficient environmental protection policies lower the cost of attaining environmental quality, thereby making resources available for other purposes, including additional environmental protection. Efficient use of land, labour and capital is also the heart of development efforts to combat poverty and satisfy human needs. Allowing the most efficient producers to provide the world's goods and services is the main rationale for an open trading system.

Efficient resource use requires that the prices paid by producers for inputs, and by consumers for final goods and services, accurately reflect their full costs. In fact, most goods are not priced to reflect full costs (the magnitude of the distortion will vary from case to case), but this is difficult to rectify. There are

technical difficulties in evaluating unpaid environmental costs and designing instruments to deal with them. As well, some groups resist change because they benefit from these distortions, even though their net effect on the community at large may be seriously damaging both economically and environmentally.

One common source of price distortions is the failure to attach costs to environmental externalities. Producers and consumers rely upon many materials and services from the natural environment, including the capacity of soils, rivers, lakes, oceans and the atmosphere to receive their wastes. These resources are also needed to sustain life itself, as well as for aesthetic and spiritual fulfillment. At some point, however, the regenerative capacity of renewable resources may be impaired by over-harvesting, or the waste going into an ecosystem may exceed its capacity for harmless absorption. The resulting environmental damage imposes costs, often on large segments of the community. Prices that fail to incorporate these costs lead to inefficient use—most notably, excessive consumption—of environmental resources. Since the resulting environmental costs tend to be borne by large numbers of people, and are often long-lasting, government action is generally required to achieve the internalization of environmental externalities.

Some environmental externalities are international. Often these externalities are negative, as in the case of acid rain. However, price distortions of this type also include the “free” environmental services “exported” to the rest of the world by countries which, for example, preserve their forests, including tropical rainforests. Internalizing these positive externalities might involve international payments from the rest of the world for such things as preservation of biodiversity, and for carbon-sink services which counter global warming trends. In tropical countries, globally valuable biological resources are frequently in the care of indigenous peoples and subsistence farmers. Some forms of international internalization might consist of assistance for these groups, in recognition of their services to the world at large, in the form of payments, capacity-building initiatives, or other appropriate measures.

Import restrictions are another important cause of price distortion in developed and developing countries which, like other price distortions, can result in negative environmental and social impacts. Protectionism in developed countries—including tariffs that rise with the degree of processing and therefore discourage local processing of raw materials—blocks exports

and prevents value being added locally. The direct environmental effect is often to force countries to over-intensively exploit their natural resources and eat away at natural capital stocks. Protectionism also helps to perpetuate poverty in developing countries by narrowing options for employment and income generation, and thus confounds progress on health problems such as inadequate sewage treatment, and poverty-driven environmental problems such as the felling of trees for firewood or charcoal, and slash-and-burn clearing of forests to provide jobs and food. Price distortions created by import barriers can be reduced or eliminated by trade liberalization.

Price distortions due to environmental externalities, in contrast, are corrected by “full cost internalization”—that is, by policies that cause external costs to be incorporated into the prices of goods and services. Polluting firms, and consumers of polluting products, should bear the costs of pollution prevention and cleanup in accordance with the “polluter pays principle”. This provides incentives for firms to alter their production methods and for consumers to switch to alternative products, thereby safeguarding the environment and increasing efficiency. It also avoids trade and investment distortions, which occur when goods and services are sold at less than their full costs.

That said, there are formidable problems in identifying and valuing the costs of using environmental resources and allocating costs to particular goods. But that only underscores how urgently those problems need to be addressed. Broadly speaking, the problems can be divided into three groups. First, consensus is only beginning to emerge on essential concepts, definitions, measurement techniques, data needs and methods of analysis, and further research is urgently needed. Even where the theory is fairly clear, there is often disagreement as to how internalization should be put into practice. Frequently the process is further complicated by poorly-defined property rights to environmental resources. Many countries have limited experience with addressing such complexities, and limited human, technical and financial resources with which to do so. For developing countries, special consideration should be given, in terms of longer time frames and assistance for implementation.

Second, in the course of internalizing costs, producers fear there will be inadequate offsetting gains in efficiency, and that they will lose business to competitors facing less onerous requirements. It is not yet clear to what extent these fears are in fact valid, as

evidence on this issue remains inconclusive. For example, given the trend to stricter environmental regulation worldwide, and growing “green” demand in major markets, companies that have a head start in adjusting production processes to environmental demands may in fact gain market share as cost internalization proceeds elsewhere. Nevertheless, competitive concerns are likely to remain, at least in the early stages of cost internalization. In instances in which it can be demonstrated that competitive forces are contributing to continued underpricing of specific products—for example, those produced by extractive industries—the acceptance of cost internalization would be aided by an internationally negotiated and coordinated schedule for internalizing the locally determined costs. Once a good faith effort had been made, however, a failure to agree on such a schedule would not be a justification for postponing cost internalization. Ultimately, each government can, at least, ensure that environmental resources within its national boundaries are not misused because of a failure to internalize costs.

Third, cost internalization is not an adequate approach to dealing with environmental costs stemming from irreplaceable losses, such as species extinction or lasting damage to the regenerative capacity of renewable resources. These problems are discussed in more detail below, under the principle of Environmental Integrity.

Despite these considerable complications and challenges, it is evident that cost internalization based on the polluter pays principle must play a central role in efforts to improve efficiency, improve the management of natural resources and promote worldwide sustainable development.

► EQUITY

Equity relates to the distribution both within and between generations of physical and natural capital, as well as knowledge and technology. In the transition to sustainability additional obligations should be assumed by those, primarily in the developed world, who have used resources in the past in a manner which limits the options of current generations, particularly in developing countries. Trade liberalization can contribute to greater equity through the dismantling of trade barriers that harm developing countries.

While domestic equity is a fundamental goal of governments, policies to achieve it are hard to implement. In seeking to promote greater equity it is possible to strive for growth to generate additional resources for distribution, or to seek better distribution of existing resources, but the two are not mutually exclusive. While there may be trade-offs in the short run, success in the long run depends on pursuing both policies simultaneously.

Inequity and poverty contribute significantly to environmental degradation and political instability, particularly in developing countries. When basic needs are not met, the poor have no choice but to live off whatever environmental resources are available. At the same time, past use of natural resources already limits the choices available to present generations, particularly in developing countries. Faced with these limitations, and having limited financial, administrative and technical capacity to deal with problems of environment and development, many developing countries will require transfers of technology and financial resources. Failing such assistance, they may be unable to adequately protect their environmental resources, including many which are of global significance.

The substantial investment needed for sustainable development requires new and additional external resources in developing countries far in excess of conceivable increases in traditional foreign aid. Increased trade and investment flows, the result of more open borders in both developed and developing countries, together with appropriate domestic policies in developing countries, are the best alternative for increasing incomes in poorer countries by the magnitudes necessary to achieve sustainable development.

Protected markets in the developed world must be opened to goods and services from developing countries. Continued protection contributes to the perpetuation of poverty in developing countries, and may also result in unsustainable depletion of their natural resources in the absence of other options for alleviating poverty. Other measures to achieve equity and poverty alleviation include strengthening developing country capacity to develop indigenous technologies and to manage environmental resources, and creating mechanisms for the accelerated transfer of existing clean technologies. Continued progress in resolving the debt crisis is also important, as is an increase in transfers of financial resources. At the same time, developing countries must adopt policies which ensure

that the additional resources are used in ways that are efficient, alleviate poverty and foster sustainable practices.

Just as past use of resources limits the choices of present generations, current patterns of use, such as significant use of nonrenewable resources, or use of renewable resources beyond their capacity to regenerate, may limit the choices of future generations, creating issues of intergenerational equity. In the interests of intergenerational equity, the combined stock of human-made and natural capital should not be depleted. If future generations are to be at least as well off as are present ones, trade and development policies and programs which involve environmental change should be accompanied by a compensating development of more efficient technologies, increased knowledge, better infrastructure or improved social systems. At the same time, it must be recognized that there are limits to the extent to which increases in human-made capital can compensate for losses of environmental resources. Many such resources meet needs that cannot be met by augmented stocks of human-made capital, such as the life-support services provided by the ozone layer, and a variety of spiritual and aesthetic needs.

► ENVIRONMENTAL INTEGRITY

Trade and development should respect and help maintain environmental integrity. This involves recognition of the impact of human activities on ecological systems. It requires respect for limits to the regenerative capacity of ecosystems, actions to avoid irreversible harm to plant and animal populations and species, and protection for valued areas. Many aspects of the environment—for example, species survival or the effective functioning of biological food chains—have values which cannot be adequately captured by methods of cost internalization, highlighting the need for other policy instruments.

Progress in achieving cost internalization would go a long way towards ensuring that development and trade policies take account of and address environmental consequences. At the same time, there are limitations to cost internalization. It is not useful in cases where the environmental losses are irreplaceable, as in the case of species extinction, since it is difficult to price something for which there is no substitute. Furthermore, it cannot accurately reflect costs to future generations, since we have no way of knowing what value they

will attach to environmental resources. Nor is cost internalization necessarily useful when costs are extremely high; the magnitude of the future costs involved in ozone depletion, for example, may be so great that for practical reasons the chemicals contributing to the problem should simply be phased out, rather than priced accurately.

There are three types of threats to environmental integrity requiring special conservation measures which may have potential trade impacts: first, actions which seriously damage the regenerative capacity of ecosystems such as fisheries and forests that are vulnerable to irreversible depletion; second, actions which lead to irreplaceable losses, such as extinction of species and loss of biological diversity; and third, actions which threaten valued areas such as designated parklands or sites of internationally recognized ecological, cultural or historical significance.

Moral and existence values are among the grounds for special conservation and management measures. Such values refer to, for example, the humane treatment of animals and the desire to know that a species exists even if it does not serve material human needs. They may also refer to an inherent right of a species to exist. Moral and existence values will be strongly affected by cultural traditions, income levels, and other factors.

Measures to protect environmental integrity may represent an important exception to normal trade rules, whether in the context of trade agreements or environmental agreements. They may take the form of trade bans or quantitative restrictions. It is therefore important to be clear as to just what is allowed by current trade rules. Under existing multilateral (GATT) trade rules a country is free to take a variety of measures to protect its own environment, provided that the measures meet the non-discrimination and national-treatment requirements aimed at preventing protectionist abuse (some adjustment of the rules may be necessary to allow countries to give temporary financial assistance for the purpose of promoting the introduction of environmentally friendly production processes). In contrast, when the issue involves the integrity of the environment outside the country's borders—that is, in other countries or in the global commons—there is a continuing debate concerning the extent to which the trading rules should permit unilateral trade actions such as bans and restrictions. In such cases of “extrajurisdictional” environmental problems, depending on how GATT's Article XX is interpreted, there may be a need to

revise the rules to allow special measures to protect environmental integrity.¹

Historically, few of the more than 150 international environment agreements have contained trade provisions. Provisions allowing for restrictions on imports and exports are included in treaties to protect the ozone layer, preserve endangered species and limit the trade and transport of hazardous products and wastes. Trade provisions may also be included in new international agreements to address ecological concerns about climate change, biodiversity, desertification and forests, especially if their inclusion reduces the risk of unilaterally imposed trade barriers. Including trade measures in environmental agreements requires not only safeguards against protectionist abuse, but also a careful consideration of their likely effectiveness and the availability of equally effective alternative policies.

► SUBSIDIARITY

Subsidiarity recognizes that action will occur at different levels of jurisdiction, depending on the nature of issues. It assigns priority to the lowest jurisdictional level of action consistent with effectiveness. International policies should be adopted only when this is more effective than policy action by individual countries or jurisdictions within countries.

Environmental policies can reflect differences in environmental conditions or development priorities. This may lead to different environmental standards within countries or among groups of countries, involving both higher and lower standards than those applied elsewhere. In the absence of agreements voluntarily accepted by all affected countries and where the environmental consequences remain within domestic jurisdictions, other countries should not use economic sanctions or other coercive measures to try to eliminate differences in standards. Where there are significant transborder environmental impacts, solutions (including international environmental agreements, the formulation of international standards, incentives for voluntary upgrading of standards and the possible use of trade measures) should be sought multilaterally.

¹ While such measures could include unilateral trade restrictions, a distinction must be made between unilateral measures taken within the context of internationally agreed criteria, and those taken outside of that context. When we speak of trade rules permitting unilateral actions to protect environmental integrity, we are referring to the former.

In essence, subsidiarity represents no more than a general principle of good governance: decisions should be taken as close as possible to the affected public, at the lowest level of jurisdiction encompassing all those affected. It follows from the recognition that diversity, tolerance and decentralization are among the attributes of a good society. In the context of trade and sustainable development, where issues of global dimension have significant and varied effects at the local level, it has particular relevance.

Variations in environmental policies from one jurisdiction to the next can arise from one or more of three principal sources: differences in environmental conditions; differences in priorities according to the resources available for environmental protection and clean up; and differences in values. Certain emissions might be more harmful in some environments than others, since different ecosystems respond differently to pollutants. As well, some societies might strive for greater levels of environmental quality than others. It is important to recognize this diversity in an international structure of agreements and practices which is stable, equitable and reflects differences in environmental conditions and priorities.

This is not to deny that harmonization can play an important role as a principled approach to achieving international cooperation by ensuring that essential differences respect a common framework. It may focus on laws, technical standards, emission standards, ambient environmental quality, or procedural requirements.

There are nevertheless two major concerns with harmonization of environmental standards. Many developed countries fear that they will be prevented from adopting standards sufficiently rigorous to deal with the heavy burdens their economic activities impose on the environment and to meet the high demand for environmental quality among their citizens. Developing countries—in contrast—are concerned that they cannot afford to meet environmentally-based process standards designed for the conditions of developed countries, and that as a result their exports to those countries will be penalized. Both sets of concerns can be met by agreements which allow a diversity of environmental quality standards supplemented, where feasible, by negotiated minimum process standards. Frameworks for establishing minimum standards should be agreed on by all affected countries, and will need to recognize and address the transitional difficulties that might be faced by lower standard

countries, particularly developing countries. Another concern with harmonization—that it may stifle innovation—can be dealt with by designing standards which specify desired environmental results, rather than particular production technologies.

While subsidiarity implies a fair degree of discretion in the setting of environmental standards, it does not extend the argument for tolerance to the case where lower product or production standards result in significant transborder effects. At that point, the standards in question may become a matter of international concern. On the other hand, where a country adopts product standards for environment, health and safety high enough to have trade effects, it should at a minimum notify and be available to consult with its affected trading partners. (A requirement to this effect already applies to signatories to the GATT Code on Technical Barriers to Trade.) The discretion accorded policy makers under the principle of Subsidiarity is also limited by the need to respect the principle of Environmental Integrity.

Subsidiarity requires an important element of cooperation in international affairs. Where a country suffers competitive disadvantages from lower standards abroad, imposing higher trade barriers or granting subsidies to domestic producers are not viable solutions. However, there may be cases for temporary protection, according to multilaterally agreed guidelines, in situations where the introduction or tightening of environmental measures leads to a sudden increase in imports that threatens to injure a domestic industry. More generally, the most effective solution will be to offer incentives for upward convergence of standards, involving some of the elements of capacity-building and technical and financial resource transfers discussed under the principle of Equity. The responsibility of countries seeking higher environmental standards abroad to seek them multilaterally, shunning coercive measures, is matched by an obligation on the part of other countries to cooperate in such efforts.

► INTERNATIONAL COOPERATION

Sustainable development requires strengthening international systems of cooperation at all levels, encompassing environment, development and trade policies. Where disputes arise, the procedures for handling them must be capable of addressing the interests of the environment, development and

the economy together. This may involve changes to existing rules, changes to existing dispute settlement mechanisms, or the creation of new mechanisms.

The most desirable forms of international cooperation will avoid conflicts, through international efforts at development and environmental protection, and by improving the functioning of the global trading system. When international disputes do arise, they must be resolved internationally. This requires open, effective and impartial dispute settlement procedures that protect the interests of weaker countries against the use of coercive political and economic power by more powerful countries. Unilateral action on transboundary environmental issues—an option generally available only to a few large countries—should be considered only when all possible avenues of cooperative action have been pursued. Trade sanctions are the least desirable policy option, signifying failure by all the parties concerned.

Increasingly, countries cannot achieve their own environmental goals without regional or global environmental agreements. For development, additional international action is needed in particular to ensure technology transfer, capital flows and improved market access. Trade policies are international by definition and should be developed within a cooperative multilateral framework.

While the goals of trade, environment and development are compatible in principle, in practice conflicts will inevitably occur. These must be resolved internationally without resort to economic or political coercion. Respect for the principle of non-discrimination in trade represents an essential step in this direction. The rules which existing dispute settlement mechanisms for trade interpret might require adjustment to ensure that the interests of the environment are more adequately addressed. As well, existing mechanisms might include more expertise in environment and development matters, and new mechanisms might be established for the treatment of conflicts primarily related to these areas.

In a world free of the traditional cold-war political tensions, and characterized by increasingly globalized economic activity, attention is now more than ever focused on the ability of countries to compete with each other in the international marketplace. To capture the full benefits of competition, however, there must be cooperation; countries must subscribe

to a rules-based international trading system which defines the conditions of competition in world markets. Making such a system work for sustainable development will require new forms of cooperation in some areas. For example, the introduction of sustainable practices for the production of internationally traded commodities with significant environmental impacts may require innovative new joint regimes involving both producers and consumers.

In some cases, countries may need to exchange some national sovereignty for global progress on sustainable development. Historically, there are many examples of countries making such exchanges for progress on global issues, but it has only occurred when the countries involved have seen it to be in their best interests. Countries signing a multilateral treaty, or subscribing to international organizations such as the International Telecommunications Union, are usually making such a "deal". This type of international cooperation will be critical to achieving sustainable development in today's context. Progress on climate change, biodiversity and sustainable forestry practices can only come about with the sustained cooperation of developing countries. Such cooperation is unlikely to be forthcoming if these countries feel they are being victimized by unilateral trade sanctions undertaken by large economic powers, in the absence of internationally agreed rules for their use.

The best forms of cooperation will involve proactive measures to improve human well being and the environment internationally, and to improve the functioning of the global trading system. These measures might include more initiatives aimed at technology sharing, capacity building, transfers of resources and debt relief, an opening of protected markets, and cooperative cost internalization. Progress in these areas of cooperation will address the root causes of many apparent trade-environment conflicts, in particular large disparities in technical capacity for environmental management and a lack of resources to invest in environmental protection. Cooperation may also take the form of multilateral agreements on the environment. Countries in a position to exercise leadership in dealing with environmental issues should do so by devoting the time and energy needed to achieve such multilateral accords.

► SCIENCE AND PRECAUTION

In the development of policies intended to reconcile trade, environment and development interests science, in particular ecological science and the science of complex systems, can provide the basis for many necessary decisions, including the suitability of health, safety and environmental standards.

Action to address certain problems, however, will still have to be taken in the face of uncertainty and scientific disagreement, particularly where mistakes may have very serious consequences. It is therefore also essential in certain instances to adopt a precautionary and adaptive approach that seeks the prevention and easing of environmental stress well before conclusive evidence concerning damage exists, and which adapts policy as new scientific information becomes available.

Science is the basis for much of what we know about the environment. Since understanding ecological processes is central to valuing environmental services and costing environmental damage, science is also a fundamental prerequisite for cost internalization measures. It therefore is an underpinning of environmental policy and should form the basis of any measures taken to protect the natural environment. Science must underlie any trade measures which seek to protect environment and health.

Our understanding of ecosystems is still highly uncertain. They are characterized by thresholds, critical points beyond which all relationships change dramatically, triggered by events such as extinction of a critical species in a food chain or an overloading of pollutants beyond the point of assimilative capacity. They are often unforgiving of errors in modeling and forecast. Many times, the resulting environmental change cannot be easily reversed, if at all.

Inherent uncertainty, coupled with the reality of threshold effects and irreversibility, argues for a precautionary approach to rules and standards. There must be a margin of safety that prevents inevitable errors from having catastrophic effects. How wide the margin of safety should be will at times be controversial, and the danger exists that the precautionary approach could open the door to costly misjudgment, or abuse for protectionist purposes. At the same time, it is obvious that there are circumstances in which a lack of scientific certainty should not be used as a justification for a lack of action to prevent potentially serious environmental damage.

The principle of precaution presents policy-makers with several operational challenges. To begin, it is difficult to define the appropriate level of precaution. Given the risks of global warming, for example, and the uncertainty in scientific understanding of it, what is the appropriate policy? Such decisions must involve an element of judgment, based on a balancing of the magnitude of the potential environmental damage and the risk of its occurrence, against the cost of preventing it. Fortunately, prevention can have spin-off benefits which lower its long-run cost; many of the measures involved in preventing global warming, for example, are improvements in efficiency, and encourage the development of new technologies which make economic sense in their own right.

► OPENNESS

Greater openness will significantly improve environmental, trade and development policies. Just as access to information is essential for effective participation by producers and consumers in markets, public participation, including open and timely access to information, is essential for the formulation and practical implementation of environmental policies. It is also important in minimizing the risk of “protectionist capture”, that is, that trade policies will be manipulated to favour inefficient producers at the expense of others.

While it is widely recognized that openness and accountability should be enshrined in domestic processes, this is much less true at the international level. Attitudes and institutional procedures are lagging behind the changing nature of international relationships, characterized by among other things the increasing globalization of economic activity, and our increasing awareness of serious environmental problems which cannot be adequately addressed at the national level. Since action by individual governments will often have significant international effects, there is a need for internationally agreed criteria and mechanisms of public participation, access to information and accountability at the international level.

Openness comprises two basic elements: first, timely, easy and full access to information for all those affected; and second, public participation in the decision-making process by among others environmental and development NGOs, industry groups and scientists. While structures for openness are increasingly

evident in dealing with problems at the national level, there has not been a comparable development for issues of an international nature. As people worldwide devote increasing attention to such issues, there is a need to find forms of participation appropriate to the different international organizations and negotiations.

National and international rule-making and dispute settlement should be transparent, seeking, when appropriate, scientific and technical advice on environmental and developmental impacts and soliciting the views of the public, including specialists in relevant areas to the dispute settlement process. Transparency and the opportunity for interested members of the public to make submissions are also important when trade issues are involved. At a minimum, adjudicating panels should entertain written submissions from non-governmental organizations, and panel decisions should be published with a minimum of delay.

4. APPLYING THE PRINCIPLES

The forgoing trade and sustainable development principles are more than simply a code of good will. They imply significant changes in the way trade, and trade-related environment and development policies are formulated and implemented. The next steps, on which IISD and others are now working, are to clarify the nature of those changes, looking at the development of existing institutions and agreements as well as the creation of new forms of cooperation, and at mapping out a new global research agenda.

The primary audience for such work, and for the principles themselves, is those who are responsible for effecting change: policy-makers within governments, and the multilateral institutions of which they are constituent parts. As well, the principles are aimed at the wider policy community which influences the decisions of governments, including environmental and development NGOs, the business community, academia and the media. The end goal is not only institutional change, but also the requisite accompanying change in the behaviour of individual decision-makers.

The principles cover a wide range of policy areas. They may be applied to trade agreements, both multilateral and regional, as well as to trade-related environment and development initiatives, such as accords on the global commons, structural

adjustment plans and domestic and international policies for official development assistance. In all these areas they are both a model for future action and a benchmark by which existing policies may be measured.

Implementing the principles will take time; progress in some areas will depend critically on progress in others. There needs to be, for example, cooperative effort to build capacity for sound science and cost internalization in some countries, as well as technology sharing and increased financial transfers as laid out in Agenda 21. There may also need to be special concessions during a period of implementation. Some models for this approach already exist, including the Montreal Protocol and the Biodiversity Convention.

It will be tempting in some cases to pick and choose principles that serve the needs of the moment or the interests of the drafters in formulating trade, environment and development policies. The results of such a partial approach are not likely to serve any of these needs or interests in the long run. The principles are an interdependent and mutually reinforcing whole, and must be taken as such if they are to help achieve sustainable development.

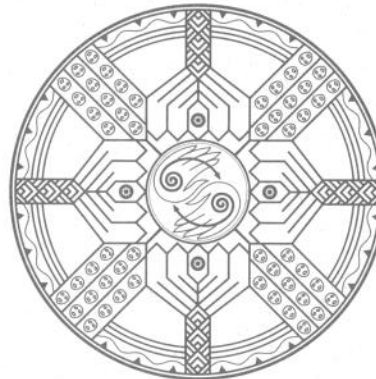
The realities of international economic and environmental interdependence demand the type of cooperative approach embodied by these principles, involving not only the building of mutual understanding and trust but also a degree of flexibility and acceptance of the fact that no group is going to achieve all of its demands. The search for consensus, though difficult, is well worth the effort. In the end, effective international response to problems of trade and sustainable development can only be achieved on the basis of commonly-recognized interests and principles.

The **International Institute for Sustainable Development (IISD)** is a private non-profit corporation established and supported by the governments of Canada and Manitoba. Its mandate is to promote sustainable development in decision making - within government, business and the daily lives of individuals. Its scope is international, in recognition of the fact that local, national and global development issues are interconnected and impact upon each other.

IISD believes sustainable development will require new patterns of investment and enhanced understanding of the linkages between sustainability, competitiveness and prosperity.

These challenges require new knowledge and new ways of sharing knowledge. IISD engages in policy research and communications to meet those challenges, focusing on programs in international trade, business strategy, national budgets and new institutions to support sustainable development. The issue of poverty eradication is a fundamental theme linking IISD's research and communications.

The interconnectedness of the world's environment, economy and social fabric implies that collaborative efforts are needed to bring about changes. IISD works through and encourages the formation of partnerships to achieve creative new approaches to the complex problems we face.



Trade and Sustainable Development Principles

Global and regional trade agreements, environmental policies and accords, structural adjustment and lending policies, and national and multilateral development efforts all have significant spillover effects. Yet there is no integrated approach to formulating trade, environment, and development policies—no well defined set of principles linking these fields.

IISD's Trade and Sustainable Development Principles attempt to fill that void. They are intended to guide trade and trade-related environment and development policies, practices and agreements to ensure the achievement of sustainable development.

The Principles are the result of a one-year effort on the part of IISD and an international Working Group composed of trade, environment, and development specialists.

THE AUTHORS

Richard Blackhurst Director of Economic Research at the General Agreement on Tariffs and Trade (GATT). Adjunct Professor at the Graduate Institute of International Studies, Geneva.

Janine Ferretti Executive Director of Pollution Probe, Toronto. Member of Canada's International Trade Advisory Committee, and the Ontario Round Table on the Environment and the Economy.

Arthur J. Hanson President and CEO of International Institute of Sustainable Development, Winnipeg. Previously Director of the School for Resource and Environmental Studies at Dalhousie University, Halifax.

Nurul Islam Senior Policy Advisor at the International Food Policy Research Institute, Washington, D.C. Previously Assistant Director-General at the U.N.'s Food and Agricultural Organization.

Konrad von Moltke Senior Fellow at the World Wildlife Fund, Washington, D.C., and at the Institute for International Environmental Governance at Dartmouth College, New Hampshire.

H.E. Rubens Ricupero Brazil's Minister for the Environment and the Legal Amazon Region. Previously Chairman of GATT's Contracting Parties.

David Runnalls Senior Advisor to the President of the International Development Research Centre, Ottawa. Co-founder of the International Institute for Environment and Development.

H.E. Mohamed Sahnoun Pearson Fellow at the International Development Research Centre, Ottawa. Previously member of the Brundtland Commission.

Erna Witoelar Founder and first Executive Director of WALHI, the Indonesian Environmental Forum and President of the International Organization of Consumers' Unions.