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Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

Agricultural Trade Fact Sheet

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## TRADE, ENVIRONMENT, AND SUSTAINABLE DEVELOPMENT

The linkages between international agricultural trade and environmental sustainability are an important topic of debate at the ongoing negotiations on agriculture. There is the desire on the one hand that environmental issues be fully reflected in trade policy, but concern that they should not be used as barriers to trade.

### ENVIRONMENTAL SUSTAINABILITY

FAO is fully devoted to environmental sustainability in the use of natural resources for agriculture, forestry, and fisheries products. The number of FAO programs and projects that focus on environmental sustainability are too numerous to enumerate here, but they range from normative studies and policy advice to working with farmers and rural communities to develop and implement sustainable production systems. The organizing framework for these activities is sustainable agriculture and rural development or SARD. FAO has defined SARD as:

*“... the management and conservation of the natural resource base, and the orientation of technological and institutional change in such a manner as to ensure the attainment and continued satisfaction of human needs for present and future generations... Such sustainable development (in the agriculture, forestry and fisheries sectors) conserves land, water, plant and animal genetic resources, is environmentally non-degrading, technically appropriate, economically viable and socially acceptable.”*

A principle of sustainable development is that we pass on to the next generation a stock of resources that is at least as productive as the stock we have.

### ENVIRONMENTAL PROTECTION AND TRADE

A number of GATT articles are of direct relevance to trade-related environmental issues. The GATT principle of non-discrimination has a fundamental bearing on the formulation and enforcement of environmental policies by WTO Members. With respect to trade-related environmental issues, the principle of non-discrimination ensures that national environmental protection policies are not adopted with a view to arbitrarily discriminate between like products of foreign and domestic origin or between like products imported from different trading partners. Thus, the principle of non-discrimination helps in preventing the use of environmental policies as disguised restrictions on international trade.

The WTO Agreements provide for specific types of environmental protection in a number of places, and such measures are subject to the following conditions:

- *They must be necessary to achieve the desired level of protection.*
- *They may not constitute arbitrary or unjustifiable discrimination between Members.*
- *They may not be used as disguised trade barriers.*
- *They are to be based on scientific principles risk assessment methods.*
- *They should be the least trade restrictive, consistent with achieving the desired level of protection and recognising the risks associated with non-compliance.*
- *Members should adhere to the principle of transparency in the adoption and enforcement of such measures.*
- *Members should provide technical assistance to other Members, particularly to the developing and least developed countries, in complying with such measures for market access.*

### ISSUES OF CONCERN FOR DEVELOPING COUNTRIES

The debate surrounding agricultural trade liberalisation and environmental protection is complicated by the fact that the perspectives of developed and developing countries are often quite different. Some issues of concern to developing countries are as follows:

- *The costs of compliance;* particularly with the standards applied in export markets is an issue of concern for developing countries because the compliance costs with environmental measures may be higher for the developing countries than for developed countries, placing them at a competitive disadvantage.

- “*Product-Unrelated*” production and processing methods may generate negative production externalities without affecting the quality or safety of the final product. The WTO allows Members to regulate trade on the basis of product characteristics but prohibits discrimination among the “like products” of Members. The question is whether a PPM that does not affect the characteristics of the final product, a product-unrelated PPM, can form the basis of a legitimate trade restriction. The key issue, from the perspective of the WTO, is whether one Member can use trade measures to enforce its own environmental preferences or requirements on others.
- *Eco-labelling* involves the use of special labels to indicate that a product conforms to certain environmental standards. The important issues for developing countries are whether such systems incorporate unrelated PPMs and whether they conform fully to the WTO principles of non-discrimination and transparency. If the eco-label requirements are not in accordance with WTO principles, they may function as discriminatory trade measures.
- *Harmonisation* as implemented by the WTO encourages governments to adapt national standards to those set by designated international experts. Some observers regard a country’s environmental regulatory system as an integral part of its comparative advantage and thus consider harmonisation undesirable, particularly when there are no transboundary environmental effects associated with the issue being regulated. Developing countries are concerned that harmonisation may adversely affect their competitiveness in global markets.

### MULTILATERAL ENVIRONMENTAL AGREEMENTS

Multilateral Environmental Agreements (MEAs) are regarded as the preferred vehicle for handling transboundary environmental issues, at either the regional or global level, because unilateral solutions run the risk of arbitrary discrimination and disguised protectionism. Disputes about consistency with WTO provisions could arise when an MEA requires its signatories to apply trade measures against non-signatories for failure to comply with the MEA. To date no legal challenges have arisen within the WTO over trade provisions applied pursuant to an MEA, but the potential for friction exists. Trade sanctions imposed unilaterally on environmental grounds have been challenged and over-turned.

Of the some 200 MEAs currently in force, about 20 contain trade provisions. Those with particular relevance for agriculture include the Montreal Protocol on Substances that Deplete the Ozone Layer, the Convention on International Trade in Endangered Species (CITES), and the Convention on Biological Diversity (CBD).

The CBD entered into force in 1993 and has now been ratified by 176 countries. The CBD is a legally binding commitment which aims to ensure the conservation and sustainable use of biological diversity, and the equitable sharing of its benefits. FAO cooperates closely with the Secretariat of the CBD, and is fully committed to work with all parties to the Convention in areas relevant to its mandate.

To ensure the objectives of the CBD are met, the convention sets out broad categories of obligation which parties must implement: they must establish rules governing access to biological resources, systems recognizing the rights of local communities, mechanisms ensuring the transfer of appropriate technologies, and procedures for “the safe handling, use and transfer of living modified organisms.” The relationship between the CBD and the WTO is still being defined, especially as regards the TRIPS Agreement.

### ENVIRONMENTAL AND SOCIAL COSTS

In a well-functioning market-based economy, prices register the relative scarcity of resources and the preferences of consumers (at a given income level), and serve to allocate resources efficiently among competing uses. However, the market alone does not lead to an optimal resource allocation unless social as well as private costs and benefits are fully reflected in product prices.

Environmental costs and benefits - “externalities”- are often not reflected in market prices in the agricultural sector. Thus, “market failures” may result in inappropriate patterns of production and consumption unless a judicious mix of economic and environmental policies are used to correct them. At the same time domestic “policy failures”, however, may have adverse consequences, either by directly harming the environment or by distorting price signals and causing a misallocation of resources. Trade liberalization could have implications for the environment and SARD to the extent that it stimulates significant changes in the current patterns of agricultural production and trade.

### THE WAY FORWARD

The reform process in agriculture is predicated upon the understanding that reduced policy distortions and market failures will lead to more efficient allocation of resources and more sustainable patterns of production. Trade liberalisation as a tool, not a goal in itself can be an important mechanism in support of sustainable agricultural development.