

Making Preferences for the Environment Compatible: A Case for International Compensation ?

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The Problem

Environmental problematics are perceived differently in each country (preferences for the present, fears toward GMOs, environmental standards, landscape values...)

Optimal domestic policies are different for each country, and interact differently with trade

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The problem

The inclusion of domestic policies in the WTO appeared necessary to remove the trade motivated uses of domestic policies (price support, subsidies)

What should be done with the domestically motivated uses of domestic policies ?

Same instrument, different motivation

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The research question

How to reach a balance between laissez-faire (no intervention) and free use of domestic policy (including legitimate environmental policies, dumping, lobbies-oriented protectionism) ?

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Some existing answers

The sovereignty:
each country holds full rights over her domestic policy

The compulsory laissez-faire:
natural exporting countries hold the rights over the other countries domestic policies

When Brazil claims that EU protectionism in agriculture is unfair, the implicit legitimate baseline is free-trade

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The OECD answer (2000, 2003)

Analytical framework to design policies that minimize trade effects.

Implicit right attributed to natural exporters

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Rationality of trade agreement on domestic policies

The ex ante situation is the legitimate baseline:

First scenario: total liberalisation: EU loses, Argentina wins, global gains are not guaranteed (trade gains but environmental losses)

Second scenario: optimal liberalisation: EU loses, Argentina gains, global improvement

⇒ The liberalisation can be mutually beneficial if Argentina compensates for losses in EU

⇒ idea of an illegitimate ex ante situation

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Rationality of trade agreement on domestic policies

Free trade is the legitimate baseline:

First scenario: EU maintains its subsidy: EU gains, Argentina loses, global gains are not guaranteed (trade losses but environmental gains)

Second scenario: optimal liberalisation: EU gains, Argentina loses, global improvement

⇒ The domestic policy can be mutually beneficial if EU compensates for losses in Argentina

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An intermediate baseline

- define in a multilateral non trade framework the common basic needs for domestic policy for sustainable development
- favor compensations from countries that want to be more protectionist than this level toward countries for whom exports would be an element of sustainable development

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conclusion

Full liberalisation of domestic policies cannot be an optimal outcome as long as domestic preferences for non trade concerns exist

A partial multilateral liberalisation can be mutually improving between countries behaving in a non co-operative way (without compensation)

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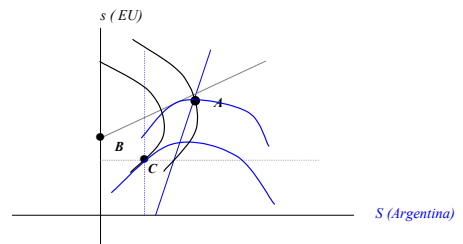
conclusion

Multilateral liberalisation of domestic policies cannot be mutually improving without compensation in the case of non co-operative countries and co-operative countries

A compensation scheme requires a common view the legitimate baseline

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Example of unshared gains within the trade agreement (B-C)



Example of shared gains within the trade agreement (A-B)

