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# WTO's contribution to sustainable development governance: balancing opportunities and threats

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objectif de diffuser des travaux qu'il juge intéressants pour alimenter le débat.

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## WTO's contribution to sustainable development governance: balancing opportunities and threats

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## Proceeding

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### Background

The preamble of the Agreement establishing the World Trade Organization (WTO) lists among its priorities sustainable development and raising standards of living. While the latter goal dates back to the seminal 1947 GATT preamble, the explicit mention of expanding production of and trade in goods and services “while allowing the optimal use of the world’s resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with [Members’] respective needs and concerns at different levels of economic development” is an innovation of the WTO compared with GATT (WTO, 1995: 9).

The WTO is also in the process of substantially altering the body of rules defined by the 1947 GATT, making the Organization into a multilateral authority that, despite some shared basic principles, has little in common with its predecessor. The new agreement repealed the Protocol of Provisional Application, which had given the GATT a temporary and limited legal framework subjecting implementation of Part II of the Agreement (chiefly concerning non-tariff barriers) to its compatibility with national laws. Negotiations are permanent and the commitment of the signatory countries is to a single undertaking. The number of member countries has more than quintupled in the past fifty years, with the most significant expansion following the initiation of the Uruguay Round. Dispute settlement, which has been reformed considerably, gives the WTO a restrictive conflict resolution mechanism that the GATT did not have or used very little (Jackson, 1997; Lloyd, 2001). In addition, WTO agreements cover fields that go beyond trade in goods, to which the GATT was limited – references to Multilateral Environmental Agreements or MEAs are explicit, while the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) are new pillars of the Organization.

The expansion of the trade agenda – toward the so-called “trade and” agenda – has provoked some controversy (Hoekman, Kostecki, 2001). Voices clamor to put the WTO back on the tracks laid by its preamble and to make trade liberalization a means rather than simply an end, leaving open the policy space governments need to satisfy collective preferences and develop the institutional innovations without which development and growth, even with freer trade, can neither occur nor endure (Rodrik, 2001; Lamy, 2004; Unctad XI, 2004). In the meantime, the objective of

sustainable development stated in the preamble does not seem sufficiently clear or consensual to legitimate the expanding prerogatives of the WTO.

As a consequence, the WTO now finds itself at a crossroads: behind it lies the GATT, with its outdated objectives and operation, and ahead of it looms the redefinition of its prerogatives and jurisdiction within global governance, the architecture of which remains unfinished. A consensus does seem to agree on the necessity of leaving the status quo behind. This requirement is supported by the WTO itself, as attested by its commissioning a report on its future from a committee of experts chaired by Peter Sutherland (2004). At the same time, Pascal Lamy and the Trade DG of the European Union have asserted that without rapid and radical reform, the WTO may face deeper and destabilizing accusations of ineffectiveness, denial of sovereignty and threats (European Commission, 2003; Lamy, 2004).

## **About the Conference**

This report presents the proceedings of the Third International Conference of the Concerted Action on Trade and Environment (CAT & E), held in the Salle François Goguel of the Fondation Nationale des Sciences Politiques (FNSP/ Sciences Po) in Paris, France on October 20 - 21, 2005, on the topic, "WTO's contribution to sustainable development governance: balancing opportunities and threats." The objective of the Conference was to clarify the possible threats posed by the WTO to the governance of sustainable development as well as the opportunities it offers by taking stock of the most recent findings of academics from various disciplines. The Conference convened high-level policy makers and academics with the aim of delineating a consensus at least on the issues facing the world trading system and on some promising ways to address them. The ultimate goal was to translate the academic debate on the opportunities and threats of the WTO back into the WTO's own arena and reform agenda. The conference was organized in four sessions revolving around four priority issues:

- WTO and Sustainable Development: Taking Stock of Ideas
- Trade and Development: Taking Stock of Facts
- WTO and the Environment: Taking Stock of Facts
- Trade and Services

Over 60 participants from a variety of backgrounds and from developed and developing countries attended the conference (see Annex II for list of participants).

## **About CAT & E**

The Concerted Action on Trade and Environment (CAT & E) is a three-year project funded by the European Commission DG Research. Running until the end of 2005, it is designed to provide an opportunity for the large and growing community of European researchers working on trade and environment issues to develop new lines of co-operative research. To this aim, the CAT & E network brings together researchers from almost every member state of the European Union. It is composed of three core institutions, namely IVM the coordinator, Ecologic and IDDRI, and 18 other members.

CAT & E provides its members the opportunity to meet regularly, to discuss research hypotheses and methods, to review results, and to generate new research impulses in this area. Moreover, the CAT & E project launched a process to document the progress of research in annually reports. These reports summarize the main lines of arguments and provide current bibliographies on more than 20 issues in the area of trade, environment and sustainable development. Topics covered in the reports include Investment, Human Rights, Subsidies, Services, Intellectual Property Rights, the relation between multilateral environmental agreements and the WTO, or Agriculture.

This conference is part of the international research project CAT & E, funded by the Fifth Framework Programme of the European Commission - DG Research in co-operation with the Task Force Global Issues of the German Federal Foreign Office. As the CAT & E project aims to launch dialogues with policy-makers at all levels, the CAT & E reports are written in a fashion that they are useful to both researchers and policy makers. Moreover, the reports serve as an input to three annual conferences. The objective of these conferences is to bring together network members, policy makers, civil society groups as well as the private sector to exchange point of views and knowledge and to engage in debate on how to move forward in the field of trade, environment and sustainable development.

The CAT & E reports as well as further information about the network, its members and ongoing activities can be obtained at <http://www.cat-e.org>.

## **Conference Proceedings**

### **Session I: WTO and Sustainable Development: Taking stock of ideas**

The Chair of the first session, **Hafiz Pasha** from the United Nations Development Programme (UNDP), began by stating that the WTO's potential contribution to sustainable development is overlooked. The purpose of this session is to address the paradigms of sustainable and human development that had been promoted for the last several years: seeing the role of trade in supporting development outcomes and greater human development.

Dr. Pasha emphasized a striking feature – while there has been rapid growth and trade has expanded very fast, it is clear that the costs and benefits of trade are unequal: prosperity for some, mass poverty for others. He indicated the potential of the conference to provide a background for the upcoming Hong Kong negotiations. Greater openness to trade is not an end, but a means to expand human capabilities.

Delivering on the promise of the Doha round will not address all problems raised by trade, but developing an appropriate multilateral trading machine will make a difference. The 2005 UNDP Global Human Development Report cited that the failure of the Doha round could damage the legitimacy of trade rules. Furthermore, at a time when security and shared prosperity depend on rules based multilateralism, the failure will extend well beyond the trading system.

**Laurence Tubiana** raises the question of adequacy between the efforts of scientific community and the needs of the negotiation: are scientific works well-focused or does their focus need to be shifted?

Laurence Tubiana went on to first describe the “vicious circle”: there is a general consensus that some sort of reforms should be passed, however there are concerns that if there is not a concrete result on agriculture the process of liberalization will stagnate and thus lose credibility. But symmetrically, if there is no change in the WTO, no success may be achieved in the negotiations. She described two possible tracks:

- (i) we must complete the current negotiations and we will think of reforms afterwards
- (ii) we cannot continue liberalization without reform.

Brazil and Argentina, for example, want to decide over time if reforming the institution is necessary. A major effort will be attempting to reconcile the two tracks. Is it possible to engage WTO reform without a positive conclusion of the Doha round? How do we put these two agendas on the same track?

There are three major issues that need to be addressed. What are the current negotiation deadlocks? Where are the knowledge gaps? And finally, what are the institutional consequences? Since the Doha round, multilateral trade negotiations are at a standstill, and the dynamic of bilateral or pluri-lateral agreements has been

strong. Since the failure of Cancun, there has been a growing protest on trade liberalization (perhaps the strongest occurring in Europe), and the entry into world market of countries like China and India poses challenges that were not anticipated. This may, however, be considered an archaic stance.

Laurence Tubiana next addressed possible origins of the deadlock: the deadlock can be explained through national preferences or through the limits of institutions. There are many nations involved, and thus a high diversity of national interests. There are, however, strategic interests at stake as well.

There are five arguments for explaining deadlocks. First, there is the protectionist bias argument, which asserts that vested interests make the policy. Second, there is the exception argument which holds that some sectors deserve exceptions, for example essential services, food security, and culture. Third, there is the adjustment cost argument, which says that short-term social costs serve as mitigation against long-term efficiency gains. The consequence of this is that exports are maximized and imports are minimized. Fourth, Dr. Tubiana pointed to the lose-lose argument, which establishes that some countries have no comparative advantage and will therefore be worse off. For example, what does Africa have to gain in the world trade situation? Finally, there is the collective preferences argument which claims that the social fabric is endangered. For example, in the European Union there is a consensus towards free access for goods such as health care and water, but it is difficult to compromise with the WTO.

What, then can lead to improvement? Dr. Tubiana pointed first to the production of knowledge about trade and its links to sustainable development. It is also possible to design a participatory approach taking on citizens' concerns and thereby giving legitimacy to the process. Also, it is important to supply missing information to decision makers.

As far as knowledge gaps are concerned, it is through knowledge and the learning process that there can be a better process within the WTO. There are four types of signals involved in this process. First, there is the signal to tax payers, environmental groups, and consumer groups on the impacts of status quo, so as to overcome lobbies. Second, there is the signal to trade partners and countries of the incompatibility of certain sectors with liberalization. Third, there is the signal to governments on the compensation amounts necessary from both domestic or international bodies to accompany liberalization. With a chart titled, "Negotiation deadlocks and the knowledge gap," it was shown that this method of "signals" does not seem efficient. In order to improve it, there must be a better understanding of how trade and development works, and how sustainable development is linked to trade.

Overall, there has been a blurring of frontiers between institutions. The WTO has dealt with environmental and social concerns, but the environment is losing momentum being replaced with the debate on the social dimensions such as poverty and inequality. The WTO, therefore, needs to incorporate these additional dimensions or partner with other international organizations.

Dr. Tubiana concluded by stressing the need for more consideration as far as the consequences and needs of individual countries. She also posed the question of how the environmental community can contribute more, and how trade negotiations and national policies may help.

**Ricardo Meléndez-Ortiz**, Director of the International Center for Trade and Sustainable Development (ICTSD) explained that his aim was to give less of an academic's view and more of an observer's view on the upcoming negotiations.

In the current trading system, the proposals made do not truly reflect the values of our societies. Economic governance has followed the path of trade liberalization, and as globalization intensifies so do inequalities (especially in trade). We therefore need to mandate the two regimes of environment and trade at the multilateral level, as the concerns and needs of countries differ with levels of wealth.

When discussing the “Trade and...” agenda, the human, social, and cultural aspects that go along with trade have been considered. Concerning sustainable development, Mr. Meléndez-Ortiz cited paragraph 51 of the Doha declaration which called for monetary consistency on sustainable development: this has not been implemented.

Trade and foreign direct investment are the main drivers of growth, and sustainable development agendas are greater than the actual public policy agendas. Do trade rules reflect the aspirations of societies? A move from the linear to the system approach on rule-making and implementation is necessary.

Mr. Meléndez-Ortiz then posed the question, “Fifteen years into the debate, where are we?” We have a WTO that incorporates sustainable development and the environment, but these issues remain very weak as there is a lack of input from non-trade countries and operational disarticulation (examples include: TBT, SPS, SCD, AoA, and TRIPs). There is a specialized and highly politicized yet diminished WTO forum in the Committee on Trade and Environment (CTE). The environment is also included in some selected areas of the Doha Development Agenda.

The GATT (1948-1995) became the WTO (1995) and now there are now multiple forums for trade liberalization, yet there is an adjustment challenge: who pays? This question is relevant for South-North trade flows and for emerging South-South flows. The Doha round negotiations on factors (coefficients that will be incorporated into the terms) differs from the Uruguay round (in which all were ‘equals’). This round will also focus on special and differential treatment in specific provisions: agriculture (SP/SSM) and fisheries. There are also capacity-building, technical assistance and supply-side issues.

The nature of debate before July 2004 was one of polarization. Now, many developing countries have “graduated” and the focus has shifted to least developed countries. There is an emphasis on compliance with rules that are best for integration and development

While there is an emerging platform to advance dialogue and negotiations for successful development round, different levels of ambition in market access remain an obstacle. The G-10 (friends of multi-functionality), G-90 (trade preference erosion), and EU are less ambitious while the US and the Cairns Group remained strongly in favor of market access. The US favors ambitious liberalization with limited exceptions. Despite ambitions, however, tariff escalation is significant in both traditional and commanding economies.

Next, Mr. Meléndez-Ortiz addressed how to manage a negotiation. Issues of food security and rural development used to be in development box, a box of exceptions of products to be traded for food security. Now, there are indicators for food security that can be used to define products in a separate way. This is an example of how Sustainable Development comes into the negotiations of very specific terms. In addition, tropical products come mostly from the poorest areas of the world. Perhaps these merit a different trade regime?

How do you determine success or failure? Success in Hong Kong will be determined by the deal breakers/makers, such as agriculture and services (especially concerning benchmarks), and the bargaining chips, which include: the environment and trade facilitation rules (including anti-dumping). Debates over bananas and cotton will also play pivotal roles. Living through the pains of adjustment as we move into new globalized reality means that moving towards more comprehensive governance is needed.

**Ronnie Hall**, representing Friends of the Earth, began by discussing the environmental and social impacts of the WTO and how these are not the same as they were in the 1990s as scope and scale are increasing dramatically in the current negotiations.

Friends of the Earth’s point of view is that the WTO overwhelmingly threatens environment. It has the potential to be beneficial in a few areas, but overall, it is

not. In the round, it is not helpful as it is. Natural resources negotiations (NAMA) are ongoing. Zero-for-zero liberalization of all natural resources will have impacts on applied tariffs. Full liberalization in forestry could have drastic and irreversible consequences in biodiversity hotspots. The same is true for fisheries, industrial fishing, and water fleets. Other serious consequences are not being taken into account by the WTO: fishermen depend on the supply of fish and liberalization could impact the levels of industrial fishing. To make matters worse, multi-lateral environmental studies are frowned upon at the WTO.

Friends of the Earth has been analyzing issues that governments consider to be non-tariff barriers. 212 notifications have been put on the table by countries as to what they would like to be removed. Environmental, social, health concerns have been on the table and this is what countries would like to see moved through trade negotiations.

The goal is to remove EU export restrictions from developing countries (especially in forestry). Although developing countries want agricultural negotiations to increase market access, the whole package is detrimental to developing countries, especially African ones. These countries do not think their development objectives will be met at the next round. A main objective for the G-90 is damage limitation. They are worried about it impinging on their trade, not improving their trade.

Rich countries say that we may shift on agriculture, but only if others shift on NAMA, thus

there is a real possibility of collapse in Hong Kong and Hall maintains that many governments have no plan B.

As far as global governance is concerned, there is a disconnect between trade issues and environmental and social issues. Multilateral trade rules are necessary, but can the WTO move into something that is useful for people and the environment? Hall says no. Trade negotiations have their own momentum. Governments always want to gain more than they will have to concede and the richest countries always push hard for as much as they can. Ms. Hall predicted that the WTO will implode on itself.

The WTO is not even in a situation to assess its own impacts on the environment. Any multilateral trade institution should be a part of the UN and any environmental issues to come out of the WTO, should be moved into the International Court of Justice (a part of the UN system). Disputes would be better resolved by the International court of arbitration.

**Robert Wolfe** of Queen's University agreed that the WTO is indeed "medieval" as many have said, but this does not necessarily mean that it should be reformed, as the "world is medieval" as well. He feels that there is no way to create a centralized authority with the ability to make everything right.

NAMA and services have very complicated organizational structures, with many small groups of countries trying to talk to each other. Without good policy processes within the member countries themselves, they will not be able to participate well in the WTO negotiations. Wolfe commented on the vicious circle previously alluded to by Dr. Tubiana: there cannot be an outcome without WTO and there cannot be a WTO without an outcome, calling it a neat vicious circle, but probably wrong, and therefore providing an excuse to talk about institutional design. Is the policy process domestically and within the WTO appropriate for sustainability? If the WTO is about non-discrimination, no one's collective preferences should trump those of another.

Professor Wolfe commented on Dr. Tubiana's discussion on signals, saying that this notion assumes that countries know what their interests are and therefore only need to know what other countries' interests are. He feels, however, that individual countries often do not know what their best interests are, and what they really need to do, then, is Learn together through negotiation.



Professor Wolfe also addressed the question of how the negotiating framework restricts the negotiations, and concluded that a negotiation will lead to a sustainable outcome only if it has institutional openness. In order for an institution to promote sustainable development, it should facilitate the ability of individuals to live out the life they think they should be living.

He stated the “Doubting Thomas rule” for institutional design: did not Jesus say, blessed are those who have not seen but yet believe. The problem is that if some times the word “environment” is not in the text, then environment people believe that the outcome cannot be good for sustainable development.. Maybe sustainable development is possible even when we don’t see the word “environment”. Trade people think trade, not environment. Don’t make them think beyond their expertise. Structure the negotiating framework so that the results are consistent with sustainable development. Maybe get environment and development out of the WTO.

The system is always “disarticulated” in the sense meant by Melendez-Ortiz. If anything the Uruguay Round made it more coherent.

Does the WTO process hinder sustainable development? What would improve it? Point of sustainable development has to be allowing people to live autonomous self-directed lives. Non-discrimination helps. What else?

Professor Wolfe concluded by stating that the WTO is therefore, unreformable, as it has no single designer. He explained that it reforms itself all the time, and the only thing we can do is to understand it and shape it.

**Paul Ekins** of the Policy Studies Institute commented on Ronnie Hall’s discussion, stating that he does not see a way to take the environment out of the WTO. There is a lack of willingness to go further in environmental agreements in the world today, but the environment and development are embedded in many WTO agreements. Ms. Hall clarified, saying that it was about removing the ability of these officials to “trump” national policy and other environmental agreements, which they can do this because the WTO is outside of the UN system.

**Meredith Crowley** of the Federal Reserve Bank of Chicago commented that the WTO is about non-discrimination. “Artesian” or “artesanal” fishing is not development: developing countries need property laws in order to assure sustainable development. Non-discrimination does not address “tragedy of the commons”: good fishing policy should address tragedy of the commons.

**Ricardo Meléndez-Ortiz** followed up the discussion by stressing that we live in an extraordinarily unequal world. For example, the average income in some countries is 60 times that of others, and the US economy is the size of the sum of the following 80 in the world. The biggest challenge, then, is to define systems of government that can combat these inequalities, for the reason countries joined the WTO in the first place was for insulation from power and to form multilateral agreements.

We therefore need a rules-based system to deal with inequality, as well as to address power inequalities. It is not about bringing the environment in or out. Trade and economic growth are all about development and you cannot divorce the two. Rules that are established need to be sensitive to development concerns. We need to have a system that allows for an equitable outcome.

**Adrian Hewitt** of the Overseas Development Institute asking what can be expected from the WTO? What does the UK hope to get out of Hong Kong? Britain’s trade policy is that of the EU. Mr. Hewitt commented on major hurdles on the way to Hong Kong. First, trade policy is complex, and there is a lot of brinksmanship going on before the negotiations. Next, there is the problem of coherence: Europe itself has problems with coherent policy.

An issue discussed earlier in the conference was that many countries have no “Plan B,” but Hewitt explained that in fact, “Plan B” would be the proliferation of bilateral and regional agreements, which are exclusive and in conflict with multilateral



agreements. Multilateralism is better for many of the 148 countries involved, as they need this protection. Finally, Hewitt pointed to the possibility that countries themselves could derail the talks again.

As far as the “Trade and...” discussion goes, Mr. Hewitt addressed the relationship between trade and developing countries. Developing countries expect a lot from other countries in Hong Kong. It is inevitable that they will be disappointed, but the stakes are high. One possibility is for the WTO to have a larger role in development while staying true to its foundations of the GATT. The WTO is an international public good; it is valuable and reformable. Although the WTO was once dismissed as “medieval” by Pascal Lamy, it is the closest thing we have to a multilateral organization developing world trade in the twenty-first century.

The WTO is a relatively young institution, and it is neither a UN institution nor a Bretton Woods institution, although it could have been. Consider the Bank and the Fund now: last week the G-20 explained the items that had to be reformed in the Bank and the Fund’s operations. Although venerable institutions, if not constantly reformed, they will falter. Even the EBRD is older than the WTO and it has gone further more quickly. The WTO inherits considerable baggage from its predecessor (GATT), but not in terms of resources since the GATT had few staff and no resources.

WTO is needed this century as we need a multi-lateral rules-based system of international trade. Every member of the WTO has one vote. Paradoxically, the WTO is actually a very mercantilist organization. It is not as liberal as it is made out to be. The rounds operate on the assumption that any member making a concession needs to negotiate a commensurate offer in exchange. Offers themselves are traded. Developing countries, especially individually, have very little to trade. One proposal by Hewitt is to build on the solid, but anachronistic foundation of the WTO and strengthen its regulatory capacity. Perhaps even a mitigation mechanism? Bound tariffs lead to penalties and then compensation. Why not re-orient these and apply them to developing countries?

We need to find ways to fill the gap of tariff revenue other than saying that they have to fill the gap domestically. A lot of tariff revenue is a problem for Ministers of finance. Who should be put in charge, perhaps developing countries themselves?

Changes are needed in Hong Kong to complete the Doha round. Developing countries have fragmented in a generally positive way, but there are obviously losers. Is it feasible to capture the gains while compensating the losers constructively as well? Mr. Hewitt cited three sound reasons to look sensibly at adding a WTO-based development adjustment and compensation function: (1) to replace revenue loss, (2) to give import adjustment assistance to countries that cannot generate foreign exchange, and (3) to increasing global welfare to improve negotiations efficiency. Compensation may not necessarily be monetary.

Examples given by Hewitt included the ending of Multi-Fibre Agreement (MFA) in January of 2005, where China was a big winner, and others that had preferential differences (African Growth and Opportunity Act-AGOA or Everything But Arms-EBA) suffered because they could not compete with China. It is in the interests of these countries to adjust rather than hanging on to minimal resources. For example, certain Caribbean countries like Barbados and St. Kitts are hanging on to a little bit of the sugar industry in order to be compensated, while they would be better off moving into the services sector.

The downsides are that new distortions will arise and all estimates are fallible. It is also likely that there will be resistance. Trade is between private entrepreneurs making markets within a regulatory framework.

**Nathalie Bernasconi-Osterwalder** of the Center for International Environmental Law began with a historical overview of trade and environment links at the GATT and WTO, beginning by explaining that in the early 1970s, there was greater attention given to environmental protection and the GATT focused on the implications of environmental policies on trade, but neglected to address the

implications of trade on the environment. This did not occur until the early 1990s with the Tuna-dolphin reports, which gave rise to concerns about implications of trade rules on environmental policies.

The goal of the WTO to liberalize trade can be used to get rid of environmentally-harmful subsidies. Multilateral environmental agreements (MEA) mandate is different as there is a focus on interrelationship. Many are disappointed with the way the mandate is being framed, feeling that the overall discussions are going in the opposite direction of what many had hoped. They wanted WTO linkages to strengthen MEA measures, but now feel that it might be best dealt with outside of the WTO. Any strategy addressing WTO and environmental linkages should contain long and short term elements. Some members, on the other hand, felt there is no conflict between MEAs and WTO rules. For some, inclusion of paragraph 31.1 was a noteworthy step of the WTO and has had a positive outcome, but that outcome is unsure. Will it contribute to a government framework that supports sustainable development?

The mandate that Dr. Meléndez-Ortiz mentioned in paragraph 51 calls on members to consider environment in all decisions. How will the mandate be operationalized? Are negotiations moving towards the environment---according to Hall this is not happening in market access group.

He next addressed the NAMA negotiations and environmental considerations, touching on informal negotiations in specific sectors, including environmentally-sensitive ones such as fisheries and forest products. He quoted Pascal Lamy, saying that "If you believe in markets, you believe that they need to be corrected every once and a while. The invisible hand itself needs to be taken by the hand some time," in order to express his view that members will need "accompanying policies." Developments in the NAMA negotiations on non-tariff measures reflect the unresolved tension between environmental regulation and developing countries' market access opportunities. The discussion demonstrates a general dissatisfaction with current trade rules. The impacts of environmental regulations on trade are perceived as illegitimate, even where those regulations are WTO compliant.

Environmental measures are controversial because they affect trade: the unease does not come from existing rules, but from trade imbalances between developed and developing countries

The following concerns of developing countries need to be addressed: enhancing transparency and notification of SPS and TBT measures; addressing financial and technical assistance to enable effective response to the introduction of environmental health measure; enhancing expertise and capacity to analyze and implement international standards; ensuring effective participation in standard-setting bodies; and, finally, addressing obstacles to the effective use of dispute settlement. In addition, developing countries lack resources to use dispute settlement mechanism.

To summarize, Mrs. Bernasconi-Osterwalder asked the question, "Inside or outside the WTO?" Many environmental groups (as well as MEAs) want to keep the environment out of the WTO, and the WTO itself says that it is not an environmental organization. He concluded by stressing that the consideration for the impacts of trade on the environment and environmental policy must be included in the WTO.

**Kristan Weisse** of the International Confederation of Free Trade Unions (ICFTU) discusses the human problems in getting the WTO to balance trade and sustainable development, as the ICFTU represents 145 million workers. He aimed to draw lines to general questions of WTO reforms.

A major threat to advancing sustainable development through the WTO is that it is a trade organization and not a development organization. It inherited ways of working from the GATT, such as traditions of secrecy and the neo-liberal paradigm and it elevated liberal trade theory to a constitutional level.

In order to deal with global problems, it must be left to the experts and biases and politics must be taken out of the discussions. These types of discussions do not really work for the WTO, as the problems we encounter today are much more integrated. There exists a problem with functional logic, as each organization has only one function (i.e. IMF, UNDP, etc.). What we need, Weise argued, is organizations that look at broader aspects and ideas together.

As for the question of liberalism vs. mercantilism, the answer is more complicated. The WTO in itself is liberal, but its members bring along mercantilist (he used the word “selfish”) priorities. It is not an autonomous organization; it instead develops through shifting priorities of members and the deals they strike with one another. The future at the WTO will be the status quo unless they change. If members wish to set development agenda, it should actually be easier to reform the WTO than to change the World Bank or IMF, as these have a much more autonomous policy space.

Reforms could have the most positive effect in areas of transparency, as openness means that members are responsible to their citizens. Weise explained that because the GATT was so closed, they could continue without considering environmental concerns. If people knew what was actually going on at these negotiations, they probably wouldn't allow them to go on.

Is mitigating negative externalities the best way to assure development? It may be the only realistic way, but maybe we should be idealistic. A compensation fund would only reinforce the two-tiered world that already exists.

As for the transparency and democracy questions, society needs to know about and be able to influence the decisions that are made, and comprehensive impact assessments are needed before the negotiations are even initiated. The WTO should take full part in international policy, and should consider the recommendations of UN agencies since UN organizations spend time cleaning up after the Bretton Woods institutions. Finally, there needs to be a change in understanding and logic: Is trade a zero-sum game? Are there internal conflicts between different goals? Are environmental and development concerns compatible?

**Paul Ekins** led a discussion in which he aimed to create a “larger perspective.” He began with a story about Mahatma Gandhi: invited to Southampton to speak with British about state of then India (Hindustan) he was asked about what he thought about Western civilization; he looked around and said, “Yes, I think it would be a good idea.” Ekins then applied this story to the topic of this conference, the WTO's contribution to sustainable development, saying, “I think it would be a good idea, but we're not there yet.” The losers are very poor in a global context which is very rich.

Hewitt's proposals come from general trade theory. There is potential within the WTO for mutual gains. There are also adjustment costs. But, after seven or eight rounds of negotiations, the issues of development and environment remain, and Dr. Ekins asked the question, “How do they fit in?”

Some economists argue that trade negotiations are automatically beneficial for the environment, but this is not true. There is the obvious existence of externalities, including environmental degradation.

Concerning the Committee on trade and the environment (CTE), Dr. Ekins explains that the people are not ignorant. Unfortunately, they show their expertise by what he called “filibustering,” or using all of the time for talking and not for taking action. In addition, many Southern countries believe that environment is Northern concern.

The issues of governance miss the point to some extent. The reality of the situation is that trade liberalization can be beneficial for all countries provided that the gains are fairly shared and provided that the environment is protected and even enhanced.

Environmental protection is a mutual interest. According to the millennium ecosystem reports, the worst environmental catastrophes we have ever seen are to be expected this century. People *at least* need to know what is going on.

We are far from addressing the grave nature of this problem. Should it be addressed inside or outside the WTO? If CTE wanted to do something, they could do plenty. Dr. Ekins concluded by bringing up the issue of transparency again, stressing that what we need to show is evidence that this is actually an issue that needs to be addressed.

**Simon Tay**, head of Singapore Institute for international studies, mentioned that he is not optimistic about what can be done in the WTO and posed several questions: in mainstreaming the environment throughout the WTO how would you measure progress? How do we want to think about special preferences and compensation? He suggested that we allow civil society to work on these issues.

**Mark Halle** of the International Institute for Sustainable Development (IISD) explained although there seems to be convergence in policies (trade, environment, development) in the WTO there is no consensus or mechanism to coordinate with UN. In addition, the WTO has not defined a specific mission/vision. How is progress measured? Only by the negotiated outcome? Can progress occur without declarations? Is there anyone pushing for the environment in the WTO anymore?

**Richard Tarasofsky** of the Chatham House commented that if the WTO were forced to define itself and articulate its vision, it probably would not be able to do so. Despite the logic of Ricardian economics, most people in the world do not accept full liberalization. Most people are less secure economically and feel a sense of threat at the prospect of trade negotiations. Until we do a better job at a national level of defining what countries really want, more transparency may not make much of a difference.

**J. Anthony VanDuzer** of the University of Ottawa agreed with facilitating the participation of developing countries in the dispute settlement process.

**Robert Wolfe** of Queen's University noted that nobody is talking about the "d" word – "differentiation." Rather, everyone is talking about the "m" word .. "mercantilism" at WTO means favoring exports over imports, which makes no economic sense. But reciprocity as a negotiating technique is something else. Thus his simple proposal is hard to imagine in as the outcome of a reciprocal negotiation. Why not use World Bank, which has the expertise, and can be more accountable for spending money?

**Adrian Hewitt** of the Overseas Development Institute felt that compensation could be applied to dispute settlement. He did not agree with Richard that most people accept trade liberalization. Compensation should, however, be very time-limited and most of the money should be put up front.

**Mark Halle** of IISD asking what is the yard stick? It is Amartya Sen: human development. There is a lack of urgency. Shouldn't environment be in WTO already? Kristan was severe, but I agree, trade is not a zero-sum game.

**Natalie Bernasconi-Osterwalder** of CIEL felt that collective preferences were linked to the idea of compensation. She favored giving a voice to civil society in dispute settlement and cited *Amicus curiae* (friend of the court) briefs signed by NGOs: usually civil society interventions will be in favor of developing countries. In the context of SPS agreement we should not take for granted that countries can make major strides – increased transparency will not make the cases longer.

**Kristan Weise** of ICFTU: Bringing all people into talks does not always lead to a better solution. He cited Bhagwati's interpretation of two birds in one stone. We should not try to solve all problems within *one* institution. By trying to resolve two problems simultaneously through one institution, you do not kill either. Leverage in international organizations today is *not* a social issue.

## **Session II: Trade and development: Taking Stock of Facts**

**Alice Palmer**, Director of the Foundation for International Environmental Law and Development (FIELD) began by explaining that while in the first session we looked at trade, development, and environmental issues as integrated concepts, the purpose of this session was to examine separately the facts surrounding these issues.

**Sylvain Chabe-Ferret** and **Julien Gourdon**, presented their main empirical studies and literature review in the context of the inequality issues in the WTO negotiations and the Doha development round. They addressed the consequences of trade liberalization in developing countries, saying that while some argue there are long-term growth opportunities, others argue that there are negative consequences such as poverty and inequality in the short- to medium-term.

They began with a series of definitions. Absolute definition of poverty is the part of the population with a real income below a given threshold. The World Bank traditionally chooses 1 or 2 \$ PPP per day. Inequality is the relative income distance between members of society as measured for example by the Gini coefficient.

As for theoretical channels, there is first what the authors define as a price effect: the channel leading from trade liberalization to the domestic prices of tradable goods and then to the cost of living and agricultural income. Welfare impact of the price effect can be measured by a household's marketed surplus. The second channel, termed the factor returns effect, starts from trade liberalization and moves to domestic prices of non tradable goods, and to factors returns, and then to income. The welfare effect of this channel can be measured thanks to factor returns elasticity to tradable prices and the shares of the different factors in household's income.

These two different channels have theoretically opposite impacts on poverty and inequality. Evaluation of the net impact of trade liberalization is thus an empirical matter. The empirical literature studying the distributional consequences of trade openness can be divided into two strands: a micro approach and a macro approach.

As for the micro approach, one has to evaluate the relative magnitude of the price vs wage effects. The price effect explains that the welfare impact of price change will be proportional to marketed surplus. This varies according to the type of liberalization undertaken. Under unilateral liberalization, there will be a price decrease in general beneficial to net consumers. Under liberalization in the rest of the world, there will be a price increase (due for example to the removal of developed countries agricultural policies) detrimental to net consumers. Under both types of liberalization one must consider the distributional consequences (Deaton, 1989): are the poor net consumers?

The world's poor are the net consumers of agricultural products such as rice, with the exception of cotton. In general, unilateral liberalization decreases poverty and liberalization in the rest of the world increases poverty. However, we must take into account the second channel, the wage channel. In the few studies that focused on that channel, unskilled wages seem to react negatively to decreases in prices of tradable goods such as clothing and food. As a consequence, the wage effect acts opposite to the price effect. Overall, there is an ambiguous effect of price increase on poverty. A magnifying effect is that the wage effect dominates price effect. Where unilateral liberalization increases poverty and multilateral liberalization decreases poverty, the wage effect dominates. In that case, that seems the more likely in countries such as Mexico or Argentina, unilateral liberalization will harm the poor in short to medium run, whereas liberalization in the rest of the world will be beneficial to the poor.

As for macroeconomic empirical evaluation, it is generally interesting, but there are no clear cut results. There are two main macroeconomic approaches: wage inequality in industry and global inequality in income (Gini coefficient).

The Heckscher-Ohlin theorem serves as the same initial point, saying that trade liberalization increases the returns to the abundant factor. Unskilled labor is abundant in developing countries so trade openness should lead to a decrease in inequality.

However, empirically, the expected result is not found. The wage gap in fact increases with openness, and global inequality never significantly decreases in developing countries.

In attempting to explain these unexpected results, Chabe-Ferret and Gourdon pointed first to skill endowment heterogeneity among developing countries. The idea is that all developing countries do not present a competitive advantage in unskilled labor. Using the wage approach, Latin American countries were no longer unskilled labor abundant when they liberalized, and unskilled labor-intensive sectors were protected with the highest tariffs prior to trade reform. According to the global approach, developing countries are less endowed in human capital and experience a lower inequality increase.

They next made a comparison between basic education and no education. Among unskilled workers this must be differentiated. Since the export manufacture-oriented industry does not use uneducated workers, trade increases demand for basically-educated workers. The wage approach says that trade in manufacturing raises the wages of workers with basic general education relative to skilled workers. In the same way, a global approach shows that the poor begin to benefit from increased labor demand only when they become relatively skilled.

Next is the natural resources explanation, based upon the idea that developing countries could specialize in primary products. The global approach says that since natural resources are unequally distributed, being an exporter of primary commodities increases income inequalities. However, when interacting with trade openness, endowment in natural resources has no direct impact. What needs to be directly controlled is land inequality .

Finally, technological change can be an explanation for rising inequalities with trade openness. This is mainly wage approach that empirically accounts for technological change. The idea is that interaction between trade and technical change increases wage inequality. There is a mutual link between trade and technological change, that leads to an increase in the returns to skilled labor. On the import side, increased imports of machines increase demand for skilled labor. On the export side, trade openness can lead a country to specialize in skilled labor abundant industries.

In conclusion, according to microeconomics, the poverty impacts of trade liberalization hinge on the relative magnitude of price versus wage. If, as it seems, the wage effect dominates, then unilateral liberalization increases poverty and liberalization in the rest of the world decreases poverty. It seems moreover that the effects of unilateral liberalization dominates that of liberalization in the rest of the world and that as a consequence there is a net increase in poverty after total liberalization. According to the macroeconomic approach, asset distribution is important to grasping the benefits of trade liberalization. In the WTO negotiations, compensation schemes and growth promoting institutions need to be included.

**Jean-Pierre Cling**, director of Développement et Insertion Internationale (DIAL) described the World Bank's policies as following a pattern of "two steps forward, one step back," and stressing that the World Bank should work more with the WTO on trade.

Following the Washington Consensus, trade reform was a key element in the 1990s. The World Bank has been increasingly critical of the international trade framework. Developing countries lose from TRIPs. Cling gave examples of inconsistencies in the

World Bank's positions: Dollar and Kraay, World Bank's stance on trade and development; PRSPs, what is the role of trade in these? (trade is not included); World Development Report 2006: what does it say about trade?

Theoretical background provides ambiguous answers. Empirical results, however, show three main stylized facts:: increasing integration of developing countries within world economy and trade, divergence of developing countries and developed countries—"divergence big time" (Pritchett) increasing inequalities and poverty.

Dollar and Kraay (2004) have tried to develop a new approach linking trade, growth, and poverty. They break down developing countries into globalizers and non-globalizers. Globalizers have had higher growth and vice versa. There are, however, numerous critiques of the division globalizers/non-globalizers. Globalizers have reduced their barriers, but retain more protection than others. Globalizers have increased openness but their trade ratios is still lower than non-globalizers. In addition, according to selected ratio, the time periods used are not comparable. Trade increase is not necessarily due to trade barriers (could be growth!) and China illustrates this point.

Trade impact's on inequality can be considered to have no impact (Ravallion, 2004) or to increase inequalities. World Bank poverty reduction strategies, however, overlook the impact of trade: The World Development Report 2000/2001 was the first critic of the Washington consensus. PRSPs, however, do not follow this line. They overlook the impact of trade reform on poverty. Cambodia's 2003 PRSP (when joining the WTO) did not even mention rice. The World Bank recommends not to discuss these aspects, but they *should* be discussed in the PRSPs. The approach to PRSPs reflects a broader problem in IMF-WB thinking: it is rooted in the wisdom that trade is good for growth and growth is good for the poor.

The World Development Report 2006 on Equity and development defined equity according to two principles: equal opportunity and avoidance of absolute deprivation. Equity has been studied for a long time by philosophers, sociologists, and economists, however, what does international equity mean? The WDR does not take into account the full implications of the concept and it does not promote reform of the WTO. In conclusion, although the World Bank has moved a lot on trade issues, it still has many contradictory positions and policies. "Trade not aid" is becoming "aid for trade."

**Robert Wolfe** indicated that GATT only worked because free trade abroad was balanced with the domestic welfare state. It seems to me that trade liberalization as an equity problem in developing countries is the same as it used to be in developed countries. Thus, shouldn't World Bank programs be trying to create domestic welfare states.

**Marcelo Olarreaga** of the World Bank clarified the reason for the neglect of the World Development Report 2006 of special and differential treatment was that this was treated in the reports from 2004 and 2005. The simple "trickle down" approach is not the only approach of the World Bank. There are also many more direct approaches. More direct effects of trade liberalization on prices: these will affect people directly, not through growth. Even though there has not been a change in wage effects, people *are* moving out of unemployment. The heterogeneity of countries is important to take into account, and we cannot conclude from *one* case study if trade is good or bad for the poor.

**Meredith Crowley** of the Federal Reserve Bank of Chicago asked why multilateral liberalization is increasing poverty at the microeconomic level.

**Bernice Lee** of the International Center for Trade and Sustainable Development (ICTSD) asked what was meant by Jean-Pierre Cling's statement that "the World Bank should be doing more on trade." How useful is it to analyze World Development Report instead of analyzing the actual policies? Even if the researchers at the Bank do not agree, they are carrying a large and influential brand, thus, when researchers publish under name of bank, it does indeed reflect the Bank and shouldn't they therefore come to agree on a general message?



**Laurence Tubiana** asked how do we reform if impacts of trade liberalization are powerful? We must stay within global rules; however these rules are not well-adapted. How are trade policies managed and reformed? Instead of very general rules that are the same for everybody, we need to take it country-by-country in order to account for heterogeneity.

**Paul Ekins** commented on the empirical results found by Chabe-Ferret and Gourdon, saying that we cannot take the results from one country and apply them to another one. There are multiple possibilities with ambiguous effects, therefore, it is key to know the size of the effects: taking results from Bolivia and applying them to Burkina Faso is not relevant

Is there a simpler way to calculate and then come to more robust conclusions. Should we use simpler variables? Is there any chance of the evidence base being improved instead of this different mix of variables? It seems like these studies already had a result in mind and then designed study around it

**Mr. Cling** clarified that he did not intend to criticize the World Bank, but rather to encourage it to work more with trade policies and the WTO in the future. Could the World Bank do more on trade? The obvious conclusion is that the PRSP framework is in a closed economy, and this is a drawback. One precise proposal, then, is to improve the PRSPs.

Trade policies can be used as an instrument. Even if it is not used for redistribution, its impact on redistribution must be taken into account. Regarding equity between countries, the poorest countries are definitely diverging and trade liberalization definitely has an impact. Even though the paper by Dollar and Kraay is not an official World Bank paper, their conclusions have, however, been included in many official World Bank papers.

**Sylvain Chabe-Ferret** has been asked why will multilateral liberalization positively effect prices? If barriers are removed, the large agricultural surpluses achieved thanks to developed countries agricultural policies will vanish, leading to a price increase. He defends the choice to draw general results, because there are two things we are sure of: the poor are agricultural wage earners, food consumers, and net consumers. Also, the income share of agricultural wages is higher than the food share in consumption, thus a decrease in their income will affect them more than a decrease in the prices of food. The “richer of the poorer” would benefit from entering the formal sector, but technology and human capital are crucial for drawing the line between trade and growth. Regarding the WTO rules, he feels that “real equity” is most important, meaning rules that take handicaps into account.

**Marcelo Olarreaga** of the World Bank explained that the Agriculture agreement in the WTO has three main components: market access, domestic support, and export subsidies, and all three are negotiated separately. The question, then, is where the scarce negotiating resources should be spent. The bundling of instruments can be misleading; for example the claim that the OECD agricultural subsidies reached \$300 billion is wrong. The true figure was actually about 90 billion dollars, and the other 210 was due to market access issues. Likewise, the speculation that EU cows can fly first class around the world due to subsidies is a misconception. The idea that “farmers” receiving subsidies are in the top income quintile is also false. This should be seen as an internal income distribution problem in the United States, and most of these numbers are due to border protection, not subsidies. He then posed the question, “Why should developing countries care whether the subsidy recipient is rich, poor or a cow? ”As for the question of border protection versus subsidies in the OECD, if you take out general services support (Green Box) and Food Stamp-like programs, you get down to \$235 for OECD’s PSE, two-thirds of which is due to border protection.

Dr. Olarreaga next asked what theory tells us, saying that subsidies are the least distortive instrument. He cited Snape (1986), saying we first need to get rid of border protection, and fiscal pressure will take care of subsidies. Entry into the European Union by new members should add additional fiscal pressure to the

subsidy system. However, the response may lead to increases in border protection. The bottom line is that the problem is border protection, not subsidies. For an equivalent level of support, subsidy should be the preferred instrument, as it does not introduce a consumption distortion.

In quantifying the impact, Dr. Olarreaga explained that the advantage of using a simple partial equilibrium model was country and product coverage and small data requirements. Increases in prices benefit exporting countries, but hurt food importers. Price and subsidy elasticities of import demand and export supply are estimated using cross-country variations.

The impact of a cut in tariffs dominates that of cut in domestic support or in export subsidies. Part of the reason is that tariffs are higher, hence a 50% cut is a lot in absolute terms. Also, the estimated elasticities are small. Most of the reference price in subsidy measurement is due to viable border protection. This may have very little impact on developing country farmers. There is a large degree of heterogeneity across developing countries, although most will benefit from a 50% tariff cut.

The conclusions drawn in Dr. Olerreaga's paper are that developing countries should focus on a market access agenda. Not all developing countries would benefit, but most would be better off. We must be careful with a "successful" development round that simply eliminates agricultural subsidies, and it is crucial to accompany Doha with "aid for trade" in LIC and LDCs to address NTMs, price transmission, know-how extensions services, etc. if Doha is to deliver on its development promise.

**Jean-Marc Siroën** of the Université Paris Dauphine, précised that the issue is whether or not labor standards are a matter of concern for international trade relations. What is the role for the WTO, which is devoted to defining the rules of international trade? For a brief history, Dr. Siroën began by explaining that labor standards were abandoned with the failure of the Havana Charter in 1948. Also important is the 1996 WTO Singapore ministerial declaration that the International Labor Organization (ILO) is the competent body to set and deal with core labor standards. This also excludes negotiations on labor standards from Doha. In 1998, the ILO declaration on fundamental principles and rights at work gives freedom of association and right to collective bargaining (conventions 87 and 98), and prohibits forced labor, discrimination at work, and child labor.

The first question to ask is whether multilateralism is served or disserved by the exclusion of core labor standards in Doha's agenda. The counterproductive effects include the proliferation of social clauses within regional and bilateral trade agreements, and the Generalized System of Preferences (GSP). For example, in the Trade Act of 2002, even if discrimination is frequently forgiven, ILO core labor standards, which have to be respected, are extended to conditions of work with respect to minimum wages, hours of work, and compensation. In the GSP, the EU's preferences are anchored to ILO core labor standards. The EU also proposes a "special rights incentive" for the protection of labor rights.

The next question is why social clauses should be in the trade agreement. The standard explanation is in terms of the political economy of protectionism. Trade unions, like the AFL-CIO, seek to impede imports from low-wage countries to preserve unskilled labor wages. May violations of labor standards be an instrument of trade policy as tariffs, subsidies, etc. which are regulated by the WTO?

Dr. Siroën posed two preliminary questions. First, is there a trade-labor linkage? And if yes, what is the sense? His theoretical answer (Heckscher-Ohlin-Samuelson inspired) was that there is trade-labor linkage but the sense is ambiguous. Violations are frequently associated with higher trade flows. Empirical studies say that labor standards are not affected by openness or trade, trade might be fostered by violation of labor standards. Some, such as Dani Rodrik (1996), contend that child labor contributes to a higher share of labor-intensive exports.

In a work with Dr. Clotilde Granger, Dr. Siroën used a database of sources on four core labor standard in 65 Northern and Southern countries and then a gravity model with bilateral trade flows controlled by GDP and distance. Preliminary

results found a bilateral effect: two well-scored countries trade less with each other and two badly-scored countries trade more. There is also a multilateral effect: a higher-score fosters total exports until a threshold and exports decrease beyond this point. If confirmed, it might be an obstacle to “endogenous” improvement of labor standards. Conclusions from empirical estimations are follows: Violations of labor standards may be an effective trade policy instrument to foster exports. Then, there are arguments to give the WTO some power. It does not mean that violations are improving welfare. It is a bad instrument for trade policy because the target, the world market, is very “distant” from the instrument which affects labor markets. They are probably not a good instrument to foster long run growth.

There are cases for including multilateral labor rights, including the erosion of non-discrimination, the extension of bad unregulated trade policies, and inefficient tariff negotiations. As a final conclusion, Dr. Siroën underlined that the inclusion of core labor standards in the WTO is not necessarily protectionist.

**Robert Wolfe** asked if Marcelo Olarreaga’s last bullet point justifying “aid for trade” could just as easily been called “aid for increasing agricultural productivity.” One could actually see the effect on trade flows of labor standards. Could the OECD’s PSE model be used to quantify this and then to work it into negotiations? It is protectionist to say that we have decided what level of labor measures to have, but it can be a part of larger negotiations.

**Mark Halle** commented on the danger of having a Doha outcome that consists mainly of reduction of subsidies, but that makes little or no progress on border measures.

**Meredith Crowley** asked how Olarreaga’s data would change if cross-section variations and inter-temporal variations were added.

**Paul Ekins** asked how RP could fall to zero when border measures were not decreased, since RP is mainly set by border protection? Also, why has it been defined that way? Why do agreements define subsidy in such a vague and unhelpful way, and is there any difference between domestic and export subsidies?

**Ricardo Meléndez-Ortiz** commented on the complexity of domestic support and asked if it was argued that market access should be reduced in OECD countries.

**Marcelo Olarreaga** responded that most of the numbers that come from the OECD are liberalizing. Overall, market access is what matters most with agricultural products. In the case of cotton, subsidies matter, but overall, what matters in most areas is market access. It is important to distinguish between non trade-distorting subsidies and trade-distorting subsidies, as the studies we have done here are only on trade-distorting subsidies. Simply eliminating subsidies could make for a dangerous round, but there is some role for subsidies to take pressure off of OECD countries.

**Jean Marc Siroën** explained that in terms of the trade effects of global standards, it is difficult to quantify labor standards since they are qualitative and there is no reference price for labor standards. Labor rights are not included in the WTO for goods as well as services. Only bilateral agreements include labor rights clauses.

**Ronnie Hall** of Friends of the Earth asked whether or not Mr. Olarreaga was only considering the impact on exporters, and the answer was yes. He does not deal with local farmers and the impact on producers domestically.

**Paul Ekins** noted that the true gainers from agricultural liberalization are developed countries. Among developing countries it results vary; there are losers as well as winners. It seems counter-intuitive that rich countries would benefit, yet they are the ones arguing against it. To this, **Marcelo Olarreaga** promptly responded, “I don’t care if your farmers are rich; I just want to export my beef.”

**Alice Palmer**, asked what happens when you bring non-trade concerns into the trade debate? She reiterated the importance of avoiding generalizations in empirical analysis. However, there are some generalizations that are actually true, but we

must consider the political impact during negotiations. It is different to achieve normative coherence within one institution (like the World Bank), and work can be done there.

### **Session III: WTO and the Environment: Taking Stock of Facts**

**Meredith Crowley** of the Federal Reserve Bank of Chicago started by explaining that economic theory predicts that free trade should affect the environment, as environment is another form of capital. Different models, however, predict more pollution in some areas than others. The important question to ask is how does freer trade affect the environment and how does the environment affect trade in return? Empirical research has had a difficult time verifying that freer trade has a robust and significant effect on a variety of measures of environmental quality. Economic theory also tends to support the idea that various trade sanctions (antidumping duties and safeguard tariffs) could be used to achieve environmental objectives. However, empirical research on trade restrictions shows that in a non-environmental context, the cost of using trade restrictions exceeds the benefit at the level of both national and world welfare. This may make policy infeasible.

Regarding the use of WTO-authorized trade sanctions, could and should these be used to affect the environment? Trade and growth affect the environment in terms of scale, composition, and technique of production. In general, more production should lead to more pollution, but as economies mature, they shift from industries to lighter manufacturing and services, thus less pollution. It is also possible that when there is freer trade, the economy could shift to cleaner or dirtier industries, thus making it possible in different scenarios to imagine that these shifts are ambiguous. This could lead to more or less pollution globally. The techniques of production are likely to become cleaner from freer trade because pollution is an inferior good. If there are countries where there is a responsive political environment, freer means cleaner.

If increased trade results in more trade in pollution abatement technology, freer may mean cleaner. Freer however, could mean dirtier if there is a regulatory chill phenomenon, or if countries are worried about competition from countries with less stringent pollution requirements.

The environmental Kuznets curve shows an inverse relationship (per capita income and level of pollution intensity) as income rises, increase in pollution (water, air) after peaking at the 8-12,000 level per capita falls. After a certain threshold, higher incomes are actually associated with a decrease in pollution, but the question is why? Is this due to changes in factor growth, preferences or the policy response function?

Literature was originally on growth and the environment, now papers such as that of Copeland and Taylor integrate trade. Copeland and Taylor explore how pollution regulation affects a country's comparative advantage. There is a concern that liberalization of trade causes industries to migrate to countries with the lowest standards. Copeland and Taylor distinguished between two concepts. First, the concept that all other things being equal, pollution regulation will affect plant location decisions. This, however, does not necessarily imply that large pollution havens will be created. The second concept is the pollution haven concept, which denotes that regardless of other factors of production, regulatory policy is so important that it swamps the effect of other factors in regulating trade flows. In 2001, Antweiler, Copeland and Taylor (2001) presented the factor proportions instead of the pollution haven hypothesis, the effects of which they were not finding in large proportions. This is comforting for overall environmental concerns since most polluting industries are capital intensive, thus in Northern countries, which also have the most responsive political process.

Regarding the potential use of trade sanctions in the WTO to achieve trade objectives, there are two exceptions for countries to unilaterally raise tariffs (used frequently by US and EU). The first is a temporary safeguard measure tariff or

quota imposed by a country when it wishes to protect domestic industry, the justification for which is that they are facilitating the use of new technology. This is effective if there is a credible termination date. Furthermore, empirical evidence is against safeguards, as there has never been a successful case in technology adoption after safeguards. Dr. Crowley did, however, give the example of Harley Davidson, which in the 1980s was on the brink of bankruptcy due to mismanagement. It received safeguard measures, retooled assembly lines, but it is not clear that the safeguard measures made the difference; rather, it was more likely due to the new management team. A safeguard measure results in a 30% fall in imports of a specific product, thus there is no benefit and a high cost to the consumer. The second exception has to do with anti-dumping duties. There is almost no evidence that competition is truly unfair. "Dumping" indicates pricing below your average cost of production. It can be justified on empirical grounds; however, these duties are very costly to consumers and they distort trade flows.

What, then, should the WTO do? Safeguards do not work in practice, and domestic policies like subsidies are more effective. As for anti-dumping duties for eco-dumping, the developing country should not internalize the social cost of pollution; rather, it should be taxing the developed country firm to put its plant there in order to force *it* to internalize the cost of pollution. The arguments for this are that it would reduce imports from polluters and increases imports from non-polluters. However, polluters may simply deflect dirty exports to other markets and implementation would be extremely difficult. Just because the U.S. restricts imports from a country where eco-dumping occurs does not mean that pollution will decrease at all – firms that face duties in the US simply sell their products in other markets. It is infeasible for a government to impose anti-dumping duties on its firms. The U.S. has a lot of information about its firms and imposing tariffs to avoid externalities would therefore just be protectionism no matter how intellectually appealing it may be to make polluters pay.

Dr. Crowley concluded by insisting that freer trade is almost certainly affecting the environment, although precisely how is not yet clear, and this must be understood before imposing policies. The use of trade sanctions to achieve environmental objectives is appealing in theory.

**Olivier Godard** of the Ecole polytechnique not only explained the present situation on environmental governance and precaution, but also giving an overview of the future. He compared the present situation to a Goya painting called "Fight with Cudgels" (1820-23). The two men fighting in the swamps, sink deeper the more they fight. He said this is like our international community now, a community focused too much on trade and not enough on the environment. To what extent will environmental issues and risk management change the relation between trade and environment?

The "precautionary principle" is an approach that aims at seriously taking account of emerging new threats before having scientific certainty. There has been a progressive acknowledgement of the precautionary principle (PP) or approach by international law over the past twenty years, with, for example, the protection of the North Sea (1987), the regulation of fisheries stock, and the Earth summit in Rio de Janeiro (1992). There is, however, an uneven level of acknowledgement. It has been a legal norm primarily in the EU in the field of environment since the Treaty of Maastricht (1992).

The PP is a frequently misunderstood concept, as there is confusion between the PP and the abstention principle (AP). The AP asks for proving there is no risk for the environment or human health, shifting the burden of proof and aiming at zero risk. The PP, however, calls for an early consideration of potential hazards (despite scientific uncertainty about their very existence and magnitude) and proportionality of measures.

The main contribution of the PP is a shift in the timing of risk management – the idea that we do not wait for full scientific certainty in order to take action. There are a range of measures considered to determine proportionate actions -- from doing

nothing to research, information, incentives, and suspension of authorization. Deciding what to do depends on a case by case judgment. The concept of the PP is to take more stringent action than would have been taken under prevention.

The PP has an ambivalent use in the international arena. There is a tier for enhancing international coordination and common action, for example, the UN-FVCC (1920) and Kyoto (1997). There is a justification to suspend previously agreed international rules, mostly trade rules. An example is the U.S. - EU dispute about the use of growth-enhancing hormones for beef. The PP is used to justify sovereign unilateral measures against international order.

The meaning of ambivalence in the case of the PP is that it is torn between two strong requirements: it must achieve international cooperation for a better management of global public goods and it must maintain the link between responsibility for safety and political legitimacy. A strange hybrid achievement was the Cartagena Protocol for LMOs (2000), the main disposition of which is a procedure of Advance Informed Agreement, which reinforces the right of states to restrict imports of LMOs on the basis of threats to the environment and indirectly to health. Is it the best means to achieve the UN FC on biodiversity?

Dr. Godard next turned to the issue of sovereignty, his first point being that the legitimacy of states is linked to their ability to ensure safety and basic freedoms of citizens. Second, he pointed out that the backbone of international law is made of conventional agreements based on mutual interests of sovereign willing parties. Next, a minor alternative foundation is the acknowledgement of humanity as the top legitimate reference. Finally, in terms of sovereignty, states are then accountable for their action before the international community.

Putting sovereignty as the highest value locks in the incapability of addressing global issues such as climate change. The alternative foundation would settle non-compensated asymmetrical obligations on states. It would give rise to a new right of a coalition of "good-willing states for humanity's sake" supporting a MEW to look after the behavior of rogue states that refuse to care for the global environment. The former could have the right not to be penalized in economic competition for their action in the common interest of humanity.

Godard's conclusions were that no progress can be expected without finding a more balanced equilibrium between the two sources of international law, and that states have 2 types of obligations: ensuring the safety of their people and citizens, and being the guardians of the common interest of humanity.

The PP is mainly affected by national collective preferences through the idea of proportionality. Four variables are involved: damage feared, safety goals, direct and opportunity costs, and scientific consistency of risks. The first three depend on collective preferences of various types. There is no reason why different countries should make the same trade-offs. A difficult issue is how to avoid the manipulation of the PP. The answer lies in international verification of national procedures of expertise and public debate to identify collective preferences.

Classical typology of issues: local, global and environmental degradation is either production or consumption, which occur at local and global scales. What, therefore, should serve as references? This typology has been put into question by globalization. A movement towards the globalization of all issues is achieved by the social process. The influence of NGOs depends on their ability to turn local issues into global issues. Transnational corporations are under pressure due to accidents and standards. There are new processes to define the quality of goods, and analysis at the border is not sufficient in cases where consumers have concerns for social and environmental issues related to the good.

Therefore, a new economy of environmental information emerges as a new condition to support trade relations for environmentally-sensitive goods does. It supports trade relations for environmentally sensitive goods, and involves new methods (life-cycle analysis, ecological footprint) and new signals and guarantees.

There are feedback impacts on technological choices, towards a differentiation of trade rules according to categories of goods.

In conclusion, the evaluation of ways to qualify goods implies abandoning the distinction between process and product to judge the tradability of goods, and issues are linked to risk management. The PP and sustainable development goals expand the rights of consumers, and no progress can be expected without the expectation of seeing the evolution of state sovereignty. These evolutions are not just between states, but also in commercial relationships between companies and consumers.

**Tristan LeCotty** of the Institut de Développement Durable et Relations Internationales (Iddri) began by stating that different countries have different preferences, fears, and face different types of risks. Therefore, optimal domestic policies are different for each country and thus, they interact differently with trade. The inclusion of domestic policies in the WTO appeared during the Uruguay round because of potential strategic uses of domestic policies. If many countries agree that trade motivated uses of domestic policies should be forbidden, what, then, should be done with the non-trade-motivated uses of domestic policies? What kind of disciplines can help discriminating between similar instruments, used with different motivation.”

LeCotty next asked how to achieve a balance between two extreme situations: compulsory laissez faire and sovereignty. Sovereignty means here that countries hold full rights over their own domestic policies, compulsory laissez-faire means that the multilateral community holds full right over each country’s policy. For example, when Brazil claims that EU protectionism in agriculture is unfair, the implicit legitimate baseline she refers to is free trade. There is an implicit right attributed to natural exporters on natural importers’ domestic policies.

Optimal policies for internalising environmental values have been derived from different models, including land subsidies, output subsidies or taxes, input subsidies or taxes, public payments, and secondary markets. Le Cotty explained that according to that unilateral vision of optimality, “countries have to be efficient in promoting their environmental preferences, but do not have to account for the effects of these policies on trading partners.”

The WTO rationale includes an implicit vision that free trade is the legitimate targeted baseline for trade liberalization. The derogations, however, are many, reflecting national reluctances to see laissez-faire as a common target.

The definition we use for collective preference is more narrow than that of Pascal Lamy, and is closer to the public economics concept of aggregated preferences. What would the policies be if vested interests were removed? Of what help can competition be in a world where different domestic preferences co-exist and interfere with trade in an asymmetric manner? LeCotty insisted on the importance of property rights referring to Ronald Coase’s demonstration of the reversibility of the externality problem. Should Brazil compensate EU for her steps in favour of market access, or should EU compensate Brazil for maintaining some barriers to trade ? In principle, compensation is paid to those who hold the property rights. Therefore property rights over domestic policy use to take collective preferences into account must be agreed upon first, and then negotiations can be more efficient, potentially including compensation.

Trade in beef between EU and Argentina serve as an example where collective preferences differ and where the present liberalisation scheme would lead to unshared gains. If the starting point of the negotiation is perceived as legitimate by EU, she has no interest to liberalize further her beef subsidies if she has preferences for public goods joint to the beef market. Nevertheless, her actual policy is costly for Argentina, as compared to free-trade equilibrium. In this case, liberalisation cannot be mutually beneficial. Thus, the GATT negotiation framework, that works as if gains were shared, cannot bring easily any consensual liberalisation scheme.



A previous or parallel negotiation on what is the legitimate baseline in terms of collective preferences and domestic policies should be carried on, possibly within the UN institutions, in order to help the trade negotiation to go further. A compensation scheme requires a common view of a legitimate baseline.

**Simon Tay**, director of the Singapore Institute of International Affairs began by noting that the perspectives in the conference have been all quite different -- some from Geneva insiders, and some by academic theorists. His perspective, too, would be different, as a professor, a lawyer, and someone removed from the WTO. His challenge was to look at North – South conflicts.

The question of property rights is essential to understanding the conflicts. His first argument was that we have tried to globalize or internationalize what would normally have been considered national issues, such as environmental protection. Conservation can be seen as a restraint on sovereign rights to use property and then the owner is deprived of certain opportunity costs. Southern countries are burdened with the costs of maintenance, as they have trouble facing up to opportunity costs lost and the costs of conserving.

According to the convention on biological diversity (CBD), the sovereign right of the owner has been explained in terms of incentive and compensation. There is a need to globalize resources. Tay also has great sympathy that natural resources/wonders are part of heritage of mankind, however forests are rooted in sovereign soil of individual countries. The CBD has a juxtaposition: where do the property rights belong? This can perhaps be reconciled with incentives and compensation. Mechanisms for compensation are included in the CBD, such as nature swaps and the purchasing of nature areas for developing countries as incentives to preserve what they might otherwise use, exhaust, or develop. Overall, following the CBD there has not been a general sharing of resources and in general, the CBD has put on more promises than it has delivered.

Most developing countries have found TRIPS detrimental to them, as they did not know what they were getting themselves into during the negotiations. Problems include that the CBD guarantees the protection of plant varieties with patents on plants, legal provision for rapid development of biotechnology. Some sovereign and poor countries do not want these plants to be patentable. It creates legal monopolies on what should be common resources. Patents benefit patentees, but not rights of indigenous people or holders of indigenous knowledge.

Concerning biopiracy: who is the property holder? Developed countries are often the ones complained against, yet they often lack power to protect this intellectual property.

In the discussion that followed the three presentations in this session, **Tony VanDuzer** of the University of Ottawa began by commenting on the need for an international solution because of the inability of developing countries to police the patent system themselves.

**Robert Wolfe** said that there is no distinction between a free trade baseline and sovereignty. Rather, there is more of a distinction between free trade and sovereignty *together* versus peace. The attitude is “do what you want, but at your own risk, and do not make other countries pay.”

**Richard Tarasofsky** addressed his question to Simon Tay, asking if the burden would mainly be on developing countries as providers for the system to work. Even with legislation an appropriate balance is needed, a balance between that and the insurance of appropriate benefits to local and traditional communities.

**Paul Ekins** talked about the “Environmental Prisoners’ Curve.” There is a turning point for pollutants, but the question is whether environmental quality can recover from emissions. The classical analysis of environmental effects leaves out if they are local or global.

**Mark Halle** asked how social and environmental policy aims can be translated into the WTO system. The trade system wants not only to eliminate illegitimate barriers to trade, but also to sanction legitimate barriers to trade.

**Eivind Hoff** of the World Wildlife Foundation said that collective preferences seem to be taken as given. During Le Cotty's presentation: how to separate interested from real collective preferences? What is the appropriate entity for sharing common rules and collective preferences and what about situations where collective preferences diverge? Example: alpha toxins in brazil nuts. The EU has imposed very low thresholds for levels of these toxins because they are claimed to cause cancer; however, these nuts are responsible for some of the most sustainable industries in the regions. "Clearly" citizens in Europe have a preference for saving the rainforests. Trade and environment: Meredith: you talked about sticks, but what about the carrots---the race to the top and the incentive to climb the regulatory ladder.

**Meredith Crowley** reacted to Dr. Ekins' points by pointing out that the early Kuznet's curve led economists to be lax about environmental protection claiming that if we are rich enough, the environment will clean up itself. She used the example of lead in gas. Studies in the 1980s showed that lead had serious human health consequences and there was an immediate response. Thus, in terms of where there are turning points for different pollutants, if scientific evidence is overwhelming that something will have an effect on human health, there is a response. However, there is a contradiction when it comes to SUVs in America. There has been no reaction to CO<sub>2</sub>. If citizens are not fully informed and do not fully understand the consequences of environmental degradation, then there will be little to no reaction.

As for the idea that in the changing composition of industries, someone will always get the dirty polluter, this is not actually true since some dirty production processes *do* require a high level of capital and can therefore only occur in developed countries. It is a question of identifying those that cannot move (capital-intensive) and then regulating them heavily.

Can collective preferences and national values be taken to a global level? These preferences are even diverse within individual countries. For example, there is a diversity of U.S. environmental concerns due to a diversity of geography. We must address the role of incentives on the environment, and control pollution and environmental degradation at the source and not with trade restrictions.

**Olivier Godard** responded to the questions by arguing that the Kuznet's curve is a typical quantitative explanation, using wrong variables, and is an ideological construction which does not really merit debate. The solution is to cut the total and to not wait for the effects on the mountain. There is a preoccupation with the use of the precautionary principle beyond basic uses. The strength of property rights and regulations must be reinforced. If competition is increased in the absence of these, then trade liberalization is not in the direction of increasing welfare. It will, instead, decrease welfare.

**Tristan Le Cotty** addressed Robert Wolfe's comment that countries should do whatever they want as long as they do not harm other countries. The problem is that any domestic policy can be seen as harmful for some trading partner as long as any common legitimate reference does not exist. Sovereignty is not, free-trade is not, but the present situation is not either. There are many unhappy countries, as some want more liberalization, some want to maintain the status quo, and some want less liberalization. Concerning Eivind Hoff's comment, collective preferences are different from existing policies indeed. But it is still very important to consider that domestic policies having an impact on trade can also have real non trade objectives.

**Simon Tay** addressed the suggestion of an international database asking how intrusive it would be and on whom. He feels that it would be quite intrusive, but the Brazilian proposal should be aimed at intruding on the operations of the

multinationals and creating transparency. Tay expressed that we must prevent the world from becoming a thieves' market. Regarding the national measures question, Dr. Tay feels that there is a dilemma facing third-world environmentalists. Some want to emphasize state sovereignty, but at the same time they do not know if they can even trust their own state to transfer the rights to traditional knowledge-holders and indigenous people. For example, in the Philippines, no government has asserted national legislation for the benefit of indigenous people.

Trade and the environment is not a simple question of two treaties, but a question of global governance. If Southern countries thought of their forests and species as global, would they dedicate more resources to conserve it? What is position of the South in regards to the WTO? The South often feels on the backward foot as their negotiating power is lower. Policy space for them to make their own choices is small. Emergence of G-20 promises more space for some and less for others. Relations between CBD and TRIPs are emblematic of these questions of power.

**Halle** offered conclusions. It is important to get policies right from the start instead of going back to fix it later. It is also difficult to repair in a system characterized by single understanding. Overall, there is a need to provide better and more targeted provocative information to the citizen.

#### **Session IV: Trade and Services**

**Erika Mann**, member of the European Parliament, began by saying that the question of trade in services is one of the most relevant and important issues, and divides the European Union politically.

**Professor VanDuzer** limited his comments to Mr. **Beviglia-Zampetti's** basic premise which is that, with the GATS, the world trading system has moved into areas of domestic policy that are profoundly sensitive like health and education with the result that the legitimacy of the WTO has been undermined and calls for far reaching democratizing reforms, like those in Mr. Beviglia-Zampetti's paper, are now frequently heard. Professor VanDuzer sought first to explain why this is.

He noted that for every state, public services are tied to the ways that governments discharge their responsibility to care for the most basic human needs of its citizens. The delivery of public services cannot be left to the market because services like health and education are examples of market failure. The market place will not supply the minimally necessary quality and quantity of health and education services. As a result, there is extensive public sector involvement in regulating, funding and delivering these services in every state.

Because of these characteristics of public services, the prospect of applying market-based constructs in the GATS, like most favoured nation treatment, national treatment and market access has been strongly rejected by national public services stakeholders. Negative stakeholder reaction has been encouraged by the fact that none of the government departments responsible for these areas, the public and private service suppliers or the professional organizations involved in public services delivery, had previously been required to consider the application of trade disciplines.

When these stakeholders did look at the possible application of the GATS to public services, they did not like what they saw. The GATS exclusion for services supplied "in the exercise of governmental authority" does not clearly exclude what are considered to be public services in most countries because typically such services are delivered through a mix of public and private providers. As well, it is unclear how trade disciplines like national treatment will apply to public services. One of the greatest concerns has been that the regulation and delivery of public services in many countries are in a state of flux, provoking worries that GATS commitments may impose inappropriate limits on the policy space for future reforms.

Professor VanDuzer concluded that, for all these reasons, the concerns that have been expressed regarding the application of the GATS to public services are

understandable. At the same time, he suggested that there is some evidence that the GATS may not pose a serious threat to public services and may not lead irresistibly to the privatization and commercial delivery of such services.

Under the architecture of the GATS, the basic obligations, the most important of which is most favoured nation treatment, are not very onerous. The more serious obligations of market access and national treatment apply only to the extent that a country lists a public service in its national schedule and then only subject to any limitations that a state has written into its schedule. While it is true that what a WTO Member includes in its schedule is determined through negotiations with the other Members of the WTO, the negotiated level of commitments so far in public services like health and education is relatively low. For example, only 30% of all members and 17% of developing countries have made commitments in any education sector and most of these simply reflect Members' existing scheme of public services regulation and delivery, rather than a commitment to liberalize market access for foreigners.

In terms of dispute settlement, only 6 out of more than 100 WTO Panel decisions have related to services and none to public services, apart from the decision on Mexico's telecommunications regime. This may reflect the shallow level of existing commitments but could also be a function of concerns that any challenge to measures of one WTO Member might result in a decision that limits the policy space for all.

Finally in the current GATS negotiations, which began in 2000, few proposals related to public services. There were none related to health other public services. The four (4) proposals that related to education were all limited in scope and recognized the importance of the role of the state in the sector. In the market access negotiations, very few requests have related to public services.

**Americo Beviglia Zampetti** commented that much of his paper focuses on the reasons why there is so much controversy in the WTO (as well as in Europe and elsewhere) with regard to public services liberalization. Such controversy is indicative a widely-felt malaise with the way rules, and especially trade rules, are made and implemented internationally and with the way the WTO discharges its governance function. Indeed there is a tension between the market-based logic prevailing in the WTO and the sustainable development needs prevalent beyond the WTO. The issue of public services is also particularly relevant for developing countries in their fight against poverty.

Hence, it is important to consider the issue of global governance and return to the core values of the international community as expressed in the 2000 Millennium Declaration. There the key challenge is to ensure that globalization becomes a positive force for all of the world's people. In this context, solidarity is a central value along with equity and social justice. The international trading system has a key role to play in achieving these values, with consequences relevant for public services debates and negotiations; however, the mindset in the WTO remains commercial, steeped in reciprocity, and does not take social priorities sufficiently into account.

What is the common baseline? It should not be the notion of free trade per se. A consensual benchmark ought to be found in the area of human rights: a rights-based approach that puts human needs at the heart of the discourse. Human needs have a clear link with the provision of public services: education, health, food, water. Governments have an obligation to provide for these. Thus, these rights can be a shared benchmark. The focus of the trading system would then need shift from goods and services per se to people. This attention to human rights and human needs is consonant with the notion of sustainable development (which can be enlarged to mean sustainable human development).

As sustainable development is already included among the WTO's objectives, this could serve as the gateway to bring attention to human development into the WTO. However, in order to consolidate such shift in approach, there must be an increase

in the democratic legitimacy of the organization. The system must engage in some reflection on the way it works. This merits attention since the issue of how and which kind of rules are made internationally is only going to come up more often. The barrage of criticisms we are already witnessing can, in part, be addressed by adopting for the organization a deliberative democracy model.

In the discussion that followed, **Robert Wolfe** expressed his opinion that Mr. Zampetti's idea is deeply flawed. Referring to people is wrong because it implies the existence of a community. However, the WTO cannot create obligations for people, as it only deals with States as an interstate body. How can this work legitimately and how can citizens object without the existence of a world community of people?

Dr. **Zampetti** responded that Dr. Wolfe's is the traditional objection to the 'global justice' discourse. The argument that "there is no international demos" is even the traditional objection to democracy in the EU. (Out of moral skepticism, all distributive issues are thought to be aptly discussed only in individual states). Global justice literature tries to overcome this problem. He felt that Dr. Wolfe's view was a traditional view of international relations that can be disputed.

**Laurence Tubiana** found Dr. Zampetti's paper more procedural than substantive. She suggested the inclusion of some sort of obligations as Ricardo Mélandez-Ortiz suggested in the first session. She asked what is to be done to make sure that there is some sort of revision mechanism if possible, and how do we sense that we are going in the right direction, since at the beginning we did not have complete information?

Dr. **Zampetti** responded that in recent times the international community has clearly stated its values and that these should be included in WTO negotiations. The introduction of an advisory assembly at the WTO could help, as it could assess collective values and actions.

Professor **VanDuzer** agreed that a mechanism for revision could be useful. He noted that states can always agree to amend the treaties that they enter into, but are often reluctant to initiate amendments for fear that the entire bargain that the treaty represents may come unraveled. GATS provides a model for dealing with the problem of adjustments to treaty obligations in the future that avoids this problem. When GATS was negotiated, the participating states did not know how to set up rules for the domestic regulation of services because none had previously existed. They agreed to certain general principles and committed to working toward the development of more specific disciplines over time. By recognizing an area of uncertainty at the outset and defining the parameters of future discussions to create future rules, the prospect for a successful outcome was enhanced.

## Conclusion

**Laurence Tubiana** concluded the conference by explaining that this exercise was just the starting point of an exercise in new thinking, and on questions that can actually be sent back to the academic community. There is a need to take the accurate information from insiders and try to reframe the issues, to form new ideas and perspectives.

She expressed a desire to keep the conference participants in the IDDRI network, in order to look beyond the negotiations and try to find ideas to work together. For example, compensation must be understood economically, politically, and at local and national levels in order to reach a collective objective. There is a concentration of points, for example the compensation on all levels and the process of integration, on which we should especially elaborate to propose solutions. We should try to elaborate on these ideas and to collaborate on something to produce next year.

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### **Concerted Action on Trade & Environment - CAT&E**

CAT&E brings together researchers from more than 20 institutions all over Europe, who are focusing their work on international trade and environment. The project puts its primary focus on the environmental dimension of trade policy, but will also consider the interactions between trade and social policy concerns that can impact on consideration of trade and environment linkages. Thus also trade and sustainable development issues are addressed. CAT&E responds to the need to develop dialogue between European researchers in this field in order to identify emerging results, consider research hypotheses and strategies and foster productive dialogue with policy makers.

CAT&E is funded by the 5th Framework Programme of the European Commission and co-ordinated by IVM (Amsterdam), Ecologic (Berlin) and Iddri (Paris).

## ANNEX I – Conference Program

### Thursday 20 October 2005

- 12:30 pm** Registration of participants  
**1:15 pm** Introduction: **Laurence Tubiana**, Director, Iddri and Chaire développement durable

#### **Session I** **WTO and Sustainable Development: Taking Stock of Ideas**

Chair: **Hafiz Pasha**, UNDP

**1:30 pm**

**Terms of the Political Debate: Between Threats and Opportunities – Laurence Tubiana**, Iddri and Chaire développement durable

We revisit the seemingly converging path of the sustainable development agenda and the trade agenda after Doha and delineate the salient controversies about the WTO's capacity and legitimacy in "allowing the optimal use of the world's resources in accordance with the objective of sustainable development" as stated in its Preamble. In particular, the issues raised by the shifting from negotiations on trade toward negotiations on "trade and" will be clarified and examined in the light of current WTO reform proposals.

**Trade and Sustainable Development: Prospects for Hong Kong - Ricardo Meléndez-Ortiz**, International Center for Trade and Sustainable Development (Switzerland)

What is the current hierarchy of stakes and issues in the "trade and" negotiation agenda? What is the relevant time-horizon for the main issues and concerns raised during this first day of debates to become priority bullets in the negotiation agenda?

**2:30 pm**

Discussant: **Ronnie Hall**, Friends of the Earth International (United Kingdom) and **Robert Wolfe**, Queen's University (Canada)

**2:50 pm** Questions and discussion

**3:30 pm** *Pause café*

**3:45 pm**

**Trade and Development: What Can Be Expected from the WTO? – Adrian Hewitt**, Overseas Development Institute (UK)

Temporary disruptions in trade negotiations, such as those encountered after Seattle (1999) and Cancun (2003), explicitly call attention to the social damage incurred by an inappropriate pattern of trade liberalization, especially in developing countries. What can really be expected from the WTO on the development side? How far have we been down the development agenda? What are the hurdles on the road ahead? What are the opportunities at the systemic level (such as Special and Differential Treatment)?

**Trade and the Environment: Where Do We Stand After Doha – Nathalie Bernasconi-Osterwalder**, CIEL (Switzerland)

The Doha Ministerial Conference ambitiously built bridges between the WTO and MEAs hosted by the UN. The breakthrough the Doha round was expected to make in environmental governance has created high expectations of the WTO's contribution to sustainable trade. This session will dwell on questions including: How far have we moved on the trade and environment agenda? What lessons can be learnt from trade and environment disputes (for example, tuna-dolphin, shrimp-turtle, and asbestos)? How deeply can (or should) trade and environment be integrated into the WTO?



**4:25 pm**

Discussant: **Kristian Weise**, ICFTU (Belgium) and **Paul Ekins**, Policy Studies Institute (UK)

**4:45 pm** Questions and discussion

**5:30 pm** End of first conference day

## Friday 21 October 2005

### Session II

#### Trade and Development: Taking Stock of Facts

Chair: **Alice Palmer**, FIELD (UK)

**9:00 am**

**Does Trade Matter? Impact Channels from Trade down to Workers and Farmers – Sylvain Chabe-Ferret and Julien Gourdon**, CERDI

**Social Governance: The World Bank, the IMF and Trade as if Inequalities Mattered – Jean-Pierre Cling**, DIAL

In the first part of this session, we feed into the trade and development debate data from the most recent academic literature on trade, openness, growth and inequality. While international organizations such as the World Bank assess these changes while focusing on ad-hoc, country-specific remedies – at least officially – the WTO seems to oscillate between a one-size-fit-all and an ad-hoc exemptions rule-based system. If inequality among and within nations matters to voters and stakeholders, what role could and should the WTO play along with or to balance the World Bank and the IMF? What role should these two institutions play in the definition of trade policies in LDCs?

**9:40 am** Questions and discussion

**10:20 am** *Pause café*

**10:45 am**

**Agricultural market access versus subsidies: what's more important for developing countries? – Marcelo Olarreaga**, The World Bank

**Labor Standards and Trade Agreements - Jean-Marc Siroën and Clotilde Granger**, Université Paris Dauphine

In this second part, the discussion will concentrate on unexpected consequences of trade liberalization and on the capacity of the WTO to allow member to adjust to such unexpected changes without either free-riding or manipulating possible safeguards and escape clauses to satisfy vested interests. The case for special safeguard mechanisms to be included in the Special and Differential Treatment in a sustainable development perspective will also be addressed.

**11:30 am** Questions and discussion

**12:00 pm** Lunch

### Session III

#### WTO and the Environment: Taking Stock of Facts

Chair: **Mark Halle**, IISD (Switzerland)

**1:30 pm**

**Does Trade Matter? The Environment and Globalization – Meredith A. Crowley**, Federal Reserve Bank of Chicago (USA)

## **Environmental Governance and Precaution – *Olivier Godard*, CNRS**

We extend the discussion on safeguards and exceptions to trade and environmental issues. What are the most recent empirical findings on the links between environment, trade and growth? To what extent has precaution become part of the body of trade and environmental law? How can the WTO allow members to adjust to unexpected environmental damage without either free-riding or manipulating possible safeguards and escape clauses? This session will also include discussions of the links between trade, environment, and poverty and of WTO case law on trade and environment issues.

**2:10 pm** Questions and discussion

**2:40 pm**

**Making Preferences for the Environment Compatible: A Case for International Compensation – *Tristan Le Cotty and Tancrède Voituriez*, Iddri**

**Environment and Intellectual Property Rights: Conflict or Cooperation Between North and South– *Simon Tay*, Singapore Institute of International Affairs (Singapore)**

We delve into the environmental component of collective preferences in the second part of this session, addressing the issue of their possible incompatibility among nations, as well as their treatment in bilateral trade negotiations.

**3:20 pm** Questions and discussion

**4:00 pm** *Pause café*

## **Session IV Trade and Services**

Chair: ***Erika Mann***, Member of the European Parliament

**4:30 pm**

**Trade Rules behind Borders: The Liberalization of Public Services and the Quest for Sustainable Development Governance– *Americo Beviglia-Zampetti*, Unctad**

Services trade liberalization involves the elimination of discrimination in the treatment of foreign and national services providers and the removal of market access barriers to both cross-border provision and establishment. Though it has often been reasserted that liberalization is not deregulation and that the positive list approach secures core services public provision, services trade liberalization remains one of the most conflicting issues in the trade agenda. The two speakers will detail the consequences of services characteristics on trade negotiations and will contribute to assess the impact on the economic and social fabric, and potentially on societal choices, of multilateral services trade rules.

**4:50 pm**

Discussant: ***J. Anthony VanDuzer***, University of Ottawa (Canada)

**5:00 pm** Questions and discussion

**5:30 pm** Synthesis: ***Laurence Tubiana***, Iddri

**5:45 pm** End of the conference

## ANNEX II – List of Participants

### B

**Bazillier**, Rémi - Université Paris 1 Panthéon Sorbonne - France

**Bernasconi-Osterwalder**, Nathalie - CIEL - Switzerland

**Beviglia-Zampetti**, Americo - UNCTAD - Switzerland

**Biagiotti**, Isabelle - Courrier de la Planète - France

### C

**Campbell**, Duncan - International Labour Organization - Switzerland

**Caron-Lecoq**, Céline - France

**Chabe-Ferret**, Sylvain - CERDI - France

**Cling**, Jean-Pierre - DIAL - France

**Coussy**, Jean - EHESS/CERI - France

**Crowley**, Meredith - Federal Reserve Bank of Chicago - USA

### D

**Dispa**, Nicole - Ministère de l'économie et des finances - France

### E

**Ekins**, Paul - Policy Studies Institute - United Kingdom

### F

**Farmer**, Martin - Institute for European Environmental Policy - United Kingdom

**Fernandez Pons**, Xavier - University of Barcelona - Spain

### G

**Gainard**, Mariebeth - Sciences Po - France

**Giljum**, Stefan - Sustainable Europe Research Institute - Austria

**Godard**, Olivier - Ecole polytechnique - France

**Goria**, Alessandra - Fondazione Eni Enrico Mattei - Italia  
**Görlach**, Benjamin - Ecologic - Germany  
**Gourdon**, Julien - CERDI - France  
**Granger**, Clotilde - Université Paris 9 - Dauphine - France  
**Guèvremont**, Véronique - Paris1 Panthéon Sorbonne - France

## **H**

**Hall**, Ronnie - Friends of the Earth International - United Kingdom  
**Halle**, Mark - IISD - Switzerland  
**Haum**, Ruediger - IOEW - Germany  
**Hewitt**, Adrian - ODI - United Kingdom  
**Hill**, Anthony - Convenor of the Reflexion Group - Switzerland  
**Hoff**, Eivind - WWF - Belgium  
**Hommel**, Thierry - Iddri - France

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