

IISD/IUCN/SDPI
Trade and Sustainable Development Project Workshop
April 12-14, 1999
Holiday-Inn Hotel, Islamabad.

A number of international trade and sustainable development experts attended the conference. The workshop deliberated on a future strategy for Pakistan to ensure more trade albeit with sustainable development.

PLENARY:

The workshop started with recitation from the Holy Quran. Following which was the welcome address by **Ms. Aban Marker Kabraji**, Regional Director, IUCN South & South Asia Program. She briefly highlighted the achievements of IUCN in Pakistan over the last 15 years. Ms. Kabraji said that the history of IUCN's presence and growth in Pakistan is an integral part of the development and subsequent implementation of the National Conservation Strategy by the Government and other institutions in internalizing the environment and development into the consciousness of some level of policy and planning. She mentioned that the world has drastically changed in the past years. Global policies take more of a precedence at the national level to the extent of greatly constraining the scope of national plan. In the field of trade, the impact of multilateral rule-making is even greater. While environmental conventions tend to be orientative, setting a broad framework within which national policy is to be set, trade rules are binding - they have the force of law at the national level. Unlike most environmental conventions, they are enforceable. Indeed, non-compliance carries sanctions, as the US is discovering in the famous shrimp-turtle case. She highlighted that being a member of the trading system means accepting the rules: not some of them, but all of them, in their entirety, as a body. Accepting the rules means vastly limiting the scope for national policy-making. Ms. Kabraji went on to add that while speaking of impact is not to say that the impact is necessarily negative. As was the case for environment and development, trade liberalization can be good for the environment, or it can be bad. The difference depends on whether trade and environmental policies are coherent and mutually supportive or whether they are in conflict. When they are in conflict, it is usually the environment that suffers. She emphasized that the focus on global policy – on macroeconomic policy – is a natural evolution for IUCN in Pakistan, just as the NCS was a natural evolution from an early focus on management of natural resources. She said that IUCN's aim is to contribute to developing the capacity of Pakistan's needs to articulate its own environmental interests in the trade context, to advocate these effectively in Geneva and in other places where trade and environmental policy is debated and the rules negotiated, and to ensure that trade and environmental policies are as convergent as possible. Ms. Kabraji concluded that without that, and with the best will in the world, Pakistan will be increasingly marginalized as major decisions affecting it are negotiated globally.

Mr Ahsan Iqbal, Deputy Chairman Planning Commission and Minister of State, who is also the Chief Coordinator Programme 2010, gave a speech on Pakistan's perspective on this issue stating that the WTO is the new trade order and developing countries such as Pakistan need to debate this new trade order. He questioned if developing countries are reaping the benefits of trade since the ratio between the rich and poor countries fifty years ago was 1:50; now its 1:500. Hence the developing countries have lost out. In the past Pakistan has signed various protocols in ignorance without fully realizing its implications. Hence, there is a dire need to pay greater attention to trade agreements and build capacity within the government departments on the important linkages between trade and sustainable development. He further said that the developed countries have the means and resources to fully comprehend and implement strict environmental compliance to its industries. In comparison developing countries have neither the expertise nor the technology to achieve the standards set by the West. Furthermore he questioned if it is justifiable to have the same standards across the world and whether the North should play its part to enable the developing countries to come into compliance. He stressed the need to create a greater level of awareness to protect our environment. Mr. Ahsan said that Pakistan was totally committed to sustainable development and rather than becoming victims to the development paradigm, developing countries including Pakistan should develop competence on issues of trade, environment and sustainable development. The Minister of

State concluded that the government of Pakistan has already established an inter-ministerial WTO section to review the world trade order

The WTO Perspective was presented by **Mr. Jan-Eirik Sorensen**, Director WTO Trade & Environment Division. Mr. Sorensen gave a brief on the GATT and quoted from the Brundtland Report that poverty is the simple most important factor for environment degradation. He said that economic growth via trade is an important component of sustainable development and if properly planned, trade and environment policies can be mutually supportive. The agreements at WTO deal with environmental commitment. He pointed out that the WTO is not an environmental protection agency and that its mandate is limited to trade policies. Mr. Sorensen went on to say that the GATT and the WTO provide significant policies in protecting the environment and that trade liberalization can help improve the environment of an economy. However the respective governments need to improve policy coordination between trade and environmental policies, starting with national policies and then by international organizations. Hence if there is a problem between trade and environment, it is the fault of the government. He mentioned that punitive trade restrictions would cause damage to the country and trade openness is beneficial as it leads to better information access to environment friendly technology. Mr. Sorensen noted that incentives such as financial assistance and environmental friendly technology should be made accessible to developing countries to comply with environment standards. The way suggested by him was for countries to abide by the Multilateral Environmental Agreements. He said that there are around 200 MEAs to date, of which 20 of them have trade measures. Mr. Sorensen concluded that the WTO has legalized all stakeholder participation to ensure a broad support for the multilateral trading systems.

Dr. Aaron Cosbey, Interim Director, Trade Program, International Institute for Sustainable Development (IISD) gave a description of the IDRC/IISD/IUCN Trade and Sustainable Development Project Description. He explained that the project aims to increase awareness, knowledge and understanding of the issues among developing country research institutions, NGOs and governments. The result of the workshop would be a sustained dialogue on national interests in the area of trade and sustainable development and a stronger Southern voice on the issues internationally. The capacity gained in the process would be valuable to WTO Members in preparing to review the Uruguay Round agreements and to begin new negotiations in a number of areas. The project comprises of research and workshops in five selected developing countries/regions: Argentina, Central America, China, Pakistan and South Africa. In Pakistan, the research partner organisations are Sustainable Development Policy Institute and IUCN-Pakistan.

Opening remarks were given by His Excellency, **Mr. Ferry de Kerckhove**, Canadian High Commissioner to Pakistan. He stated that trade and environment are common themes and environmental considerations are critical to WTO rules. He said that developing countries should not repeat the mistakes committed by the developed countries in the past and with economic growth, the countries should seriously consider the role of the environment. The Canadian High Commissioner further said that the WTO should ensure eco-labeling does not serve as disguised trade barriers. He said that there is a fear of losing the spirit of the Rio Conference, i.e. environment and development. His Excellency said that more emphasis need to be placed in mainstreaming environment in the WTO rules. More focus is needed on the environmental weaknesses of trade rules and the environment benefits which may be reaped by liberalizing trade. Moreover policy coordination at the national and international level should be strengthened such as enhancing the cooperation between United Nations Environment Programme and the WTO.

There was a vote of thanks by **Dr. Shahrukh Rafi Khan**, Executive Director, SDPI and the plenary were invited to tea.

Session 1: Background

Trade and Sustainable Development:

Chair: Jan Eirik Sorensen, Director WTO Trade and Environment Division

Dr. Aaron Cosbey, started the proceedings by presenting an overview of the relationship between trade and sustainable development, the effects (both positive and negative) that trade and economic openness can have on environment and development. He described the positive effects on environment and development are in three ways:

- **allocation efficiency:** trade allows countries to specialize in producing those items at which they are relatively more efficient - at which they have a comparative advantage;
- **efficiencies from competition:** Another way in which trade creates wealth is to expose domestic firms to foreign competition, and thereby force them to become more efficient at producing their goods and services;
- **imported efficiency:** a third way in which trade can create wealth is through openness to foreign investment, or imports of technology, which can bring more efficient methods of process and production.

Dr. Cosby went on to describe the negative effects of trade and economic openness which might work against development and environmental protection objectives:

- **Scale effects:** arise when the trade induced increase in allocative efficiency makes it possible to produce and consume a larger quantity of goods and services. As the scale of the economy increases, so too do attendant environmental problems such as the use of natural resources as inputs and the production of waste;
- **Income effects:** The richer countries of the world have far higher per capita emissions of all types of greenhouse gasses than do developing countries;
- **Competitive effects:** Arise from the competitive advantage inherent in lower environmental standards.

Another manner in which trade may be detrimental to environment and development is through direct effect. This is where trade in question is in itself environmentally damaging, or contrary to development objectives, e.g. trade in endangered species; in prohibited and hazardous goods.

He explained that the relationship between trade and sustainable developments is an immensely complex interaction that varies from country to country, sector to sector and firm to firm. There are both threats and opportunities in their relationship for countries and firms pursuing economic development and environmental protection.

He pointed out that trade, as wealth creator is an assumption and its is not certain that every sector will benefit. Dr. Cosby concluded by asking if there is any optimum level of income which would be beneficial to the environment. Since it is evident that low income leads to environmental degradation. Similarly higher income leads to wastage. He concluded that there is no optimum level of income, which will be beneficial to the environment.

Dr. Konrad Von Moltke from IISD Canada, presented his views on International Environment Management stating that amongst the forces of globalization, the environment is an important one as a political force and that every environmental issues has an international dimension. He stated that when decision are taken in environmental matters, the developed countries and the developing countries have different perception and views. At various international negotiation forums, its not always the North versus the Southern Countries but in most cases is the developing countries along with some developed countries contesting their issues with other developing countries and their allies from the developed countries

Dr. Konrad said that the environmental agenda is extremely complicated and discussed the importance of transparency in the WTO and all trade agreements to include NGO participation as well as the general public. He reiterated that trade and environment has both positive and negative impacts. The negative impacts are partly exacerbated by lack of regulatory systems. He concluded by highlighting the need and importance of better national policy coherence.

Session II: BACKGROUND II:

Chair: Mr Abu Shamim Arif, Secretary, Ministry of Industries and Production

Dr. Zafar Mehmood started the proceedings by explaining the trade and environment linkages in the post-Uruguay Round: A Case of Pakistan. Starting with a brief background of the Uruguay Round multilateral trade agreement, he went on to state that much of the international debate on environmental issues have focussed on three basic issues. His paper discusses these issues in detail: (i) the linkages between environmental policies and international competitiveness; (ii) the use of trade measures for environmental purposes and (iii) the appropriateness of harmonizing

environmental policies across countries. He concluded that Pakistan has taken various measures to improve environment standards. He noted that Pakistan has introduced NEQs with effect from July 1, 1996 and Pakistan Environmental Protection Act 1993 has been revised to incorporate the recent challenges and this Act has been enacted in 1997. Following the recommendations of the UN Conference on Environment and Development in 1992, Pakistan has incorporated EIA in its Environmental Protection Act 1997.

Mr. Haider Ghani Mian, Senior Coordinator, Environmental Economics Programme, IUCN Pakistan, presented a paper on *“Trade and Sustainable Development: An Overview from a Pakistani Perspective”*. Starting with the explanation of the trade debate, he said that traditional trade theory, based on the concept of 'comparative advantage', claims that trade brings mutual benefits to all parties engaged in exchange. The classical argument for opening up to trade is the benefit of exploiting comparative advantages.

He went on to depict the viewpoints of both the proponents and skeptics about trade liberalization. He stated that the impression of overwhelming evidence that trade liberalization will always generate growth is not always the case. There is ample empirical evidence to suggest that many countries have in periods, adopted restrictive policies with respect to trade.

Mr. Mian went on to describe the constraints facing Pakistan. It is important to understand that trade liberalization will only have a positive impact on the economic and environmental front, if market forces are allowed to function, thereby enabling that the true costs of products are recognized in their prices. He pointed out that currently this is not happening due to inappropriate pricing mechanism. As a result, developing countries are being forced to overexploit their natural resources and outward oriented policies only expediting the process.

The fear from Pakistan's perspective was explained by Mr. Mian. Over the years trade policy is being increasingly used both multilaterally and unilaterally, to enforce environmental compliance by individual governments or multilateral environment agreements. These include unilateral use of trade measures to enforce environmental compliance on the part of trading partners. Furthermore, companies in the North fear that with dismantling of trade barriers, would give the developing countries an edge due to their less stringent enforced environmental regulations enabling them with lower comprehensive costs. This might lead to relocation of factories to developing countries to take advantage of lax environmental regulations. Similarly firms in developing countries, like Pakistan feel threatened that with trade liberalization, they would be an influx of dirty technology from the North coming into their countries. Mr. Haider concluded his presentation by stating what is needed by Pakistan so as to ensure that trade and sustainable development go hand in hand.

DAY 2: SESSION III

DISCUSSION ON OTHER DEVELOPING COUNTRY EXPERIENCE:

Chair: Mr Muhammad Sulaiman, Additional Secretary, Ministry of Commerce

There were heated debates on various North-South trade issues on the second day of the Trade and Sustainable Development Workshop. Experts from India and Singapore shared their country experiences in countering the non-tariff barriers to trade being put up by the rich Northern countries to block southern imports.

Under Secretary in the Ministry of Commerce to the Government of India **Mr Atul Kaushik** detailed the various new guises of controls that were being used to block imports from the poorer countries. He cited numerous examples of how the rich countries wanted the poorer ones to open up for their products but worked overtime to create non-tariff barriers to refuse market access to the Southern exports. He talked about various technical regulations that third world countries like India are finding very difficult to comply with. In the Azodyes for the textile industry, the Indian government had already started taking remedial actions for finding alternatives when German producers of same Azodyes received a relaxation from their own government. The power to change rules in the North and the costs are incurred in the South. The North needs to take responsibility and provide the needed technical assistance and aid.

Director Singapore Productivity and Standards Board, **Dr. Guan Thian Peck** explained his country's experience with green production and putting in place environment management systems. He emphasized that environmental protection cannot be carried out at the expense of economic development as both trade and environment protection are mutually supportive. The Singapore government is assisting a very interested industry to meet standards to help them lower costs of production via conservation, waste management and recycling. This, he said, will let them break into export markets by fulfilling its obligation under the Montreal Protocol, ISO 14000 promotion, Green Productivity Programmes and Environmental Labeling schemes.

EMPIRICAL STUDIES ON PAKISTAN

Chair: Mr A. R. Kemal, Chief Economist, Planning Commission of Pakistan, Ministry of Planning & Development.

"The Role of Governance in Trade and Sustainable Development: The Case of Cotton Products." **Dr. Tariq Banuri** talked about the cotton commodity chain. He pointed out that the farmers received next to nothing for growing cotton and facing the perils of pollution and hard work in the field. Profits, or Rents as economists call them, are cornered by those higher up in the chain such as producers of made up goods who get ten times more per unit than the farmer. Further he pointed out that the costs of inaction on the environment front are extremely high. Up to four billion dollars or more are lost to environmental damage to our resource base every year. Dr. Banuri pointed out that environmental mitigation was much cheaper by contrast as it only comes to one-and-a-half per cent of the cotton sales revenue in any given year. Dr. Banuri showed through an analysis of the cotton commodity chain that maximum profits were captured by multinational retailers in the North who are now contriving to create hurdles for Southern textile exports which will see a larger share of the profit coming to the producers. He advocated for a new mechanism to make the distribution of profits from the cotton commodity chain more equitable.

"Environmental Impact of Trade and Mitigation Options: Cotton Textile and Leather Sectors" (by Shahrukh Rafi Khan, Mahmood A. Khwaja, A. Matin and Sajid Kazmi). **Dr. Shahrukh Rafi Khan** presented an SDPI research paper on the costs of environmental mitigation in the textiles and the leather industry. His analysis showed that the costs of mitigating the environmental impact of cloth production in the textile sector and hides and skins production in the leather sector for export were extremely low. The costs of the pollution generated were documented and the costs of mitigating the pollution were estimated and reported. Working with figures showing the growth projections for export in the two commodities he showed that mitigation was much cheaper than letting the markets slip out of your hands in the wake of stricter environmental standards that will come into force in the year 2004.

DAY 3: SESSION IV: CAPACITY BUILDING SESSION

Chair: Dr Sarfraz Qureshi, Director, Pakistan Institute of Development Economics.

“Clean Development Mechanisms and Other Issues on the Horizon”: Director IISD, **Dr. Aaron Cosby** briefed the morning session chaired by Director Pakistan Institute of Development Economics, Dr. Sarfraz Qureshi on the Kyoto Climate Change talks. Dr. Cosby explained the Clean Development Mechanisms (CDM) that allow a regime of trading pollution permits between countries. The CDMs are project oriented. He said Southern countries should watch out for the Northern commercial companies who will try to engage in profit oriented projects to reduce green house gas emissions. The idea is that the poor countries shall get investment and technology and the Northern governments will get some credit for meeting compulsory emission reductions. It was pointed out in the discussions that the North was responsible for most of the emissions and the role of the South has actually been pragmatic and compromising in accepting the CDM discourse. However, he warned that the North will try to buy credits from the poorer countries so that it does not have to drastically readjust its economy to meet the new emission standards.

There is, of course, the likelihood that investments may mostly be directed to the prosperous countries, he added. The opinion of the house was that the North needs to do a lot better in terms of solid and fair investment and technology commitments to make this a reasonable protocol.

“Investment: WTO and Multilateral Investment Regulations” Prominent United Nations Environment Programme (UNEP) consultant **Professor Konrad Von Moltke** discussed the Northern efforts to realize a multilateral agreement on investment. He told the workshop that it was good for everybody that the initiative by the Organisation of the Economic Cooperation for Development (OECD) died when differences emerged within the Northern countries. He told the house that it was a common Northern practice to develop a consensus among themselves and then impose it on the South in the process of multilateral negotiations. That did not work in this case, he added. However, he did mention that there was a need for such a convention for investment like the Framework Convention for Climate change to make the foreign direct investment moral and responsible. The South has a better chance to collectively protect its interests in such a multilateral framework because in bilateral negotiations they are always the weaker party. The WTO he said was the last place where multilateral investment's should be placed. Talking of recent practices of direct investments in Pakistan he said this was not investment but robbery. Professor Konrad concluded that there is a need for a new international organization as an investment regulatory body.

“Down the Road From Rio: Whatever Happened to the South's Trump Card”. **Professor Adil Najam** from the Boston University, USA, pointed out that the South needed to realize that it was not entirely powerless. Its potential power lies in collective action by working with other developing countries to develop negotiating positions. He also pointed out that the South should be proactive on the environment front because it risks being "set-up" by the North as anti-environment. He said Northern governments themselves did not want movement on the trade and environment agenda. Thus, he suggested to call the North's bluff. He recommended that the South should ally with Northern environmentalists who are more sympathetic to the sustainable development agenda than the trade of political interest there. He thought piggy-backing trade and environment agenda was a good idea because it is in line with social justice.

He said that the South has been marginalized and “bullied” into agreement by signing too many treaties into too little time. Dr. Najam explained that LDC have been trapped in a reactive cycle. The agenda has already been established and the South did not do a good job in making their own agenda. *“I have met the enemy and it is I”* - The south has to understand that they have only themselves to blame.

He emphasized why trade and environment link should be taken seriously and explained it under three sub heading

1. *The Economic logic:*
 - Multilateral solution trump bilateral solutions.

- Whether government engage or not, the exporters will have to comply.
 - Seeking opportunities amidst threats : e.g., the green cotton
2. *The Environmental Case:* If we don't worry about the children of Kasur, who will?
3. *The Strategic Case:*
- Calling the North's bluff:
 - Either you are on the boat, or the boat leaves without you
 - Environmentalists are more sympathetic to the South than free traders.

Dr Najam concluded that the awareness in environment at the national and local level has increased in Pakistan. The North will not look after the interests of the South and the latter will have to take care of its own. He pointed out that the South G-77 also includes Singapore so its not just the poor countries group.

SESSION V: CONCLUDING PLENARY

What is To Be Done: Putting Capacity Into Place

Federal Secretary for Commerce Mr. Mansoor Elahi chaired the last workshop session organised by the Sustainable Development Policy Institute (SDPI), the World Conservation Union (IUCN) and the IISD.

What is to be done? : Mr. Mark Halle identified a seven-point programme in the concluding session. It included developing an information focal point, networking, research, capacity building, institutional development and regional cooperation. It was agreed that IUCN or SDPI will develop the networking involving to begin with the group attending the workshop. SDPI would continue its research programme and involve others and engage in information dissemination and training.

Secretary Commerce Mr. Mansoor Elahi explained that strategy adopted by the Ministry of Commerce to deal with the work emerging from keeping up with the WTO. This includes establishing cells to deal with the legal dispute settlement on agriculture and other issues.

Mark Halle pointed out in his summation that the game is and will continue to be played. It is in the interest of the developing countries to build its capacity, identify their interest and strategically intervene to protect their interest as best as possible. He said that the links between trade and environment are significant and strong, at the same time being complex with both threats and opportunities. Trade liberalization may go either way depending on the trade policies. Pakistan needs to get the right balance and the mix for developing countries are different to the Developed countries.

Environment is becoming an important issue for WTO and if played correctly, it can be an asset to developing countries. However to reap full advantage, Pakistan must have a clear understanding of the trade and environment issues. Mr. Halle came up with the following recommendation which Pakistan might want to follow.

1) Information :

- Trade provisions with MEA
- Documentation center in Pakistan
 - Publications on Trade and Environment
 - Track Trade and Environment debate via the internet e.g. IISD, WTO web sites.
 - Based on all information collected through a newsletter focusing on Pakistan.
 - Roundtables/occasional lectures on the subject.

2) Networking :

Creating a network of people not just Govt. but including civil society. Any one NGO taking lead e.g. IUCN on biodiversity.

3) Research :

The issues are complex:

- Clear and realistic policy options for Pakistan.
- Impact of WTO on National environment regulations
- Creating direct links between developing countries and developed countries to collaborate research to get various opinions e.g. IISD Network Knowledge

4) Awareness Raising/ Capacity Building :

As a follow-up to the workshop have training courses / workshop on:

- Agenda for the upcoming WTO meetings
- Specific WTO agreement
- Key exports etc.
- National Interest

5) Institutional Structure:

- Harmonization of government positions of different issues
- Forum where national policies are debated in a structure way.
- Same people should attend the agreements
- Trade and environment focal points in the Government to follow-up on trade agreements and giving warning signals as needed.

6) Legitimacy :

What is the legitimacy of trade policy in all countries. Trade policies should be transparent with inputs from governments, NGOs, civil society. There should be both a pre and a post debate for better policy making.

7) Regional Cooperation:

- Pakistan alone cannot influence a WTO decision but with groups of the same interests it has a better chance of influencing decisions.
- Not all trading takes place at the WTO. Other regional blocks should be examined e.g. SAARC.